OWNERSHIP & CONTROL

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Black illusions about SA's wealth

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By KENNEDY MAXWELL, President of the Chamber of Mines

THE South African mining industry welcomes Mr Cyril Ramaphosa's proclamation of 1990 as the Year for Justice, Democracy and Peace on the mines

It agrees with the general secretary of the National Union of Mineworkers when he mentions the social and economic damage done by apartheid, especially to black people

And, yes it agrees that a new ray of hope has emerged, that resolution of conflicts through peaceful means is "the new international norm of our time"

Assumptions

Regrettably, that course is not served by the emotional tenor and sweeping assumptions that colour some of Mr Ramaphosa's recently expressed views on the mining industry

The first and most dangerous assumption, because it ingites unrealistic expectations that cannot be fulfilled is that South Africa is a wealthy country, and that a fairer division of its wealth would ensure prosperity for all

The hard fact of the matter is that this is not a wealthy country, that if all personal wealth were pooled and equally divided, most whites and many blacks — including the majority of his union members — would lose, but the gain spread among the masses would be minimal

Resources

And those with the skills which generate wealth and create employment would take those skills elsewhere — leaving behind a further improverished country

The answer is not to rob the rich but to uplift the poor A look at the wealthy nations of the world will indicate that a country's most valuable asset is not its mineral or other natural resources but its human resources The only way to increase wealth, or the size of the cake to be divided, is by greater productivity and economic growth

Education

South Africa has one of the lowest productivity rates in the world, and part of the reason for this has been inferior black education under the apartheid system exacerbated by the township dictum of "liberation before education"

Mr Ramaphosa refers indirectly to the changes in Eastern Europe, where socialism has so dramatically failed, and then proposes that failed system — including nationalisation — for South Africa He does not say how nationalisation of the mines is going to be achieved or how it will create more wealth, but it is worth looking at some facts

Revenue

During 1989

☐ 33 percent of the revenue earned from gold sales was paid in wages

☐ 39 percent was paid to suppliers of stores, materials and services required to produce the gold

☐ 15 percent was spent on capital expenditure items to keep the mines going

☐ 8 percent went to taxation and lease payments

☐ That left 5 percent for the shareholders which meant that they earned 3,2 percent return on the market capitalisation of all the gold mines Hardly profiteering!

How would Mr Ramaphosa propose to rearrange these figures? How would he compensate shareholders if the industry was nationalised? How would he retain the confidence of local and international investors without whom new mines will not be opened up to create more jobs and more wealth?

It is patently absurd to write off the economic contribution of the mining industry with the comment that it has enriched only a tiny minority

Some R7 000 000 000 was paid out to 513 000 employees in the gold and coal mining companies during 1989 and two thirds of all foreign currency earned by exports came from the mining industry

It has given birth to whole towns, to educational and medical institutions, dams roads and railways It is the backbone of the economy

At the same time, the eighties have not been good for South African gold mining During this decade inflation has seen our mines move from being the lowest cost producer of gold in the world to the highest

Since 1980 real annual profits have fallen every year, and the fall in the price of the metal means that by July half the mines will be operating at a loss

Efficiency

What is needed now if further improvement in productivity and efficiency, not political rhetoric which provocatively seeks to place the Chamber of Mines and "the apartheid State' in the same camp

The mining industry fully supports peaceful moves toward the creation of a non-racial, democratic post apartheid society Its opposition to apartheid has been expressed frequently and effecively through representations to win full and equal trade union rights for all employees, irrespective of race, through successful efforts to secure the abolition of the "scheduled person' definition from the statute books, scrapping statutory job reservation, and through numerous other motivations including the scrapping of the Group Areas Act

Restrictions

The industry has also initiated legal action against government and conservative unions over the training of coloured winding engine drivers the segregation of change houses, retrictions on the number of people employed with blasting licences (which could restrict the entry of blacks into jobs requiring this certificate) and on the admission of qualified blacks, Asians and coloured people to the Mine Employees Pension Fund

When Mr Ramaphosa wilfully confuses recruitment with abduction, employment with slavery and hostels with prisons when he makes totally unfounded allegations about workers being denied the right to organize themselves or elect their own representatives, then he mocks the peace he proclaims

Aspirations

The government has conceded that apartheid is doomed What is now at stake is what is to take its place, and how

Only if we work together constructively will we be able to match our common aspirations of building a prosperous nation in which democracy and an equitable distribution of wealth is fully realised

NP warned a future govt could reverse its privatisation measures

B/Day 21/5/90

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ALAN FINE

HARARE — A future ANC government would review and, where necessary, reverse all economic measures implemented by the NP that it felt constrained its ability to reconstruct SA's economy

For this reason, according to a joint statement issued yesterday by Cosatu and the ANC after a workshop on post-apartheid economic options, government would be advised not to go ahead with various privatisation and deregulation measures now in the pipeline

Apart from plans to privatise state corporations, the ANC-Cosatu alliance was also concerned about, for example, the Minerals Bill, deregulation of the financial markets, technical changes to export incentives, changing tax policies, and the privatisation of social services

The major objective of the Harare gathering was "to begin the process of supplying the liberation movement with economic options"

Tito Mboweni and Vella Pillay of the ANC's economics and development department and Cosatu spokesmen Alec Erwin and Khetsi Lehoko said the workshop had begun formulating a policy aimed at "economic growth through redistribution".

It had explored the building of a mixed economy through which reconstruction could be financed

The workshop believed government's privatisation and deregulation programme threatened the ability of a future government to tackle these issues Hence, said Mboweni, the ANC and Cosatu would begin immediately, through mass mobilisation and attempts to persuade business and government, to seek to have the programme halted

Pillay said also, given the probability of major political change, "if our organisations take a public position that privatisation will be reversed, it will make it difficult for government to carry it out as no one will want to buy".

On the question of nationalising existing privately owned assets, Erwin said it would be necessary to examine each area to see if nationalisation would assist reconstruction of the economy

The statement said the workshop had examined macroeconomic policy, including sound monetary and fiscal policy, planning and nationalisation, international economic relations, labour legislation, the provision of social welfare, industrial restructuring and local government financing Its recommendations would not be made public yet as they still had to be debated within the two organisations

The workshop was attended by about 60 people, including local and foreign academic economists associated with Cosatu and the ANC

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OWNERSHIP AND CONTROL IN SOUTH AFRICA: THEMES IN DOMINATION

Michael Savage
University of Cape Town

This paper sets out to examine three important issues: the extent of the concentration of economic power in South Africa; whether there has been a separation of ownership and control in large firms; and, the extent of dispersion of share ownership. It does this by first outlining five measures of economic concentration in South Africa and raising certain problems with aspects of these measures, before moving on to test the managerial thesis of a divorce between ownership and control and finally presenting some very limited data on share ownership patterns. In doing this the key issue of institutional power, its nature and forms, is being addressed. The issue of power, and particularly economic power, is under-researched by South African social scientists and far more empirical and theoretical analysis is needed than exists at present if we are to understand why there is such a high degree of both economic concentration and concentration of ownership of economic resources in South Africa.

Economic Concentration in the South African Economy

Evidence documenting the existence of massive concentration of economic power in South Africa is mounting, although how this evidence should be interpreted is a matter of continuing dispute. Several strands of evidence about economic concentration now exist, which interrelate to produce a coherent picture of a few giant firms dominating the South African economy. The empirical demonstration of this has been notably advanced by five recent studies.

First, Treggenna-Piggott (1975, 1976) in a study over the period 1955- 1974 of public companies withshares quoted on the Johannesburg Stock Exchange, measured concentration among them using the index of capital employed. The study demonstrated that economic concentration in South Africa increased over the period 1955-1974, with much of this increase taking place during the 1955-1964 period. The increase in concentration over the whole period of study was marked when manufacturing companies alone were considered. Treggenna-Piggott's calculations showed that the Top 50 companies controlled 60% of capital employed in 1955 and 65.2% of capital employed in 1974; for manufacturing companies the Top 50 companies controlled 79.4% of capital employed in 1955 and 85.7% of capital employed in 1974.

TABLE 1: Concentration of Capital in Public Companies by Capital Employed 1955-1974

	Top 3	Top 10	Top 20	Top 50
Manufacturing				
% share 1955	22.91	41.28	57.67	79.4
% share 1974	28.97	51.27	65.23	85.74
All Industries				
% share 1955	18.78	33.32	44.43	60.04
% share 1974	17.67	34.65	46.77	65.16

Source: Treggenna-Piggott (1976:6). All companies on JSE excluding Gold, Insurance and Investment Trust companies.

Second, the (Mouton) Commission of Inquiry into the Regulation of Monopolistic Conditions Act of 1955, which reported in 1977, provided a systematic series of measures of economic concentration based on figures from the industrial census. The Commission first however noted that

> a comprehensive empirical study of the structure of the South African economy has never been undertaken before, with the result that data on firm sizes and the measures of concentration in industry are on the whole fragmentary and incomplete (para 57).

The chief summary measures of concentration provided by the Commission concerned the percentage size of turnover controlled by the largest firms in selected industries. The measures were not confined to companies quoted on the Johannesburg Stock Exchange. Using this index the Commission stated that there was an "exceptionally high degree of concentration of economic power" in all four sectors of the South African economy it examined (para 87). It immediately added that it was reasonable to infer that "those sectors of the economy not include in the survey would show more or less similar results" if examined (para 87). In the four major sectors of the economy it examined the investigations of the commission indicated that 5% of firms controlled over 63% of turnover in 1972 and that 15% of firms in each of these sectors controlled more than 80% of all turnover.

TABLE 2: **Distribution of Turnover in Four Major Divisions in the South African Economy, 1972**

% of Firms	Manufacturing % Turnover	Wholesale & Retail % Turnover	Construction % Turnover	Transport % Turnover
5	63.1	68.5	63.2	72.6
10	75.7	77.0	74.6	81.5
15	82.7	81.8	80.8	85.9
20	87.1	85.2	84.9	88.9
25	90.3	87.8	87.9	91.0

Source: Adapted from Mouton Commission, 1977:40.

Third, du Plessis (1978), in a doctoral study, using similar measures of economic concentration, commented

> It is to be doubted that students of the South African industrial conditions anticipated quite the degree of concentration which has been revealed by this study....For 12,105 manufacturing firms the skewness in turnover distribution is remarkable. More than 75% of the firms control less that 12% of total turnover....At the other extreme only 332 firms, 2.68% of the total, control 50% of manufacturing turnover (1978:14).

Du Plessis then focused on 181 manufacturing industries and grouped these according to the number of firms accounting for at least 80% of turnover in each industry to those accounting for 41% of turnover (see Table 3 below). From this study, it is clear that the majority of industries are highly oligopolistic, with three to ten firms controlling at least 80% of turnover in any one industry and with a mere 9% of the 181 industries studied being classifiable as competitive industries.

TABLE 3: **Classification of 181 Manufacturing Industries According to the Number of Firms Controlling At Least 80 Percent of Turnover in Each Industry, 1972**

Market form	Number of firms accounting for at 80 percent of turnover	Number of Industries	Percentage of total Number of Industries	
			In each class	cumulative
1 Monopolistic	One	12	6.6	6.6
2 Duopolistic	Two	16	8.8	15.4
3 High-oligopolistic	Three to ten	87	48.1	63.5
4 Moderate-oligopolistic	11 to 15	20	11.1	74.6
5 Low-oligopolistic	16 to 20	6	3.3	77.9
6 Unconcentrated	21 to 40	23	12.7	90.6
7 Competitive	41 +	17	9.4	100.0
		181	100.0	

Source: Du Plessis, 1978.

The fourth and most recent systematic examination of economic concentration is that by Lombard et al (1984) in a **Mercabank** report. The report decisively demonstrated that control over the bulk of the private business sector of the South African economy is in few hands. Using gross assets as a measure of economic concentration the report indicated that five groups of companies (Anglo-American, Sanlam, Barlow Rand, SA Mutual, Volkskas), which themselves have inter- connections, controlled 54% of total assets of companies on the stock exchange in 1982. In addition the report indicated that 12 groups of companies (the companies cited above together with Barclays Bank, Stanbic, Rembrandt, United Building Society, Liberty Life, SA Breweries and Anglo-Vaal) controlled 80% of the total assets of listed South African companies (see Figures 1 and 2).

The Lombard report also demonstrated a growing concentration of assets among listed companies over the decade 1973-1982. At the start of the decade five companies - Anglo-American, Barlow Rand, Federale Mynbou, Anglo-American Industrial and SA Breweries - held 22% of total assets of listed industrial companies; by the end of the decade these same companies held 35% of the assets of listed industrials. In addition, the Lombard report provides figures showing a marked degree of output concentration among domestic producers. Using the usual Lorenz curve calculation, a ratio measure of skewness is employed as a simple index of concentration to demonstrate that concentration in output in Agriculture was low (32.8 in 1979) but was very marked in Mining (90.2), Manufacturing (86.3 in 1979), Construction (80.0 in 1976), Wholesale and Retail Trades (80.0 in 1976) and Transport (87.0 in 1975). Finally, the report provided a summary indicator of economic concentration by stating that 20% of all firms in the manufacturing sector produced 92% of gross output, employed 81% of the labour force in the sector and had 'access to' 95% of fixed assets in manufacturing.

The Lombard report makes one qualification to its own findings regarding the high degree of economic concentration in South Africa.

> In the final analysis economic progress and power are largely embodied in the control of real wealth. To the extent that this wealth consists of fixed assets, the big private conglomerates controlled about 16 per cent of the national wealth of South Africa. Listed companies outside the

Figure 1 — A constellation of large private conglomerates in the South African economy, 1982

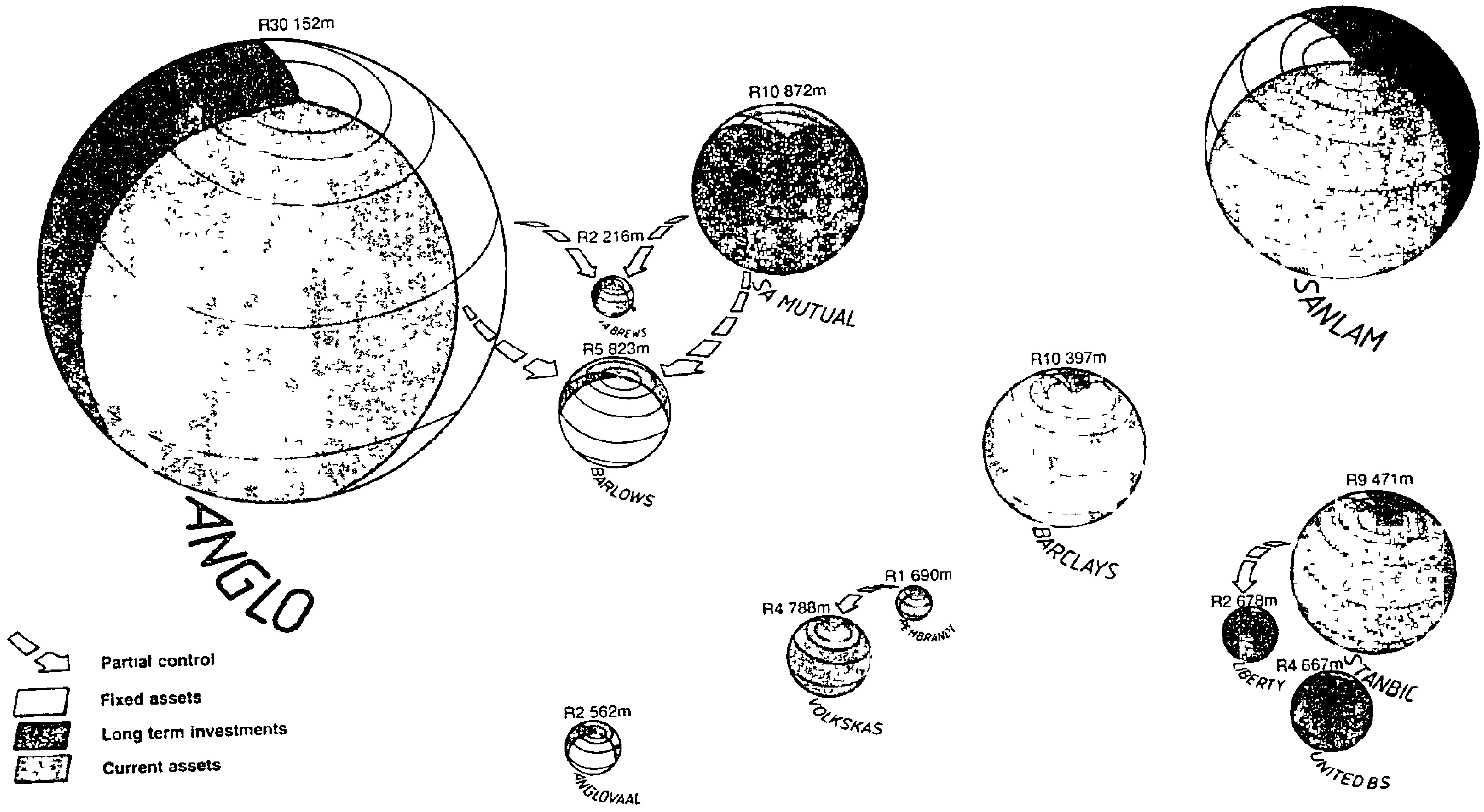
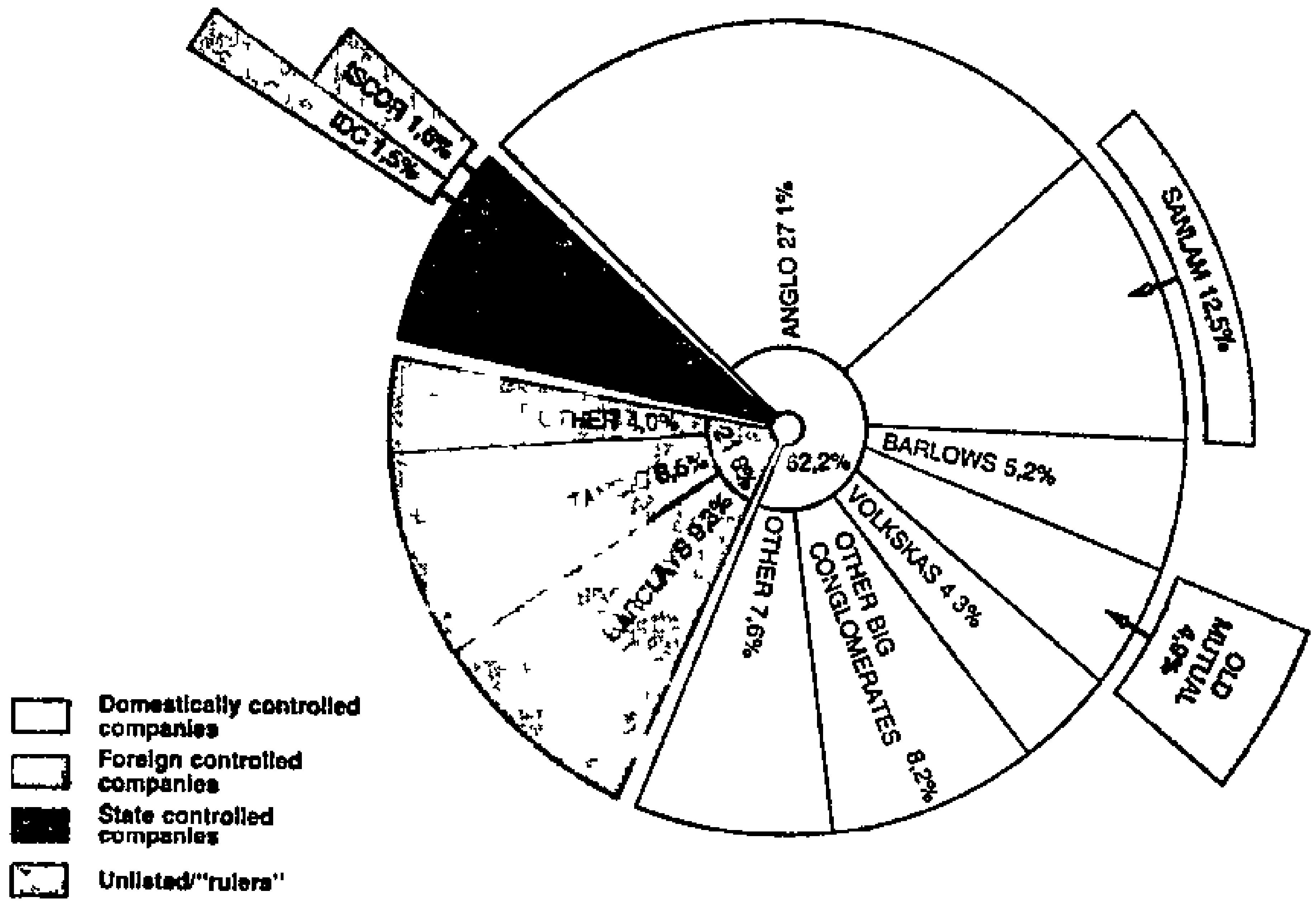


Figure 2 — Total assets of listed South African companies, 1982



> "empires" controlled four tofive per cent, while the private sector as a whole controlled about 53 per cent. A large part of the 47 per cent controlled by the public sector consisted of public parks, nature reserves, and other forms of public land ownership which are not directly related to the operation of the economy (1984:3).

However, it is scarcely remarkable that any pattern of concentration of assets in a capitalist society will be diluted if included in these assets are State owned resources such as National Parks. What is more remarkable is the manner in which some commentators have siezed upon this portion of the Lombard report, in place of examining the patterns of concentration of economic resources in detail.

A fifth measure of concentration, involving the ownership of resources, has been set out by McGregor on the basis of research into ownership of shares on the Stock Exchange for his important annual publication **Who Owns Whom** (1980 onward). McGregor stated that in 1983 three groups of companies - Anglo-American, Sanlam and Barlow Rand - controlled 73% of assets of publicly listed companies (**Star** 10.8.83). In setting out this claim McGregor indicated that one company, Anglo- American, had control over 52.5% of shares on the stock exchange and that 13 groups of companies controlled between them 84.4% of all listed shares (Table 4).

TABLE 4: McGregor Summary Control of Companies on JSE, 1983

Controlling Body	**No of companies controlled**	**Market value of shares**	**Percentage of total**
Anglo American group of companies	70	R46 906 000 000	52.5
Sanlam	38	R 8 368 000 000	9.4
Barlow Rand Ltd	25	R 6 648 000 000	7.4
Foreign Control	58	R 4 778 000 000	5.4
Directors controlling majority shares	153	R 3 685 000 000	4.1
Anglovaal Holdings Ltd	21	R 2 548 000 000	2.9
South African Breweries	6	R 2 548 000 000	2.9
Industrial Development Corporation	4	R 2 120 000 000	2.4
Rembrandt Group of Companies	65	R 1 893 000 000	2.1
Liberty Holdings	5	R 979 000 000	1.1
Neobank	3	R 968 000 000	1.1
Iscor	4	R 753 000 000	.8
SA Mutual - Old Mutual	7	R 526 000 000	.6
Premier Group	7	R 492 000 000	.6
Volkskas Group	3	R 294 000 00	.3
		R83 813 000 000	93.9
Unaccounted		R 5 489 000 000	6.1
		R89 302 000 000	100.0

Source: McGregor, Sunday Times Business Section, 20 February 1983.

One difficulty with McGregor's classification of control of companies is that a company that owned 30% or more of the shares of another company was classified as having effective control over that company and its share capital. The concept of control however cannot be reduced to such a mechanical indicator, for effective control over any company may be exercised with far less a stake than 30% of shares, or may not exist with far greater stake than 30% of shares. Nevertheless, McGregor follows orthodox economic procedures, such as those used by Berle and Means (1932) and Larner (1966), in defining control in terms of ownership of a set percentage of shares in a company. Whether this indicator, or the percentage level set to it by McGregor, are the correct ones to use are matters of enduring debate. McGregor summarised his studies of ownership patterns and asset concentration among public companies by stating that

> The Prime Minister had to hire the Carlton Centre in 1979 for his conference with our leaders of industry. Three months ago he could have conducted it around his dining room table. He could now do it round a card table. And if take-overs continue at their present rate he will soon be able to do it in a love-seat (**Star** 10 August 1983).

Such a speculation was repeated in a less dramatic form by Mr Donald Gordon, Chairman of a leading insurance company, who claimed that the South African economy could be controlled by six companies "by 1990 or even sooner" (**Star** 12 August 1983).

These five studies each using different methods and procedures clearly demonstrate that a massive concentration of economic power exists in contemporary South Africa. However measured, whether by asset concentration within companies quoted on the stock exchange, by turnover controlled by all enterprises, by gross assets of economic entities, or by ownership of shares of public companies, the degree of concentration of production and centralisation of capital in the South African economy is very considerable. Unless decisive political or economic changes the existing trend toward increasing occur such economic concentration and centralisation in the South African economy is unlikely to disappear and such concentration will become more marked over time.

The Ownership and Control of Large Companies: Theoretical Perspectives

Large firms have come to dominate the economies of all industrial societies and have become the decisive units of production within them. South Africa is no exception to this trend and the increasing domination of the large firm raises several important issues, not the least being: What accounts for the structure of a business community? Who owns and who controls the large firm in South Africa?

Such questions fall squarely in the realm of the social sciences, for these disciplines are fundamentally concerned with the study of power and how it is exercised, by whom, and with what effect. The analysis of the sources of institutional power is scarcely developed in South Africa and there is an astonishing silence among social scientists both about how business power is exercised in the economy and about the complex issue of what accounts for the prevailing structure of business itself.

Glasberg and Schwartz (1983) in reviewing current approaches to the study of corporations outline how four contending models of business structure have come to dominate recent research in the field. The major model that has attracted considerable social science research is that first put forward by Berle and Means (1932) in their classic work **The Modern Corporation and Private Property**, which initiated a 30-year era of "almost unquestioned acceptance of the managerial portrait of the American economy as a loosely connected system of autonomous firms unconstrained by outside owners or by each other" (1983:312). In their work Berle and Means argued that increasingly the large company had come to lack any centre ownership large enough to ensure control of these companies by their owners. Instead ownership had become so dispersed among a large range of shareholders that control had passed from owners to a self- perpetuating group of managers. Consequently they put forward the major thesis that

> Ownership of wealth without appreciable control and control of wealth without appreciable ownership appear to be the logical outcome of corporate development (1932:66).

Recent examinations of this thesis have stimulated the emergence of other viewpoints that will be briefly outlined, and which raise important and empirically researchable issues. First, resource dependency theory focuses on the external restraints on company activities and argues that such activity must be understood as taking place within an environment in which all corporations are attempting to ensure a steady flow of needed resources (materials, finance and so forth). In attempting to do this companies forge complex structural relationships - such as interlocking directorships, joint ventures, mergers - in an effort to control the environments in which they operate and to gain positional advantage in access to resources.

Next, class cohesion theory argues that business structures and activities can be better understood as an outcome of the activities of a powerful group of owners and leaders of companies who attempt to maximise profits and counter both price competition and other competitive practices. It is argued that corporations engage in cooperation within competition, co-respective behaviour in regard to price increases and division of market shares and engage in other activities that serve to maximise profit and dampen competition. Such behaviour helps unify large owners and controllers of business and a variety of organisations - schools, clubs, voluntary associations, interlocking directorships - help weld a controlling class together and reinforce and impose a common value structure upon them.

A third school of theorists assign a key role to banks and insurance companies in determining the structure of the business community. It is argued that in the search for profit, non-financial companies become dependent upon outside funding to enable them to engage in new developments and maintain their position in the market. With banking and insurance companies becoming decisive in attracting and administering capital and themselves becoming more centralised and interconnected, industrial companies have become dependent upon them. In turn banks and insurance companies become represented on company boards and use the potential threat to withhold funds or to dump shares on the market and depress their price in order to obtain long-term domination over the discretionary decision making of non-financial firms. The logic of the argument leads 'financial control' theorists to hypothesise that each important financial institution tends towards having a group of firms surrounding it and attempts to coordinate the activities of this 'interest group' by imposing common policies on them all, even when such policies may not be in the best interest of a particular firm.

Finally, bank hegemony theory attempts to tread what Glasberg and Schwartz see as "an analytic tightrope" between class cohesion theory and banking/financial control theory. Bank hegemony theory presses the argument further that banks and insurance companies are able to exert dominant power over non-financial companies. It does this by asserting that financial institutions make independent decisions about how to shape, organise and coordinate the activities of industrial companies and then impose these decisions upon them. Bank hegemony theory does not assert that the formation of interest groups of non-financial companies are the decisive vehicle through which financial companies exert their power instead it believes that financial companies exert direct power on industrial companies, mediated only by their need to maintain a degree of unity within the financial world.

These approaches to the study of business structure and power are set out so as to locate some of the major frameworks within which explanations and research into business structure can be situated. The concentration of the South African economy possibly may be explained against the background of any of these paradigms, or indeed in terms of an **ad hoc** series of explanations. Such explanations could build upon diverse factors such as the existence of exchange controls 'bottling in' investment capital, or refer to the historical and structural dominance of mining financial companies and foreign investments in the South African economy. In turn **ad hoc** explanations may - or may not - be linked into the theories briefly outlined above or be used to help generate new theories.

There is a poverty of theory in South Africa for generating analyses, and explanations of existing patterns of economic concentration. In place of rigorous theoretical analyses there have emerged a series of general attacks, defences and comments about the organisation and economic concentration of business, which scarcely drive forward an understanding of the structure of business power itself. What is currently needed is a rigorous application of theory and hard nosed empirical analyses if social science is to contribute to an understanding of economic power in South Africa.

Among the many issues requiring empirical exploration are precisely those identified in the work of many theorists and commented upon by Glasberg and Schwartz: To what extent has private share ownership been dispersed and what is the effect of any such dispersal on the control of the large company? Has share dispersal - if it has occurred - been accompanied by a centralisation of the ownership of shares in the hands of financial institutions? Do companies seek to maximise profits or has their dominant concern become more one of encouraging stability and social responsibility within the organisation of business? Are large firms dependent upon external finance? What is the meaning of corporate interlocking at an ownership and directorship level? Do 'interest groups' centred around financial institutions exist, and if so how are they coordinated? Do financial firms dominate the decision making of industrial firms?

Such questions indicate an agenda of researchable issues that, if addressed, would further an understanding of business power and organisation in South Africa. Few, if any of these important questions, can be answered with available evidence. This paper does not provide many answers to these difficult issues; it instead questions an almost unarticulated answer to the critical assumption that ownership and control of the large industrial enterprise in South Africa has become separated. In questioning 'managerial theory' it consciously attempts to enter the theoretical debate by addressing a dominant perspective concerning managerialism and suggesting that this perspective, if found empirically inadequate, should lead South African social scientists into examining other theories in the search for a better understanding of institutional power in economics.

The Large South African Company

The managerial claim, put forward by Berle and Means, that the ownership and control of large companies in industrial societies have become separated has enjoyed wide support. A battery of social scientists have propounded this belief as an 'incontrovertable fact' (Dahl, 1970) and as Mason states

> Almost everyone now agrees that in the large corporation the owner is, in general, a passive recipient; that, typically, control is in the hands of management; that management normally selects its own replacements (1967:4).

In South Africa writers have commented on the "widespread distribution of individual share ownership" leading to a "democratisation of ownership" and "the separation of ownership of control" (Roome, 1976: 148). Other South African writers have commented that there is "a strong case that management, not ownership, is the key to power" (Carter, 1984).

The Berle and Means study provided the roots for these claims in empirically arguing that 44% of the 200 largest non-financial corporations in the United States had become management controlled in 1929, and that a further 21% of these corporations were controlled by a legal device involving only a small proportion of ownership (1967: 109). Recently, Larner (1966) replicated their study for the 200 largest non-financial corporations in 1963 and indicated that the number of management controlled companies in this group had nearly doubled over the period 1929 to 1963, so that by 1963 85% of large companies were management controlled. Other studies in Britain (Florence, 1961), Australia (Wheelwright, 1957), Chile (Zeitlin, Ewen and Radcliff, 1974) have also presented data indicating the apparent emergence of management control in the large company.

Despite trenchant criticisms of these findings, particularly by Zeitlin (1974) and de Vroey (1975), they continue to be widely accepted and used to forward claims that there has been a radical modification to the capitalist system, its forms of control and its class structure. In short, as Daniel Bell argues, there has been a "silent revolution" that has undermined "the former relations between power and class position in modern society" (1958:246) and brought into being a "post industrial society" (Dahrendorf, 1959) in which 'the wealthy stratum no longer has power'. What does current South African evidence indicate about the basis of such claims?

An earlier study of the 100 largest South African industrial companies quoted on the Johannesburg Stock Exchange found that far from there being a widespread separation of ownership and control only some 14% of companies were management controlled in 1977 (Savage, 1978). As the South African economy has developed are managerally controlled companies increasing in number so that they are becoming more dominant today than in 1977?

To ensure as direct a comparison as possible between the studies of ownership of large companies in 1977 and 1984 this study will follow very closely the definitions, procedures and classifications used in the original Berle and Means study and in the 1977 study. The study will at this point accept the Berle and Means definition of control as the "...actual power to select the board of directors (or its majority)" (1932:69). Ultimate control of a company, in their view, thus rests with those who have legal voting power to determine what persons will become, or may remain, directors of a company.

Berle and Means distinguish between "immediate" and "ultimate" control. This distinction occurs in those cases where one company controls another through a dominant minority share interest. In such an instance the controlled corporation is classified as immediately controlled by a minority or joint minority interest. If the controlling corporation is itself management controlled then the controlled corporation is classified as ultimately management- controlled. If the controlling corporation is not management controlled then the controlled corporation is classified as minority controlled in the 'immediate situation but ultimately controlled through pyramiding'. This study follows Berle and Means in using this distinction.

The Berle and Means study classified firms according to five types of control: (i) privately-owned, (ii) majority-controlled, (iii) minority-controlled, (iv) management-controlled, and (v) controlled by means of a legal device without majority ownership. The same categories and criteria will be used in this study.

Private ownership is defined by Berle and Means as occurring when an individual, family or group of business associates owns eighty per cent or more of the voting shares of a particular firm. For majority control the individual, family or group of business associates must have legal ownership of between fifty and eighty per cent of the voting shares. Minority control occurs when an individual, family or group of business associates owns between twenty and fifty per cent of shares. Berle and Means recognise situations where two or more minority interests cooperate to maintain control between them and designate such situations as being ones where 'joint minority control' takes place. Management control occurs when 'ownership is so widely distributed that no individual or small group has even a minority interest large enough to dominate the affairs of the company (1967: 38). While Berle and Means recognise that the dividing line between minority and management control is not clear in many corporations, they assume that such a line does exist and argue that if there were no single or joint holdings of twenty per cent then management could be assumed to have control of a company. The final type of control distinguished was control by a 'legal device', of which they recognised four distinct forms: pyramiding, non-voting common stock, stock with disproportionate voting power and voting trusts. Of these four legal devices pyramiding is the most important and prevalent and occurs when a company owns a majority of shares of another company which in turn holds a majority of stock of another, thus permitting a series of companies to be interconnected so that those at the top of the pyramid are able to control those at the bottom through a combination of both minority and majority interests in companies at each level of the pyramid.

This study will follow the Berle and Means study, and the 1977 study, in using these same five categories of control.

Summary and Comparison of 1977 and 1984 Studies

The list of the 100 largest industrial and commercial companies in South Africa in both studies is taken from the **Financial Mail** annual rankings of 'Top Companies' for 1977 and 1984. The 100 largest companies of 1984 are listed in Table 5 (overleaf), together with their asset size, ranking, largest holdings or dominant ownership interest and their control, both immediate and ultimate. The 1984 study made use of a new annual publication **Who Owns Whom**, which lists all shareholdings above 1% in every public company, and it thus had more extensive information available to

TABLE 5: CONTROL OF 100 LARGEST INDUSTRIAL COMPANIES, 1984

Rank	Company Name	Asset Size (RM's)	Largest Holdings/or Dominant Interest	Size of Holding (%)	Type of Control by B + M Method		Actual or Potential Controlling Interest (McGregor + Other)	
					Immediate	Ultimate		
1	Barlows	5,988.7	S A Mutual Anglo American Group	30.73 12.63	Jt. Min.	Mgt/Pyr.	S A Mutual and Anglo-American	
2	Amic	3,237.8	Anglo American Group and Nominees	66.86	Maj.	Pyr.	Anglo American	(a)
3	S A Brews	2,868.3	Anglo American Group JCI Liberty Life Premier	34.0	Jt. Min.	Pyr.	Anglo American	
4	C G Smith	2,569.9	Barlow Rand and Nominees	67.24	Subsidiary of 1		S A Mutual and Anglo-American	
5	Remgro	2,083.4	Rembrandt Bel.	51.07	Maj.		Rupert Family via TIB and Remb. Bel.	
6	CGS Food	1,806.6	C G Smith S A Mutual	79.07 15.98	Subsidiary of 4		Barlow Rand via C G Smith	(b)
7	Sasol	1,642.1	State	30 +	S.S.	S.S.	State	
8	AECI	1,525.1	Anglo-American Ind. Co Apex Holdings ICI (SA)	27.36 24.30 20.40	Jt. Min.	Pvr./?For.	Anglo American via Amic	
9	Tongaat	1,247.0	Anglo American Group and Nominees S + T Investments	30.28 17.69	Jt. Min.	Pyr.	Anglo American via Amic	
10	Sentrachem	1,174.7	Central Chemical Inv.	50.00	Maj.	Mgt.	Sanlam via FVB	(a)
11	Metkor	1,138.5	Rembrandt Group	50.53	Subsidiary of 5		Rupert Family	
12	Fed Volk	1,034.7	Sanlam S A Mutual	34.30 10.38	Jt Min.	Mgt.	Sanlam	
13	Tig Oats	951.1	C G Smith Foods	53.19	Subsidiary of 6		Barlow Rand via C G Smith	
14	A T I	867.6	Anglo Vaal Nominees	65.66	Maj.	Maj.	Hersov and Menell Interests	
15	SAPPI	857.4	Federale Mynbou	60.40	Maj.	Mgt.	Sanlam via Gencor	(a)
16	Premier	803.2	S A Food Industries	51.67	Jt. Min.	Pyr.	Anglo/JCI/Liberty Life	(c)
17	A Alpha	763.9	Holderbank Financiere AngloVaal Nominees	30.90 14.42	Foreign		Holderbank	(d)
18	Safmarine	679.0	S A Mutual	31.74	Min.	Mgt.	S A Mutual	
19	Hiveld	662.1	Anglo-American Group Nominees	52.80	Maj.	Pyr.	Anglo-American	
20	M + R	646.1	Anchusa Ltd	47.01	Min.	Min.	Murray/Roberts Family	
21	O K	621.3	S A Breweries	70.80	Subsidiary of 3		Anglo-American via S A Brews	
22	P P Cement	483.6	Barlow Rand	62.57	Subsidiary of 1		S A Mutual and Anglo-American	
23	Dorbyl	480.3	IPSA	50.63	Maj.	Pyr.	Rembrandt Family via Metkor	(e)
24	Nampak	442.0	C G Smith	74.26	Subsidiary of 4		S A Mutual and Anglo-American	
25	ICS	430.0	C G Smith	51.13	Subsidiary of 6		Barlow Rand via C G Smith	
26	Plate Glass	416.7	Placor Holdings	50.00	Maj.	Maj.	Directors and Liberty Life	(f)
27	Kaapwyn	396.3	Rembrandt-KWV Bel.	60.00	Jt. Min.	Pyr./Mgt.	Rembrandt and KWV	
28	Blue Circle	396.1	Blue Circle, UK Sanlam	55.08 26.00	Foreign		Blue Circle and Sanlam	
29	S + L	392.2	IPSA	51.83	Maj.	Maj.	Rembrandt	(e)
30	D + H	382.6	Fed. Mynbou Union Corp	46.48 14.93	Min.	Mgt.	Sanlam	
31	Tedelex	339.8	Gencor	55.00	Maj.	Mgt.	Sanlam	
32	LTA	335.6	Anglo-American Group and Nominees	68.03	Maj.	Maj.	Anglo-American	
33	Fed Food	325.1	Fed. Selekies Bpk	64.33	Maj.	Mgt.	Sanlam	
34	Afrox	319.3	B O C Group, UK	56.77	Foreign		British Oxygen	
35	Toyota	318.3	Wesco Inv	49.95	Min.	Min.	Wessels Family and Directors	(g)
36	Unisec	312.5	Hesperus Holdings	30.63	Min.	Pyr.	Standard Bank via Tolux	
37	Sage	310.8	Nedbank Nedbank Nominees	33.53 20.50	Min.	Mgt.	S A Mutual	
38	HLH	303.2	Moyana Nominees	25.77	Min.	Min.	Directors	
39	Southern Sun	300.8	S A Breweries	72.62	Subsidiary of 3		Anglo-American	
40	Edgars	294.6	Edgars Cons. Inv	50.24	Maj.	Pyr.	Anglo-American via S A Brews and Premier	

Rank	Company Name	Asset Size (RM's)	Largest Holdings/or Dominant Interest	Size of Holding (%)	Type of Control by B + M Method		Actual or Potential Controlling Interest (McGregor + Other)	
					Immediate	Ultimate		
41	Metal Box	285.3	Nampak	51.00	Subsidiary of 24		S A Mutual and Anglo-American	
42	Haggie	279.4	Anglo-American Nominees Fed. Mynbou	34.04 36.06	Jt. Min.	Min./Mgt.	Anglo-American and Sanlam	
43	Kirsh	273.5	Sepdu Inv	36.27	Min.	Min.	Kirsh Family	(k)
44	Pick 'n Pay	271.0	Pick 'n Pay Holdings	51.90	Maj.	Maj.	Ackerman Family	
45	S Atlantic	264.2	Anglo-Tvl Ind	68.28	Subsidiary of 14		Hersov and Menell Interests	
46	Rennies	261.8	S A Mutual	74.10	Maj.	Mgt.	S A Mutual	
47	Metro	249.9	Kimet and Nominees Tiger Oats	50.00 30.96	Maj.	Pyr.	Kirsh Family	
48	Aurochs	244.9	A A F Finance Dr H Khazam	50.00 5.02	Maj.	Maj.	Directors of Waicor	
49	Kanhym	243.2	Gencor	63.44	Maj.	Mgt.	Sanlam	(a)
50	Wm Hunt	242.4	Autolec Cape Auto Inv SCL Inv	23.15 21.99 16.29	Subsidiary of 48		Directors of Waicor	
51	Putco	241.4	Carleo Family	52.53	Maj.	Maj.	Carleo Family	
52	Wooltru	240.1	M + S Successors S A Mutual	14.51 7.10	Min.	Min.	Directors 27.85%	
53	Romatex	234.9	C G Smith	52.54	Subsidiary of 4			
54	Protea	232.6	Sanlam	11.43	Mgt.	Mgt.		
55	Argus	222.9	Std Bank Nominees Charter SAAN	19.64 9.72 6.41	Jt. Min.	Pyr.	? Anglo-American Group via JCI and Charter ?	
56	Kohler	218.1	Federale Mynbou	69.71	Maj.	Mgt.	Sanlam	
57	Grinaker	210.8	Avgrin Holdings	53.30	Maj.	Pyr.	Hersov and Menell Interests	
58	Contex	207.7	Natal Canvas Natal Consolidated	39.17 32.82	Maj.	Maj.	Frame Family Trusts	
59	Messina	203.3	African Finance Co, UK Anglo-Am and Nominees	42.70 16.78	Foreign		Foreign and Anglo-American Group	
60	Altech	200.1	Venter Family Trust	50.00+	Maj.	Maj.	Venter Family	
61	Afcol	197.7	S A Breweries	54.97	Subsidiary of 3		Anglo-American	
62	Robor I H	195.5	Nampak	50.00+	Subsidiary of 1		S A Mutual and Anglo-American	(h)
63	Amrel	195.4	S A Breweries	74.28	Subsidiary of 3		Anglo-American	
64	W + A	182.7	Waicor Waicor Share Inv	42.18 8.10	Subsidiary of 48		Directors of Waicor	
65	Everite	182.2	Swiss Eternit Group	35.3	Foreign		Eternit Group	
66	Pepkor	182.1	Pepgro Bpk	50.00	Maj.	Maj.	Directors 50%+	
67	Beares	181.8	Beare Family Holdings	68.66	Maj.	Maj.	Beare Family	
68	Ellerine	178.6	Tedelex	57.35	Maj.	Mgt.	Sanlam	
69	Reunert	177.7	Barlow Rand	63.97	Subsidiary of 1		S A Mutual and Anglo-American	
70	Dunlop	170.9	Dunlop Holdings, UK	52.36	Foreign		Dunlop, UK	
71	T + I	169.4	Ivor Jacobson Holdings	31.04	Min.	Min.	Directors 45.54%	
72	Nat Cons	168.6	Natal Canvas and Frame Trusts	50.00+	Subsidiary of 58		Frame Family Trusts	
73	Seardel	164.6	Aaron Searll Inv and Holds	35.34	Min.	Min.	Directors 40.4%	
74	Gen Tire	161.8	Williams Hunt E W Tarry	29.25 26.00	Jt. Min.	Min.	Waicor Directors via W + A (no 64)	
75	McCarthy	161.3	Anglo-American Group and Nominees	33.62+	Min.	Pyr.	Anglo-American	
76	Frasers	155.5	Frantic Inv Fraser Family	18.52 34.46	Jt. Min.	Pyr.	Barlow Rand and Fraser Family	
77	Consol	154.4	Anglo-Tvl Ind	52.61	Subsidiary of 14		Hersov and Menell Interests	
78	Copi	151.1	Canadian Overseas Packaging	81.58	Foreign		Kalamanson Family, Canada	
79	Abercom	150.9	Sanlam Nominees	44.48+	Min.	Mgt.	Sanlam	
80	UN Steel	149.7	Metkor Anglo-American	40.42 13.43	Jt. Min.	Pyr.	Rembrandt and Anglo-American	
81	Boumat	144.6	Sakers Industrial Holdings	34.69	Min.	Min.	Directors	
82	Bonuskor	143.6	Volkskas Group	61.65	Maj.	Pyr.	Volkskas Group	
83	NEI Af	140.4	Northern Eng, UK	62.50	Foreign		Northern Eng, UK	
84	Cullinan	140.1	Anglo-American Group S A Mutual	33.41 19.32	Jt. Min.	Min./Mgt.	Anglo-American and S A Mutual	
85	I + J	138.6	South Atlantic	63.03	Subsidiary of 14		Hersov and Menell Interests	
86	Picbel	137.8	Pickard Family Holdings	45.92	Min.	Min.	Pickard Family	

Rank	Company Name	Asset Size (RM's)	Largest Holdings/or Dominant Interest	Size of Holding (%)	Type of Control by B + M Method		Actual or Potential Controlling Interest (McGregor + Other)	
					Immediate	Ultimate		
87	Asea	135.1	Anglo-American Nominees	49.75	Min.	Pyr.	Venter Family and Anglo-American	
88	Malbak	132.8	S A Mutual Sanlam Nominees	25.5 21.12+	Jt. Min.	Mgt.	Sanlam and S A Mutual	
89	Group 5	129.7	Darling and Hodgson Holdings	51.82	Subsidiary of 30		Sanlam	
90	Picfin	125.7	Sagit	73.91	Subsidiary of 86		Pickard Family	
91	Foschini	123.4	Foschini Inv	49.36	Min.	Min.	Directors	(i)
92	BTR	122.9	BTR, UK	53.29	Foreign		BTR, UK	
93	Landchem	122.6	Fred Mynbou Nominees Union Corp Nominees	16.09 16.09	Jt. Min.	Mgt.	Directors of Sanlam	
94	Triomf	122.6	Luyt Family	50.82	Maj.	Maj.	Luyt Family	
95	Plevans	121.0	Barlow Rand	64.69	Subsidiary of 1		S A Mutual and Anglo-American	
96	Anchusa	117.7	Murray Family Trusts and Nominees	74 81	Maj.	Maj.	Murray Family	
97	OIL	114.1	Premier	51-79	Subsidiary of 16		Anglo-American Group/JCI/Lib	(j)
98	Afr Pers	110.0	Dagbreek Trust	14.00+	S S		Voting Trust	
99	N Canvas	100.2	Natal Consolidated Ind	37.41	Subsidiary of 58		Frame Family	
100	Adcock	98.3	Adcock Ingram Inv Tiger Oats	48.55 20.96	Subsidiary of 1		S A Mutual and Anglo-American	

Sources: McGregor's Who Owns Whom (1984) together with Annual Reports of Companies, Financial Mail and various newspaper reports.

Notes: (a) Berle and Means methodology makes theoretical allowance for a majority owned company to be classified as ultimately pyramidically controlled, although such a change between immediate and ultimate control was not employed in any of the studies cited for other countries.

(b) C G Smith Group of companies are classified as majority owned by Barlow Rand, after examination of annual reports. Barlow Rand is classified as ultimately being ½ management controlled (SA Mutual) and ½ pyramidically controlled (Anglo-American Group).

(c) Associated British Foods sold its 52% stake in Premier in 1983 to a consortium of JCI, Liberty Life and Anglo-American for R337.2m. The consortium sold its existing shareholding of 34% of SA Breweries to Premier.

(d) The Holderbank Financiere holding, which has slightly declined since 1977, appears to be sufficiently dominant to classify this company as foreign controlled.

(e) Rembrandt owns 50.53% of Metkor which controls African Gate. These two companies own 60% of IPSA (Metkor 47.3% and African Gate 12.7%), IPSA owns 50.63% of Dorbyl. Anglo-American Group own 40% of IPSA.

(f) Directors of Placor own 29.4% of Placor, which owns 50% of Plate Glass. "Institutional investors" own 47.6% of Placor, the dominant "institutional investors" are SA Mutual (21.45%) and Liberty Life (17.12%). 'Street' information indicates that the Lubner and Brodie families have minority control of Placor.

(g) The dominant Directors holding is believed to be in the Wessels-Bradley family.

(h) Robor Industrial Holdings was formed in 1983 when Nampak and Metal Box merged, and the industrial interests of Metal Box SA were joined together with a similar group of Barlow Rand companies. Metal Box UK sold its majority interest in its SA company and has a 25% holding in MBSA and RIH.

(i) The Foschini directors lack a formal stake of .05% to majority control the company but it is probable that in any voting situation they could exert such control.

(j) Newspaper financial reports indicate that on 19 June 1984 Premier (see note c above) obtained a controlling interest in Ovenstone Consolidated Investments which in turn controls OIL.

(k) Sanlam is reported to have obtained 49.9% of Kimet, the controlling company of Kirsch, but it is as yet unclear whether effective control of Kimet has passed to Sanlam and the financial press reports that this issue may have to be determined in court (Sunday Times 24 June, 1984). As detailed figures of the new Sanlam holdings have not emerged ownership figures prior to the increased Sanlam stake are used.

it. The classification of companies by types of control in 1984 is summarised in Table 6 and Table 7 contrasts the type of control of companies in 1977 and 1984.

TABLE 6: Largest Industrial Companies in 1984 Classified by Types of Control Using Berle and Means Procedures

	Number	%
(a) Immediate Control		
Private	0	0
Majority	29	45.3
Joint Minority	15	23.4
Minority	17	26.6
Management	1	1.6
Special Situations	2	3.1
Total	64	100.0
(b) Ultimate Control		
Private	0	0
Majority	13	20.3
Pyramiding	19	29.7
Minority	12	18.8
Management	18	28.1
Special Situations	2	3.1
Total	64	100.0

Note: 1 Following Berle and Means procedures, subsidiaries of companies themselves in the list of Top 100 companies are excluded. Foreign held companies are also excluded.

TABLE 7: Largest Industrial Companies in 1984 and 1977 Classified by Ultimate Control Using Berle and Means Procedures

	1977 **%**	**1984** **%**
Private	1.3	0
Majority	9.1	20.3
Pyramiding	26.0	29.7
Minority	35.1	18.8
Management	14.3	28.1
Special Situations	14.3	3.1
	100.0 (N=77)	100.0 (N=64)

A significant finding of this study is that management control, as defined by Berle and Means methods, has increased substantially in relative terms among large non-financial companies since 1977. In 1977 some 14.3% of the largest industrial companies were under management control; by 1984 of these largest companies 28.1% were under management control.

Equally significant findings from the two studies should be noted. First there has been a decisive trend for more of the leading industrial companies to become subsidiaries of other leading companies. In 1977 of the 'Top 100' industrials 6 were subsidiaries of other companies in the list of the hundred largest companies; by 1984 this figure had significantly increased so that 27 companies were subsidiaries of other companies in the 'Top 100' list. In other words, by 1984 over a quarter of the leading South African industrial companies were controlled by other leading industrial companies, with the top 2 companies alone controlling 10% of the leading industrials in South Africa.

Second, allied with this trend has been a move toward growing control by majority ownership of companies by other companies not represented on the rankings of the 'Top 100' industrials. In 1977 there were 7 industrial companies of the Top 100 controlled by a majority ownership of companies, themselves either not on the stock exchange or not classified as industrials; by 1984 this figure had doubled.

Both of these movements underpin the growing concentration of economic assets and power that has emerged in the South African economy over the period 1977-1984.

Finally, a comparison of the 1977 and 1984 studies shows that public companies with a substantial State ownership in them and foreign firms have declined in importance. These changes similarly reflect changes in the wider economy with the State selling its holdings in some public companies (such as Safmarine) and decreasing its holdings in other companies (such as Dorbyl). Additionally foreign holdings in leading industrial companies have substantially declined as majority shareholdings in firms has passed into South African hands (for instance in Premier and Metal Box). In 1977 13 of the 'Top 100' industrials were foreign controlled; by 1984 this figure had declined to 8.

In summary it would appear that, using Berle and Means procedures to examine the control of large South African companies, there is emerging a movement among them toward increasing management control, although this movement is nowhere near as marked as it is in other countries. The South African figure of 28% of leading companies being controlled by management must be viewed in comparison to the 84% of United States companies, 53% of British and 44% of Australian companies that are management controlled (Table 8).

TABLE 8: **Largest Non-Financial Corporations in South Africa, the US, Chile, Australia, Great Britain by Types of 'Ultimate' Control Using Berle and Means' Procedures (%)**

	South Africa 1984	USA 1963	Chile 1964	Australia 1955	Gt Britain 1936
Private	0	0	11.1	2.7	6.2
Majority	20.3	2.5	2.6	8.2	
Minority	18.8	9.0	8.3	45.2	26.2
Pyramiding	29.7	4.0	30.6	-	13.8
Management	28.1	84.5	41.7	43.8	53.8
Special Situations	3.1	-	5.6	-	-
%	100.0	100.0	100.0	100.0	100.0
No.	64	200	36	73	65

Source: For Chile, Australia and Great Britain, Zeitlin, Ewen and Ratcliff (1974:99), for Chile their own analysis, for Great Britain Florence (1961:112-3), for Australia Wheelwright (1957, Ch 3). See the note to their own Table on p 99 for detailsof their reclassifications of some data in the above table. For the US Larner (1966).

In large measure the trend toward management control of South African companies is a direct consequence of the growing investments by insurance companies on the Johannesburg Stock Exchange. It is estimated by the Life Officers Association that the insurance industry attracted premiums of R17 million each working day in 1983, giving them a premium income of R4,3 billion during the year, which is in addition to their own annual investment income. Much of this money is invested in public companies and increasingly insurance companies either directly, or ultimately, have dominant holdings in leading South African companies. As these insurance companies themselves appear to be management controlled in those cases where they have a dominant stake in leading industrials it is unsurprising, given the procedures used in this study, that in turn these industrial companies then become management controlled.

The increasing investment by insurance companies in industrials is leading to the emergence of groups of industrial companies being centred around insurance companies and closely interconnected with them through shareholdings and directorships. In addition, the industrials in a particular group themselves have become interconnected through ownership stakes and interlocking directors. Thus, for instance, clearly centred around the 'Old Mutual' are 3 leading South African companies (Safmarine, Sage, Rennies) and in addition the 'Old Mutual' has a dominant 31%

holding in the largest South African industrial company (Barlow Rand) which probably has ultimate control over at least 12 of the 'Top 100' companies. Similarly, the Sanlam insurance company has dominant (although usually indirect) holdings at least 13 of the 'Top 100' companies, which are heavily interconnected with it; while Southern Life and Liberty Life are directly connected via ownership to the Anglo American Group and thereby also to at least a further 13 of the 'Top 100' industrials.

It is unsurprising that the growing economic power of insurance companies has affected the type of control of industrial companies and helped produce a movement, however slight, toward management control.

As notable as this movement is, it should not obscure the fact that the majority of South African industrial companies remain firmly in the control of large owners of capital, be these individuals, groups of business associated or other large businesses themselves. The non-management control of South African industry remains a far more pronounced feature of the economic environment than any tendency toward management control.

The findings of this study can be briefly compared to the reported findings of the one other known South African study on ownership and control carried out by Halse (1982). The Halse study examined only the top 30 industrial companies and reported that

> 57% appeared to be controlled by a majority shareholder, usually a large organisation....33% appeared to be controlled through a minority shareholding. In one or two of these cases the 'controlling' company owned slightly fewer shares than an institution which however evinced no real interest in directing company policy. Only 10% of the companies could possibly fall into the third category that of control by management in the absence of anyone dominating share-ownership (1982:15).

There are several puzzles with this statement for Halse provides neither empirical evidence about how each company was classified, nor details of her methodology. Importantly, it is not specified at what point a company was seen as lacking a centre of ownership so that it was viewed as being under management control. Additionally the study does not make clear what is meant by one company owning the greatest minority of shares in another company but showing 'no real interest' in dictating that company's policy. In such a case, the issue is not addressed of whether a distinction was drawn between a company evincing little interest in mundane and short-term policy issues of another company, as opposed to evincing interest in, or being willing to do so, in important policy issues. The lack of reported detail make strict comparisons between her 1982 study and the present 1984 one difficult. The Halse study, although flawed, nevertheless does provide interesting contrasts to the present one.

First, to approximate to Halse's probable methodology the Top 30 companies in 1984 were examianed purely on the basis of the size of their largest ownership holdings. This resulted in 20 of the top 30 industrials being classified as majority controlled, that is 67% of these companies as contrasted to 57% of them in the 1982 Halse study (see Footnote 1). Second, examining the 1984 companies under minority control - and not making any judgement as to whether joint minorities would unite to exercise control - some 33% of companies in this study using Halse's probable procedures could be classified as being under minority control. This is an identical figure to that given by Halse. Finally, under the probable Halse procedures no companies among the Top 30 industrials in this study were classified as being under management control as there were no ground for taking a decision that a company 'lacked a dominant share-ownership'.

The contrast between the two studies demonstrates how critically important procedures of classification are, particularly when determining whether managerial control exists - or does not exist. The contrast also demonstrates the importance of examining pyramidical control and seeing that a company under investigation may be controlled by another company, which in turn is ultimately controlled by its management. In this case both companies should be seen as being management controlled. This is not unimportant in South Africa, for given the power of insurance companies, which themselves may well be management controlled, it is unlikely that the Halse procedures reflect the extent of possible

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1 The classification of the Top 30 industrials using the apparent Halse procedures was as follows (companies identified by their 1984 asset ranking as given in Table 7):

Majority = 2, 4, 5, 6, 7, 8(?), 10, 11, 13, 14, 16, 19, 21, 22, 24, 25, 28
Minority = 1, 3, 9, 12, 17, 23, 26, 27, 29, 30.

managerial control in the South African economy. Nevertheless, her study supports this one in providing a further demonstration that control of the largest companies in South Africa has become concentrated in few hands. Indeed, allied lwith this study, it indicates that the concentration of economic power is rapidly increasing.

The Managerialist Claim and the Concept of Control

It is clear that the majority of South African industrial companies are not under managerial control and that any claim that there is a widespread divorce of ownership from control has little foundation in fact. Using Berle and Means procedures, which now will be questioned as to their adequacy, at the most South Africa is witnessing the emergence of some leading South African companies that could be classified as being under managerial control.

A key concept should now be raised: What is meant by 'control'? The simplicity of this question should not overshadow its complexities. In the Berle and Means study - and the several others following theirs - the concept of control is easily dealt with, as control is defined in terms of ownership of a specified percentage of share capital of a company. However there are major objections to such a definition.

First, in separating out at what point a company may change from being minority to management controlled there is little rationale for selecting any set percentage of share ownership as demarcating that point. If the point of "20%" is set, does this mean that one large holding of 19.9% of company shares is able to be disregarded by management in terms of its views on any one issue? Or, is the opposite the case?

It would appear that precisely an opposite conclusion to that of Berle and Means can be forwarded. If share ownership is dispersed, this then **reinforces** the controlling power of any leading shareholder. For

> The greater number of shareholders and the smaller size of the average shareholding, that is the greater degree of dispersion and fragmentation of shareownership, the smaller is the proportion of the entire voting stock which is in practice needed to exercise effective control (de Vroey, [citing Gilbert] 1975:5).

It is extremely dubious that any mechanical approach, based on a percentage dividing line differentiating management from minority or management control could accurately determine where the focus of control of a particular company lies. A paradox may exist that dispersion of shares leads to greater control by minority owners.

A consequence of this is that if a company has no bloc of shares of 20% owned by an individual or group of business associates there is no logical reason to then deduce control of that company has passed into the hands of management. A company with widely dispersed shareholding could well be controlled by the owner of a leading bloc of shares of 5% or less. However, a mechanical approach to the concept of control could not detect this.

Second, it is inadequate to take the single firm and the ownership of blocs of shares within it alone as the units for analysing control. Control must be examined in terms of intercorporate relationships. Berle and Means recognise that by means of pyramiding a small percentage of large stockholders can control a whole grouping of companies (1967:69) - and so ironically contradict their own belief that, say, a two per cent investment stake is inadequate to gain control of any company. Yet they do not take into account the full implications of this in studying the methods by which corporations can be controlled, for as Zeitlin so trenchantly puts it, corporate control should be defined "as the capacity to determine broad corporate policies over time", despite resistance and consequently this means that

> A specific minority percentage ownership in itself can tell us little about the potential for control it represents. We can discover this only by a case study of the pattern of ownership within the given corporation. However it also means that confining our attention to the single corporation may, in fact, limit our ability to see the pattern of power relations of which this corporation is merely one element; and it may restrict our understanding of the potential for control represented by a specific bloc of shares in a particular corporation. An individual or a group's capacity for control increases correspondingly, depending upon how many other large corporations (including banks and other financial institutions) in which it has a dominant, if not controlling, position. The very same quantitative proportion of stock may have a qualitatively different significance, depending on the system of intercorporate relationsh;ips in which the corporation is implicated (1974:1 091).

In short, Zeitlin suggests that Berle and Means do not understand the significance of pyramiding in creating intercorporate relationships that are decisive in understanding the particular pattern of control of a single corporation.

This suggests clearly that studies of control should be rooted in the examination of groups of companies and their inter-relationships, their relationships to other companies outside of their group and to other groups. On the basis of ownership patterns alone the Top 100 companies in this study can be placed into 12 ownership groups (see final column Table 5) with 30 companies not in these groups being classified as 'independent', 'foreign' or state held companies (see footnote 2).

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2 The groups appear to be the following (using company asset rankings to identify companies in groups):

(a) **Anglo American Group** (14½ companies)

2
3
8
9
10
21
32

39
42 (½)
55 (?)
61
63
75
84
97

(b) **Barlow Rand Group** (13½ companies)

1
6
13
22
24
25
53

62
63
69
70 (½)
95
100

(c) **Sanlam** (13½ companies)

10
12
15
30
31
33
42 (½)

49
54
56
68
79
88
89

(d) **Anglo-Vaal Group** (5 companies)

14
45
57
77
85

(e) **Rembrandt Group** (5 companies)

5
11
23
27
29

(f) **Old Mutual Group** (3 companies) + **?Barlow Group**

18
37
46

(g). **Murray and Roberts Group** (2 companies)

20
96

(footnote continued overleaf)

Third, the thesis of Berle and Means can be criticised for not taking into account the fact that control of companies ultimately can only be determined by concrete case studies where the "capacity to determine corporate policies over time, despite

resistance" can be studied. Such studies are not easy to conduct from outside the doors of the company boardroom but they are nevertheless vital to attempt to conduct. Ownership of shares, intercorporate holdings, interlocking directors and other empirical material about companies at the best are powerful pointers to the nature of the control of a company, but company policy requires study in the specific to understand how a company is controlled. Thus the tensions that emerged in public in recent years between Rembrandt and Sanlam (over control of Union Corporation), within South African Breweries (over the ownership stake within it by Premier) and within Anglo American (over its investment policies as affecting Old Mutual) are far more decisive in determining how these companies are controlled lthan any study of them relying on formal empirical indicators of control.

The managerialist thesis cannot be sustained using the Berle and Means methodology and its conceptualisation of control. The belief that ownership and control are becoming separated in the economies of industrial capitalist societies fundamentally rests on arguments about the dispersion of shareholdings. Thus, finally, one should turn to some limited evidence about such dispersion in South Africa.

The most recent general survey of share ownership indicates that

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(h) **Waicor Group** (4 companies)
48
64
50
74

(i) **Kirsch Group** (2 companies) (?recently acquired by Sanlam)
43
47

(j) **Frame Group** (3 companies)
58
72
91

(k) **Venter Group** (2 companies)
60
87

(l). **Picard Group** (2 companies)
86
90

the ownership of shares is distributed among a mere 12% of the white population, with 32 640 shareholders holding 71% of shares held by private individuals (Market Research Africa, 1972). Such a finding does not indicate that there is any great dispersion of shares among private individuals. It is disingenious to argue that private individuals are represented in the share market by means of investments of insurance companies, for private individuals do not have direct ownership of insurance company shares and little, if any, control over such insurance companies.

A further piece of evidence concerning the distribution of shares awaits collection from the annual reports of those companies which provide information about their types of shareholder. Not all companies provide such information, which otherwise can only be gathered by going through the total share register of a company. However preliminary examination of Top 100 company reports indicates - as do Table 5 and McGregor's **Who Owns Whom** - that share ownership **within** South African industrial companies is extremely concentrated and lies in the hands of few owners. Further, generally private individuals appear to hold a minority of shares in the Top 100 companies. Table 9 sets out a preliminary survey of the types of shareholders in 5 of the Top 10 industrial companies and indicates the balance of shares within them between individual and corporate holders.

TABLE 9: Major Shareholders Size of Holding in 5 Large Non-Financial Companies, 1982/3

Co. Rank	Name	Individuals	Insurance Co's Pension Funds Trust Co's and Invest. Co's	Banks and Nominees	Other Corporate Bodies
1	Barlows	16.0	*	*	*
3	SA Breweries	8.0	50.0	30.0	12.0
4	C G Smith	7.5	25.9	1.8	64.8
8	AE&CI	"Below 10%"	12.0	-	78.0
9	Tongaat	22.5	54.8	22.5	0.2

* "Insurance companies, Pension Funds, Corporate Bodies and Nominees = 33.2%
"Instituons holding in excess of 1% = 50.8%."

Source: Annual Reports.

All evidence points to the shareownership not being widely diffused in South Africa and to major shareholding interests having effective control of corporate capital and having the power to determine corporate policy. What seems to have occurred and still be occurring is a concentration of ownership in fewer hands and a transition toward a more impersonal type of ownership in South Africa. It should be stressed that this is not to assert that individual and familial ownership has become unimportant.

These trends, particularly the movement toward impersonal ownership by financial companies, insurance companies and banks, await detailed examination. This paper has presented only some partial evidence about the nature of control in the South African economy. It clearly identifies the need for a continuing study of large companies if we are to better understand the political economy and class structure of South Africa.

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Rosebank and Parktown ensured these areas con-

rapidly as they have done in the past year," it said

"The strong recovery

tive and any downturn was expected to be short lived, said the report

space, as was experienced at the start of the last upturn, rental levels would increase rapidly, it said.

Fed Volks must tackle cyclical earnings factor

B Dy 21/5/90

(232)

ANALYSIS: STEPHEN RICHTER

INVESTOR uncertainties continue to send many mining and industrial shares to new yearly lows, and industrial holding giant Federale Volksbeleggings (Fed Volks) is included in this group

Its share price had been in a bullish trend towards the end of last year, when it peaked at 475c in September But a shift in sentiment has resulted in a sharp decline for the counter, which is now more than 50% below its 12-month high

The accompanying chart shows that the long-term trend, as indicated by the 39-week moving average, has turned bearish while the share has easily fallen below support at 300c While buying interest is appearing at the lower levels, a further fall to below 200c cannot be ruled out

The decline in the share price appears to have been sparked by a notice to shareholders in March This notice drew attention to the fact that at interim stage the directors estimated that EPS for the year ended March 31 1990 would approximate the 85,3c earned the previous year

However, the notice indicated that in the second half of financial 1990, profitability in the group's Tek and Fedmech divisions hadshown a considerable decline This had a significant effect on group profitability, and forced management to revise its financial 1990 earnings forecast downward to 60c The total divided for the year is expected to be maintained at 21c

This announcement was disappointing to loyal shareholders who were expecting the group to weather the upcoming economic slowdown in fine style But to investors who have been following the group for a few years, it should not come as a surprise that Tek and Fedmech are having difficulties

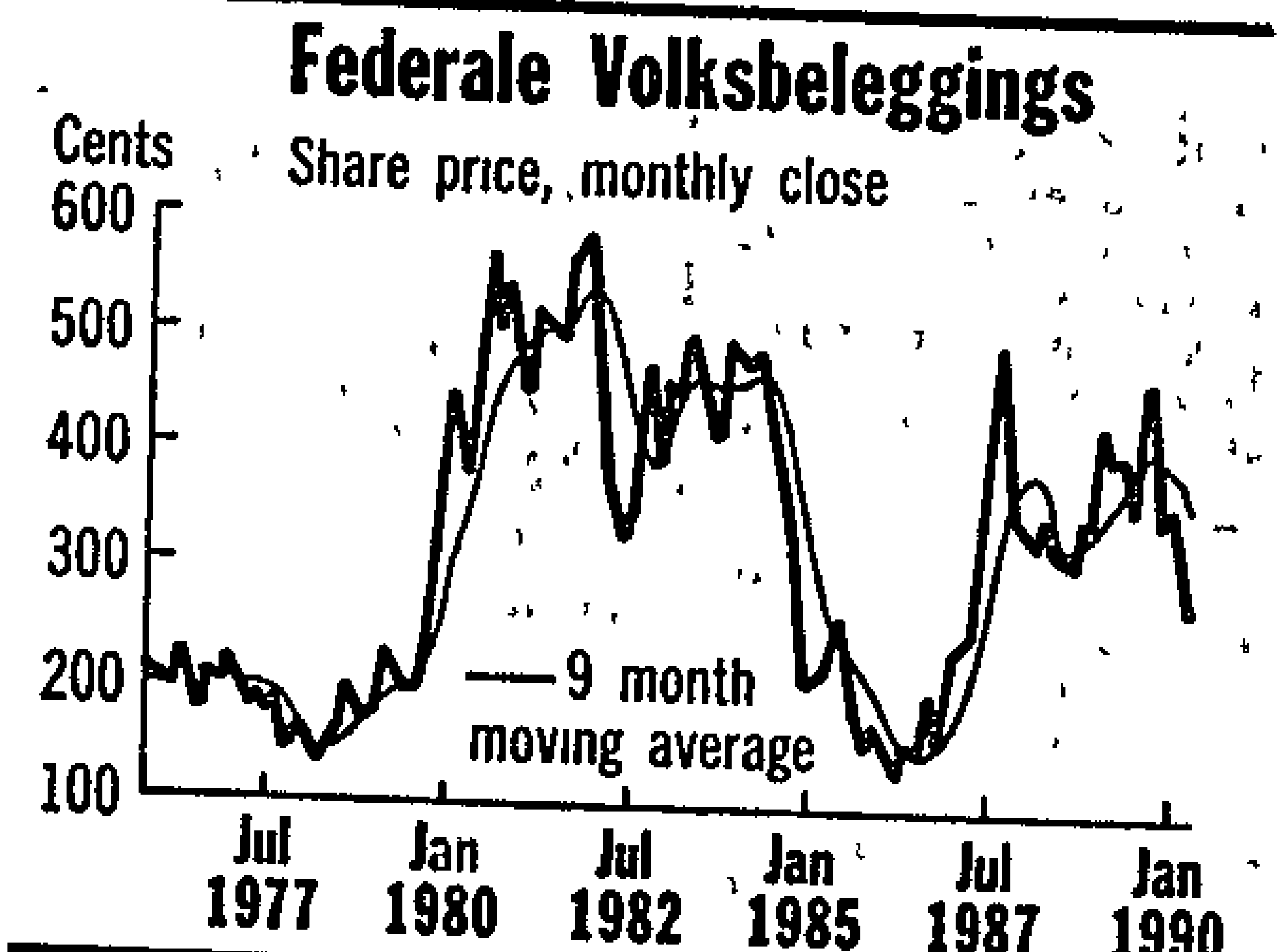
After all, rising interest rates have traditionally had a negative influence on Tek, which is dependent on consumer durable spending The increased finance charges should also translate into reduced spending on agricultural equipment such as that being sold by Fedmech

The very fact that overall group earnings can be significantly hurt by the poor performance of these two subsidiaries alone suggests management should take a closer look at either selling or reorganising these operations to help eliminate the cyclical nature of group earnings

It should have been quite clear from the last recessionary period, during financial 1985 and 1986, that any future economic slowdown would be felt by the group's motor components and agricultural equipment operations as well as by its domestic consumer goods interests The latest notice to shareholders confirms this quite clearly

Consequently, even though the directors are confident dividends can be maintained for financial 1990, if interest rates remain around current levels, group earnings could continue to slide. It would be very difficult to continue paying out an annual dividend of 21c

Before Fed Volks can expect to be re-rated significantly from current levels, earnings must reverse their recent slide and management should take the necessary steps to eliminate the cyclical nature of the group's various operations



Graphic FIONA KRICCH Source JSE

Cloud over Barlow Rand's earnings

B Day 21/5/90

BRENT MELVILLE

FOLLOWING the assault of interim disclosures last week by the first wave of Barlow Rand subsidiaries, market analysts are doubting the diversified industrial holding giant's ability to maintain earnings this year

As a prelude to Barlow's half-year results (to be announced in three weeks), analysts are already pegging the group's year-ends between

De Beers details structure of offshore creation

Cpt Times
2/5/90

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Own Correspondent

JOHANNESBURG — De Beers has disclosed the structure of the balance sheet, profits and dividends of the group and its offshore creation, De Beers Centenary AG, after the re-arrangement of the SA and foreign businesses

Of De Beers' 1989 balance sheet, 48%, equal to R8,6bn, would have been in Centenary, had Centenary been in place for the financial year

A detailed circular released today — ahead of a closed circuit press conference to be addressed by De Beers chairman Julian Ogilvie Thompson from London at midday SA time — shows that almost 80% of dividends would have been paid by Centenary, which is to be listed in Switzerland and first traded on Monday June 11

The circular follows the March 6 announcement that De Beers would be re-arranging its foreign business, with the SA business continuing to be held through De Beers It is proposed that equity shareholders will hold inseparable "stapled" units in both entities

Pro forma accounts in the circular show that had Centenary been in place last year, it would have paid R833m, or 78%, of De Beers' 1989 dividend, with De Beers paying the balance The circular includes details that may scotch market rumours of an unstapling of the units

Says Ogilvie Thompson "The diamond industry operates on a global basis, and it is desirable that the two groups should co-operate in the interests of shareholders and of the diamond industry as a whole

"To this end, it is proposed that as far as possible the two groups will be administered by identical boards of directors, and their securities will be linked so that they will be tradeable only as linked units"

The most striking difference in the pro forma accounts for De Beers is for diamonds On the balance sheet, diamond stocks fall to R138m (R6,3bn). The balance appears on the pro forma Centenary balance sheet at $2,4bn (the given exchange rate is R1/$0,39)

On the pro forma De Beers income statement, income from the diamond account falls from to R287m (R2,9bn), again with the rest appearing in Centenary's accounts

Tax falls to R257m (R807m), Centenary paying the balance With income from investments and interest largely unchanged, equity accounted earnings fall to R1,6bn (R4,1bn)

The pro forma accounts in the circular have been prepared by auditors Pim Goldby in Kimberley and Zurich as if Centenary had been in place for De Beers' financial 1987, 1988 and 1989 years, ending December 31

The pro forma balance sheet accounts show several significant differences

- Non-distributable reserves at R5,1bn (previously R6,3bn),
- Distributable reserves at R3,8bn (R10,3bn), and
- The balance sheet shrinks to R9bn (R17,5bn)
- Diamond stocks at R138m (R6,3bn)

Ogilvie Thompson stresses that the overall capacity of the De Beers and Centenary groups to pay dividends will be unaffected by the re-arrangement

"It is not intended that the re-arrangement should result in any reduction in the combined dividend distribution per De Beers/Centenary linked unit by the De Beers and Centenary groups from the distribution by De Beers per equity share before the re-arrangement

"The only difference will be that unitholders will now receive dividends directly on their Centenary depositary receipts as well as their De Beers equity shares, instead of only from one source

"It is expected that no less than 80% of the dividends distributed by the Centenary group will be paid by the Luxembourg subsidiary, Centenary Holdings, the balance being paid by Centenary itself

"It is also intended that dividends will be declared in such a way that unitholders can expect to continue receiving payment of dividends during or about November and May each year"

Ogilvie Thompson names as reasons for the re-arrangement, to

- Enable equity shareholders better to identify the earnings, dividends and assets attributable to the foreign group and the SA group,
- Provide equity shareholders with linked securities representing interests in, and entitling them to receive dividends from, both the foreign group and the SA group,
- Enable the foreign group and the SA group better to develop their respective businesses overall, with appropriately focused strategies and objectives, and generally to facilitate the conduct of business internationally, and
- Facilitate access to the international markets

BOE comes out shining

Star 4/5/90

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The Board of Executors (BOE) had a highly successful six months to March with attributable income up by 102 percent to R3,67 million (R1,82 million). Earnings per share were up by 25 percent to 40,6c (32,4c), while the interim dividend was raised by 25 percent to 10c

During the period the group fended off an Investec takeover and acquired control of Mercury Trust.

The group said R3,66 million was transferred to the general reserve. This was the result of the capital profit of R12,67 million on the sale of 20 percent of BOE to Liberty Life less R8,8 million utilised to write-off the premium for the Mercury Trust acquisition. — Sapa

In a £100m deal . . .

CM Trip
4/5/90
(232)

PGSI sells UK operation

Own Correspondent

JOHANNESBURG — Plate Glass and Shatterprufe Industries (PGSI) has withdrawn from the UK building glass market, selling its UK operation and its Solaglas name to the world's second largest glass manufacturer, French group Saint-Gobain, for £100m

This gives Saint-Gobain a captive glass market in Britain with sales worth more than £170m, while PGSI becomes the dominant player in the European automotive glass fixing business by purchasing Saint-Gobain's automotive glass fixing networks in Germany and France for £16m

Yesterday trading in the shares of PGSI and its holding company Placor were suspended on the JSE

The acquisition will result in the addition of 95 outlets in Germany and 50 in France to PGSI's Autoglass International Holdings, making it the largest chain in France, Germany, Belgium, Holland and Italy with a market share of about 12% It will continue with this business in the UK where it has 150 fitting shops and claims about 50% of the market

Autoglass will be well prepared for European integration in 1992, says PGSI chairman and CE of the group's glass interests, Ronnie Lubner

The recapitalisation of the offshore operations will provide Solaglas with the means for considerable expansion in the automative glass replacement business in Europe and the US

As a result of the deal, Solaglas International's heavily overgeared glass operation (63%) will be relieved of its debt and interest burden, leaving it in a net cash position which will make possible a strong flow of dividends to SA PGSI owns 74,3% of Solaglas International, the name of which will be changed

About R40m of the remaining cash from the deal will flow back into SA

Considering this liquidity and the heightened confidence about the group's future, Lubner says PGSI's dividends for the year to end-March will be maintained at 222c in spite of the expected 30% decline in earnings from last year's 482,7c

The effect of the deal on earnings for the year to end-September 1989 would have been a 14% (67c) increase in earnings to 551c (484c) and a 35% (827c) increase in tangible net asset value

Lubner said it was the strategic implications of the deal for Saint-Gobain, which has a market capitalisation of R17,5bn, rather than the profit history of Solaglas' building glass business, which enabled PGSI to demand a price with a price earnings of about 25 times

He said capital would be required to turn around and rationalise the acquisitions which have been making losses for Saint-Gobain, which was reported yesterday to have made a successful $2bn bid for US abrasives group, Norton

Losses in the international timber trading division of the wood group since November meant the group has had to revise earnings forecasts downwards

A downturn in the SA market, substantial management restructuring in a falling European market, a severe downturn in demand and development problems in Australia and economic restructurings in Brazil had contributed to the losses

"Corrective actions to reverse these losses continue and the overall viability of certain operations is under review," Lubner said

The SA Reserve Bank has approved the deal but approval is still awaited from regulatory authorities in Europe

Market buoyed by govt, ANC indaba

232

MERVYN HARRIS BD

BUOYED by positive political sentiment in the wake of talks between government and the ANC, share prices staged a strong rally on Diagonal Street yesterday.

De Beers, up 1,7% (165c) to a new high of R98, and mining financials were in the forefront of the uptrend in further response to last week's news of more details on the diamond group's rearrangement of its SA and foreign business interests

Dealers noted demand for shares across a broad spectrum and the JSE overall index gained 66 points or 2,1% to 3 177, as the all gold index closed 2,4% up at 1 775 and the industrial index rose 1,1% to 2 896.

Maurice Fisher of stockbrokers Frankel, Kruger, Vinderine said: "The market was oversold and due for a correction. The positive feedback from the talks . . . helped to fuel demand for quality shares.

"Stabilisation of global stock markets with an overnight rise on Tokyo and renewed strength on Wall Street also sustained sentiment," he said

The more optimistic outlook was reflected in a firm finrand which rose to R4,0750 from R4,1450. But the rise of the investment unit had no impact on share prices as UK financial markets were closed for a holiday and no stock was coming out of London Bday 8/5/90

The gold board was encouraged by gold holding above the $371 level on bullion markets with shares of marginal gold mines rebounding from recent lows.

ERPM jumped 40% or 500c to R17,50 to bring its gains to 59% in less than a week. The shares started rising ahead of news of a proposed rescue package.

BUSINESS DAY, Friday, May 4 1990 3

(00)

UK parent selling NEG in liquidation process

(232)

LINDA ENSOR

NATIONAL Employers' General Insurance (NEG) is to be sold off by its UK parent to pay for huge Workmen's Compensation claims lodged with a whollyowned Australian subsidiary

However, SA short-term insurer NEG is in a sound condition, having reported an underwriting surplus of R5,5m, investment income of R15,5m and after-tax profit of R21m in the year to end-December — quite an achievement in the embattled short-term market It has assets of R188m

About 64% of its business is in motor insurance

NEG MD Peter D'Arcy-Jones said yesterday NEG's parent, National Employers' Mutual General Assurance (Nemgea) was required to liquidate all its assets worldwide to cover the losses of the Australian claims

The Supreme Court in New South Wales issued the provisional liquidation order.

Most of the claims apparently related to asbestosis, though D'Arcy-Jones could not confirm this yesterday

Nemgea owns 73% of NEG, 25% being held by African Finance Corporation and 2% by staff and public

D'Arcy-Jones said NEG's business and solvency was completely unaffected by the liquidation of Nemgea as it was an independently incorporated company which financed itself and arranged all its reinsurance through normal and traditional markets

"The financial difficulties of Nemgea will have absolutely no affect on the finances of NEG nor on its ability either to underwrite new business or to meet claims arising from existing policies," D'Arcy-Jones said

"NEG is of course subject to the provisions of the SA Insurance Act and complies fully with all the solvency requirements of that Act"

There has apparently been a lot of interest in purchasing NEG, including by AGF of France Preliminary negotiations with interested parties are apparently under way mits to convey passengers between Lenasia and Johannesburg

(b) The application by A Kandasamy was granted on 7 November 1989 in respect of three buses Lenasia Bus Service (Pty) Ltd appealed to the National Transport Commission (NTC) against the grant of public road carrier permits by the LRTB to A Kandasamy The NTC upheld the appeal on 8 March 1990 The application by S K Bus Lines is still to be considered by the LRTB

Broadcasting: deregulation/privatisation

*14 Mr S S VAN DER MERWE asked the Minister of Home Affairs

(1) Whether any representatives of the independent broadcasting services will be co-opted to serve on the task group appointed to investigate the desirability of the deregulation and privatisation, and all other aspects of broadcasting in the region concerned, if so, (a) when and (b) which representatives are involved, if not,

(2) whether the independent broadcasting services will be invited to make representations to this task group, if not, why not, if so, when?

B878E

The MINISTER OF HOME AFFAIRS

(1) Yes

(a) with effect from 23 March 1990

(b) Mr C Stofberg

(2) Falls away

Broadcasting rights within SA: applications

*15 Mr S S VAN DER MERWE asked the Minister of Home Affairs

Whether those members of the independent broadcasting services who are wholly or partially owned by the Governments of the independent Black states are to be given preference over new applications for broadcasting rights within South Africa, if not, why not, if so, which independent broadcasters are involved?

B879E

The MINISTER OF HOME AFFAIRS

The Task Group on Broadcasting will in the course of its activities give attention to all broadcasting rights and future policy will be determined after receipt and consideration of the report of the Task Group The position of the existing broadcasting services will naturally be taken into account

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Hout Bay area· squatters

*16 Mr C W EGLIN asked the Minister of Planning and Provincial Affairs

(1) What is the estimated number of (a) individual squatters and (b) family units of squatters residing in the Hout Bay area,

(2) whether any steps have been taken to (a) find suitable land for the housing of, and (b) provide alternative accommodation for, such squatters, if so, what steps, if not, why not?

B880E

The MINISTER OF PLANNING AND PROVINCIAL AFFAIRS

(1) (a) 473

(b) 171

(2) (a) Yes

(b) No

The squatters are in a white group area that falls under the jurisdiction of the Administration House of Assembly, who will hold a meeting on 16 May 1990 with all interested parties with a view to finding a solution

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SP: diplomatic immunities/rights/privileges granted

*17 Mr C W EGLIN asked the Minister of Foreign Affairs

Whether the State President granted diplomatic immunities rights and privileges to any persons in 1989 in terms of section 2B of the Diplomatic Privileges Act, No 71 of 1951, if so, (a) how many (b) what are the (i) names of, (ii) nationalities of, and (iii) positions occupied by, each of these persons and (c) what was the nature of the status granted to each of them?

B881E

The MINISTER OF FOREIGN AFFAIRS

(1) Yes

(a) One

(b) I will gladly furnish the hon member personally with these particulars

(c) Exemption from restrictions on occupation of immovable property

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Group Areas Act: alleged contraventions

*18 Mr W A BOTHA asked the Minister of Law and Order

(1) Whether any alleged contraventions of the Group Areas Act were reported to the South African Police in Uitenhage during the latest specified period of 12 months for which information is available, if so, how many,

(2) whether he will make known the addresses at which the alleged contraventions took place, if not, why not, if so, what are the addresses concerned,

(3) whether the Police have taken any steps as a result of the alleged contraventions, if so, (a) in what cases and (b) what steps?

B886E

The MINISTER OF LAW AND ORDER

(1) Yes — 7 cases

(2) and (3)

All these cases have been referred to the Department of Local Government, Housing and Works, Administration House of Assembly, for investigation Therefore, I do not consider it advisable to furnish information which may possibly jeopardise the investigation or anticipate the judicial process

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Castillo de Bellver

*19 Mr J H MOMBERG asked the Minister of Transport

(1) Whether his Department is monitoring the wreck of the Spanish oil tanker *Castillo de Bellver* off the west coast of South Africa, if not, (a) why not and (b) when did the tanker sink, if so,

(2) whether there is any danger of the tanker leaking oil if so,

(3) whether his Department has taken any action to prevent oil being so leaked or to minimise the danger of this happening, if not, why not, if so, what action?

B919E

The MINISTER OF TRANSPORT

(1) Yes

(a) Falls away,

(b) August 1983

(2) The possibility exists

(3) No At present there is no determined threat of oil being leaked from the tanker The removal of the oil at the depth of approximately 420 metres is with present day technology extremely problematic if not impossible and the removal of the oil under these circumstances is considered an unacceptable risk of causing a major spillage The situation is being monitored on a continuous basis by the Department and other interested parties

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Exploding fireworks/crackers: banning

*20 Mr M J ELLIS asked the Minister of Trade and Industry and Tourism

(1) Whether he has received any representations regarding the banning of the importation of exploding fireworks and/or crackers, if so, (a) from whom, (b) when and (c) what was the (i) purport of and (ii) response to each such representation,

(2) whether he has given any consideration to banning the importation of such fireworks and/or crackers, if not, why not, if so, with what result?

B920E

The MINISTER OF TRADE AND INDUSTRY AND TOURISM

(1) Yes

(a) Mr C J van R Botha former MP for Umlazi, and Mr R P Meyer, MP, Deputy Minister of Constitutional Development, on behalf of certain constituents of theirs, as well as from Mr R D Orsmond

(b) 16 November 1989, 28 November 1989 and 1 February 1990 respectively

Star 9/5/90 (232)

Govt's Lifo 'take' higher than expected

By Derek Tommey

Early indications are that the Government will get a much bigger tax take than it has forecast from the changes in the Lifo reserves announced in the March Budget

In his Budget speech the Minister of Finance, Mr Barend du Plessis, said that the Lifo reserves of companies had to be reduced by 10 percentage points a year during the next 10 years

The cash which is being generated by the reduction in the reserves is subject to tax

This tax is estimated to amount to R50 million this year and to R500 million over the next 10 years

However, a survey of just four companies showed that they had between them Lifo tax liabilities approaching R100 million

One of them is OK Bazaars which has, as a matter of prudence, transferred R45,9 million from shareholders' funds to deferred liabilities to meet the Lifo tax, the managing director, Mr Gordon Hood, reported yesterday

Another is Checkers, also a major retailer, which will have a Lifo reserve tax liability of some R30 million, Mr Donald Masson, head of Tradego, said yesterday

Two sizeable manufacturing companies also admitted that their Lifo tax liability could be about R10 million

Edgars has transferred R20 million from reserves to deferred tax to cater for the changes

It is clear from these examples that the tax liabilities of the dozens of large public and private companies must handsomely exceed the R500 million estimated by the Treasury

Companies likely to be hit the hardest by the new provision include the oil companies which, however, do not publish their accounts and also the major manufacturing groups

Some accountants believe that the Treasury probably had no idea of just how large the Lifo reserves in South Africa were when it decided to introduce the new measure

However, although the tax should help the Minister of Finance meet his Budget targets this year, it seems that most firms are not greatly worried about it

One reason is that the heaviest burden will fall on the largest companies — and these are best placed to meet the tax Another is that as the years pass by the actual amount to be paid in real terms will shrink in line with the increase in inflation In 10 years' time the payments will probably be insignificant

Projec terminated but mystery remains

Stv 10/5/90 232

Diagonal Street

ANN CROTTY

The listing of Projec Investment Holdings has been terminated.

Nedcor results for the six months to end-March showed that UAL has already taken a R9 million net after-tax loss resulting from the failure of an overseas client to provide funds to cover its liabilities on a forward financial rand transaction undertaken by UAL.

The finrands had been used to buy Projec shares

With the JSE having reached the limit of its fairly restricted authority it is now up to the Reserve Bank — with some help from UAL — to try and establish the specific nature of the transactions and try to recoup some of the losses suffered to the country's forex reserves.

According to Reserve Bank sources investigations both locally and overseas have been underway for some weeks and are proceeding.

The termination of Projec's listing, which was effective yesterday, comes six weeks after the share was suspended at the request of JSE president Mr Tony Norton.

The suspension was called for because of the very heavy trading in the share and the fear that there might have been some pushing of the share price to the detriment of minority shareholders.

Share trading

From mid-July 1989 to end-February 1990, 4,5 million Projec shares changed hands in the market at a price of R11 a share. These are dramatic figures considering that there are only 1,8 million shares in issue and that an R11 share price reflected a price/earnings rating of a massive 238 times — on a fairly vague and unsubstantiated estimate of earnings.

Indications are that there is little in the way of assets in the company.

Mr Norton stated that the listing was terminated because the JSE was unable to establish a place of business, get a copy of the company's accounts or, establish any contact with the company's directors — many of whom are apparently overseas.

According to Mr Norton, the JSE Committee had hoped that the suspension would precipitate some communication from the company: "We were hoping for some reaction, for some dialogue between the JSE and Projec but there was a remarkable silence."

Even minority shareholders failed to respond.

It now seems that by the time the suspension was effected in March, the parties involved had already been in silent mode for a number of weeks.

It was the February collapse of the finrand that led to the reneging of the UAL finrand contract that was financing the heavy trading in Projec shares.

Original investigations by the JSE indicated that the Projec shares being bought in the market at R11 (since September) were then being sold to another party outside of the market.

This second party then sold them via the market back to the first party (or an associate) and so on.

It now appears that the trading sequence may have been even more complicated and involved a third party.

What is known is that Projec stock, that was bought in the market by an overseas party (using the UAL finrands), was having its finrand endorsement cleaned off and then being sold off-market later again back into the stock exchange.

Cleaning finrand endorsements is highly irregular and requires the co-operation of officials.

(Apparently the ties between World of Music and World of Leisure with Projec have been severed.)

Bumper quarter for unit trusts

THE first quarter of 1990 has been a bumper one for the unit trust industry.

Unit sales hit a record as did the market value of the country's 33 unit trusts and the number of unit trust accounts exceeded 600 000 for the first time.

Sales of units for the period topped the R638m mark, comfortably exceeding the previous record of R599,3m for the September 1987 quarter.

Euphoric

However, on account of a significantly higher level of repurchases during the March quarter, the net inflow into the industry at R634,7m is below the record R453,8m achieved in the September 1987 quarter.

Roy McAlpine, chairman of the Association of Unit Trusts commented: "The industry experienced a strong upturn in sales during the first six weeks of 1990. The mood in the country was euphoric - the gold price was rising, the socio-political climate was extremely optimistic and share markets were firm internationally.

"In addition a couple of new unit trusts were launched which appealed to investors.

Tempered

"However during the latter half of the quarter - from about mid February - the mood of optimism was somewhat tempered in response to a lower gold price, the poor performance of international markets, especially the Tokyo share market, and the ANC's public pronouncements on nationalisation.

"This had an impact on unit sales which slowed quite noticeably."

McAlpine said that in spite of this, it is very pleasing to note that there are now over 60 000 unit trust acounts in South Africa, a 15 percent increase over the last 12 months.

Soared

He added that not only was there a significant rise in the new money that flowed into unit trusts in the quarter, the total value of the assets managed by the industry soared by almost R1-b in the three months, from R6 643m at the end of 1989 to R7 624m at the end of the March quarter.

According to statistics released by the Association of Unit Trusts, the market value of the funds climbed almost 45 pc from March 1989 to March 1990, an impressive increase and an indication of the growing public awareness which the industry now commands.

Sowetan 10/5/90

(232)

South African investors have become very aware of the excellent performances which the unit trusts have delivered for their unitholders in recent years and the performances reported for the March quarter are no exception.

The five year compound annual average performance (capital growth plus income) of the country's seven general equity trusts which have been in existence since 1986 ranges from 27,2 pc to 32,5 pc and averages 31,3 pc per annum.

Over the most recent one year period the annual return of the 13 general equity trusts is even more impressive, ranging from 21 pc to 44,3 pc with an average of 35,4 pc.

The specialist equity trusts also performed well for their unitholders, achieving a compound average return over the past five years of 25,2 pc and an average 30,3 pc over the most recent 12 month period.

Unitholders have experienced outstanding growth in the value of their unit trust investments in recent times, but McAlpine cautions that it would be unrealistic to expect unit trusts to continue to achieve returns of the magnitude achieved in the past 12 months.

He also believes that it is unlikely that the record sales notched up in the first quarter of 1990 will be repeated in the current quarter since the prevailing sentiment among investors, both internationally and in South Africa, has become very much more cautious.

600 000 unit trust holders in S Africa

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THERE'S a well-known witticism: "She said she was entering her declining years so Bill told her that a woman of her age could not afford to decline anything."

One investment that both men and women should seriously consider, no matter what their age, is a unit trust.

Chairman of the Association of Unit trusts, Roy McAlphine says: "Because units trusts are such a flexible investment and have performed so consistently well over time, every South African should, provided financial circumstances permit, invest in at least one general equity unit trust.

Growth potential

Unit trusts are definitely not only for the wealthy. As McAlphine points out, investments can be made with a lump sum as small as R100 or with regular investments from as low as R20 a month.

"The fact that general equity trusts have provided for unit holders an average annual compound return of 24 percent per annum over the past decade, illustrates clearly the merits of unit trusts as a long term investment.

"Ideally, to avoid investing at a time when share prices are at or near a peak, unit holders should invest a regular amount every month. This is called rand cost averaging and its advantage is that you accumulate more units when prices are low and so end up with a lower cost per unit than if a regular number of units were purchased at set intervals.

"Investing in unit trusts is an excellent means of saving and, as unit trusts invest primarily in sound, blue chip equities, with solid growth potential, those savings should provide a real return to investors over and above the rate of inflation." Sowetan

Great virtue

10/5/90

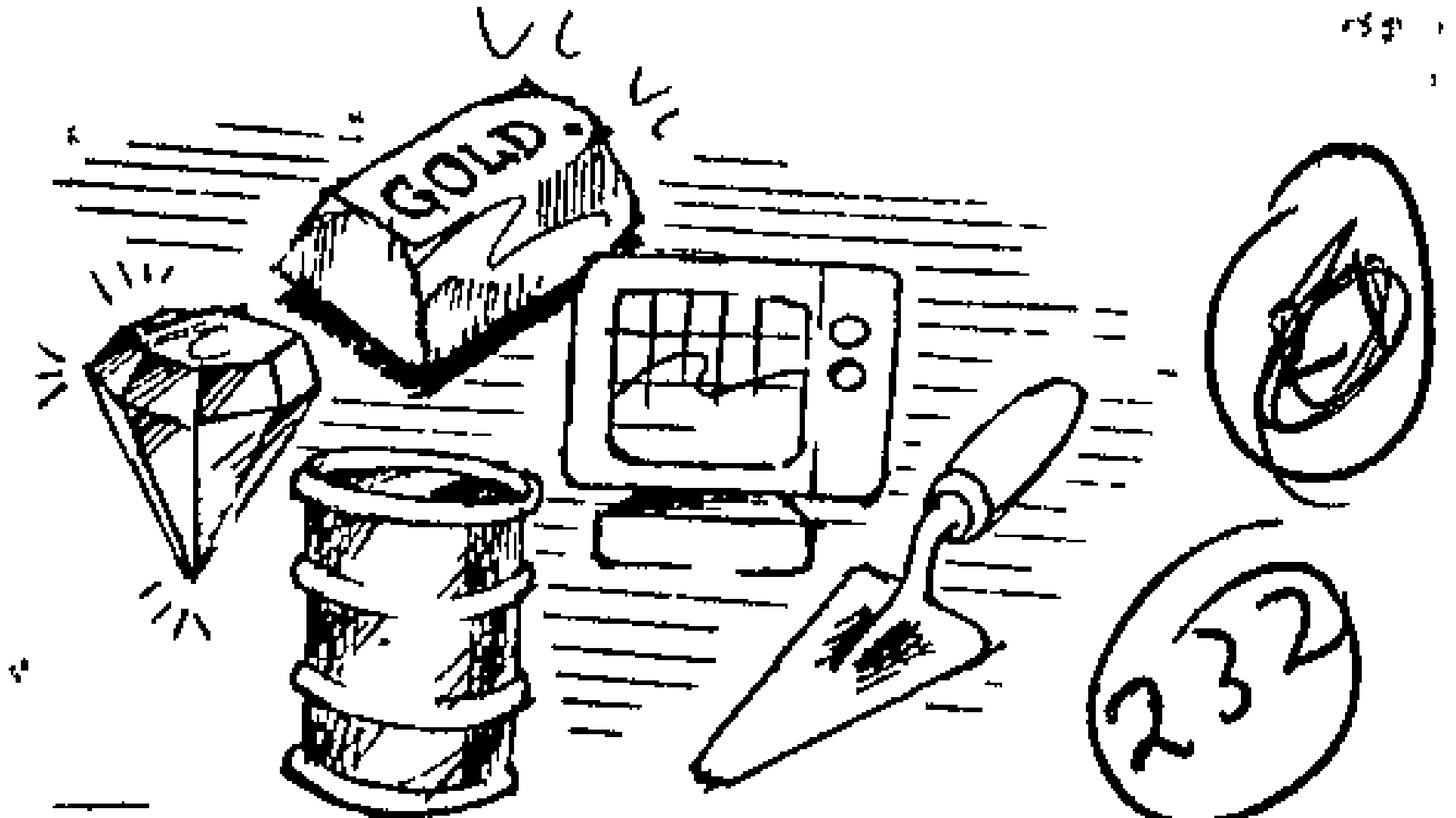
In South Africa today there are over 600 000 units trust account holders whose total unit trust investments had a value of R7,6 billion at March 31, 1990. That is a 43 percent over the value a year ago.

McAlphine adds: "To an increasing extent, South Africans are appreciating the value of investing in unit trusts. The flexibility of the investment medium is a great virtue - you can add to you original investment at anytime and, for those looking at building up an additional retirement fund, unit trusts are ideal.

"When you have some spare cash this can be added to you investment to accumulate value over time.

"And should you need to liquidate a portion or all of your investment for whatever reason, you can instruct the management company to repurchase your unit trusts and you will receive the proceeds within 10 days."

NATION BUILDING The power is in your hands



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Give them a financial start in life

Sowetan 10/5/90

CALLING all indulgent parents and surrogate parents. An investment in unit trust will not only ease your Christmas/birthday present headache, it will also ensure that your favourite small person has an excellent financial start in life

With the flexibility of unit trusts, this investment medium makes an ideal present for a child.

Units trusts have their investments spread across the boards of the Johannesburg Stock Exchange and are therefore essentially medium to long-term investments.

Even if the share market were to fall as it did in October 1987, children have time on their side. They can afford to ride out any short term market declines and enjoy the benefits of the steadily rising trend of unit prices over time.

Once a unit trust account is opened in the child's name, additional amounts can be invested any time during the year, bolstering the invested sum which will accumulate over time.

It is advisable to opt for unit trust distributions to be reinvested in the account as the child then enjoys the benefit of compounding.

As the distributions themselves grow, they buy more units and increase the overall value of the investment.

Recent changes in legislation allow parents to donate to their children, free of donation tax, a maximum of R20 000 in total and what better way to protect such a capital amount from the ravages of inflation than to invest it in unit trust?

A unit trust investment can be liquidated at any stage - and can be applied to the cost of secondary or tertiary education if the need were to rise

SOWETAN BUSINESS

Unit trusts spread your money and cut the risk

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Sowetan 10/5/90

IN an inflationary climate as we have in South Africa today it is important that you protect your hard earned savings. If you don't you will find that the R1 000 you saved will be worth less than R500 in five years' time.

One sure way of protecting your capital against inflation is to invest in unit trusts.

A unit trust enables a large number of investors to pool their individual capital sums for investment on the stock exchange.

By doing this, these investors obtain a spread of investment which they could not achieve individually

The unit holder's money, which can be as little as R20 a month, is invested by the unit trust managers, professionals whose job it is to watch the markets day in and day out.

Any person who wants to build up a balanced savings programme aimed at accumulating capital for educating children, for building up or supplementing a pension, or as a savings mechanism.

Every financial plan for people who are determined to build real wealth should include a unit trust investment.

Effectively, for a small cost, you obtain a spread of investment and risk, professional management of your money, the provision of a full administration service and the ability to acquire and realise your investment at ruling prices without having to compete against other buyers and sellers and so force up (or down) share prices

Depending on the fund in which you invest, income is distributed either quarterly or half-yearly and is made up of both dividends and interest.

The money that you receive at these times is the income which is generated by the trust after deducting the service fee

If you do not require immediate income, you can select an investment plan that allows for the income that is generated to be re-invested.

This buys more units, and so speeds up your savings plan and is highly recommended

As an investor you must recognise that a unit trust is a long-term investment (an investment which you can afford to leave for three to five years) which, over many years, has enabled unitholders to obtain a "real" return, that is a return which is over and above the rate of inflation

Under no circumstances must an investment in a unit trust be regarded as a short-term investment

There are now 33 unit trusts in South Africa - 14 general equity trusts investing in a balanced and diverse portfolio of companies, 10 specialist equity trusts which invest in a selected or focused area of the stock market and nine high income trusts which seek an above-average level of current income for their unitholders

Investors can obtain application forms from most financial institutions, financial advisors and stockbrokers

The Star
Finance

Mervest ready to be taken over

10/5/90

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By Tom Hood

Marine West (Mervest), a sea ,diamond company controlled by Cape Town businessman Jack Walsh, is likely to be taken over by West Coast marine diamond exploration company, Benguela Concessions

Both companies are involved in negotiations and a cautionary announcement toshareholders was issued yesterdaythat if the talks succeed the deal may have an effect on the share prices of both companies

Merwest's share price jumped by 19 percent to 25c a share after news of the negotiations

Benguela Concessions (Benco), listed on the JSE last year, is headed by Dr John Gurney, professor of geochemistry at the University of Cape Town and a world expert on the recovery of sea diamonds

Mr Walsh, a former trawler skipper, said the deal "will probably be done through a reverse takeover with Mervest's assets injected into Benco if everyone is happy

"An agreement would seem to make a happy marriage because Benco has a very strong geological technical expertise and we have a very strong operational expertise"

Marine West would also gain access to two extra diamond concessions

"We don't have enough boats at the moment to work them but in the long term there will be benefits

Mr Walsh added that diamond production so far this year exceeded the total for 1989 through a combination of better weather and greater efficiency

The West Coast sea diamond business was long regarded as highly speculative, but Benco recently raised R15 million from its shareholders and has backing from Old Mutual

Sowetan 10/5/90

Sparkling results produced by ABI

THE largest bottling company in South Africa, Amalgamated Beverage Industries (ABI) made the day for more than 5 000 first-time shareholders when it produced sparkling results for the year ending March 1990.

The predominantly black shareholders have seen their investment increase seven-fold in three years.

When they acquired the shares in 1987 they sold for R1. At the listing of ABI in June last year, the shares traded at R3,50. By the end of the year they had reached the R6 mark (232)

They currently trade around R7.

The company, the largest bottler of Coca Cola and other well-known soft drinks - lifted attributable earnings in its first full year as a listed company, by 43 percent to R45,3-m. With 6 million additional shares in issue following the acquisition of the Sparletta Bottling company during the year, earnings per share improved 35 percent to 42,8 cents.

SOWETAN BUSINESS
Building the nation

Protect your savings from inflation

Unit trusts build your capital

Sowetan 10/5/90 (232)

SOMEONE once said that if you have an investment in a unit trust you effectively have the country's best investment brains working for you

The excellent performance of the unit trust industry over a long period of time supports this view If 10 years ago you had invested R1 000 in a general equity unit trust and had re-invested the income you would today have an investment that is worth R8 600, an impressive performance

But what is a unit trust and how can one participate in this investment

Listed

A unit trust is a vehicle through which members of the general public can participate in a spread of investments listed on the Johannesburg Stock Exchange

You can invest as small an amount as you want with no maximum These investments are managed on your behalf by professional investment managers who report their progress to unitholders on a regular basis

Another way of describing a unit trust is as a ' cake which is made of a number of different ingredients - flour, eggs, sugar etc The ingredients in a unit trust are the shares of different, top quality companies which are listed on the JSE, for instance De Beers Barlows, SA Breweries

And just as you slice up a cake to share, so you obtain units (slices) in a unit trust

Each unit contains a portion of the mixture or the total portfolio

And just as you have a vanilla cake which appeals to most people so you can have an investment in a general equity unit trust which tends to have a balanced portfolio of between 25 and 30 top quality shares

All stories on Pages 17, 18 and 19 were written by The Association of Unit Trusts, the organisations promoting the unit trusts industry.

A general equity (in other word for shares) trust would invest for instance in companies such as Anglo American, De Beers, Gencor, Barlows Sappi, Liberty Life - solid companies which have increased their profits regularly over the years

Continuing the example, for those who like more spice in their food, so you can have specialised unit trusts which invest in a particular area, gold, for instance, or mining and resource shares

These are called specialist equity trusts

In addition to general equity trusts and specialist equity trusts there are high income trusts

High income trusts are aimed at those with capital growth

Today there are 33 unit trusts in South Africa 15 general equity trusts 10 specialist equity trusts and 8 high income trusts

The funds are managed by the country's leading financial institutions the banks building societies and insurance companies and today there are around 570 000 unitholders in South Africa

As to who should invest? The answer is everyone with some cash that is not needed for everyday living and which can be put away for a period of at least three years and preferably five years

By pooling their investment unitholders with amounts as low as R20 a month can achieve a spread of risk and investment which they could not achieve as individuals

Think about it one De Beers share cost R80 last week and one Anglo American share over R120 That means you need at least R200 to buy two shares

If the results of the Anglo/De Beers group were below expectations the price of their shares would fall and you the investor would be exposed to a decline in the value of your investment

By spreading your risk across a number of shares listed on the stock exchange as you do when you buy a unit trust you reduce that risk

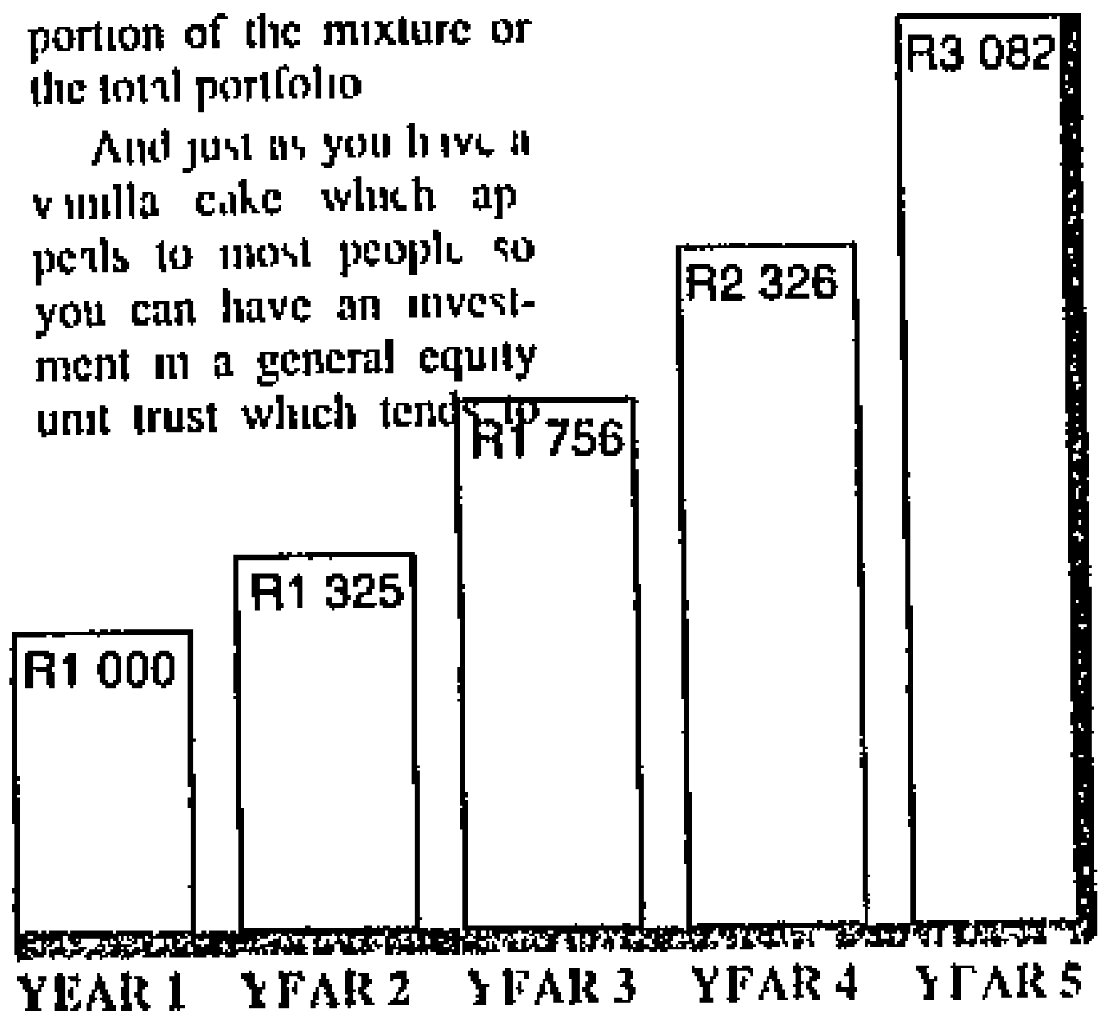
Also you can achieve that spread at a relatively low cost

Most of the funds will accept a lump sum investment of as little as R100 or a regular investment of R20 a month

Application forms and further information can be obtained from all the leading banks financial advisors such as insurance brokers and from stockbrokers

Unit trusts are a proven way of building up investment capital which is protected from inflation

Another advantage is that you can make your investment as and when it suits you



(R1 000 INVESTED 5 YEARS AGO)

This price guide will be carried every Thursday

UNIT TRUSTS

	Buyers	Sellers	Yield
GENERAL EQUITY FUNDS			
Allegro	101 37	94 18	N/A
Grdbank Gr	1965 33	1832 25	4 25
Momentum	188 44	176 18	5 05
Metfund	154 74	144 28	5 45
NBS Hallmrk	770 89	716 33	6 84
Nrwch NBS	304 92	283 33	7 13
O Mut Inv	2313 82	2148 88	4 92
Sage	1904 27	1768 29	4 33
Sanlam	1320 01	1230 23	4 71
Sanlam Ind	1103 92	1028 56	3 46
S Equity	159 65	148 67	4 88
Std	951 78	890 51	6 01
Syfrets	196 82	183 88	3 80
UAL	1744 73	1627 61	4 96
SPECIALIST EQUITY FUNDS			
Grdbnk Re	155 35	144 97	5 80
Sage Res	131 61	122 14	5 16
Sanlam Ind	645 16	601 34	4 66
Sanlam Min	333 30	310 63	5 41
Sanlam Div	322 31	299 67	6 61
South Min	164 88	153 58	5 14
Std Gold	259 94	242 44	5 59
UAL M & R	412 70	384 42	4 56
UAL Sel	1246 62	1159 49	5 17
O Mut Min	323 47	300 48	5 14
O Mut GF	195 49	181 51	N/A
INCOME/GILT FUNDS			
Corbank	104 55	103 44	17 17
Grdbnk IN	113 79	112 56	15 07
Old Mut In	105 64	103 44	16 85
Senbnk HY	98 61	97 57	14 47
Senbnk G	98 33	97 30	14 53
Std Inc	90 28	89 25	14 94
Syfrets I	106 10	105 04	16 80
UAL Gilt	1085 49	1074 64	16 34

MAKING THE MOST OF THE STOCK EXCHANGE

OLD MUTUAL UNIT TRUSTS

Informative booklet

THE Association of Unit Trusts has recently published an informative booklet entitled ' Unit Trusts and You '

The booklet sets out in simple terms how a unit trust works and contains the names and addresses of all the management companies which manage South Africa's 33 unit trusts

It can be obtained by writing to Box 52455, Saxonwold 2132, and providing your full name and postal address and a 21 cent stamp to cover cost of postage

SA FUTURES EXCHANGE FM 11/5/90 · (232)

Pump up the volume!

■ The birth of a new market has not been without controversy

It's a daring achievement for a small, isolated economy That's part of the reason why our new futures market began with financial futures — in other parts of the world, the idea found its feet as an attempt to give farmers and metal producers the opportunity to hedge their commodities

The path to formalisation of the market (sketched out by the Stals and Jacobs commissions) has not been smooth However, opening day (April 30) was duly celebrated by the market's architects last week; now the SA Futures Exchange (Safex) hopes to be licensed as the official exchange by August.

Only financial futures are affected mainly because of the control board system, no futures in local agricultural commodities such as maize and sugar are traded yet, though the Maize Board, a Safex member, is working on a local maize futures contract

Futures in metals and commodities have been available to Reserve Bank-approved clients since the early Seventies Holcom Futures — and later two others — did the deals and were also licensed to deal on international exchanges They do not fall under Safex's control It was Rand Merchant Bank which started the informal financial futures market in April 1987, it saw a new money-making opportunity for the market — and ended up clearing and guaranteeing the entire market until the handover


Rees


Norton

The takeover of the clearing function by Safex and its clearing house came nearly eight months after the latest planned start-up date, and the delay has fuelled costs, according to players One dealer comments "Safex is basically broke It had to come on stream now as it has used up all its money and needs to recover costs"

CEO Stuart Rees says Safex did not raise a great deal of money to fund development. "We don't intend to operate for profit and at no stage do we need large reserves unless for funding future capital development" Expenses from inception to end-March this year will total R3,3m

Reasons for delay are many "The market has been dogged by compromises all the way to take care of vested interests," says one operator — echoing a widely held view that bodies like the JSE want to protect stockbrokers' interests This is what led to the most hotly argued issue — which dealing system to use, open outcry or screen In the end it was decided to use both, "which has undoubtedly added to costs."

Some are baffled as to precisely *why* An original poll showed a clear majority wanted screen trading only, two voted for dual trading and the JSE for open outcry The cynical saw this as pandering to the interests of the JSE's traditional floor trading system

Rules also had to be revised when the clearing banks objected to the proposed joint guarantee system whereby they could be held liable for any clearing member who defaulted This has since been resolved and there are now 12 clearing members

Most regard these and the other issues as water under the bridge — and the concern now is to increase and sustain volumes

SA has limited potential, critics charge They question whether volumes will justify the sophisticated systems being put in place for a market of limited size based on a First World-Third World economy

And then, how many large investors use derivative instruments anyway? According to *Euromoney* magazine (March 1990), only 33% of British investment institutions

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FM 11/5/90 (232)

write equity options and just 15% use stock index futures

On the local scene, Safex's derivative markets are unlikely to attract international interest for the foreseeable future Even overseas interest in gilts is sporadic and politically sensitive Secondly, since the late Eighties, securities markets worldwide have been shrinking Some in any case consider SA overbrokered

Rees denies the systems are over-sophisticated — nor are they very expensive We must be confident that the volumes will be there and we feel obliged to install the minimum necessary facilities '

Criticism of costs includes plush offices, overseas consulting staff and foreign travel expenses Rees defends these "I won't excuse providing a good working environment He adds that the monthly housekeeping bill averages R300 000 mostly salaries for 26 people "We do not overpay, but must compete with the banking sector in which we operate to get and keep good people '

Rees expects Safex to pay its way by its June 1991 year-end "For budget purposes we predict a 20% increase in volumes for the current quarter and 5% quarterly thereafter But this could prove conservative"

From January 1 to May 2 average daily trade of all futures instruments was 307, involving 4 300 contracts Average daily value was R175m share index futures accounting for R105m Volumes peaked at 800 deals, or 20 000 contracts worth R590m at the March 15 share index futures close-out.

Lack of an official framework was given as one reason by several large players for not being more active Some like Safex expect volumes could now take off But not all will leap in — yet However, Rees believes the new market is well guaranteed with multiple clearing members and could attract hesitant players

Another reason for reluctance comes from Johannesburg Options Market MD David Bullard "Unless we explain futures and options to potential users in simple terms, we will not sell them" Some potentially big players still want to see how the market develops before they commit themselves

Shortage of qualified admin staff and incomplete systems are other problems Again news of losses among players in the informal market has filtered through to institutional managers, according to a dealer They now want their systems to supply immediate up-to-date position reports to afford better controls, and this will take time to arrange

As holders of a major proportion of available JSE equity the institutional power base is seen by many as fundamental to the liquidity of the futures market Their degree of activity has a direct impact on volumes

To hedge large portfolios institutional fund managers need to deal in large size Trades are around 10 contracts per deal — which on the All Share index would currently give cover of only about R310 000, hardly attractive to an institution holding billions of rands in equity portfolios

Also because of the relatively low liquidity of the JSE (5 5% last year) it is difficult to arbitrage between stock index futures and the physical market says one portfolio manager

Old Mutual assistant GM Isak Mostert comments "We would like to see liquidity increase to give us more flexibility to make appropriate investments in all markets '

It's a chicken-and-egg situation The institutions must play for the market to expand.

Sanlam for one will probably keep a low profile for the present Says portfolio manager Nel van Niekerk. We are more comfortable with a formalised market as we are likely to sell the idea of futures and options to pension fund clients at some stage But as clients probably do not fully understand these markets yet a lot of education is needed before we start even considering using pension fund money So this must be some way down the line '

Old Mutual, perceived to be the most active of the institutions, does not intend to become more active in the futures market *per se* Says Mostert "We want to maximise our returns given certain levels of risks The futures market presents a number of opportunities and if making more use of this market will help us achieve our primary objectives, we will do so"

By early August the floor should be open for trading Space in the JSE Annexe has been leased jointly by Safex and the Bond Market Association for trading both bonds and futures Infrastructure is being installed

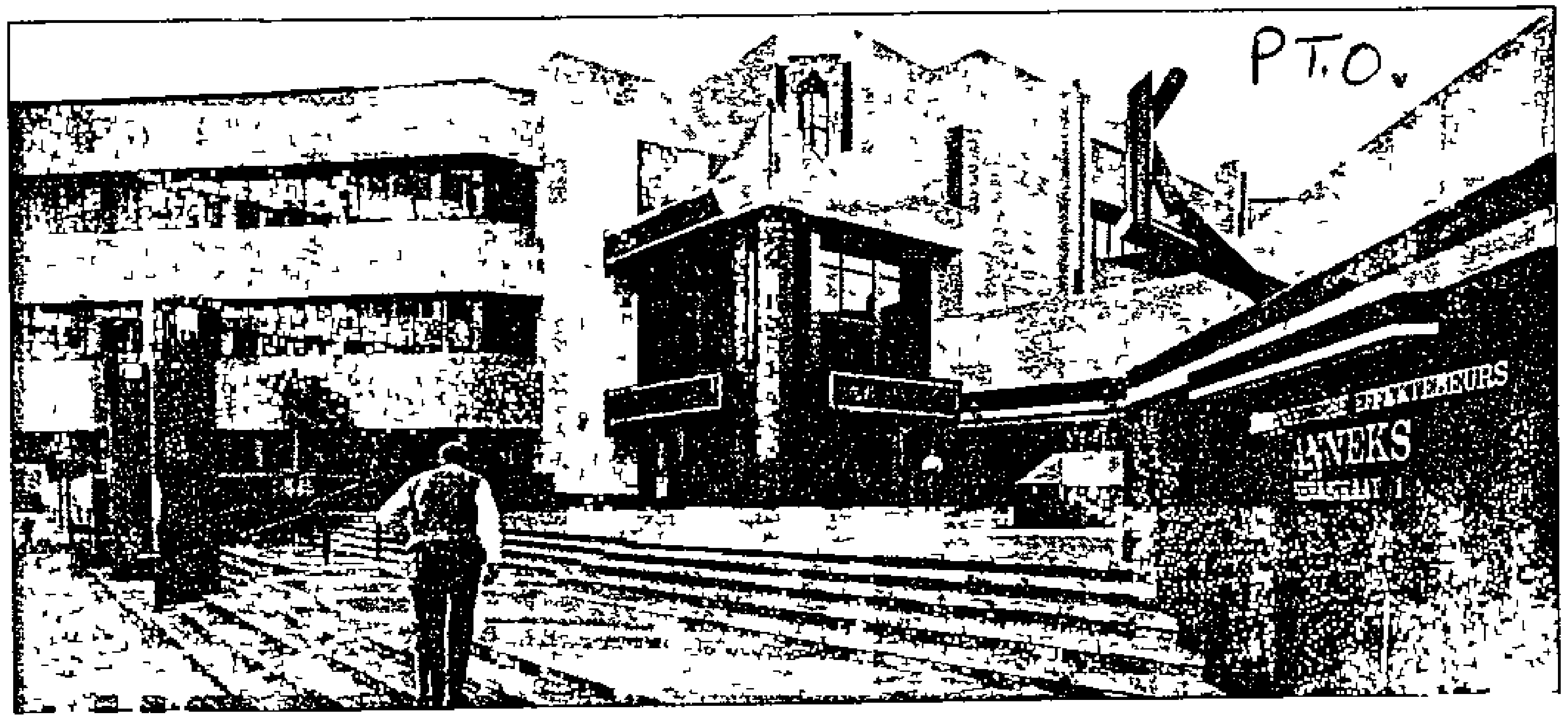
Queries answered

Fears that all futures members would have to pay for the floor are dispelled by Rees "There will be no cross-subsidisation between floor and screen. About 46 traders including 27 from the JSE have taken space on the floor The 71 Safex members hold 120 seats between them

Another gripe is the extent of protection (implicit in the Financial Markets Control Act) to shield the private investor which some say has lifted costs unnecessarily Though there might be sound arguments for the markets to be regulated, objectors reckon private investors will make up too little of the market to justify it

Those prepared to deal with private clients are more optimistic But the larger stockbrokers think more client education is needed so are likely to target the wholesale market more actively than private clients for now Says Max Pollak's David Shapiro "We are demand-led so will wait and see There is not much natural retail business, most is self-generated '

Trade by futures brokers on the JSE floor (which started a few months ago) has been



P.T.O.

Action at the annexe . waiting for the big boys

6 The Star Friday May 11 1990

Investors are wary of new share-swop offer

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Wim Schulte, once closely linked to Swiftsure boss-on-the-run Javor Gourkov, has joined the controversial venture capital company, Equity Participation Investments (EPI), to help brokers urge shareholders to enter a share-swopping deal.

The Swiftsure connection is the newest information to emerge in the complex "EPI development of old gold and diamond mines to generate huge profits" This saga was highlighted by Star Line recently.

In 1988, Swiftsure promised investors that R11 million would turn South Africa into "the world's yacht-building Mecca" But within months it sunk

Police opened a dossier, and Mr Gourkov, the Bulgarian boiler-maker turned "venture capital multimillionaire", fled

Star Line

JUNE BEARZI

Last month liquidators told Swiftsure investors that their millions were untraceable Now EPI group investors — who hold a R14 million stake — fear they are heading for the rocks in a scheme touted by promoters Steven Wolff and ex-lawyer Roy Sellers as "venture capital's Rolls Royce".

Mr Wolff is in California, and recently Mr Sellers sold his majority EPI shareholding to Norman Tilley of Livingstone Mining and Exploration, claiming his move to East London was prompted by threats from boxer-wrestler-debt collector Jimmy Abbott, who had demanded he repay an investor R250 000

Capital Growth Investment (CGI), EPI's broking arm, is run by Colin Hartley who, with Mr Schulte, sold Swiftsure shares too

To date all promises that EPI, Multi Gold Holdings, Mazuma Gold Holdings, Quinset Diamonds and Montrose Mines would be listed are unkept, and many investors are suspicious of the Livingstone share-swop offer as they are, once again, promised a stock exchange listing

Mr Hartley said Mr Schulte, who appeared at a Swiftsure inquiry last month, had advised CGI brokers on the mechanics and legalities of offering options

"Wim stayed to face the music We're hopeful we'll pull the Livingstone deal off If we don't, within 21 days everything will collapse"

Mr Schulte told Star Line "The biggest mistake of my life was to get involved with Javan Gourkov But my experience with Swiftsure taught me how to safeguard investors' interests I'm doing my best to make sure they don't lose"

Eskom sell-off is not on the cards

Star 11/5/90

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The Government did not consider Eskom a suitable candidate for privatisation in the near future, the **Minister of Privatisation and Public Enterprises, Dr Dawie de Villiers**, said in Parliament yesterday

Because of its importance to industry and mining, a hasty decision on privatisation could have negative effects on the economy, he said

It had already been announced that Eskom's tax liability was being investigated

While the Government accepted in principle that an enterprise such as Eskom should pay tax, further investigations were under way on specific financial aspects

Eskom was an example of how the Government would ascertain the impact of privatisation in the national interest before making a final decision — Sapa.

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Premier blooms after Tony goes

By Julie Walker

PREMIER Group began to bear good fruit under new management after the Flour of the Nation Tony Bloom departed two years ago

In the year to March this year, Premier placed its shareholding in SA Breweries in Bevcon and raised R281-million in a rights issue Therefore its results are not strictly comparable with the previous year's

Trading margins were increased from 6,9% to 7,7% Although turnover of R4,34-billion was only 5% higher than in the previous year, attributable earnings were up 32% at R122-million

Dilution depressed the rise in earnings a share of 180c — still 25% more than the previous year's

Interest-bearing debt was reduced sharply to below R300-million, giving a debt-equity ratio of 23% compared with the previous restated 52% Management expects continued growth in 1990, barring unforeseen disaster

Premier company CNA Gallo was first with the goodies again Its earnings grew by 26% to 142c a share from a 24% rise in turnover The dividend was raised by 22% to 55c

Absolute

There were mixed fortunes from Premier's other listed interests Twins, Gresham and Safimed are being reshaped

Of the 31 companies reporting preliminary results this week, only Punch Line and Fintech suffered absolute losses Poorer performances than in the previous year were recorded by nine, leaving a score of improvements

Earnings growth of 20% or more was achieved by 13 companies, although one or two were from low bases

Where they did well, the earnings from top companies increased at a faster pace than did dividends

But dividend cover was sacrificed by a few companies reluctant to see a hiccup on their five-year financial history graphs

In the year to February, Altech's 268c was maintained in spite of a 6% fall in bottom-line earnings to 834c Parents Altron and Ventron, whose earnings were hammered by a quarter by the disasters of Fintech and Punch Line, also declared the same dividends as in 1989

There was a drop in Drop Inn's cover too Earnings fell by 23% to 6,2c a share in the year to February 1990 because of thefts, but the 3,25c dividend was kept.

Reunert starred among Barlow group interims to March Its earnings jumped by nearly a third to 80,1c a share on a 21% rise in business to R651-million

Robor added 14% to earnings on a turnover rise of 17% to R403-million

Restraints

High-street retailers mirrored economic conditions Edgars featured with turnover close on R1-billion and earnings growth of 26% to 243c a share for the year to March, although management reports a steady slowdown in consumer spending

Edgars says that real growth in clothing, footwear, household textiles and accessories (CFTA) was only 2% nationally, but Edgars achieved 9% It expects a contraction in real terms of the national CFTA market this year, but still expects to achieve real growth in earnings and increase market share because of its strong account base

Self-imposed growth restraints by Amrel — which operates 17 big-name furniture and clothing chains — limited sales to a 12% rise to R[illegible]-million in the year to March In spite of the difficult conditions, earnings of 245c a share were 4c up on last year's record performance Amrel expects 1990 to be a tough year, with little chance of improved earnings

Uncertain

Toys brought no joy to Reggies shareholders Everything from warehouses to management contributed to a dive in earnings from 5,1c to 0,4c Its shares hit a low of 18c on Thursday

Lower margins and higher interest knocked OK Bazaars' bottom line in the year to March A tight year is expected by management, which will concentrate its efforts on improving stock turns and combating the shrinkage "phenomenon"

Vansa s interim to March showed a big drop in income to 3,3c a share from 23,8c previously Lower dollar prices and a stronger rand dented export receipts

Market conditions remain uncertain in spite of an increase in the price of vanadium pentoxide Demand for chrome ore is not expected to grow much

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Business urged to tackle Aids now

Business Times Reporter

A STRATEGY to deal with the looming Aids catastrophe urges corporate decision makers to act quickly before the danger becomes "utterly unmanageable"

The strategy, spelt out in a new report, is the first of its kind in South Africa and has been greeted by medical authorities as "long overdue"

It includes a suggested protocol covering both new and existing workers in which the interests of both employer and employee are protected

The problems raised by employees carrying the human immunodeficiency virus (HIV), which precedes Aids, are dealt with in an effort to offer "hard-pressed corporate decision makers" practical guidelines that are both cost effective and as human as possible

Included in the report's recommendations is the key suggestion that organisations, public and private, treat all HIV-infected employees "as you would treat a valued employee suffering from hepatitis"

Apart from the medical similarities of the two diseases, the report says that to treat HIV- and hepatitis-infected employees in the same way will do much to remove the social stigma attached to Aids

Conservative

More importantly, it will mean that by the year 2000 — when by even the most conservative estimates, several million South Africans will be infected with HIV — there will be hundreds of thousands still usefully employed in commerce or industry whose skills would otherwise have been lost

Commenting on the report, published by the International Research and Information Service (IRIS), an independent information-gathering service for SA corporations, South African Medical Journal editor Nick Lee says "This is long overdue What people desperately need are some practical guidelines We know there is a problem — but what most people, particularly businessmen, do not know is what to do about it

"Aids is everyone's problem and we must all act now or it will be too late"

The report was compiled over five months and gives the best available picture of Aids and HIV-infection from Uganda to South Africa, according to editor Chris Erasmus

Mr Erasmus says "We have been careful to avoid the hysteria seen in some reports But based on our information it is clear that official government and World Health Organisation figures badly underestimate the true extent of the problem to our north

"If there is no immediate and appropriate action by the public and private sectors, we face catastrophe with literally millions of people dying of Aids in the next decade"

S/Times 13/5/90

losing his head.

with ironical words.

Beware get-rich-quick schemes

232

FANTASTIC rates of interest lured hundreds of investors to put their life savings into a Johannesburg company, Equipment and Business Consultants (EBC) – and their money disappeared along with EBC director Patrick Rudman.

C/Press 13/5/90

Rudman's target investors were black people with a few thousand rands to invest.

EBC advertised in Johannesburg daily newspapers, offering investors a dividend of at least 50 percent a year, paid monthly.

For factory worker Gabriel Mofokeng an investment of R18 000 meant a monthly dividend of R750.

But Mofokeng received only six monthly cheques, then the money stopped coming. When he visited EBC's offices in Jeppe Street, they were empty.

Rudman had disappeared from his offices without a word to landlords Standard Bank Properties. He also disappeared from the Marriston Hotel room he had rented for several years.

Attempts by the police and irate investors to trace Rudman have failed.

His victims believe he is now in Australia.

All of them have little chance of getting their money back.

Be warned – don't fall for investment schemes that sound too good to be true. You may end up losing everything.

READERS' HOTLINE

Helping you with your problems
☐ PO Box 548 Kengray 2100

Watch for bogus agents

C/Press 13/5/90

HOUSING fraud seems to be on the increase in the Johannesburg area again.

In the past few weeks, more than a dozen readers have complained to *City Press* that bogus estate agents have disappeared with deposits they have paid for houses in Soweto and other townships.

Taxi driver Elias Mbethe paid his life savings to bogus agent Emmanuel Lidimo. Lidimo told Mbethe he had a house for sale – and that he needed R20 000 in cash to give to the sellers.

Mbethe paid the R20 000 and then found out the house had been sold to someone else. The new owners had already taken occupation.

Johanna Mchunu also paid money to Lidimo's bogus estate agency, Lidimo Estates. Lidimo promised her a new house in Soweto and asked for a deposit in advance. She paid R5 700 . . . then Lidimo disappeared from the offices he rented in Johannesburg.

City Press has established that Lidimo is being held in custody on unrelated charges of cheque fraud.

Business Report

Waltons lifts share earnings

C/M Times 14/5/90 232

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

JSE re-rated down after mini-boom

B/Day 15/3/90

LIZ ROUSE

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THE SA stock market has been re-rated downwards in a correction after the short-lived boom in early February — the PE ratio of the overall market has declined to 10,5 from the nearly 12 that prevailed at that time

Average earnings yield on the JSE is now 9,5% against 8,5% in early February and dividend yield is 3,8% compared with 3,2%

On a p e basis, the JSE is now on a par with the London Stock Exchange where average p e is 10,4, but London's average dividend yield is higher at 5,3% Average p e of the New York Stock Exchange is currently 14,7 with average dividend yield at 3,13%

De Beers, which has recently set the tone for the market, is trading on a p e of about 9 (7,2 in early February), earnings yield of 10,7% and dividend yield of 2,8%, compared with a dividend yield of 3,3% in early February

However, industrial holding Richemont is the highest rated share on the JSE board, with a p e of 16,8, an earnings yield of 3,7% and the smallest dividend yield of 0,6%

With Libhold and Libvest, the insurance leader has kept the insurance sector's p e static at 13,3, its average earnings yield at 7,5% and dividend yield at 3,5% Industrial leader Barlows's p e has narrowed to 7 from 10 with earnings yield at 13,2% (10%) and dividend yield at 4,1% (3,1%), reflecting the correction after the early February high It was pushed up partly by foreign investors

Expensive

With the decline in other industrial holdings, including second-liners such as Malbak, now on an attractive p e of 5,1, earnings yield of 19,6% and dividend yield of 4,5%, the industrial holding sector p e is down slightly to 8,6 from 9 and average dividend yield has improved slightly to 4,4% (4,1%)

SA Brews is still relatively expensive with a p e of 17,3 and dividend yield of 2,5% However, Sasol is looking more attractive with a p e of 10,4 (13,2) and dividend yield of 4,4% (3,5%)

The clothing, footwear and textile sector's p e of 4,1, average earnings yield of 24,6% and dividend yield of 7,5% will present attractive buying opportunities when the personal consumer sector improves

Also badly hit has been the furniture and household sector where the average p e is 4,3, earnings yield 23% and dividend return 8% Furniture retail leaders Amrel's and Ellerine's p e are below 4, which will give potential investors a chance for good capital gains when this sector recovers.

Three groups hold controlling interests

OWNERSHIP of the Health And Racquet Club Holdings rests with three groups Masterbond Trust (25%), JSE-listed Faircape Holdings (37,4%) and the Health and Racquet Club directors (37,6%)

The major shareholders in Faircape Holdings are Sanlam and Retco.

Health and Racquet Club Holdings (HRC) operations director Rod Mitchell says the property expertise of these companies is a major benefit in investing in the HRC's property participation scheme

"The HRC Group is part of a well-connected stable of companies which are dominant players in the property market," he says.

B/Day 16/5/90.

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Assistance

Towards the end of last year, Masterbond acquired a 25% stake in HRC Holdings It provides management input as well as ongoing operational assistance and marketing services for the entire group

Masterbond Trust sees its shareholding in the HRC Group as a strategic shareholding

Masterbond Trust Management MD Laurence Perrin says the the leisure industry will not be affected by a downturn in the economy

"In fact, we expect there will be tremendous growth as there is a lot of catching up to do," he says.

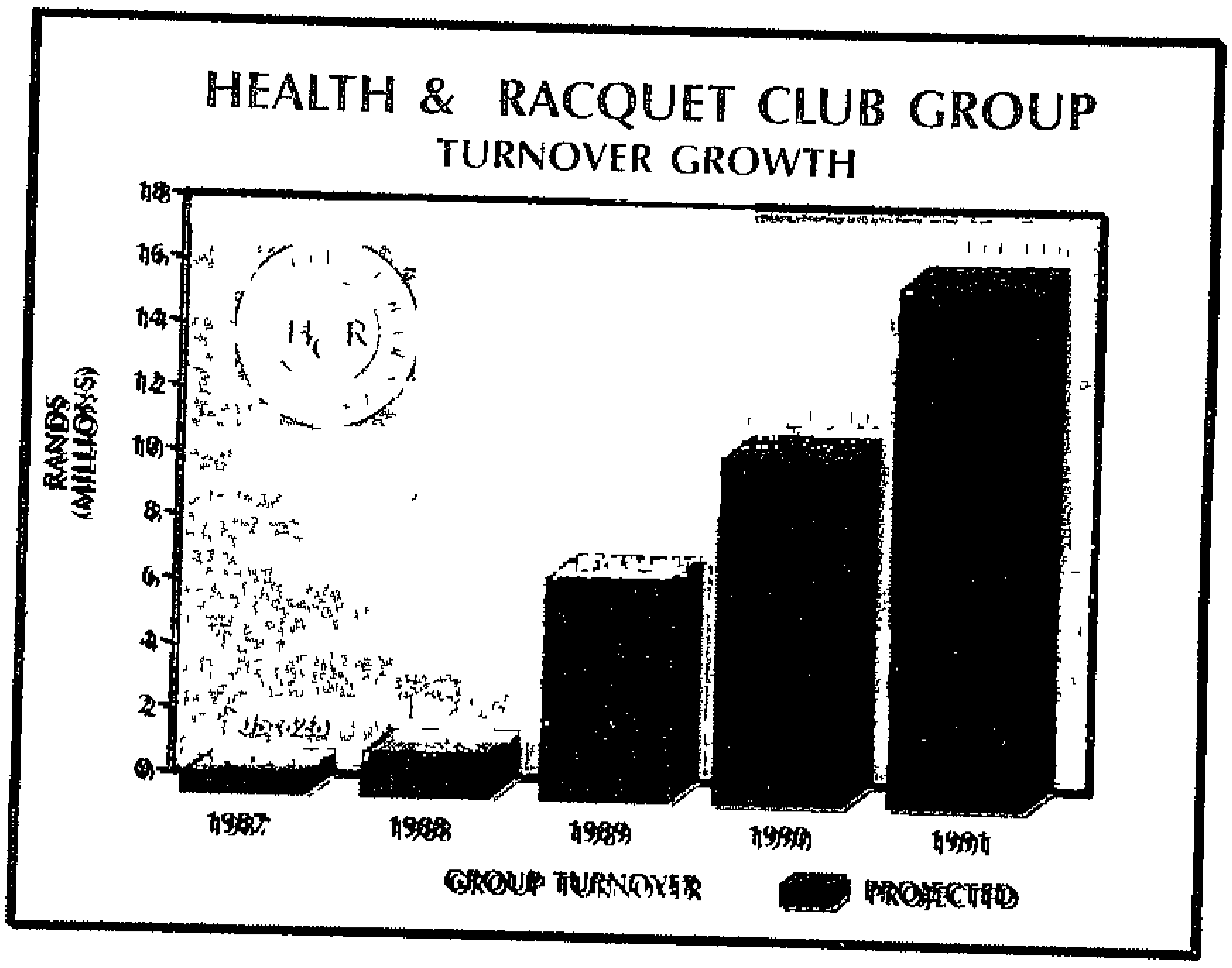
"We are the leaders in the management of health and leisure centres, but not in property ownership. The sale of the properties will free both the funds and the management time needed for our national expansion strategy," he says

Masterbond acts as trustee for investors in HRC's property participation scheme

The three HRC shareholding directors are Mitchell, Peter Gardener and Mike Christie

Business Day SURVEY

The target market in the '90s for the health and fitness industry has been identified in the US as the over-40s and family groups. SA seems to be following this trend closely. ***MANDY JEAN WOODS*** *reports on the growth of the Health and Racquet Clubs, which have also singled out the corporate market as a future growth area.*



BDay 16/5/90

Selling of shares keeps things running

THE Health and Racquet Club Group is financing the construction of its new clubs by selling shares in its existing clubs

The scheme, known as the property participation scheme, in which shares and debentures are offered to the public, is expected to raise R11,9m by the end of May this year, says trustees Masterbond Trust Mangement MD Laurence Perrin

The properties being "sold off" are the HRCs in Cape Town, Tygervalley and Sandton The market value of all three properties tops R18m

Masterbond Group MD Johann Brits says the offer is being made by way of 11 900 units, each consisting of a R1 share linked to a R1 000 debenture Investment in the plan is for a minimum of five years (R10 010) The offer closes on May 31

So far, about R6m has been raised and the offer will "definitely be sold out", says Perrin

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Return

Brits says the company is projecting a return of 189% by the end of this period, while the average rate of return per unit over the five years is forecast at 33,81% a year

The HRC property participaton is the 15th project of its kind handled by Masterbond Trust since the group pioneered the concept in 1986

Property participated in includes the Club Mykonos leisure resort

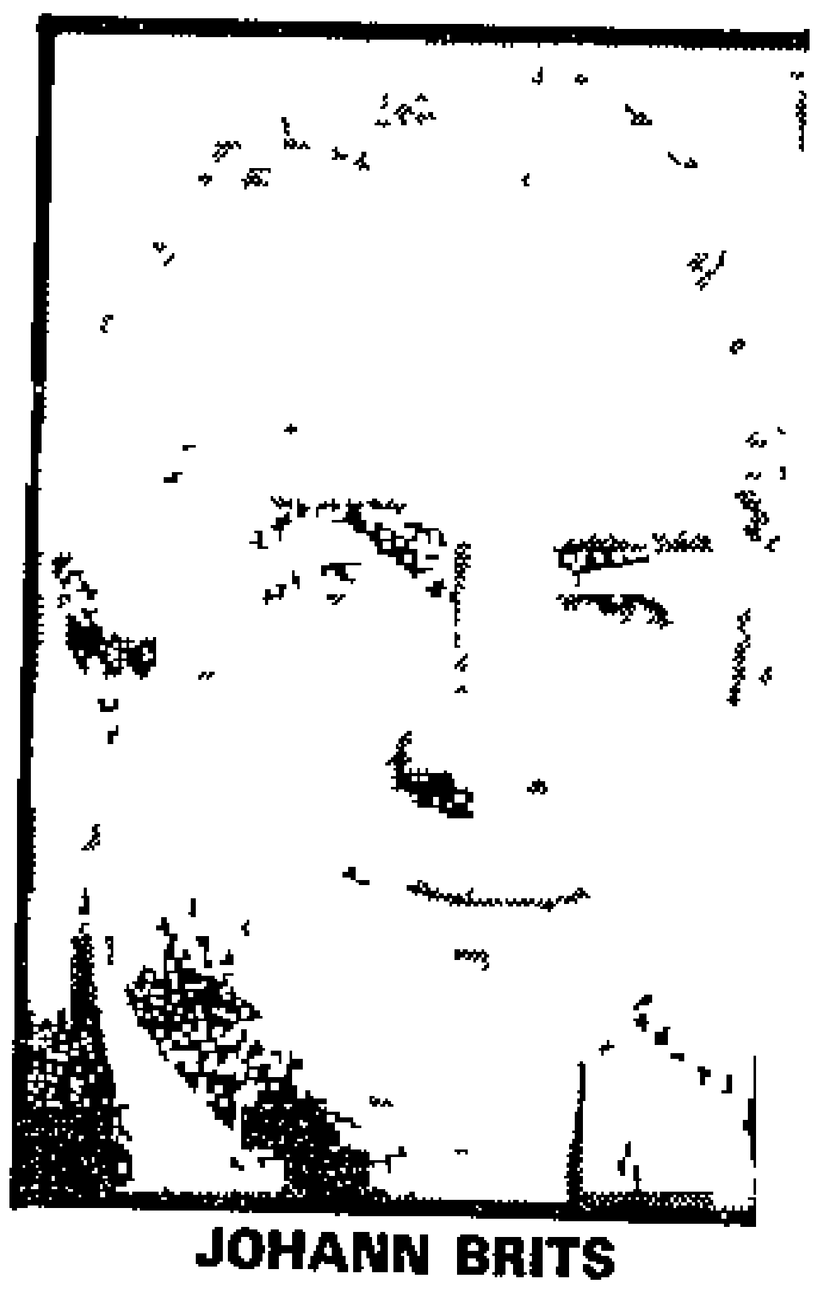
Property participation is an excellent investment for those seeking the "high but secure returns associated with the major properties usually only within reach of the institutional investors", says Brits

The scheme works as follows

The Health and Racquet Club Property Participation company (HRCPP) owns the three buildings housing the clubs involved in the scheme

HRCPP, which was set up and is administered by Masterbond Trust, leases the buildings to tenants, in this case a single tenant comprising the Health and Racquet Club group (HRC)


LAURENCE PERRIN


JOHANN BRITS

HRC is then responsible for the upkeep of the buildings and the management of the clubs

Unit trust potential untapped

BDay 7/5/90 **LINDA ENSOR** (232)

THE vast potential of the unit trust industry remains untapped, and an intense education campaign is necessary to broaden and deepen its penetration of the investment market, say industry sources.

They say it is a "man-in-the-street" investment vehicle, and there should be greater public involvement

At the end of the March quarter, total investments by the industry in terms of market capitalisation totalled R7,6bn, which represented a miniscule 1,7% of the JSE's total capitalisation at end-March of R455bn

There were about 600 000 unit-holders by the end of March, but AA Life assistant GM investments Stephen Japp says assuming 10% of investors invest in unit trusts, there should be 3,5-million unit holders.

"There is an underpenetration and the industry is aware there is an education problem Even people in the A income group don't know about unit trusts," Japp says

Intensive marketing and advertising campaigns have been launched by a number of unit trusts

Sage funds MD Bernard Nackan agrees on the pressing need to educate people about unit trusts, but also points to the growing sophistication of unit trust investors

There has not been a rush to repurchase units as the markets turn downwards, he says

Industrial unit trusts

OLD Mutual is to launch a new unit-trust based on industrials next week.

The institution says the fund will be fully primed to take advantage of the expected upturn in the market late next year and into 1992.

The fund, which will be launched on May 21, will initially concentrate on about 30 counters which it believes have medium to long-term growth potential.

Mutual said that the industrial sector was one of the few that consistently outpaced inflation and this one of the reasons for launching the new fund.

The manager of the new fund, Mr Adrian Allerdyce, is optimistic about the long-term outlook for industrials.

"The market is not overpriced from a long-term perspective and we view weakness in the market as an ideal buying opportunity."

He said in Johannesburg on Tuesday that while corporate earnings were expected to decline during the coming year, interests should show a declining trend towards the end of the year with a gradual decreasing during 1991 Sowetan 17/5/90

One of the principles of the fund will be to keep liquidity at the lowest level possible and to be invested on the JSE to maximum extent at all times.

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Charge

The opening price is expected to be at 200 cents.

The initial charge will be a maximum of five percent plus compulsory charges of 2,5 percent. The minimum monthly investment is R100 and R1000 for a lump sum - Sapa.

BDay 17/5/90

Amaprop increases earnings

CHARLOTTE MATHEWS

ANGLO AMERICAN Properties (Amaprop) improved earnings by 23% to 67,41c (54,84c) a share for the year to end-March as a result of growth in net rental income, profits from land trading and higher operating profits from the Carlton Hotel.

A dividend of 42c (35c) a share has been announced together with loan stock interest of 84c a unit The company is changing its previous policy of paying only a final dividend and will now pay an interim dividend as well

The group made attributable profits of R30,3m before an extraordinary item of R10,4m

Chairman Gerald Leissner said the larger proportion of the extraordinary item was derived from profits on the sale of properties and the rest from the sale of debentures in the Carlton Centre.

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Sales

The bottom-line benefited from a slightly lower tax rate of 18% compared to 24% payable in 1989 because of concessions allowed for the upgrading of buildings held in the portfolio

Leissner said rent levels for both shops and offices were stabilising after two years of strong growth.

"Amaprop's portfolio is 96,4% let and all leases have escalation clauses," he added

In the last year Amaprop sold six properties to the Ampros-administered Apex Property Trust for R65m and sold Gardens Shopping Centre. The cash from these sales was used to repay short-term debt and finance current developments

The group also purchased First National Bank Pension Fund's 10% interest in the Carlton Centre which raised Ampros' holding to 61% from 51%

Current developments are an additional office block at Bruma Lake Office Park, the extension to the Carlton Centre shopping complex and renovation of 320 West Street in Durban and Cape Town's Southern Life Centre

R7m spent on JSE market

(232)

ROBERT GENTLE

ABOUT R7m had been spent to date in developing the JSE's Traded Options Market (TOM), which is about a year behind schedule.

JSE president Tony Norton disclosed this after his annual presidential address to members of the SA financial community.

He said the R7m would not be written off immediately but was a long-term investment that would be recovered over time.

B/Day 17/8/90

This theme was picked up in the JSE annual report — released after the address — in which Norton said TOM would have a lifespan of at least 20 years before any extensive redesign should be necessary.

The project had taken longer than expected but the JSE refused to compromise on quality.

Beforehand, Norton told his audience agencies for wealth creation and efficient transfer were going to be more, not less, important in the future SA. "The JSE will act as a facilitator and not a negator of legitimate worker involvement in the performance of listed companies, provided the basic principle of shareholder sovereignty is upheld."

This could, Norton said, involve the issue of free or subsidised shares.

SOWETAN BUSINESS

Our contest shares are moving

Sowetan 18/5/90

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By GILLIAN COUNIHAN

OVER the past week, three of the five shares chosen for our competition have reported results - SAB, Tiger Oats and OK. The first two were fine but OK's were not OK.

All companies publish reports of trading to tell shareholders how their company is doing. After six months, the interim report is published, followed by a prelim which gives the full year's figures, and then the annual report which, depending on the company, can be a full-colour glossy publication which is mailed to every shareholder.

This report gives details of the company's activities, its directors, its results and prospects. It is a valuable tool for the prospective investor, even if you don't fully understand the significance of all the figures published

SAB published its prelim results for the year to March 31, and at the same time announced plans to expand the breweries to the tune of R2bn, of which R1,26bn will be spent in the coming year.

Along with this positive news, SAB announced a 25 percent increase in sales to R13,25bn, and an even higher - 34 percent - rise in trading profit to R1,3bn.

Also part of the SAB group, OK Bazaars reported annual results for the year to March 31.

These were disappointing, with sales up only 13,2 percent to R4,2bn, to generate operating income only marginally higher at R68,4m

However, earnings per share were down from 195c to 163c, and - bad news for shareholders - the dividend was cut from 103c to 86c.

Tiger Oats produced satisfactory results for the six months period to March 31.

There was a 17 percent rise in sales to R3,2bn But tight trading conditions in the food and lower results from fishing group, resulted in a lower - 8 percent - rise in operating profit to R236,3m

However earnings per share were 13 percent at 86,9c for a higher payout of 22c (19,4c).

Looking at *Finance Week* (May 17-23), highlights how the five shares have moved in the past week.

SAB, listed in Beverages and Hotels, has risen to 3600c, Tiger in foods strengthened 100c to 2750c

After bottoming a month ago at 3175c, paper producer Sappie moved ahead impressively from 3450c to 3765c OK eased from 1875 to 1825c, while Pick 'n Pay rose from 1475c to 1550c

Our prize of 100 Genbel shares is now worth R750, compared to R690 two weeks ago

The above will help you decide which of our five companies performed best, and which worst

The form will be published on June 1.

WMail 18/5 – 24/5/90 (232)

JSE 'fat cats' outweigh the little guys

The small man has fled the Johannesburg Stock Exchange ... Or has he?

REG RUMNEY reports

FEW individuals in South Africa own shares listed on the Johannesburg Stock Exchange. And their number has decreased, admits JSE president Tony Norton.

But it hasn't dwindled to the insignificant percentage that some have been led to believe by incorrect analysis of figures produced by JSE-watcher Robin McGregor.

"The abandonment of the market by the small man has been an international phenomenon," Norton notes

The significance of this in the light of the threatening noises about nationalisation coming from the African National Congress camp is obvious If the stock exchange is seen as a club of "fat cats", it is unlikely to have friends in a new South Africa.

Calculating exactly how many individuals own shares in listed companies isn't a simple matter. "The problem is that we don't know what lies behind nominee names. For instance, Standard Bank nominees might be buying shares for 1 000 individuals "

However, it's no secret trading on the JSE is dominated by the big institutions like Sanlam Once a year the JSE does an analysis of one week's trading For a week in July 1989 the percentage in value of trades done by institutions (mutual funds, pension funds, insurance companies, and mining finance houses) was 54 percent, by JSE members 31 percent and by private individuals around 15 percent. In the comparable period in 1987 the figure for individuals was 22 percent, the figure for institutions 48 percent

Norton stresses holding shares directly has not been historically encouraged in South Africa

"The whole structure of the economy, the lack of savings incentives and the tax system, have favoured contractual investments."

Individuals have tended to take out policies with the big insurers like Sanlam and Old Mutual These policies promise a high eventual return, whereas money put in the bank has been eaten away by inflation and tax. The result has been a low rate of saving by individuals, and even dissaving — spending or buying on credit Individuals have in general not had the money to invest directly in the stock exchange.

The dominance of company investors on the JSE isn't good for the stock market, Norton believes.

"We want the small investor, because he creates another constituency. Some have blamed instability on the JSE to the effect of the dominance of one constituency."

The institutions all produce the same kind of research, have the same technology and are all interested in the same kind of shares.

JSE president Tony Norton ... also concerned about illiquidity on the stock market

But favouring winds for small investors have sprung up. Norton welcomes the recent budget as introducing changes to a set-up that for decades has militated against investment in the stock exchange

Norton promises the toughest legal drive against insider trading with the passing of new laws recently Further legislation is awaited to give effect to the law, and Norton promises a "public hanging". Insider trading has been defined as a fraud and statutory powers to investigate have been given to a panel which consists of people drawn from the business and professional community.

The budget dropped marketable securities tax — the tax paid by investors when buying shares — to 1,5 percent and the government is committed to phasing the tax out altogether over three years, the tax on dividends, effectively a double tax since the company paying the dividend has already paid tax, was dropped, and what is a capital profit and what isn't has been better defined (the capital profit being non-taxable).

On the other hand, it is argued that the presence of individual direct investment in the JSE is irrelevant.

"The fact that institutions dominate ownership on the JSE doesn't mean the private investor is not in the market. He is in the market through the institutions "

Norton further says the individual investor is fickle "The private investor is a tidal phenomenon, coming into the market and going out, with the market's strength or weakness He was here in great force in 1987, only to be gone again in 1988 "

A similar influx and outflow was seen in the late 1960s

He agrees this has meant at times that individuals lost money as booms went bust, with a resulting disillusionment with shares as investments

Norton reckons those who want to use the market should do so with good advice over a lengthy period "Don't invest for less than three years and have a spread of shares " The high price of shares tends to make having a spread problematic, he agrees, but for those with limited funds unit trusts offer a method of investing in a spread of shares.

Norton points to the power of equity investments. Equity investments have offered compound growth per annum of 25 percent to 28 percent a year, far higher than inflation

For a new government, nationalisation of listed shares would pose enormous problems, argues Norton. One way or another individuals do have a stake in many big listed companies. Taking over the companies would in effect be dispossessing the individuals who have shares or unit trusts or pension funds and the like. Compensation would have to be paid, and no government could afford such compensation Taking over any company without paying compensation would scare off foreign investors forever.

Rather than a negative approach to the stock exchange, any government should encourage investment.

"If you don't have a good market the cost of capital rises. A healthy market is a sign of a healthy economy," Norton asserts. An efficient equity market allows the cost of capital to fall, which means the cost of goods falls, which in turn improves competitiveness at home and in international markets.

Norton admits that the illiquidity of the JSE — the fact that shares don't change hands often enough — is a cause for concern.

The liquidity of an exchange is measured by the value of annual deals as a percentage of market capitalisation. This shows how fluid is the movement of shares on the exchange. The JSE's percentage is now below five percent. The next weakest, says Norton, is Stockholm at 18 percent. Some other exchanges have figures of 50 percent to 60 percent.

The attraction of greater liquidity is the greater the trade, the greater the ability to trade in volume without unduly moving the price.

When big isn't quite so beautiful

WHO Owns Whom **author Robin McGregor says that while "big is often beautiful", the degree of concentration in the private sector was excessive — especially in the light of the size of the public sector**

He arrived at figures on economic concentration thus "South Africa probably has about 200 000 operating companies including cafes and so on. After an examination of Kreditinform's database, it would appear that only 40 000-odd employ more than 30 people. There are 25 236 companies listed in the 10th edition of *Who Owns Whom* as subsidiaries or associates of companies listed on the JSE. It is unlikely that there are many listed company subsidiaries which employ less than 30 people, which means that 63 percent of the medium and large-size companies in South Africa are controlled by listed companies."

McGregor added: "To aggravate this degree of concentration, four groups on the JSE control 80 percent of market capitalisation "

What is to be done about such economic concentration? A study of legislation in other world markets suggests:

●If a company owns between 30 percent to 50 percent inclusive of the voting rights of another company, it would be forced to make an offer for the balance of the target company at a price not less than the highest price paid in the last 12 months and must include a cash alternative. This would prevent groups controlling companies from an associate position limiting their investment but still maintaining control

●Secondly, McGregor reckoned major groups would voluntarily sell off subsidiaries to management or other owner-managers so companies could get on with activities which are their particular areas of expertise. The impetus to do this would be a realisation worldwide of the diseconomies of scale inherent in having down-the-line subsidiaries with remote, centralised control

Hopes not pinned on deregulation

B Day 18/5/90

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EDWARD WEST

GOVERNMENT's investigation into possible deregulation of the coal export programme was not likely to have a significant impact on export volumes.

This was the view of RAU Institute of Energy Studies director David Kotze

Government has held administrative control over the volumes and quality of coal being exported since 1973 through export allocations and permits

National Energy Council (NEC) spokesmen said yesterday the investigation would take place in conjunction with the Coal Advisory Board, but the first meeting between the two bodies could take months due to other commitments.

Surge

Coal Advisory Board chairman and Amcoal MD David Rankin said it was possible the subject would be discussed by the board, but other forums might also be approached for their input.

Kotze said possible deregulation of the coal industry was unlikely to result in a surge in exports, though the move would be welcomed by the industry.

While the previous round of export allocations had been oversubscribed, the Richards Bay Coal Terminal was running at full capacity, but by 1992 volumes through the terminal would be increased by 9-million tons annually

Exports volumes would also increase significantly only by the mid-'90s when large coal projects to increase volumes at Gencor, Amcoal, JCI and Sasol were completed, he said

Further constraints to new entrants and present producers were the capital cost of a new coal mine, projected weak oil prices and greenfields expansions in other parts of the world, he said

Analysts said small producers using space at the Richards Bay Coal Terminal, which is owned by the large coal producers, would inevitably cut larger producers' throughput at the terminal.

The NEC said government's involvement with the export of coal arose out of the oil and energy crisis of the early '70s

Government controls coal exports through allocations and permits which are issued according to aspects such as mine safety standards, mining enviromental aspects, export volumes and infrastructure.

In 1982 government increased the coal export ceiling to 80-million tons a year SA exported about 46-million tons last year, so there was plenty of export volume available, an NEC spokesman said

Revamped Punch Line still faces uphill task

Star 18/5/90

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Diagonal Street

Jabulani Sikhakhane

Investors seem to be responding positively to the restructuring of Bill Venter's computer empire, although analysts say there are other factors which could affect its recovery.

Punch Line, which was built up over eight years by Barry Schechter, became the second computer company to be listed on the JSE in 1986

At that stage Mr Schechter sold a 20 percent stake to Fintech.

Two years later, Fintech's computer interests were injected into Punch Line to create the second-largest computer group in SA, with projected sales of R400 million.

Then, in 1989 Punch Line was hit by staff resignations, its share price falling sharply and the group reporting a R1,5 million loss in the year to February 1989.

A major restructuring of operations was announced, with Fintech selling its other operations to Punch Line.

Punch Line's retail and systems division was sold and its distribution division rationalised.

Fintech management took direct control of Punch Line and huge write-offs were made.

For the year to end-February Punch Line reported a R53,4 million loss and this weighed heavily on Fintech, which showed a R46 million loss.

This, in turn, impacted badly on Fintech's controller, Altron, which reported a 22 percent drop in earnings.

The group recently announced that Fintech would be merged with Punch Line to form Fintech Informatics through the inclusion of Fintech's 43 percent holding in National Data Systems (formerly NCR).

Fintech might become a cash shell. Directors said recently that the fate of that shell had not yet been decided.

But over the last few weeks Punch Line's share price has shown a remarkable recovery, appreciating 118 percent to 70c since the beginning of the month.

This helped boost Fintech, which went up 60,07 percent to 530c, while Altron has appreciated by 16,6 percent to R35 over the same period.

Davis Borkum analyst Pierre Greyvenstein says the market believes Punch Line shares had been oversold and that the company has now turned the corner.

He forecasts a good recovery in earnings in the current financial year, with earnings of 100c per share not impossible to attain.

Mike Haworth of Frankel, Kruger & Vinderine says Punch Line now has a a new and stronger management team.

The restructuring means that all Fintech's assets have been moved into Punch Line where use can be made of its huge assessed loss. He says the group is now very diversified and has a much more solid base.

Although analysts agree that the restructuring may be complete and that its operations are now sounder, they point to some other factors which could impact negatively on performance.

Mr Haworth warns that the hefty debt level, particularly with high interest rates, could have a negative impact.

Another factor is the finance costs to be serviced in the form of preference shares This, analysts say, could weigh heavily on Punch Line's performance.

One analyst says the company is already in arrears with its preference share dividends, a factor which will operate harshly against ordinary shareholders.

Another uncertainty is the extent to which Punch Line will be able to cope with the major changes taking place in the computer industry.

Star
19/5/90

Anglo's workers in the money

232

DEREK TOMMEY

ANGLO AMERICAN's decision two years ago to offer shares at no cost to every employee with more than two years service has helped create worthwhile nest eggs for more than 140 000 of its employees

The 62 percent of Anglo group's workers who accepted the five shares offered in 1988, and the 142 000 or 73 percent who took up their five shares last year are now holding shares worth more than R1300

And with the 1990 allocation of five shares now taking place, these employees will be holding up to 15 shares worth around R2000 at the year end — should Anglo American shares not appreciate further.

Mr Gavin Relly, immediate past chairman, says one of the aims of the scheme was to enable employees to acquire a tangible stake in the business

According to research it has also helped to promote a greater sense of belonging and hence participation and identification with the company's operations.

The shares are held in trust for four years, after which possession passes to the owner This will happen for the first time in 1992, says Mr Clive Fletcher, managing of the Employee Shareholder Scheme Trust.

Employees will then be able to sell their shares — or attend the annual meeting One suspects that Anglo American will not lose this opportunity of using it annual meeting to further further demonstrate what having a "tangible stake" in the business means.

232 S/Times 20/5/90

Mail-order deal

By Dirk Tiemann

MAIL-ORDER group Mas Holdings (Mashold) will take over loss-incurring Springtex for R6,5-million.

Springtex, a soft goods mail-order house, reported an interim loss of R3,5-million in June last year and trade in the shares was suspended at 15c in December. The Springtex group will be relisted as a Mashold subsidiary.

Mashold will control 92% of Springtex after the reorganisation, and will issue 2,2-million new shares at R2,50 a share. They will be placed with certain institutions in part payment of the cash purchase. Mashold is trading at 260c on the JSE.

Existing Springtex share and debenture holders own 8%. Debenture holders will receive two cash payments totalling 11c for each deb.

Debenture holders will be upset by this offer. They paid 65c in the June 1989 rights offer when 15,6-million debentures were issued.

Mashold chief executive Marco van Embden says earnings a share and net asset value for the year to February 1991 will not be affected by the takeover. He projects R3-million profits for the revitalised group in the current year.

Ian Riley of financial adviser Quaestor IV says Springtex has a large debtors' book.

Springtex operates mainly in soft goods where debt collection and repossession are difficult The emphasis will now be on a cash business Springtex will own Kansas City Mail Order, and Mashold will gain Tablekraft in the restructure.

The rand's world value

	R1 equals		One foreign unit equals (R)	
	18/05/90	18/05/89	18/05/90	18/05/89
US $	0,3791	0,3711	2,6378	2 6948
UK £	0,2240	0,2299	4,4638	4,3528
Deutschemark	0,6249	0,7298	1,6003	1 3702
Japanese yen	67,95	51,60	0,0173	0,0194
Swiss franc	0,5327	0,6513	1,8772	1,5354
French franc	2,1048	2,4725	0,4750	0,4045
Canadian $	0,4452	0,4429	2,2462	2,2579
Italian lira	459 02	532,16	0,0022	0,0019
Zimbabwean $	0,9108	0,7498	1,0979	1,3337
Australian $	0,4975	0,4877	2,0101	2,0504

Trade weighted value of rand, % change against 1974 base 39,10

Domestic interest rates

MONEY MARKET

	Friday 18/05/90 %	Friday 11/05/90 %	Friday 04/05/90 %
SARB accommodation rediscount rate TBs	18,00	18,00	18 00
Treasury bill tender rate	18,00	18,00	18,00
Basic call of discount houses	18 50	18,50	18,50
Three-month banker acceptances	18 40	18,40	18,40
Three-month NCDs	19 80	19,75	19,75
Three-year RSA stock	15 57	15,60	15,68
Prime overdraft rate	21,00	21,00	21,00
All-in yield of finest acceptance credits	19 50	19,49	19,49

CAPITAL MARKET

SECONDARY MARKET	RATES ON MOST TRADED STOCKS	
	Average Previous Month	As on Friday
Long-term RSA stocks	15,76	16,14
Long-term Escom stocks	16,14	15,63

Best sections this week

	Av % Mv	Av D/Y	Av E/Y
Mining Exploration	6,8+	0,1	17 8
Insurance	5,1+	4,7	12,2
Electronics, etc	4,6+	6,7	20,4
Pharm & Medical	2,7+	5,3	14,0
Investment Trusts	2,6+	3,9	8,1

Overall market this week

Zimbabwe gags Anglo economist

S|Times

20|5|90

By Don Jacobs

ZIMBABWE business is dismayed by the silencing of a private-sector economist through covert pressure from the nation's Reserve Bank.

John Robertson, chief economist for Anglo American subsidiary RAL Merchant Bank, was forced to cancel a speech on long-overdue trade liberalisation after Reserve Bank Governor Kombo Moyana threatened to withdraw vital daily co-operation from RAL managing director Ray Feltoe.

Reserve Bank foreign-exchange investigators visited RAL's premises in an apparent intimidatory gesture.

Outspoken Mr Robertson, a nephew of crusading Rhodesian editor Malcolm Smith who defied Ian Smith's censorship in the 1960s, angered the authorities with his calls for overhaul of exchange-rate mechanisms.

Unsubtle

RAL placed advertisements in Zimbabwean newspapers dissociating itself from Mr Robertson's remarks.

The business community was disappointed that a subsidiary of Anglo American had capitulated to establishment attempts to stifle dissent even before the promulgation of a one-party state.

"This offers little hope in the future for the small man if Anglo refuses to fight such tactics," says one businessman.

Rather than silencing dissidents through direct censorship, President Mugabe's Zanu (PF) will, it is feared, suppress them by unsubtle pressure through its bureaucracy, or its parastatal business empire.

Former Chief Justice Enoch Dumbutshena has called President Mugabe's planned planned one-party state a violation of the human right of free association.

"The joy of life is that you can differ from your brother, sister or neighbour and still remain friends. I have never understood why it is desirable to have one political view," says the 70-year-old lawyer, who was refused permission to continue in office by President Mugabe.

Chief Justice Dumbutshena was at the centre of a constitutional crisis when he found that Zanu (PF) parliamentarians had tried to manipulate rules on contempt of the House to muzzle former Rhodesian Prime Minister Ian Smith.

Bully for brokers

By Julie Walker

(232)

THE value of shares traded on the JSE rose to almost R24-billion in the year to February 1990 — bringing lolly for stockbrokers.

S|Times 20|5|90

This value is 5,5% of the JSE's market capitalisation. Last year it was only 3,7% of a much lower market capitalisation. The average in recent years has been close to 4,5%.

More than R24-million was paid out in dividends and interest from all listed securities, says the JSE annual report. About half was interest payments on Government stock and debentures.

Five years ago the total was R11-million, dividends accounting for the lion's share of returns to shareholders. In 1986 the amount of dividends paid by gold shares topped that from industrials, but the trend has changed. Industrial dividends outpaced gold by about a third.

Only four sector indices showed declines — investment trusts, electronics, fishing and steel. Electronics shed almost 17%. Star performer was beverages, hotels and leisure, up 70%. Food, tobacco and match also featured.

Nearly R13-billion was raised in new equity-related issues, rising to R30-billion including loan stock.

The highlights include the first privatisation listing, the first venture capital listings, and the lifting of the ban on advertising by stockbrokers.

Zozo minority may get more

S/Times 20/5/90 232

By Julie Walker

INVESTEC Bank has put the record straight about its offer to minority shareholders of Zozo

Investec bought control of Zozo in March last year, and extended an offer to minorities of 78,3c a share in June 1989

Investec sold its stake in Zozo for 83,1c a share cash to the Thompson Ford and Claw trusts last August. They were represented by International Bank of Johannesburg, Robert McConnachie and Bill Archbold

Part of the agreement included a clause whereby the trusts would extend the same offer to the Zozo minority within four months, but nine have since passed Minorities lost out on interest Cheques are due to be posted tomorrow

A second part of the agreement was that the trusts would provide a written undertaking from a bank that it would lodge suitable guarantees with the JSE for payment to minorities

Investec chief executive Stephen Koseff says the trusts are in breach of the agreement. Investec has approached the trustees, and discussed a compensatory increase in the level of the minority offer.

It looks as though minorities could get a better deal

JSE rules on a change of control are vague, requiring that a *similar* offer be made within a reasonable time Four months is the usual yardstick, but how long is a piece of string?

Section 314 of the Companies Act says the offer to all shareholders must be the *same* A nine-month interval in receiving cash is not the same The JSE's relationship with companies is contractual, whereas the Companies Act is law

Issy Goldberg, of the Shareholders Association, which raised the issue, congratulates Investec for the speed with which it dealt with the discrepancy He says the Securities & Regulation Panel — dubbed the takeover panel — will introduce clarity and discipline to the rules

Scheme afoot to unstaple De Beers units

Cape Times 21/5/90 [illegible] [illegible] 22

Own Correspondent

JOHANNESBURG. — Syfrets said yesterday it was working with Finansbank and stockbroking firm George Huysamer on a financial scheme that would enable the unstapling of De Beers's local element from its off-shore Centenary element.

De Beers has been trading as a stapled unit since last month when the diamond giant announced it was hiving off its foreign interests into a Swiss-based off-shore arm, Centenary.

Syfrets director John Cragg, commenting from Cape Town on a weekend press report, said the scheme had been under study for about three weeks.

"We should know by the middle of this week whether or not it will fly," he said.

A representative from one of the other companies involved in the deal said that its success depended on approval from the JSE and De Beers shareholders.

"We do not need De Beers' approval as such, though we would like to do it with their blessing," he said.

The deal, according to available information, involves De Beers shareholders pooling their shares in a trust operated by Syfrets, which will then issue separate shares reflecting De Beers on- and off-shore interests.

De Beers press spokesman Neville Huxham said: "At the time of the Centenary announcement and on all subsequent occasions, Julian Ogilvie Thompson has made it quite clear De Beers has no intention of delinking its shares."

Audacious plan afoot to delink De Beers shares

(65) (152)

By Magnus Heystek, Star 21/5/90
Finance Editor

South African financial institutions will this week decide whether to accept the audacious plan put forward by Syfrets Asset Management, Finansbank and stockbroker George Huysamer to create an informal market for delinked De Beers shares.

On Saturday it was disclosed that the consortium last week made confidential presentations to most of SA's large insurance companies and pensions funds.

For the deal to work the consortium needs a commitment of at least 7,5 percent of the weighted average number of De Beers' shares in issue, namely about 26 million shares.

Spokesmen at two of SA's largest insurance companies have confirmed that the plan was presented to them, saying that they are busy evaluating the scheme which, if it got off the ground, is bound have a major impact on the share price of De Beers.

As far as can be ascertained, the consortium is trying to convince the large shareholders of the desirability of following scheme (if the large shareholders commit themselves publicly, the smaller ones will follow suit):

- The De Beers shares are lodged in a trust company, Syfrets, one of SA's largest and most respected trust companies.
- In exchange for their De Beers holdings participants receive an equal number of shares in a new company (Newco), which has two types of shares: Newco A and Newco B.

Newco A represents the Centenary part of De Beers, which is set for a Swiss listing on June 11, while Newco B represents the local operations of De Beers after the split.

Five-for-one basis

In addition to this split between the overseas and local operations, the Newco A and B shares will also be split on a five-for-one basis The rationale behind this is to make the shares cheaper and more tradeable.

The plan is for Newco to be listed on the Johannesburg Stock Exchange as well as on an international bourse at a later stage.

This move will effectively delink De Beers, which the company is unwilling to do at this stage

When the company in March this year announced its decision to list its overseas operations, it said that it had no intention of destapling De Beers and De Beers Centenary AG.

But chairman Julian Ogilvie Thompson is qouted as saying that they are powerless to prevent any outside party from doing so.

According to my information, De Beers has been informed of the latest development, but the company is not prepared to comment.

This bold move by the consortium, if it succeeds, will give investors the choice of investing in the part of De Beers they prefer.

De Beers has already indicated that about 80 percent of its annual earnings emanates from its international interests, with the rest coming from South Africa.

In theory, the aggregate share prices of Newco A and B will be equivalent to the share price of De Beers.

Should the De Beers share price lag, it will prove to be an incentive for investors and speculators to buy De Beers and exchange them for Newco A and B shares.

George Huysamer last week was not prepared to comment any further on the details of the proposal, saying he was only acting on the instructions of his principals, Finansbank and Syfrets Asset Management

But he did indicate that any move that effectively unbundled the international interests of De Beers from its local interests would prove to be highly beneficial to the share price

Nobody at Finansbank and Syfrets was prepared to comment on the deal, saying it was highly confidential and sensitive

Business Report

Trek makes way for Engen on JSE

Cpt Times 21/5/90 gz

Own Correspondent

JOHANNESBURG — Gencor energy arm Engen Limited , Gencor's energy arm, replaces Trek Beleggings today on the JSE "chemicals and oils" board, boosting the counter's market capitalisation from R589m to a notional R3,2bn.

The Trek share price has risen 46,3% since the February announcement of Gencor's decision to list its energy interests by way of Engen The price to earnings ratio has improved from 11 to its current 13,9 times

Engen CEO Rob Angel says "The share price movement is a clear indication the market has accepted Engen as an exciting investment opportunity

"The market is aware the Engen group historically has achieved consistent growth in earnings and profits In addition, new activities and the expansion of existing product lines and markets indicate exciting possibilities for future growth "

According to the transmuted listing statement published today, deregulation and greater urbanisation within SA will ensure market growth for liquid fuels exceeds the average growth rate of the economy, which will have a positive impact on Engen's future prospects

SA's first integrated energy group

"In addition, Engen expects significant synergistic benefits to flow out of the rationalisation of technology, production facilities and financial resources, and the integration of refining and distribution activities," says Angel

Engen comes to the market as SA's first wholly owned integrated energy group, with exploration in oil and gas via participation agreements with Soekor, production via the Genref refinery and a 30% investment in Mossgas and, three independent and competing marketing companies in Mobil, Trek-Petroleum and Sonap

A stockbroker argued Engen provided "super" profit potential

"It has healthy expansion potential, its refining margins are good and appear set to rise, and material rationalisation benefits seem assured "

Of the 110-million Engen shares which will be listed today, Gencor holds 84,4% and Genbel, Gencor's investment arm, 9,6% The remaining 6% is held by minority shareholders

Gencor finance director Tom de Beer is on record as saying Gencor, which raised R1,5bn last year, does not at this time need the cash a public offer for Engen would have generated

"Our ultimate aim, however, is to reduce Gencor's investment in Engen over time and to widen the public's participation," he says

Engen has made earnings estimates of 182c a share for the year to August 31 1990 Turnover is estimated on a pro forma basis at R5bn, and profits after tax at R200m

At a general meeting of Trek Beleggings on Friday, shareholders unanimously approved resolutions to create Engen As a result, the company's name will change from Trek Beleggings Beperk to Engen Limited from today

Mashold takes over troubled Springtex in R6,5m deal

Cit 764/13 2/5/90

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JOHANNESBURG — Mas Holdings (Mashold) the mail order group, is to take over the troubled Springtex via a scheme of arrangement with shareholders, debenture holders and creditors of Springtex

In terms of the deal Mashold will effectively pay R6,5m cash and after a reorganisation will end up with 92% of Springtex Mashold is to issue 2,2m new shares at R2,50 per share which are to be placed with certain institutions in part payment of the cash purchase consideration

The remaining 8% of Springtex will be shared among existing shareholders and debenture holders in Springtex In addition, current Springtex debenture holders will receive two cash payments totalling 11c for each debenture

The Springtex Group which was suspended on the Johannesburg Stock Exchange last year, is to be relisted as a Mashold subsidiary, once the scheme is approved

Springtex will be totally re-organised and changed into a viable trading entity Its credit sales divisions have all been changed into cash operations

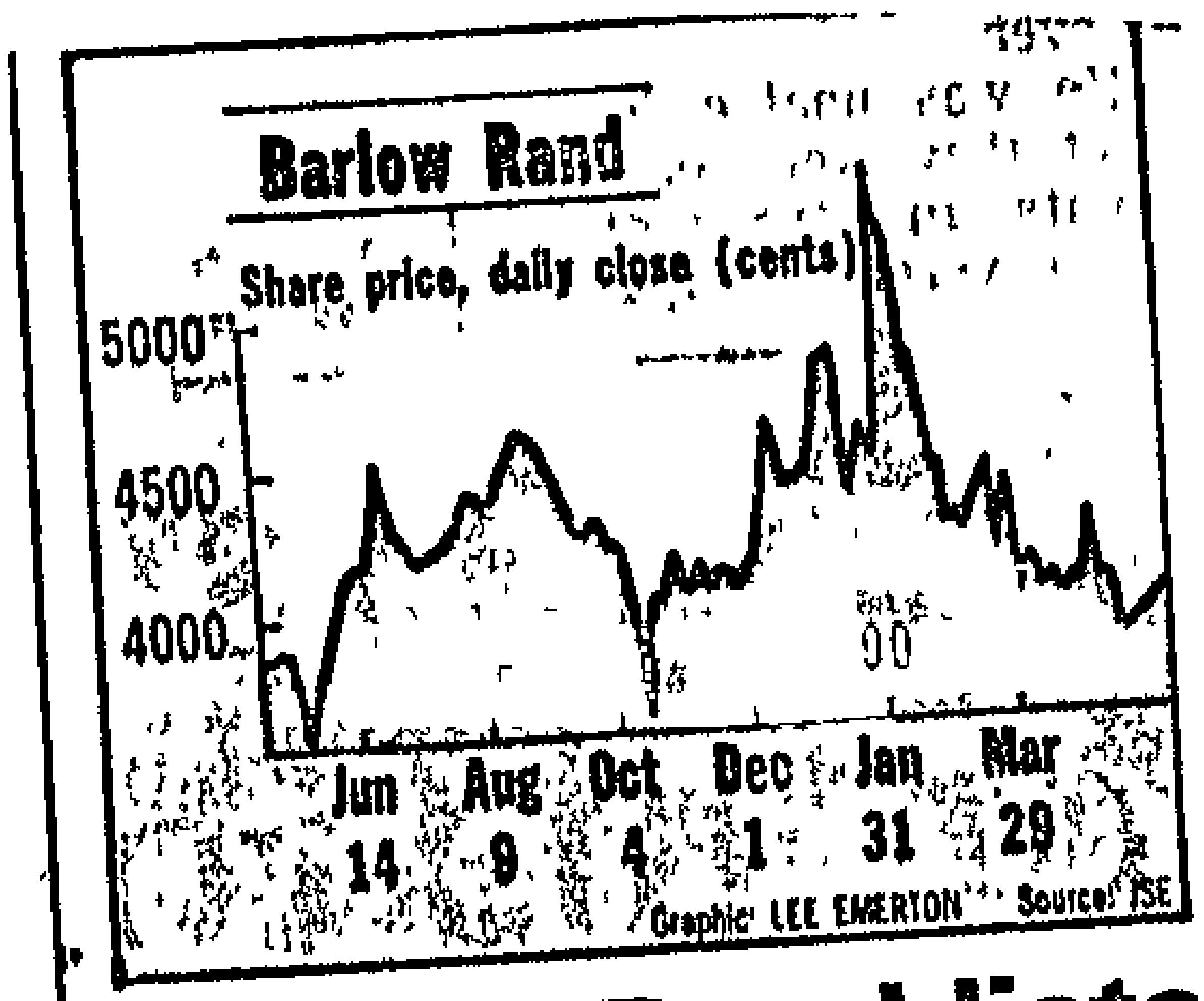
After tax profits for the revitalised group for the financial year from 1 January 1990 to 28 February 1991 are expected to be no less than R3m

Marco van Embden, CE Mashold, says the deal will have a considerable effect on the Mashold's earnings in the present year

But it will have no real financial effect on net asset value or earnings per share for the year ended 28 February 1990

Springtime Linen, one of the divisions of the Springtex group which specialised in credit sales has been turned around and changed into a direct selling and mail order cash business The division is to be renamed Family Selections This together with Charles Velkes and Kansas City will be the three trading divisions of Springtex

Van Embden says Mashold will not go into selling on credit — Sapa



Graphic: LEE EMERTON Source: JSE

Barlow Rand lists dividend of 51c

BARRY SERGEANT

232

MULTINATIONAL Barlow Rand, SA's leading industrial counter, exceeded market expectations by maintaining its interim dividend at 51c after a 9% fall in earnings per share to 218c (241c) for the six months to end-March.

CE Warren Clewlow said trading conditions in the second half of the financial year "will remain difficult and the ferro-alloys and stainless steel division will produce substantially lower profits".

As a result, earnings per share for the full year would be below those achieved last year, he said.

The Barlows share price has been marked down sharply recently, but gained 60c yesterday in active trading to close at R38,75, capitalising the multinational at R7bn. BDay 22/5/90

The share price is on a historical seven times price:earnings ratio, and off its 12-month low of R33.

Other key figures for the six months were turnover up 11,4% to R13,8bn, long-term liabilities marginally up at R1,9bn, and capital expenditure at R808m.

Barlows' segmental analysis for interim on interim shows: mining and mineral beneficiation down 13% to R221m; industry down 9% to R154m; packaging and textiles down 8% to R116m, food and pharmaceuticals up 2% to R211m; and international up 16% to R57m.

Property, finance and administration recorded a deficit of R22m (R20m). This gave an overall 6% increase in profit after taxation, including associate companies, of R736m. Interest paid was sharply up, but in line with expectations, said Clewlow.

De Beers approaches JSE over 'unlinking'

22/5/90 232

By Sven Lunsche

De Beers said this morning that it had approached the Johannesburg Stock Exchange to register its disapproval of a proposed scheme to unlink the shares of De Beers SA and its newly created overseas company, De Beers Centenary.

The scheme, to create an informal market for delinked De Beers shares, was announced over the weekend by a consortium of Syfrets Managed Assets, merchant bank Finansbank and stockbrokers Goerge Huysamer.

De Beers spokesman Neville Huxham said: "The scheme is clearly contrary to our stated intention that the shares of De Beers SA and De Beers Centenary would not be unlinked."

In terms of the De Beers announcement in March, De Beers SA would be listed on the JSE and the Centenary shares on Swiss stock markets, but that the shares would be traded as one unit.

The combined market capitalisation of De Beers, at the current share price of about R106, would amount to about R40 billion.

The consortium has already approached most large insurances and pension funds to receive backing for the scheme — it needs a commitment of at least 7,5 percent of De Beers shares, or 26 million shares, for the deal to work.

The committed shares would be lodged in a trust at Syfrets and split into equal portions of De Beers and Centenary units.

It is also proposed that the fund would be listed on the JSE and each share split on a five-for-one basis.

It is understood that De Beers was approached before it went ahead with the announcement.

Unlinking of units: De Beers appeals to JSE

Cape Times 22/5/90 232

By BARRY SERGEANT

JOHANNESBURG — De Beers has approached the JSE to register its disapproval of proposed schemes to "unlink" the De Beers-Centenary AG units, De Beers spokesman Neville Huxham said last night.

Huxham said· "De Beers approached the JSE because unlinking the units would be directly contrary to the company's stated intention "

Syfrets Managed Assets (SMA), merchant bank Finansbank and stockbroker George Huysamer are promoting the scheme to "unlink" the stapled De Beers-Centenary AG shares, which are due to be listed on the JSE on June 11.

SMA executive Ian Hamilton said last night he was studying the move and would let other institutions approached with the idea, "and the market in general", evaluate the De Beers action.

De Beers said in March it would be listing Centenary AG in Switzerland and a stapled De Beers/Centenary AG unit would be listed on the JSE

It will be SA's biggest listing, with the market value of De Beers/Centenary AG worth R40bn based on yesterday's De Beers closing share price of R106,75

Hamilton dismissed accusations that the SMA scheme was a gimmick. "Nobody stands to lose from the idea, least of all De Beers."

Finansbank's Willie Ross said yesterday the idea of the unlinking scheme was to make De Beers/Centenary AG stock more marketable "We have proposed that the scheme would need commitments from SA institutions of about R3bn of De Beers equity It is then proposed that there be a 10:1 split, five shares for every one Centenary AG share, and five shares for every De Beers SA share."

He said a trust or holding company (working name Newco) would list two companies on the JSE, one representing the split Centenary AG shares and the other the split De Beers SA shares These would then trade alongside De Beers/Centenary AG.

The stapled units would continue to be held by Newco

Ross said it was possible an American depository receipt (ADR) would be formed overseas for De Beers SA, Centenary AG and De Beers/Centenary AG

A leading De Beers analyst said yesterday the SMA/Finansbank/Huysamer scheme could in effect be "dangerous to some investors"

He said Centenary had no net cash and could not yet operate the international diamond business as a separate entity

"It needs the full power of the De Beers SA balance sheet behind it for for several years in order to enable it to build up cash offshore "

SATS has R9,55bn debt — report

Cape Times 23/5/90

232

THE newly commercialised South African Transport Services (SATS) incurred debt of R9,55bn during its 1989/90 financial year, more than half of which was in foreign loans, according to the auditor-general's report

The report, which was tabled in Parliament yesterday, showed that of the total loan debt, 54,22% was foreign, while the remainder was raised on the domestic market and through the issue of treasury loans

The report indicated that SATS had protected itself against foreign exchange losses on repayment of the foreign loans by covering almost all the loans with forward exchange contracts Only American dollar/British pound loans worth £32,6 million (about R137m) had been left uncovered, it stated

SATS's total operating income amounted to R147,39m after the appropriation of R1m for the reserve fund at the end of March 1989 This brought the cumulated deficit to R3,47bn

Total expenditure against the capital budget for the 1988/89 financial year amounted to R905m While expenditure in two operating divisions exceeded the amounts voted by R7,93m, savings from other divisions were used to meet the excesses with the result that total savings were reduced to R35,91m, or 3,82% of the total capital budget of R941m

Debtors increased by R161m to R2,1bn during the course of the year, with provision of R9m for bad debts, while creditors increased by R267m to R1,84bn The increase in creditors was attributed to growth in pension funds and outside contributions to capital projects

The Reserve Bank had granted overdraft facilities for R50m for which SATS pledged R157,5m of their investments in 9¼% 2005 RSA stocks

According to the report, SATS's books reflected an overdrawn balance of R160,26m

Fedvolk to go lean after poor results

BDay 23/5/90 (232)

ZILLA EFRAT

INDUSTRIAL holdings giant Federale Volksbeleggings' earnings have plunged 35% in the year to March through poor performances from some subsidiaries, coupled with the economic downturn and high finance charges

Earnings of 56,6c (86,9c) a share, on a 13% rise in the weighted average shares in issue, follow directors' revised forecast in March of about 60c a share

However, newly appointed MD Peet van der Walt says Fedvolk has reassessed its portfolio and introduced remedial plans to return the Sankorp-held group to profit growth.

While he will not disclose full details, he says Fedvolk will have to reduce its sensitivity to economic cycles and narrow its focus.

Short-term and medium-term actions will result in certain rationalisations, disinvestments and other operating strategies

Fedvolk has declared an unchanged dividend of 21c a share, covered 2,7 (4,1) times, as the group views the earnings drop as a temporary setback.

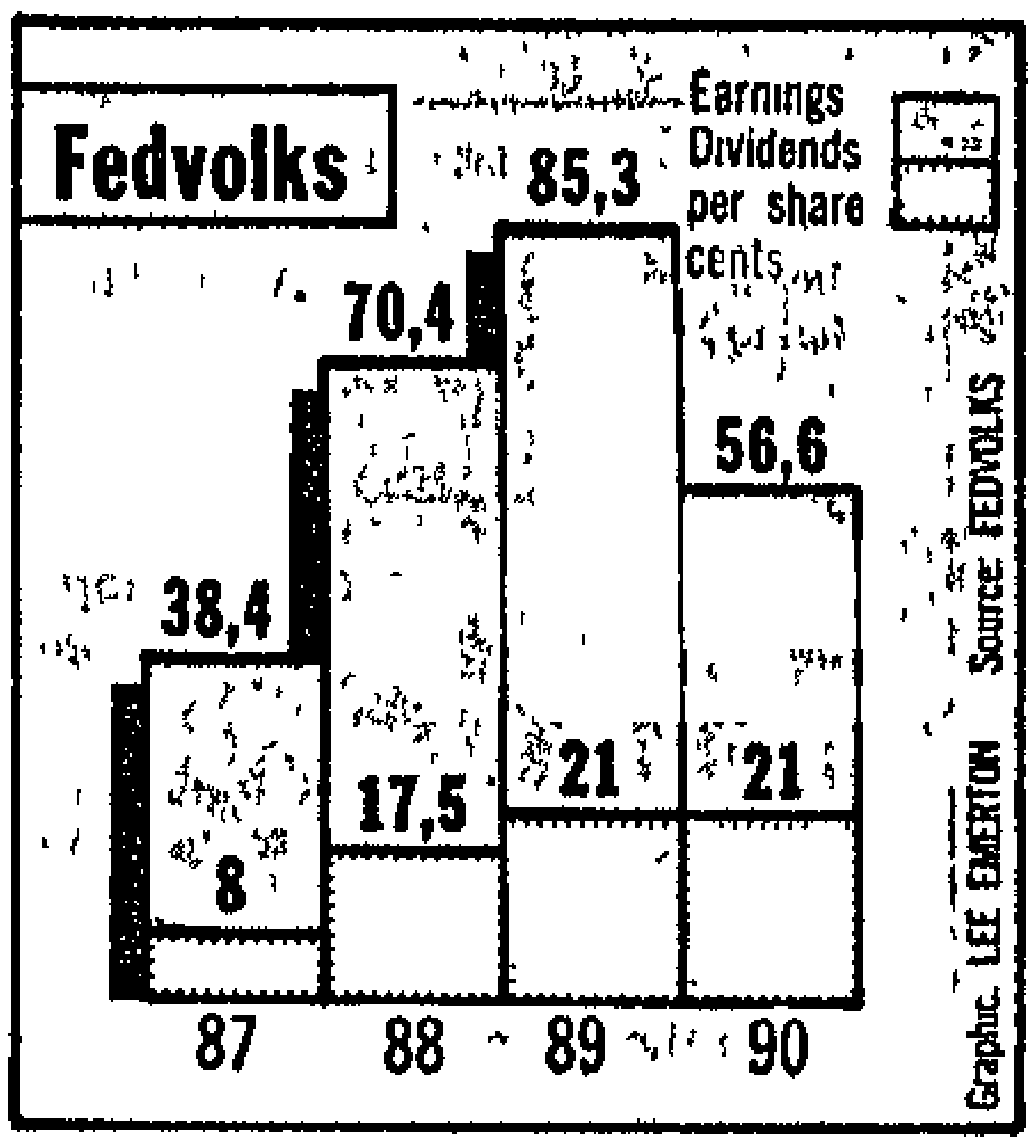
Attributable profits fell 26% to R95,3m (R129,5m) after substantial losses were made by tractor producer Fedmech and white goods manufacturer Tek

The service division, which includes Price Forbes, Avis, Fedics and Interpark, improved its earnings by 14% to R29,9m (R26,3m)

Van der Walt says while Avis experienced sales growth, its margins came under pressure

The food division, comprising Fedfoods, showed a slow 4% growth in earnings to R35,4m (R34m), but the pharmaceutical division, consisting of SA Druggists, saw its

☐ To Page 2



Peet van der Walt, MD of Federale Volksbeleggings, who said yesterday the group had taken action to return it to profit growth

Picture ROBERT BOTHA

Fedvolk

BDay 23/5/90

(232)

☐ From Page 1

earnings fall 1% to R27,7m (R28m)

The domestic and consumer division made a R2m loss after profits of R23,5m the previous year Teljoy showed almost static growth, while crockery manufacturer Continental China, set back by production problems and industrial action, turned in poor results

Tek was affected by high stock levels, large borrowings and restrictions on consumer spending in a weak durables market

The motor component and agricultural equipment division, which includes Gabriel, Raylite and Champion, saw its earnings plummet 28% to R14,5m (R20,2m) solely because of losses made by Fedmech

An extraordinary item of R85,7m comprises extraordinary losses incurred during the year and a provision for the cost of further portfolio rationalisation

Turnover rose 13% to R3,8bn (R3,4bn), but the drop in consumer spending, particularly in the second half, is seen in the 9% fall in operating profits to R291m (R321m) on operating margins of 7,6% (9,5%)

Increased interest rates and overstocking in some divisions saw the interest bill soar 89% to R130,7m (R69,2m) and interest cover fall to 2,2 (4,6) times

On a higher tax rate at 43,5% (37,8%) and after outside shareholders took a lower stake at R15,9m (R40,4m), attributable earnings were down 26%

With the economic climate for the current year set to be be exceptionally difficult, earnings in the first half will be lower than of the previous year Nevertheless, a growth in earnings for the full year is expected

The Star
Finance

Former directors of Arontex called to give evidence

Star 24/5/90

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By Des Parker

DURBAN — Former directors of liquidated Durban-based Arontex Holdings and its subsidiaries — including chairman Trevor Aron — have been summoned to give evidence at an inquiry in Pietermaritzburg next week into reasons for the clothing group's failure.

The holding company and its five subsidiaries were provisionally liquidated in the Supreme Court, Pietermaritzburg, in March, with the final order being made this month.

Liabilities of the main operating firm, Lara's Manufacturing Company, have been put at about R18,6 million with realisable assets of about R4 million.

Attorney Payl Wiener of Werksmans, who is representing the liquidators of the four subsidiary companies, said the three-day inquiry was being held in an attempt to discover reasons for the companies' liquidation, why liabilities were so high and to investigate the securities held by the various major creditors.

It also would attempt to reconcile the financial affairs of the various companies, as well as try to ascertain the movements of some of the stock.

In addition to Mr Aron, subpoenaed witnesses included former financial director Alan Gitsham and company drivers who were being called to try to resolve the stock question.

Lloyd Spendiff of Ernst and Young Trust, joint liquidator of Lara's, said a number of offers had been received for the business.

However, it was to be put up for auction with remaining moveable assets in Durban on June 11 to try to obtain better prices.

SOWETAN BUSINESS

Sowetan 25/5/90

(232)

Disappointing week for contest shares

By GILLIAN COUNIHAN

With the exception of SAB, the past week has been disappointing in terms of price performance of the five shares chosen for our competition.

As a result of its good prelim results, expansion plans announced and promising prospects, the SAB share price moved ahead from 3500c to 3725.

In anticipation of the touch trading conditions in the retail market, food company Tiger Oats and Pic 'n Pay were both slightly on the week (see table) Having risen strongly from its low point of 3175c a few weeks ago, paper producer Sappi saw some profit-making and the price eased back from 3765c to 3575c

Despite its poor trading results reported earlier this month, OK Bazaars share prices remained 1825c

This may look surprising in view of the small increase in sales, lower profits reported, and the reduction in total dividend paid from 103c to 86c

Some market watchers predict the share will fall back to around the 1300c level where it stood last November But the net asset value (nav) of the OK stands at 2770c which indicates that the share is at a large discount to its nav or net worth

Net asset value is the underlying worth of the company It is calculated simply by taking the total assets less total liabilities and dividing by the number of shares in issue

Most shares trade at a large premium to their net worth (see table) for investors value a share on its profit or growth potential While not usually as important as PE ratios and dividend yields, net asset value does play a role in evaluating the potential of a company

In a takeover situation nav is of great concern to both parties

Thus a share trading at a large discount to net worth is worth watching for its recovery potential, and improvement in return on assets achieved by either new methods or management

The price of Genbel has slipped back to 720c to put a value of R720 on your prize of 100 shares

Share	Price (cents)		Net Asset
	May 14	May 21	(cents)
SAB	3 725	3 500	1 009
Tiger Oats	2 725	2 750	758
Sappi	3 575	3 765	2 398
OK	1 575	1 825	2 770
Pick 'n Pay	1 540	1 550	383

Fair played vital role

MATCHMAKER 90, the business-to-business fair, has helped to provide opportunities for interaction and made black economic empowerment a reality to contribute to fundamental change in South Africa.

The 117 participants at the fair were told by many prominent speakers from different business sectors to create more lasting relationships and to realise that they have to interact if they are to be successful in their ventures.

Most of the participants at this fifth Matchmaker fair came away impressed by the high standard and quality of products which were exhibited at the three-day show.

Urgent

One of the highlights of the fair came when the Self-Help Association of Paraplegics won a trophy for the best stand and contribution they made towards black advancement.

The hope for the creation of a democracy in South Africa had never been greater than now, US Ambassador William Swing told exhibitors when he officially opened the fair

Praising the pioneering role of black entrepreneurs in a country where many laws still inhibited their activities, he said the economic debate had lagged far behind the political debate

The American experience had been that there could be no political democracy without economic justice, equality and freedom.

Swing said at a time of political negotiation urgent attention should also be given to economic models for a new dispensation

The economic disadvantages caused by apartheid had to be addressed because there was a spirit of hopelessness among many youths

He was experiencing an interesting willingness across the political divide to "go beyond the dialogue of death" and the jargon of the past

By Shirley Woodgate

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NEWS

Multi Gold under new attack

Star Line

JUNE BEARZI

The crises-ridden venture capital scheme Multi Gold Holdings, which took millions from investors and failed to meet promises of large profits and a stock exchange listing, has now been attacked by the former general manager of its Nigel gold reclamation plant

Laurence Matthews has slated Multi Gold, which was controlled by Equity Participation Investments (EPI), for failing to channel enough investors' cash into the gold recovery project to make it profitable He is also furious that R150 000 owed in salaries to 62 Nigel plant workers since February has not been paid

Mr Matthews, who resigned from the company last month, told Star Line "Multi Gold owes me R25 000 for outstanding pay and bonuses and the balance is payable to the other workers"

He criticised EPI directors for not giving him a chance to put the scheme in the black during the 18 months he managed the recovery operation, adding "I tried to work the area without the necessary equipment but it was impossible to work to full capacity although the gold was there"

Over the last three weeks Star Line has put the spotlight on the controversial venture capital scheme in which some investors hold stakes of R250 000

Several investors who fear they are about to lose their money have expressed outrage at Mr Matthews' disclosures and have demanded the directors give a full explanation

However, the two men who launched the scheme, former lawyer Roy Sellers now living in East London, and Steven Wolff, have severed their links with EPI

When Star Line contacted Mr Wolff in California recently he said he was not accountable for problems experienced by EPI or its subsidiaries

Norman Tilley of Livingstone Mining and Exploration stepped into Mr Sellers' shoes two months ago to untangle the scheme's affairs and attempt a rescue

Colin Hartley, who runs Multi Gold's marketing arm, Capital Growth Investments from Rodland House in Craighall Park, said the next few weeks would be critical to the survival of the operation as they would know if additional funding would be forthcoming

"We have a cash flow problem and we can only survive for as long as creditors allow us Our offer to existing Multi Gold investors to reinvest 50 percent of their original outlay and to take up options in Livingstone Mining is on hold while we draw up documentation"

He said Mr Tilley should explain why Nigel staff had not been paid

Choosing the right time to invest is crucial

Str 26/3/90

(232)

SMALLER investors have notoriously bad timing when it comes to making investment decisions

This view is shared by many institutional fund managers who, due to their greater experience in investment markets and are not trying to make a "fast buck" on every turn.

Even when it comes to unit trusts, people pour money into the market everytime the market soars and withdraws when the market weakens

Ideally, they should be following the opposite strategy. Large and experienced speculators, who take longer term views, buy in periods of weakness and sell into strength

According to Otto Jaekel, general manager of Sanlam Unit Trusts, now is the ideal time to invest lump sum in shares, particularly in unit trusts with a well-balanced and distributed portfolio."

"Caution on the Stock Exchange is the order of the day at present Sound indicators are scarce. The economy is cooling

"We nevertheless believe that there are good buying opportunities on the market. However, the big question in an investor's mind still is - when is the right time to invest?"

Oversold market

According to Mr Jaekel, investors traditionally invest in unit trusts at the wrong time

Statistics show that investors tend to invest lump sums when the Stock Exchange is oversold because they are carried away by the positive sentiment in the market place

On the other hand, investors tend to adopt a wait-and-see attitude during ideal times for investing. They make a decision to buy only once the market is well into an upswing

During the past two years, particularly after the recession of the Stock Market in October 1987, there have been good opportunities for making profits by investing in unit trusts However, investors did not seize them.

The ideal time to invest was in February 1988 but it was difficult to convince investors at the time Negative sentiment and fears that the market could recede again did not encourage confidence among investors

"To an investor, timing is vital on the stock market To make a profit, he must be able to act at the right time."

Sanlam Unit trusts now have a method by which investors are helped to reduce this risk if investing in shares and by which investor confidence is increased, says Mr Jaekel.

"TransTrustplan offers investors a trouble-free opportunity to distribute the risk of investing in shares and to invest under any stock exchange conditions. Also the chance to earn high interest on a bank account which functions like a savings account "

To enable investors to have the best of both investment worlds the TransTrustplan functions as follows· An investor invests a lump sum in a demand account at TrustBank From this account his investment is phased into a unit trust of his choice in monthly instalments.

In the short term the investor's account will enjoy a high interest rate

In the long term the unit trust investment will earn tax-free dividends and an interest income.

The investor can spread the period within which he wants to phase in his money in a unit trust from 3 to 48 months.

For example, in the event of a buying opportunity such as a drop in share prices, the investor can give instructions to have the phase-in discontinued and have the balance of his money transferred to a unit trust in a lump sum

Investors therefore no longer have to hover in the wings waiting for the right moment to invest.

This new product of Sanlam, in my view, is quite sensible. Many small investors make the mistake of investing a large lump sum into the market. Now one can guard against market collapses by "dribbling" in small amounts over a period of time.

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Structuring the ideal investment portfolio

OFF COURSE, there is no such thing as an ideal investment portfolio, as many investors who thought they were on to a "good thing" can testify

If there were such a thing as an ideal portfolio, we would all be rich (and getting richer) without anybody ever losing money

But there are certain guidelines that can help each and everyone of us, notwithstanding how much money we may have, to better plan an investment portfolio

In times of high inflation and risk, investment planning becomes increasingly important for more and more people However, a managed portfolio can be expensive and not really cost effective for the average investor, says Greg Culhane, of Metboard, a leading financial institution.

This article hopefully provides a guideline to assist you in structuring an investment portfolio to suit your individual needs

Currently, only capital growth investments have the ability to beat inflation. Investment in cash deposits, irrespective of what rate of interest is being paid, offer taxed returns below current inflation rates, thus eroding your capital base in real terms over time.

Capital growth investments, however, are usually riskier than cash deposits and a trade-off between risk and return must be made Furthermore, in order to obtain capital growth, some investment income must be forgone and for people who rely heavily on investment income to support their other income, this limits the available options

Obviously, the ideal would be a combination of relatively low-risk capital growth investment, with high-yielding, income-producing investments. This can be achieved if the following guidelines are followed

- Keep your capital intact. Capital growth and investment income requires capital. This might seem obvious, but in many cases investors tie up more than they can afford in long-term investments and as a result need to liquidate a portion every now and again in order to meet their normal living requirements

When structuring an investment portfolio, keep a portion of capital reasonably liquid to allow for your current and short-term needs

- Do not strive for short-term capital gains While many investments offer quick capital gains, these are usually also extremely risky and should be left for the young and the adventurous

A person who still has a fifteen-to-twenty year earning potential can afford to gamble with a high-risk, high-return investment opportunity However if you are in a position where you are approaching the end of your salary-earning potential, high-risk investments have no place in your portfolio

- Do not invest funds in any capital-growth investment for less than five years. Many capital-growth investments can be liquidated with short notice and many investors make the mistake of investing in these using funds which may be required in the near future Consequently, they may be required to liquidate their investment at a time when the market they are in is depressed, resulting in a capital loss.

- Do not place all your eggs in one basket. Time has shown that different markets do not always move in sympathy with each other. For example, when the stock market crashed in October 1987, the property market was virtually unaffected When interest rates drop, the stock market usually improves and when interest rates rise, the property market is often adversely affected.

Therefore, if you have investments spread over cash, property and equity, the chances of long-term stable growth are considerably higher

- Invest in the tried and tested New investment possibilities continue to flood the market. While many may prove to be tempting, restrict yourself to those investments which have a track record of good returns Unit trusts, for example, have shown an average taxed return in excess of 20% over the last five years and investments in sound commercial property have proven to be an excellent hedge against inflation.

This hedge has been enhanced by certain investment companies such as Metboard, which provide gearing facilities to improve returns and carry substantial tax savings.

- Refrain from investments requiring special expertise. Investments in Persian carpets, paintings, vintage or exclusive cars can indeed prove to be extremely profitable. The same can be said for investments in futures, options and venture capital.

These investments, however, require a high degree of expertise and one cannot always rely on the expertise of others in an area where your knowledge base is relatively low

It is evident, therefore, that there are a number of ways for investors to ensure that their returns cater for their needs to hedge against inflation at relatively low-risk levels, while ensuring there is a sufficient income stream to allow for an acceptable standard of living to be maintained.

It's thumbs down from De Beers

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Aci

26/5/90

MAGNUS HEYSTEK
Finance Editor

DE BEERS yesterday officially voiced its disapproval over the proposed scheme to delink the De Beers/Centenary shares.

At its general meeting held in Kimberley yesterday, chairman Julian Ogilvie Thompson said it is the firm opinion of the Board that it is in the best interests of all shareholders and of the diamond industry as a whole that De Beers and De Beers Centenary should co-operate and that there should be no potential conflict between them.

"The two companies should therefore have the same shareholders and the same board of directors. Accordingly, the company will not welcome, facilitate, support or recognise schemes that purport to separate the rights attaching to the securities compromising the De Beers/Centenary linked units."

The statement will most probably put a stop to the adventerous plans by the consortium consisting of Syfrets/Finansbank/George Huysamer which to effectively delinked De Beers from Centenary, its offshore operation.

While most local institutions were reportedly in favour of the scheme, almost all were reluctant to commit themselves without at least De Beers' tacit approval.

Yesterday a spokesman for the consortium was still fairly optimistic that the deal had a chance of success, with the intitial deadline for commitment of De Beers shares to the trust extended to Wednesday.

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Focus on splits

By DON ROBERTSON

THE long-awaited split of Liberty ~~Life shares~~ dominated interest on the JSE at the beginning of the week, but the topsy-turvy gold price influenced sentiment later

Liberty ended the previous week at R285, but after the 10-for-1 split, it opened at R30 on Monday Enthusiasm for the more marketable share waned and it lost ground to close well below its equivalent value at R26

Also split in the same ratio was W&A which closed on the previous Friday at R80 and opened in proportion to this on Monday It was quickly bid up to 915c, only to end the session at 815c

The gold price recovered more than $5 on Monday and Tuesday, but lost $10 the next day Golds rose on Tuesday, but plunged on Wednesday

Trading in golds was dull on Friday and institutions were merely tidying up ahead of tomorrow's holiday in London

The Free State mines fared reasonably well after the quelling of unrest in Thabong township

De Beers lost ground to R99,25 from R104,85 after the acceptance date for the scheme to unstaple the Centenary shares was extended to Tuesday

The pattern in golds was largely reflected in industrials SA Breweries was well bought and added 125c to R38,50 on its results

But Barlows shed 50c to R38,25, even though results were not as bad as expected

Putco Properties was the largest percentage gainer, rising more than 40% to 90c in the hope that a similar Putco special dividend will be declared

Crookes also featured, rising to a new high of R51 in the belief that the shares will be revalued A dealing warning means something is in the offing

The rand's world value

	R1 equals		One foreign unit equals (R)	
	25/05/90	25/05/89	25/05/90	25/05/89
US $	0 3759	0 3596	2 6598	2 7808
UK £	0 2224	0 2281	4 4964	4 3839
Deutschemark	0 6313	0 7206	1 5480	1 3877
Japanese yen	56,22	51 14	0 0178	0 0196
Swiss franc	0 5362	0 6391	1 8649	1 5647
French franc	2 1244	2 4429	0 4707	0 4094
Canadian $	0 4457	0 4336	2 2437	2 3063
Italian lira	463 50	522 18	0 0022	0 0019
Zimbabwean $	0 9148	0 7460	1 0931	1 3405
Australian $	0 4915	0,4743	2 0436	2 1084
Trade weighted value of rand, % change against 1974 base				38 82

Domestic interest rates

MONEY MARKET

	Friday 25/05/90 %	Friday 18/05/90 %	Friday 11/05/90 %
SARB accommodation rediscount rate TBs	18 00	18 00	18 00
Treasury bill tender rate	17 99	18 00	18 00
Basic call of discount houses	19 00	18 50	18 50
Three-month banker acceptances	18 40	18 40	18 40
Three month NCDs	19 60	19 80	19 75
Three year RSA stock	15 50	15 57	15 60
Prime overdraft rate	21 00	21 00	21 00
All-in yield of finest acceptance credits	19,49	19,50	19 49

CAPITAL MARKET

SECONDARY MARKET	RATES ON MOST TRADED STOCKS Average Previous Month	As on Friday
Long-term RSA stocks	17 76	16 20
Long term Escom stocks	16 14	15 69

Best sections this week

	Av % Mv	Av D/Y	Av E/Y
Sugar	11 4+	6 4	13 2
Venture Capital	11 1+	0 0	3 82
Development Capital	4 5+	5 6	16 5
Electronics etc	2 5+	6 3	19 8
Copper	2 5+	2 7	86 4

Overall market this week

(Ordinary Shares Only)

Mining	Non-Min	Total
[illegible]	21 726 511	29 776 044

London gold

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BDay 20/5/90

Liquidations surge and firms stall on payments

ZILLA EFRAT

SA INDUSTRIES, feeling the effects of the economic slowdown across the board, are not paying their bills.

While liquidations are on the rise, overdue accounts have been increasing significantly

For example, overdue accounts in KreditInform's KISS system, which contains the ledgers of more than 100 companies representing a broad spectrum of SA industry, are at 34%

KreditInform MD Ivor Jones says the overdue situation has been consistently deteriorating on a monthly basis since November, and appears to be worse than that seen in 1983/84

First National Bank GM group credit Neil Garden says the risks on many accounts, including home loans, are increasing as the inability to meet repayment rises

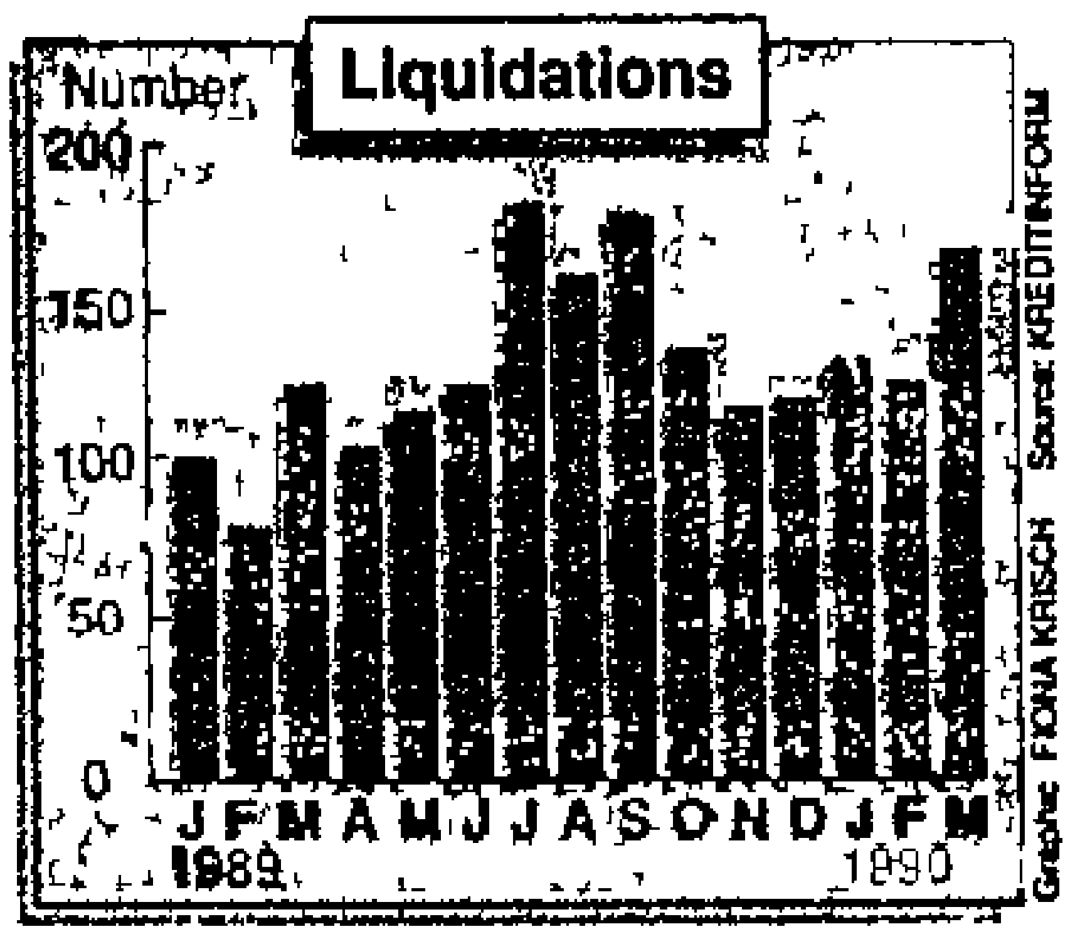
With cash being very tight, companies are using tactics to delay payment, such as querying accounts and insisting on reconciliations, says ITC chairman Paul Edwards

He says as companies try to improve their cash flows by delaying payment they impact on other companies, especially the cash-strapped small companies

The good news is that SA business has become more sophisticated in managing its credit

Edwards says businesses have learned many lessons from previous downturns They are now better managed and leaner, which will prevent a "blood on the wall" situation

While it is an old game to stall payment, there are mechanisms to ensure prompt payment today.



Liquidations surged 40,5% in the first quarter of this year, compared with the same period last year, and 13,6% on the last quarter of 1989, and there is a noticeable trend towards increasing overdue accounts

The emergence of credit bureaus with advanced credit data systems means few companies are likely to risk their credit ratings. Companies are also taking more sophisticated steps to protect themselves.

Garden says the balance sheets of the larger listed companies, compared with previous downturns, are in better shape Good credit management in the larger and medium-sized companies makes them better equipped to withstand the downswing

Jones says those companies which keep their gearing low and react quickly will be able to weather the current storm. Those who do not will push the liquidation figures higher

He says all industries are illiquid and sales have been falling across the board But the hardest hit industries are those in consumables, with the rest of industry following

Garden says the signal from all industries in the last few months is their future financial results will not be good, as they feel the effects of the softening in consumer demand, coupled with work stoppages and unrest throughout SA

Monopolies 'must be run commercially'

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B/Day 28/5/90

ZILLA EFRAT

GOVERNMENT had not put privatisation on hold, but what was of ultimate importance was to get SA's "natural" monopolies operating on a commercial basis.

This was the view of Administration and Economic Co-ordination Minister Wim de Villiers in an interview with Leadership magazine.

Following the success of Margaret Thatcher's economic programme, privatisation had become something of a buzzword in SA, he said.

The fundamental difference between public corporations and private enterprises was that public corporations did not look at a return on capital but strove to fulfill a mission regardless of the capital investment required.

Infrastructure

He said: "In Britain we are looking at industries that used to compete but were subsequently nationalised. In this country we are looking at monopolies."

SA had "natural" monopolies in electricity generation, the railways, the harbours and oil pipelines. The question was one of administering natural monopolies which were fundamentally part of SA's infrastructure.

"Firstly, you must make sure capital is properly utilised. Capital must be raised in the capital market rather than by way of government handouts.

"And it must be utilised in accordance with the discipline of profit and loss account and balance sheet," said De Villiers.

SA's infrastructure, which was a natural monopoly, must be run as cheaply as possible, he said.

"We cannot necessarily create competition in the marketplace, but we can create competition for funds. This is precisely what we have done with Eskom."

"Ultimately, the important point is to get these organisations operating on a commercial basis. The transfer of ownership is something that can be argued about endlessly, but commercialisation is the key," said de Villiers.

In addition, government aimed to make the civil service smaller and more effective.

"We believe the very nature of the civil service has changed."

Underpinning the concept of administration was the idea of fulfilling a mission according to certain regulations, said De Villiers.

However, administrators placed little emphasis on managing resources within a basic set of goals and had lagged behind the revolution in management techniques and thinking

Government aimed to look at the most efficient and cost effective way a job could be done, and the entire administrative process had to be streamlined.

Budgeting had to follow methods used in the private sector, but this process could not be applied across the board in the civil service.

Cosatu for talks on privatisation with Minister

Argus
28/5/90
232

A Cosatu delegation is to hold talks with the Minister of Adminsitration and Privatisation, Dr Dawie de Villiers, in Cape Town

The purpose of the meeting on Tuesday is to state Cosatu's view on privatisation

Cosatu said it believed that the State's moves to privatise defied their commitment to genuine negotiations to resolve the political crisis

The meeting follows a number of protest actions by Cosatu including 11 protest marches against privatisation

After a march to the Johannesburg Stock Exchange on March 29, Dr De Villiers told the Press that privatisation would be halted

The delegation would seek confirmation of this statement and further assurances that no public enterprises would be privatised, Cosatu said in a statement

Pending the minister's response, a series of further actions had been planned by Cosatu's Anti-Privatisation Campaign These included further marches, consultation with Cosatu's allies such as the SACP, ANC, civic and youth structures and a call to nationalise those sectors already privatised

Cosatu was also planning to expand its campaign to target prospective buyers — individuals, companies and organisations both locally and internationally, he statement said

The Cosatu delegation would consist of the general secretaries of the public sector unions Mr Vusi Khumalo from Potwa, Mr Sisa Njikelana from Nehawu, Mr Martin Sebakwane from Sarhwu and Mr John Erentzen from Samwu, a member of the Cosatu secretariat, a national office bearer of Num and the national co-ordinator of the Anti-Privatisation Campaign, Mr Floyd Mashele

Costly acquisitions of little help to Hudaco

Star 28/5/90

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Bottom Line

MICHAEL MENOF

Hudaco's annual report cover each year says its stated principal objective is "to produce superior returns for our shareholders by building on the base of our existing businesses and by continuously looking for other exciting growth opportunities"

But while three divisions — Deutz Dieselpower, Bearings and Power Transmission — showed strong organic growth, three acquisitions during the year costing a mammoth R45 million barely contributed to the bottom line

In fact they had a negative effect after writing off part of their goodwill payment

Acquisitions have caused borrowings to rise sharply from R19,2 million to R35,3 million while cash resources of R18,32 million a year earlier were only R5,29 million at end November 1989

Chairman Mr Bruce McInnes and CE Kevin Clarke were happy with Hudaco ending "the decade on a high note with super growth being the key to 1989" But why are the directors selling their shares?

At the end of November 1988, they held 5,4 million shares, a year later this fell to 4,33 million and since year end they have sold a further 700 000 shares.

In 18 months directors have sold 33 percent of their shares without any explanation — not too reassuring for shareholders and staff.

Yet the Chairman's and CE's report was full of Graduate Business School verbiage about upstream integration, backward integration, growth by acquisition, organic growth, management control of its businesses, core businesses, strategic objectives and so on.

The treatment

But why have 1989's acquisitions performed so poorly and did Hudaco pay too much for them? Consider Mr McInnes's statement that "the returns from Hudaco's core businesses are exceptional and significantly higher than in the businesses we acquire. The effect of acquisitions is therefore to reduce returns — temporarily we hope — while the businesses acquired undergo the Hudaco treament."

Is this not pure arrogance in light of the following results from 1989's acquisitions which cost a cool R45 million — sales R56,3 million, operating profit R4,6 million, attributable earnings R1 million and the difference between 1988 and 1989's goodwill write off of R1,62 million.

This means the acquisitions produced a loss of R620 000. And what about the interest on the R45 million outlay? Something is wrong Only the record bottom line from the existing core divisions saved management from embarrassment.

Sales increased to R364,7 million (1988· R252,1 million) with operating profit R43,56 million (1988 R27,84 million) Finance costs more than doubled to R6,9 million (1988. R2,92 million) After deducting tax R11,9 million (1988: R7 million), minorities share of profit R1,7 million (1988. R302 000) and non-trading items R118 000 (1988: nil), net income totalled R23,1 million (1988: R17,6 million)

Below the line goodwill amortized of R3,6 million (1988. R2 million) reduced earnings to R19,57 million (1988· R15,62 million) Earnings per share, taking into account the additional two million shares issued in 1989 totalled 107,3 cents (1988: 85,4 cents) while dividends were upped to 48 cents (1988. 38 cents)

The 100 percent purchase of Norton Abrasives for R33 million in December 1988 was merged with Murray and Roberts Abrasives Corp seven months later with each (Hudaco and M&R) holding 50 percent but M&R has management control

A 66 percent interest was acquired in an ailing major oil seal manufacturer Angus Hawkens for R9,4 million. Mr McInnes hopes both will contribute in 1990.

Best year

Deutz Dieselpower, in business for 20 years, had its best trading year in 1990. The Bearings division benefited from the buoyant agricultural, automotive and industrial sectors and the Power Transmission division's four companies reported good growth

The divisional analysis showed sales, average net operating assets and number of employees comparing 1988 to 1989, but the income contribution by each was missing. Would this prejudice the group's competitive position? The directors think so but I doubt it unless, of course, management has something to hide

The balance sheet has improved with R9 million profits retained and two million shares issued in 1989. Shareholders funds totalled R87,1 million (1988. R58,2 million) at end November 1989

Total debt has virtually doubled to R35,3 million (1988· R19,2 million) and includes a R20,7 million unsecured fully covered US dollar loan (presumably Nortons?)

While working capital has improved to R55,6 million (1988· R42,7 million) it includes stock of R111,5 million, almost double 1988's R60,5 million Goodwill of R18,2 million (1988 R15 million) is still to be written off

Tax losses have increased to R15,2 million (1988: R8,7 million) which means some companies are making losses or is this from 1989's acquisitions? Understandably, with Hudaco being a sales/service group, the annual report advertised most of its products

CE Mr Clarke predicts another growth year in 1990 as the group primarily services the various replacement markets which are more resilient in a recession. The key ratios were positive Management is not worried by the high debt which it says will be reduced by operating cash flows in 1990

The interim results due shortly should hopefully justify the viability of 1989's costly acquisitions but the directors should explain their significant share offloading.

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De Beers linking gets go-ahead

Own Correspondent

JOHANNESBURG — De Beers Consolidated Mines achieved near unanimity during its general meeting in Kimberley on Friday in a vote to create Swiss-based Centenary AG that will house De Beers's offshore interests

In one of the most significant milestones in SA corporate history, 37 shareholders present at the meeting — in person or by proxy — voted 99,98% in favour of establishing Centenary AG

Those present, representing R22bn worth of De Beers shares, established De Beers/Centenary AG linked units

Twelve of De Beers' 20 directors, including deputy chairman Nicky Oppenheimer and Gavin Relly, jetted in from around the world to attend the historic AGM in the company's head office

It marked De Beers' 102nd general meeting in Stockdale House, where the likes of Cecil Rhodes and Barney Barnato managed the company that is now worth R38bn on the JSE

After the meeting, De Beers chairman Julian Ogilvie Thompson said he was surprised at certain SA schemes which had mooted a delinking of the De Beers/-Centenary AG units

"To remove all doubts about the board's view on the issue, it should be noted that De Beers will not welcome, facilitate, support or recognise schemes that purport to separate the rights attaching to the securities comprising the De Beers/Centenary linked units "

He said De Beers had no intention of splitting its shares

The De Beers/Centenary AG units will be traded worldwide on nine stock exchanges for the first time on June 11.

On the announcement in March of the proposal to create Centenary AG, Ogilvie Thompson said in a London interview the company would be powerless to stop non-SA delinking schemes

. However, this was because instruments which had no counterpart in SA existed offshore

Analysts said one complication to offshore schemes was that the bulk of De Beers shares were SA-held

Techniboard taken over

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[illegible]

Star 29/3/90

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.

Big book-over deals breathe life into JSE

MERVYN HARRIS

SPECIAL situation shares, and several large book-over deals breathed life into a listless Diagonal Street yesterday as the closure of major overseas markets kept activity at a low ebb

Stationery group Waltons was on the recovery trail after the shares sank to a year low of 355c in April. Waltons edged up 5c to 460c amid rumours that there could be a strengthening of the bonds with CNA-Gallo, which has a small stake in the company CNA-Gallo came off its recent peak on a 10c fall to R14 (232)

In the electronic sector, Af Cable jumped 20c to a new year high of 460c, representing a gain of 26% from the month-ago low of 365c amid a shortage of scrip. Market talk was that Elcentre could be a contender for control of the company.

Retail group Storeco gained 50c to a new high of 950c, giving rise to suggestions talks could be resumed for a link-up with Pepkor. BDay 29/5/90

Dealers said the boost to market turnover from several large book-over deals showed that despite the tight market, large lines of stock coming on offer were being absorbed

Heading the list in volume terms was the purchase by a single broker of 11,6-million shares of country store group Acrem worth R4,6m at 30c each, 10c below the ruling price of 40c. Analysts were puzzled by the deal, as the same number of shares was traded in a special bargain deal earlier this month at 66c each, 16c above the ruling price at the time. The 11,6-million shares represented Pride Consultants 30% stake in Acrem

☐ To Page 2

JSE

BDay 29/5/90 (232)

☐ From Page 1

Saambou was involved in a book-over deal of 1,4-million shares worth more than R2m. The price rose 2c to 125c after touching 127c. A special bargain of 100 000 Dorbyl shares was put through at R21 a share, 35c below the ruling price of R21,35.

JSE flagship De Beers recouped early losses, firming 15c to R99,40 as overseas markets were closed and arbitrageurs could not take advantage of fluctuations in the finrand.

The rest of the market was steady as gold firmed $1 to $367,75 in Zurich and President F W de Klerk's successful European helped lift market sentiment

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Workers to protest over privatisation

Sowetan 27/5/90

DAWIE DE VILLIERS

PUBLIC sector workers are planning nationwide protests today to coincide with talks between Cosatu unions and the Government on privatisation.

Cosatu's anti-privatisation campaign co-ordinator, Mr Floyd Mashele, said the demonstrations would start at 10 30am and could develop into other forms of action, such as pickets and marches.

The general secretaries of Cosatu's postal, health and rail affiliates are to meet the Minister in charge of privatisation, Dr Dawie de Villiers, in Cape Town.

Also present will be a representative of the National Union of Mineworkers, which has members at Eskom.

Mashele said the Minister had indicated earlier this year that the privatisation programme would be delayed.

At today's talks, the unions would press for the entire process to be scrapped.

On Sunday the National Health, Education and Allied Workers' Union called on its members in the health sector to work normally today.

A spokesman said lunch-time protests would take place at hospitals.

"Health is an essential service and there is a huge backlog of work in hospitals due to the recent strike," the union said

Investec gets 20% stake in Berns, Block Associates

LINDA ENSOR

INVESTEC has acquired a 20% stake in financial services group Berns Block Financial Services, which trades as Berns, Block Associates.

Investec Group MD Stephen Koseff said yesterday the acquisition would extend the marketing force of the bank While Investec was strong at the top and bottom ends of the market, Berns Block was better placed to service the middle range of client.

Also, Koseff said, Berns Block offered a more personalised service which the bank could not offer because of its size.

Berns Block MD Arnold Berns said the link with Investec would enable the group to develop its corporate market by increasing the range of services it was able to offer ·

"Furthermore, the two groups will create innovative and exciting banking, investment, and insurance related products. For example, by linking geared investments with finance provided by Investec and guaranteed by specially structured insurance policies, capital growth on investments is increased proportionately to the amount of loan finance introduced to the investment," he said.

Other new products arising out of the link with Investec include. instalment sale finance, leasing finance, medium-term loans, professional partnership finance, housing and participation mortgage bonds, international portfolio management, international asset structuring, capital raising, management buy-outs, mergers and acquisitions and company restructurings.

Berns saw managed property syndications as a major area of future expansion as it offered the small investor an opportunity to invest R10 000 or more in prime commercial properties Returns over five years were normally in the range of 135-140%, he said.

Bus Day 30/5/90

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Link

Berns Block has restructured itself and formed subsidiaries of its main operating divisions namely broker services, securities, employee benefits, tax services and financial resources which includes asset management services.

The company was formed in 1983 by 10 Liberty Life agents, the link with Liberty Life being finally severed in December last year. This severance removed a constraint on the group, and gave it more credibility as an independent operator, Berns said.

Berns believed Berns Block was unique in being able to offer a wide range of financial services in-house

'Note taken' of possible conflict

De Beers de-linking plan dropped

CM Tims
30/5/90

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Financial Editor

THE scheme to de-link De Beers units, selling shares in De Beers and in its overseas interests, Centenary, separately, has been abandoned

Announcing this yesterday, a statement issued by Syfrets Managed Assets (SMA) — which, with Finansbank and George Huysamer & Partners, promoted the scheme — explained "Our proposal was motivated by a sincere desire to give investors and portfolio managers greater flexibility, while at the same time improving the marketability of De Beers by effectively sub-dividing their shares "

But, the statement continued, the chairman of De Beers, Julian Ogilvie-Thompson, had said at the annual meeting that "De Beers will not welcome, facilitate, support or recognise schemes that purport to 'separate' the rights attaching to the securities comprising the De Beers/Centenary units".

The SMA statement continued "We have also taken note of the company's desire that there should be co-operation between De Beers and Centenary and furthermore that there should not be any conflict between these two companies.

"In the light of this statement and to preclude any uncertainty in this regard, the promoters have decided to withdraw their proposal and the institutions which were originally invited to participate have been advised accordingly "

Last week, presentations given to stockbrokers and representatives of financial institutions were well attended

But, following a protest from De Beers to the JSE, it was generally felt that the scheme was unlikely to go ahead

It depended on the institutions putting R3bn worth of De Beer shares into a pool to be split Their response would have been due today

Farmag, Sentrachem to merge

Cape Times
30/5/90

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Own Correspondent

JOHANNESBURG — Sentrachem and Farmag are to merge their agricultural chemicals businesses into a new company, Sanachem, with annual sales of R300m a year

In addition, Sentrachem, which today announces a 7% rise in attributable earnings for the year to March, is investigating the prospects of building a local R6bn naphtha cracker plant

Sentrachem CE Johan van der Walt says strategic objectives of Sanachem include further import replacement through local manufacture of crop protection products, and the expansion of export sales

In the first phase of the merger, the agricultural chemical production, formulation and wholesale distribution operation of Sentrachem's Agrihold and of Farm-ag will be merged into Sanachem, which will be jointly owned by Sentrachem and Farm-ag.

In the second phase, after five years, Agrihold will buy the Farm-ag interests in Sanachem.

Van der Walt says to complement Sanachem's production, formulation and wholesaling activities, Agrihold will also acquire Farm-ag's Staalchem agricultural chemical retailing division

The merger will be effective from March 1 1990 and clearance from the Competition Board is expected shortly

The investigation into the feasibility of building the R6bn naphtha cracker is being jointly undertaken by Sentrachem and AECI

The technical feasibility and technology of the project have already been examined, and its commercial viability is currently being looked at. No decisions have yet been made

An important factor is the outcome of the long-term strategy government is currently formulating to develop the local chemical industry

The project aims to bring in international partners Already discussions have been held with parties from Taiwan and an Italian delegation is expected shortly.

The cracker would produce the basic feedstocks required for the the SA chemical industry to become far more competitive on the world market.

Consortium backs off on De Beers

Star 30/5/90

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By Magnus Heystek
Finance Editor

The consortium trying to de-link De Beers from its Centenary counterpart has backed off in the face of what is described as De Beers' "hostile public stance".

A spokesman for the consortium consisting of Syfrets/Finansbank/George Huysamer said yesterday that participation in the proposal could prove to be embarrassing for certain members It had no choice but to withdraw it

After Friday's strongly worded statement from De Beers, following its annual meeting in Kimberley on Friday, it was evident that the scheme had little chance of success

This announcement, which was released yesterday, had no detrimental effect on the share price De Beers closed at R101,50, up R2,10 from the previous day, as investors started buying back into this counter.

While the major financial institutions were reportedly in favour of the scheme, they were not prepared to risk the ire of South Africa's business powerhouse And without the backing of SA's large life and pension offices, the scheme was doomed

This morning, after it was announced that the proposal has been withdrawn, the consortium spoke openly about its plans.

The consortium stressed that the proposal to delink De Beers was primarily based on the assumption that overseas investors will set up a similar scheme, which will delink De Beers after the listing of Centenary AG on June 11

Out in the cold

If this was to happen, with no counterpart scheme in operation in SA, any De Beers linked units that flowed North would become split and would therefore be unavailable to the South African investor.

"We feared that this state of affairs would result in the South African tradeability and marketability of De Beers being markedly reduced, to the detriment of all investors in the market," a spokesman for the consortium said this morning

Another factor which prompted the consortium to construct the scheme, was the restriction on local institutions to invest overseas "By splitting De Beers into a domestic and overseas company, we felt that we would be giving local fund managers a greater degree of choice in the way that they allocate their investment funds

"An additional benefit would be to those unit trust managers who have found it impossible to match their market weighting of De Beers in their portfolios because of the regulation that limits them to preventing more than 5 percent of their funds being in any single counter Our proposal would have given them two further investment vehicles in the De Beers group," he added

There was also the question of capital gain So long as De Beers is effectively stapled, the true underlying value of the company cannot be unlocked The management of Rembrandt and Premier have shown that by splitting their companies shareholder wealth can be increased

Share split

The consortium proposed not only to delink the units but also to split them on a five for one basis This part of the concept was designed to improve the marketability and tradeability of shares amongst smaller investors who simply cannot afford to purchase De Beers at its current share price.

The recent experience of Liberty has shown that a share split, if handled properly, can increase shareholder wealth

The actual proposal had the following key points

The new company (working title Ritz) would strive to obtain between 7,5 percent and 20 percent of De Beers' equity, a shareholding large enough to ensure sufficient tradeability A target of above 20 percent would have been seen as an attempt to gain control

In return for every De Beers linked unit, Ritz would issue five A and five B shares with A entitled to benefits accruing from Centenary and B from De Beers Dividends would have been paid out as soon as possible, not more than a period of a week.

The A and B shares would have been listed on the JSE as soon as possible with an overseas listing also included in the scheme

According to the plan, Ritz would immediately have dissolved if and when De Beers formally unstapled its units — widely predicted in financial circles — unless 75 percent of Ritz shareholders voted against the plan

Steep rise in rate of liquidations

GERALD REILLY

BD 30/5/90

PRETORIA — The steep rise in company liquidations in the three months to end April compared with a year ago reflects the sharp reaction to government economic constraints, according to economists

Central Statistical Service figures released here yesterday show February-April liquidations increased by 24,3% compared with the previous three months

But compared with the same three months a year ago, the increase was a "disturbing" 44,6% (to 470)

CSS figures also show that in the first quarter of this year insolvencies increased by 3,2% to 579 compared with January-March last year

However, there was a decrease of 12,4% when compared with the last quarter of 1989

Volkskas chief economist At Engelbrecht said the disturbing statistics showed government strategy was working

"There's no way we can get the economy under control without causing a great deal of pain"

Engelbrecht said the insolvency figures would inevitably deteriorate as inflation, high taxation and low economic growth took their toll among individuals

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Information Trust Corporation (ITC) chairman Paul Edwards said the trend showed liquidations began to mount in mid-1989.

The trend was accelerated by the poor performance of the economy in the last quarter of last year and January-March this year

Edwards said it was inevitable that more companies would fall by the wayside

He emphasised the need for proper cashflow management This could make the difference between survival and collapse for many companies

The CSS figures confirmed the trend reported by KreditInform earlier this week KreditInform found that liquidations surged 40,5% in the first quarter, compared with the same period last year

It also reported that there was a noticeable trend among companies towards increasing overdue accounts

Cosatu warns State about privatisation

ARGUS 31/5/90

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By **DENNIS CRUYWAGEN**
Staff Reporter

THE Congress of South African Trade Unions (Cosatu) has warned the government that its privatisation programme will prejudice negotiations

In a statement today, Cosatu said it had asked the government to halt privatisation and other "drastic" restructuring of the public sector until a political settlement had been reached

This request was made at a meeting in Cape Town on Tuesday between a seven-man Cosatu delegation, Dr Dawie de Villiers, Minister of Mineral and Energy Affairs and Public Affairs, and the Commission of Administration

The response it got was "unsatisfactory" and it did not gain the impression that "they were interested in hearing the views of our members or our people as a whole", said Cosatu

The trade union federation said it had been left with no other option but to intensify its programme of action against privatisation

"We made it clear that workers were not prepared to bear the brunt of a short-sighted restructuring programme designed to rescue the government from an economic crisis caused by apartheid"

- Sapa reports from Johannesburg that the secretary of international affairs for the African National Congress, Mr Thabo Mbeki, told TV audiences that his organisation was not tied to the policy of nationalisation

Speaking during a debate on the SATV 2 and 3 programmes, *Egoli* and *Gauteng*, Mr Mbeki said nationalisation had to be one of a package of options to be debated

He said the ANC had no desire, intention, or maybe even the ability to impose its views and policies on the country as a whole

However, the ANC would want matters to be debated, as it believed anyone would

Tremendous deprivation and poverty was rife among many people, he said, and it was necessary to address the question of a fairer distribution of resources and empowerment, as a part of the process towards a political transformation to a democratic South Africa

The director-general of the Chamber of Business, Mr Raymond Parsons, said many things had to be improved and corrected in a new South Africa and business people had an important role to play

Cape Times
31/5/90

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Privatisation a danger to talks — Cosatu

JOHANNESBURG — The country's largest trade union federation, Cosatu, yesterday warned that negotiations between government and the ANC would be "prejudiced" if government continued with its privatisation programme

This follows a meeting in Cape Town on Tuesday between a Cosatu delegation and government ministers involved with privatisation and the Commission of Administration at which Cosatu failed to gain an assurance that privatisation would be halted

The Cosatu delegation resolved to discuss this meeting with its National Campaign Committee tomorrow where further action will be decided upon, a Cosatu statement said

The Cosatu statement issued yesterday described the Cape Town meeting as "completely unsatisfactory", warning that the attitude of the ministers could result in a "a recipe for confrontation"

They claim Minister of Mineral and Energy Affairs and Public Works Mr Dawie de Villiers and Minister of Administration and Privatisation Mr Wim de Villiers were not interested in hearing the views of Cosatu "or the people as a whole", and instead spoke at length on their perspectives

The Cape Town meeting was designed by Cosatu to state its members' position that "we are totally opposed to all privatisation, and to secure a commitment from them that there would be no further privatisation "

The Cosatu statement further warned that "any attempt (by government) to embark on such a major restructuring programme without consulting those affected will be resisted"

Negotiation process

People were particularly sensitive to the fact that the privatisation process was happening now, as the negotiation process was about to begin

"We reiterated (to the Ministers) our demand that all privatisation and other drastic restructuring of the public sector should be halted until a political settlement has been reached "

The Cosatu delegation claimed the Ministers attempted to deny that privatisation was taking place and focused instead on the term "commercialisation", or the restructuring of public sector industries, their fragmentation and selling off of certain sectors

"In our view this is privatisation in another guise despite attempts by the ministers to deny it, we gained the clear impression that the government was preparing to go ahead with the privatisation programme "

Mr Dawie de Villiers had refused to confirm his statement, reported several weeks ago, that all privatisation would be halted until the relevant parties had been consulted

The attitude of the ministers had left Cosatu with no option but to intensify its programme of action against privatisation

● Since the release from prison in February of ANC deputy president Mr Nelson Mandela, the general secretary of Cosatu's largest affiliate union, Mr Cyril Ramaphosa of the National Union of Mineworkers, has featured prominently at the ANC deputy leader's side during major events — Sapa

Cape Times 1/6/90

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Cosatu plan to shake up govt

Own Correspondent

JOHANNESBURG — Nationwide stayaways, demonstrations and marches, still in the final planning stages, were scheduled to take place throughout July, a Cosatu spokesman said yesterday

Industrial action, in solidarity with the Natal violence, was planned for the first week of July, with other action, in response to the government's stand on privatisation, taking up the remainder of the month, Cosatu spokesman Mr Floyd Mashele said

He was speaking yesterday after a Cosatu delegation met to discuss the July industrial action timetable.

Stayaways, marches set for July

There would probably be a countrywide stayaway on July 2, and demonstrations and marches on July 7, he said

Coastu leaders who met cabinet ministers Dr Dawie de Villiers and Mr Wim de Villiers in Cape Town this week said the meeting was "completely unsatisfactory" and warned that the attitude of the ministers was "a recipe for confrontation".

They said the ministers tried to deny that privatisation was occurring by focusing instead on the term "commercialisation", and Cosatu "gained the clear impression that the government was preparing to go ahead with the privatisation programme"

Mr Mashele said Cosatu was "geared to take any action to stop privatisation", and was considering the series of actions in July to bring attention to the workers' opposition to it if the government's response had not changed by then

He proposed that each week in July different public sector unions take some sort of action, including sit-ins, pickets and marches during work hours, to highlight their opposition

"We hope it will be resolved through negotiation before this occurs," Mr Mashele added

JSE action on Worles

B Day 1/6/90

PIERRE DU PREEZ

THE listing of World of Leisure (Worles) shares was terminated as from Tuesday evening after a special meeting of the JSE's general committee.

JSE GM equity market and listings Richard Connellan said the JSE had decided it would be in the best interests of the JSE to terminate the listing, adding he thought there was little chance of reviving the company.

(232)

Shares in World of Music (WOM) and World of Leisure (Worles) were suspended in July last year, because of obstacles encountered in the proposed restructuring of the two companies

Connellan said the delisting of Worles was possibly the aftermath of a bullish market in 1986

A market analyst said the company "just haven't come up with the goods"

Another analyst said Worles was never a share for the serious investor He felt the company had bought too many assets too soon leaving it with a cash flow problem

Star 2/6/90

Pegg's estate sequestrated

232.

CATHY STAGG

THE estate of Mr Stuart Pegg, allegedly one of the men behind the R47 million Trust Bank fraud, was finally sequestrated in the Rand Supreme Court yesterday

Mr Pegg was arrested and detained in Switzerland in April this year Yesterday, the Attorney General for the Witwatersrand Local Division, Mr Klaus von Lieres, said he had decided not to continue with extradition proceedings against Mr Pegg

Time up

Mr von Lieres said time had run out and the Swiss authorities had not granted his application for an extension

He understood Mr Pegg faced criminal charges in Switzerland as a result of complaints laid by Trust Bank.

Efforts to contact Trust Bank's attorney, Mr Antony Mostert, yesterday were unsuccessful as he is in Luxembourg for the matter involving Mr Pegg

Trust Bank's media manager, Mr Louis de Villiers, said the bank preferred not to comment on what action was being taken by the bank against Mr Pegg overseas — nor on the Attorney General's decison

Yesterday Mr Justice H J C Flemming granted the final sequestration of Mr Pegg's estate. The application was initially launched in December last year after the bank discovered the R47 million fraud.

In papers before the court, Trust Bank's attorney, Mr Mostert said he had personally spoken to Niko Shefer (who has since stood trial, been convicted of fraud and sentenced to 14 years' imprisonment) and Mr Shefer had confirmed Mr Pegg's involvement

According to evidence led during the trial a former bank clerk, Gotz Guntenhoner, (convicted of fraud and sentenced to 14 years' imprisonment in an earlier trial) stole clearance vouchers and, after these interbank transfer documents had been completed, the funds were used to buy gold coins, ememeralds and an aircraft

The idea of using funds from this fraud, about R26 million, to buy a Falcon 50 aircraft, was proposed by Pegg, Mr Mostert said in an affidavit

In an affidavit, a facsimile of which was apparently sent to Cannes, France, Mr Pegg had protested his innocence and said he had earned commission "in the normal course of business" but Mr Mostert rejected this

Transactions

He said it was significant that Mr Pegg referred to various discussions and transactions with a variety of people and organisations — yet did not submit any evidence from them to support his claims Among people mentioned by Mr Pegg were members of the Department of Foreign Affairs and local aircraft firms

Trust Bank has obtained a judgment against Mr Pegg in Luxembourg for more than R47 million

It's a stout show from SA Brews

BEER is best, or so the market thinks. SA Breweries was a stout performer in a soft market this week.

The depressing effect of gold's drop could not be countered by the buoyant bourses over the waters

SAB's shares put on more than R2 to R40,75 on firm demand even though its subsidiaries had mixed fortunes The OK was higher, Amrel and Edgars lower.

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Bevcon was up 16% at R52,50.

Richemont topped R25 after reaching a peak in sterling terms midweek on good results from Dunhill It closed at R24 — 125c up W&A added 15c to 830c, but was offered at the original level

By Julie Walker

Chubb gained 100c to 925c, and Remgro gained 20c to 1 440c

S/Times 3/6/90

The volatile Venter companies regained some lustre After hitting lows early in May the shares perked up two weeks ago This week Altron shed 125c to R35,75, but regained it late on Friday, Powertech lost 5c to R2, but put it back, Altech shed 100c to R63 and Fintech sneaked up 5c to 535c.

Punch Line was 10c up at 75c, the 10% convertible prefs adding a third to 80c.

Putco came all the way down after going ex-dividend of 310c. It fell from 470c to 90c Putprop eased 20c to 70c

Trimtex Trading rallied by 50% to 45c after dropping on expectation of poor results

Clinic Holdings' modest growth was rewarded by a 20c improvement to 190c on a single deal of 100 shares

De Beers could not keep its price above R100

Gold dividends from Anglovaal mines reflect the downtrend in mine earnings

ERPM was sold down as the mine's fate is decided The price eased 300c to R11.

Speculators in Barmines got the jitters on talk of ore reserve discrepencies, but management called a meeting to allay investors' fears The price hit a low of 410c before recovering to 445c, still 25c off on the week.

Granite

Northam's nil-paid letters shed 30c to 200c, but recovered 20c as the shares gained 50c on Friday afternoon to R24. The take-up price is R22.

Middle Wits nil-paids also fell. The ordinaries shed 20c to 560c and the letters crashed from 80c on Tuesday to close at 32c. Take-up price is 550c

Keeley eased after a surge on either side of its published results The granite stock softened 50c to R10,75.

Mining exploration counters lost their way in sympathy with gold Barnex, Lydex, Randex and Rho-Ex all slipped, only Freddev bucking the trend It gained 35c to R10,10

Finansbank takes minority stake in Mercedes dealers

Stn. 4/6/90 (58) (232)

Merchant bank Finansbank has acquired a minority interest in Mercurius Motors, the largest privately-owned Mercedes-Benz dealership in South Africa

Mercurius, which was formed 20 years ago by managing director John Mills, has grown from a small service station in Boksburg to a substantial dealership with the Mercedes-Benz and lately Honda franchises in the Boksburg and Kempton Park areas

For the current financial year ended February 1991, Mercurius is projecting a turnover in excess of R150 million With deregulation of the transport industry, and the widening of the Mercedes-Benz commercial vehicle range, the truck market is where Mr Mills sees future growth for the company

Truck related activities currently comprise roughly one-third of the company's turnover

"Over time, we have sold into some of the largest truck fleets in the country and as part of our commitment to after-sales service, we have recently opened a R2,5 million technically advanced panel and paint shop exclusively for Mercedes' heavy vehicles, based on the latest Mercedes technology"

A strong factor for the company's future growth is Mercedes-Benz AG's ongoing commitment to South Africa, says Mr Mills

"This, combined with the professionalism and financial strength of our new partner finansbank, means that we are in a powerful position to maximise our future potential and further increase our market share," he commented

This acquisition is in line with Finansbank's investment banking division's strategy of actively seeking out high quality investment opportunities, says Mike Dollow, general manager of the division

"We have made it our policy to find successful businesses, run by true entrepreneurs, with high quality products and good growth potential," says Mr Dollow

"Mercurius impressed us because it has built its reputation on after-sales service in a demanding corporate market, and has been rated as one of the top Mercedes-Benz dealers in the country by its principal, Mercedes-Benz South Africa" — Sapa

Star

4/6/90

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Hijacking syndicate crushed

Staff Reporter

A multimillion-rand syndicate specialising in the hijacking of commercial trucks in the Transvaal and Free State has been crushed, police confirmed yesterday.

A total of 15 suspected hijackers were arrested and goods valued at R14 million were recovered after five months of intensive investigation, Witwatersrand police spokesman Captain Eugene Opperman said yesterday.

Investigations into activities of the syndicate were being kept secret and could be revealed only on Saturday, he said.

Police expected to arrest a number of top-ranking Johannesburg and East Rand businessmen in connection with the syndicate.

He said the hijackers waited near trucks being loaded with goods. They then followed the truck.

Bankorp: No acquisitions in sight

Cape Times
4/6/90
232

Own Correspondent

JOHANNESBURG — Bankorp will ensure its own house is in order before considering any acquisitions, new executive chairman Piet Liebenberg said in an interview yesterday

"We won't even contemplate any deals until we are running smoothly and profitably — which is likely to take about two years

"Until then any rumours that we are interested in acquiring anything will be pure speculation," he said

Liebenberg, who takes up his new post today, was responding to the possibility of the troubled banking group bedding down with the sector's high flier, UBS Holdings

UBS has a very strong capital base and is SA's biggest building society These attributes make it attractive to Bankorp which is plagued by a dismal capital base and is keen to develop substantial interests in the home loan market.

But Liebenberg emphasised he would focus on fixing Bankorp from within

"Our priorities are on getting Bankorp straightened out internally There will be neither the time nor inclination to look further afield for acquisitions"

Initial remedial measures announced this week involved divisionalisation of Bankorp's operations

"The result will be a clearer focus and the elimination of service duplication," a Bankorp spokesman said

Another benefit will be an improved ability to manage the group's risk exposure, he said.

This will be vitally important given that by chasing market share and boosting assets Bankorp severely compromised the quality of its lending book.

Staff numbers will be scaled down but most of the 16 000 employees will retain their jobs, he said

"We will focus on improving staff productivity and efficiency"

Liebenberg only officially starts his Bankorp job today so specific strategies can only be expected once he has studied the group in more detail

Liebenberg has an open policy in dealing with the public so shareholders are likely to remain informed Better accounting disclosure can also be expected

A banking source compared Liebenberg's position to that of a captain changing the course of a fully laden oil tanker

"The initial turnaround steps have been taken, but the effects will take a long time to be seen," he said.

HOUSE OF ASSEMBLY

QUESTIONS

† Indicates translated version

For written reply

General Affairs

Roads/road traffic

348 Mr A GERBER asked the Minister of Transport †

(1) What was the State expenditure on roads in the Republic in (a) 1975, (b) 1980, (c) 1985 and (d) 1989,

(2) what was the volume of road traffic on roads in the Republic in each of the above-mentioned years? B849E

The MINISTER OF TRANSPORT

(1) Information with regard to calendar years is unfortunately not available, but only in the following financial years —

(a) 1975/76 R 516 500 000,

(b) 1980/81 R 715 349 000,

(c) 1985/86 R1 175 761 000, and

(d) 1989/90 R2 300 000 000 (estimate)

(2) The volume of road traffic on roads in each of the requested calendar years is unfortunately not available Statistics of the number of vehicles licenced and the estimated kilometres travelled, are as follows —

Financial Year	*Number of vehicles Licenced*	*Estimated number of Kilometres Travelled*
(a) 1975/76	2 918 278	42 390 000 000,
(b) 1980/81	3 395 365	45 992 000 000,
(c) 1985/86	4 452 754	63 752 000 000, and
(d) 1989/90	5 004 206	96 500 000 000

Southern Cape/George: technical colleges for Blacks

419 Mr K M ANDREW asked the Minister of Education Hansard 4/6/90

(1) Whether there are any technical colleges for Blacks in the Southern Cape or

Hansard 4/6

George area, if so, (a) what colleges and (b) what is the (i) capacity and (ii) enrolment of each such college, if not, why not,

(2) whether it is the intention to provide technical training in this area, if not, why not, if so, where,

(3) whether the Southern Cape Technical Institute falls under his Department, if so, (a) what is the street address of this institute, (b) what courses does it offer and (c) how many students are enrolled in it? B980E

The MINISTER OF EDUCATION

(1) No An attempt to determine the need for technical college facilities in this area, revealed that there exists at present no need for a technical college for the Black population group

(2) No — See 1 above

(3) No

Persons declared bankrupt

463 Mr H H SCHWARZ asked the Minister of Justice Hansard 4/6/90

How many persons were declared bankrupt in each Division of the Supreme Court in 1989? B1084E

The MINISTER OF JUSTICE 232

Bloemfontein	300
Cape Town	260
Grahamstown	130
Kimberley	63
Pietermaritzburg	216
Pretoria	1 766
Total	2 735

Companies placed under compulsory liquidation

464 Mr H H SCHWARZ asked the Minister of Justice

How many companies were placed under compulsory liquidation in the area of each Master of the Supreme Court in 1989? B1085E

The MINISTER OF JUSTICE

Bloemfontein	71
Grahamstown	24
Cape Town	189

232

Hansard 4/6/90

Kimberley	14
Pietermaritzburg	83
Pretoria	506
Total	887

Cape Provincial Division of Supreme Court: death sentences

475 Mr D J DALLING asked the Minister of Justice Hansard 4|

Whether he will furnish information on the number of death sentences imposed by each judge of the Cape Provincial Division of the Supreme Court in 1986, 1987, 1988 and 1989, respectively, if not, why not, if so, what are the relevant particulars?

B1102E

The MINISTER OF JUSTICE

No The information is not recorded as there is no need therefor

Motor vehicles stolen: prosecutions/convictions

500 Mr H H SCHWARZ asked the Minister of Justice

Whether any (a) prosecutions were instituted and (b) convictions were obtained in respect of motor vehicles reported stolen to the South African Police in 1988, if so, how many in each category as at the latest specified date for which figures are available?

B1154E

The MINISTER OF JUSTICE

The required information is not readily available To obtain it all court records pertaining to the crime concerned will have to be scrutinised

In an effort to be of assistance to the hon member, the following information for the period 1 July 1987 to 30 June 1988 was obtained from the Central Statistical Services

(a) 7 770

(b) 5 240

Own Affairs

Group Areas Act permits refused

80

61 Mr A J LEON asked the Minister of the Budget and Local Government Hansard 4/6/90

Whether any applications received in 1989 by his Department for permits in terms of the Group Areas Act, No 36 of 1966, in respect of residential premises were refused, if so, (a) how many persons from each race group were refused permission to occupy such premises in areas reserved for (i) Whites, (ii) Coloureds, (iii) Indians and (iv) Blacks in each province and (b) for what reasons in each case?

B544E

Hansard 4/6/90

The MINISTER OF THE BUDGET AND LOCAL GOVERNMENT

Yes

(a) (i) Only the function regarding permit administration as far as White group areas are concerned has been entrusted to me with effect from 21 July 1989 Since that date until 31 December 1989, the following applications were refused

Cape Province	Coloured	35
	Indian	7
	Black	1
Orange Free State	Coloured	—
	Indian	—
	Black	—
Transvaal	Coloured	—
	Indian	—
	Black	2
Natal	Coloured	3
	Indian	14
	Black	1

(ii), (iii) and (iv) fall away

(b) Each application is considered on merit in terms of the provisions of section 21(2)(a) of the Group Areas Act, 1966

Group Areas Act: applications for permits

62 Mr A J LEON asked the Minister of the Budget and Local Government

(a) How many applications for permits in terms of the Group Areas Act, No 36 of 1966, in respect of residential premises did his Department receive in 1989 and (b) how many persons from each race group applied for permission to occupy such premises in areas proclaimed for (i) Whites, (ii) Coloureds, (iii) Indians and (iv) Blacks in each province?

B545E

The MINISTER OF THE BUDGET AND LOCAL GOVERNMENT

(a) 502

(b) (i) Only the function regarding permit administration as far as White group areas are concerned has been entrusted to me with effect from 21 July 1989 Since that date until 31 December 1989, the following applications were received

Cape Province	Coloured	211
	Indian	54
	Black	24
Orange Free State	Coloured	—
	Indian	—
	Black	—
Transvaal	Coloured	46
	Indian	84
	Black	16
Natal	Coloured	17
	Indian	48
	Black	2

(ii), (iii) and (iv) fall away

Group Areas Act: permits granted

63 Mr A J LEON asked the Minister of the Budget and Local Government

Whether any applications received in 1989 by his Department for permits in terms of the Group Areas Act, No 36 of 1966, in respect of residential premises were granted, if so, how many persons from each race group were granted permission to occupy such premises in areas reserved for (a) Whites, (b) Coloureds, (c) Indians and (d) Blacks in each province?

B546E

The MINISTER OF THE BUDGET AND LOCAL GOVERNMENT

Yes

(a) Only the function regarding permit administration as far as White group areas are concerned has been entrusted to me with effect from 21 July 1989 Since that date until 31 December 1989, the following applications were granted

Cape Province	Coloured	171
	Indian	44
	Black	22
Orange Free State	Coloured	—
	Indian	—
	Black	—
Transvaal	Coloured	7
	Indian	22
	Black	9
Natal	Coloured	7
	Indian	28
	Black	—

(b), (c) and (d) fall away

Schools: unutilised/underutilised facilities made available

83 Mr B B GOODALL asked the Minister of Education and Culture

Whether any unutilised or underutilised facilities falling under his Department have been made available to other population groups, if not, why not, if so, (a) which facilities, (b) to whom have they been made available and (c) in respect of what date is this information furnished? Hansard 4/6/90

B630E

The MINISTER OF EDUCATION AND CULTURE

Yes

(a)	(b)
Klaasvoogds Primary, Robertson	Department of Education and Culture House of Representatives
Klipdam-Holpan Primary, Holpan	
Krantzbosch Primary, Knysna	
Novo Primary, Riversdale	
Transvaal Road Primary, Kimberley	
Papendorp Primary, Lutzville	
Redlands Primary, Knysna	
Ruigtevlei Primary, Knysna	
Salt Lake Primary, Douglas	
Wolraad Woltemade Primary, Woodstock	

Multi Gold provisionally wound up

Star
5/6/90

~~[illegible]~~ 232

By June Bearzi
Star Line

Multi Gold Holdings Ltd, a venture capital investment scheme which has been under Star Line's spotlight over the last four weeks, was provisionally wound up in the Johannesburg Supreme Court last week.

The order was granted following an application by Kenny's Transport Ltd, a Springs plant hire firm, which claimed R109 430,80 was unpaid for the hire of a front-end loader used for Multi Gold's gold reclamation operation in Nigel

This is yet another blow to Multi Gold investors who sunk millions of rands into the controversial and trouble-beset gold recovery operation

Star Line ·
JUNE
BEARZI

In papers before the court, Kenny's Transport director, Kenneth Hart, said over the last year his company had hired out plant to Multi Gold which included a front-end loader for R60 an hour.

On January 4 this year, at a meeting attended by Mr Hart and Multi Gold director Roy Sellers, Mr Sellers accepted the money was owing but said he was unable to make payments to creditors because of a breakdown in the works at the Nigel plant

However, Mr Sellers said another company, Montrose Mining, would be taking over Multi Gold and would make R1 million available to settle creditors

Mr Sellers also undertook to make weekly payments of R7 500 to discount part of the debt and proposed that the front-end loader continue to be hired out to Multi Gold

But, according to the papers, Mr Sellers failed to honour an undertaking to provide Kenny's Transport with the Montrose Mining takeover particulars by January 9 in which payment of the outstanding hiring fee would be dealt with, or to make the R7 500 weekly payments

Mr Hart submitted to the court that Multi Gold was not able to pay creditors in general and was liable to be wound up

Multi Gold has until July 10 to show why the order should not be made final.

Hansard 5/6/90

until such time that they are arrested and appear in court

Cape Recife Nature Reserve: complaints about SADF members

*14 Mr E W TRENT asked the Minister of Defence Hansard 5/6/90

Whether the South African Defence Force or the Eastern Province Command has received any complaints about the behaviour or actions of Defence Force members in the Cape Recife Nature Reserve, if so, (a) from whom, (b) when and (c) what was the (i) purport of and (ii) response to each such complaint?

B1171E

The MINISTER OF DEFENCE

Yes

(a) The Chairman of the Cape Recife Environment Project Committee and also the Eastern Province Branch of the Wildlife Society of SA

(b) 21 May 1990

(c) (i) and (ii) A Board of Inquiry has been convened to investigate the alleged behaviour or actions of members of the SA Defence Force in the area The investigation has as yet not been completed

Death sentences

*15 Mr A J LEON asked the Minister of Justice

(a) How many persons were sentenced to death from 2 February 1990 up to the latest specified date for which information is available and (b) for what crimes in each case?

Hansard 5/6/90 B1175E

The MINISTER OF JUSTICE

Position as at 28 May 1990

(a) 39

(b) Murder 35, rape 4

TV news bulletins

*16 Mr P G SOAL asked the Minister of Home Affairs

Whether the Government has considered any applications to broadcast news bulletins received from any television broadcasting organisations, if so, (a) from whom were such applications received and (b) what was the result of such consideration in each case?

B1176E

The MINISTER OF HOME AFFAIRS

(a) and (b)

Should the hon member with the words "has considered" mean "finalised" the reply is no

The hon member is however referred to my replies of 29 May 1990 to Question 13 and follow-up questions when I have indicated that details are being obtained with regard to an application received from M-Net, whereafter the matter will be considered by the full Cabinet and hopefully be finalised within the next few weeks

Transfer duty

*17 Mr A A B BRUWER asked the Minister of Finance † Hansard 5/6/90

(1) What amount did the State collect by way of transfer duty during the 1989-90 financial year,

(2) whether the Government intends abolishing transfer duty, if not, why not, if so, what are the relevant details?

B1180E

The MINISTER OF FINANCE

(1) R675 332 729 76

(2) No Transfer duty remains an important source of revenue and if it was abolished it would mean that tax would have to be levied in another manner to recoup the tax sacrificed

SADF· propagation of policy of certain political party

*18 Mr H J COETZEE asked the Minister of Defence † Hansard 5/6/90

(1) Whether any officers of the South African Defence Force in their capacity as such officers hold information sessions for Commando and or Citizen Force members in which they propagate the policy of a certain political party, the name of which has been furnished to the Defence Force for the purpose of the Minister s reply, if so, of which political party,

(2) whether he is taking or has taken any steps to prevent this, if not, why not, if so, (a) what steps and (b) when?

B1181E

Hansard 5/6/90

The MINISTER OF DEFENCE

(1) No

(2) The guidelines and instructions regarding the participation of members of the SA Defence Force in political activities, are laid down in the SA Defence Force Personnel Code, which is available at all units and is strictly adhered to

ANC/SACP: policy

*19 Mr H J COETZEE asked the Minister of Defence †

Whether the policy of the (a) ANC and (b) South African Communist Party is in accordance with the staff regulations of the South African Defence Force relating to employment in the Permanent Force, if not, why not, what are the points of difference?

Hansard 5/6/90 B1182E

The MINISTER OF DEFENCE

The conditions of employment in the SA Defence Force are laid down in Chapters III and IV of the General Regulations of the SA Defence Force All appointments/employment in the SA Defence Force in a permanent capacity is, therefore, subject to a variety of requirements

Foskor privatisation

*20 Mr P J PAULUS asked the Minister of Mineral and Energy Affairs and Public Enterprises † Hansard 5/6/90

(1) (a) When will Foskor be privatised and (b) what is the present value of Foskor's assets,

(2) whether he will make a statement on the matter?

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B1183E

The MINISTER OF MINERAL AND ENERGY AFFAIRS AND PUBLIC ENTERPRISES

(1) (a) Pending the outcome of an investigation by consultants on the feasibility of the privatisation of Foskor, no indication can be given at this stage when Foskor will be privatised

(b) R329 927 000, based on share capital and reserves as at 30 June 1989

(2) No Hansard 5/6/90 232

Employees of Department: accommodation

*21 Mr C B SCHOEMAN asked the Minister of Environment Affairs †

Whether White and Black unmarried employees of his Department are accommodated together in the same single quarters, if so (a) why and (b) where?

B1184E

The MINISTER OF ENVIRONMENT AFFAIRS

No

(a) Falls away

(b) Falls away

INTERPELLATIONS

The sign * indicates a translation The sign †, used subsequently in the same interpellation, dicates the original language

Own Affairs

Colleges of Education: administration

Mr K M ANDREW to ask the Minister of Education and Culture

Whether he is prepared to transfer the administration and control of colleges of education to universities of their choice, if not, why not?

Hansard 5/6/90 B1231E INT

The MINISTER OF EDUCATION AND CULTURE Mr Speaker, the answer is no Fundamentally the missions of the two types of institutions are at variance Universities are scientific institutions which focus primarily on the teaching and development of the various sciences Colleges of education, on the other hand, are professional institutions specifically geared to the training of teachers for the primary school In doing so, a very close relationship needs to exist between the colleges and their client schools

In the fulfilment of their mission colleges of education educate from a particular cultural perspective This is required in order to maintain cultural continuity between home and school Universities, on the other hand, are focused on a

Call for tighter reign on DCM forecasts

B Day 6/6/90

PIERRE DU PREEZ

THERE should be stricter control over forecasts made by prospective DCM companies, a market analyst said yesterday.

His comments came after a recent spate of suspensions of DCM-listed companies, such as Helical, Bakoven, Playtime and Wedge Holdings

The analyst described the pre-listing forecasts of certain DCM companies — especially those listed before the 1987 crash — as being "totally unrealistic".

He said the onus was on legal firms, sponsoring brokers and especially accountants to ensure that realistic forecasts were included in a prospectus before the company was listed on the DCM

To this end the number of suspensions in the DCM sector remained a matter of concern Reasons for suspensions were the misreading of market conditions and expansion that had occured too quickly

Another analyst felt the DCM had obtained what she termed a "big black mark", because many people had lost a lot of money

(232)

However, DCM shares should, she added, be viewed as a speculative buy in a lot of cases, though they could certainly bear fruit if they were carefully selected

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[illegible]

~~262~~

Star 7/4/90

Upjohn sells SA affiliate

Star Bureau

NEW YORK — The US parent company of Asgrow SA, a 100-employee vegetable seed operation, is to sell its SA affiliate to its local management.

The US holding company, Upjohn, added, however, the company would continue operating its 150-employee Upjohn pharmaceutical and animal health products business.

Sale of the seed operation, said a company spokesman, was for "business reasons only".

6

Pressure mounts for cut in rates

(232) St 7/6/90

By Magnus Heystek, Finance Editor

The Reserve Bank is coming under increasing pressure to reduce interest rates, with latest statistics indicating that the economic contraction is far worse than expected.

After negative growth in the first quarter of the year, most economists have revised their economic forecasts sharply downwards with growth of only 0,7 percent forecast for the whole year.

"There is no such thing as a soft landing," says Ron Rundle, managing director of Nedfin Bank. "Business is going to have a rocky ride for the next six to twelve months

"The slowdown in credit expansion will no doubt continue to dampen the inflation rate but will not, in isolation, bring the rate down dramatically unless demands for wage and salary increases are kept in check," he says

In its monthly round-up of 28 economic forecasts First National Bank says that the consensus figure for growth this year is now only 0,7 percent compared with one percent in April. At the same time, most economists have adjusted their forecast for inflation up from around 13,1 percent to 13,2 percent.

Both the corporate sector and consumers are under pressure, prompting calls for a cut in interest rates to prevent an economic "overkill".

Last week Dr Johann du Pisani, economist at Senbank, launched a thinly veiled attack on the Reserve Bank, criticising its policy of maintaining high interest rates.

But Dr Chris Stals, governor of the Reserve Bank, says that interest rates will remain at present levels until the rate of inflation and the growth in the money supply show definite signs of easing.

The prime interest rate has been at 21 percent since last October, but despite a severe drop in economic growth in the first quarter of the year, inflation and growth in the money supply have recorded limited declines.

Liquidations

Heavily geared companies are now starting to buckle under the strain of high interest rates, with company liquidations soaring in January and February this year.

According to Kreditinform, liquidations increased by 35 percent to 134 in January (compared with January 1989) and by 58 percent to 128 in February.

At the same time, business judgments — normally a precursor to liquidations — shot up to R13,81 million in January, compared with R9,07 million in January 1989 However, February saw a decline to R7,44 million compared, with judgments valued at R8,38 million a year before.

Says Jack Brownrigg, director of Kreditinform: "The actual number of liquidations is misleading as it does not include sequestrations. The percentage increase clearly shows a decline in liquidity in the economy"

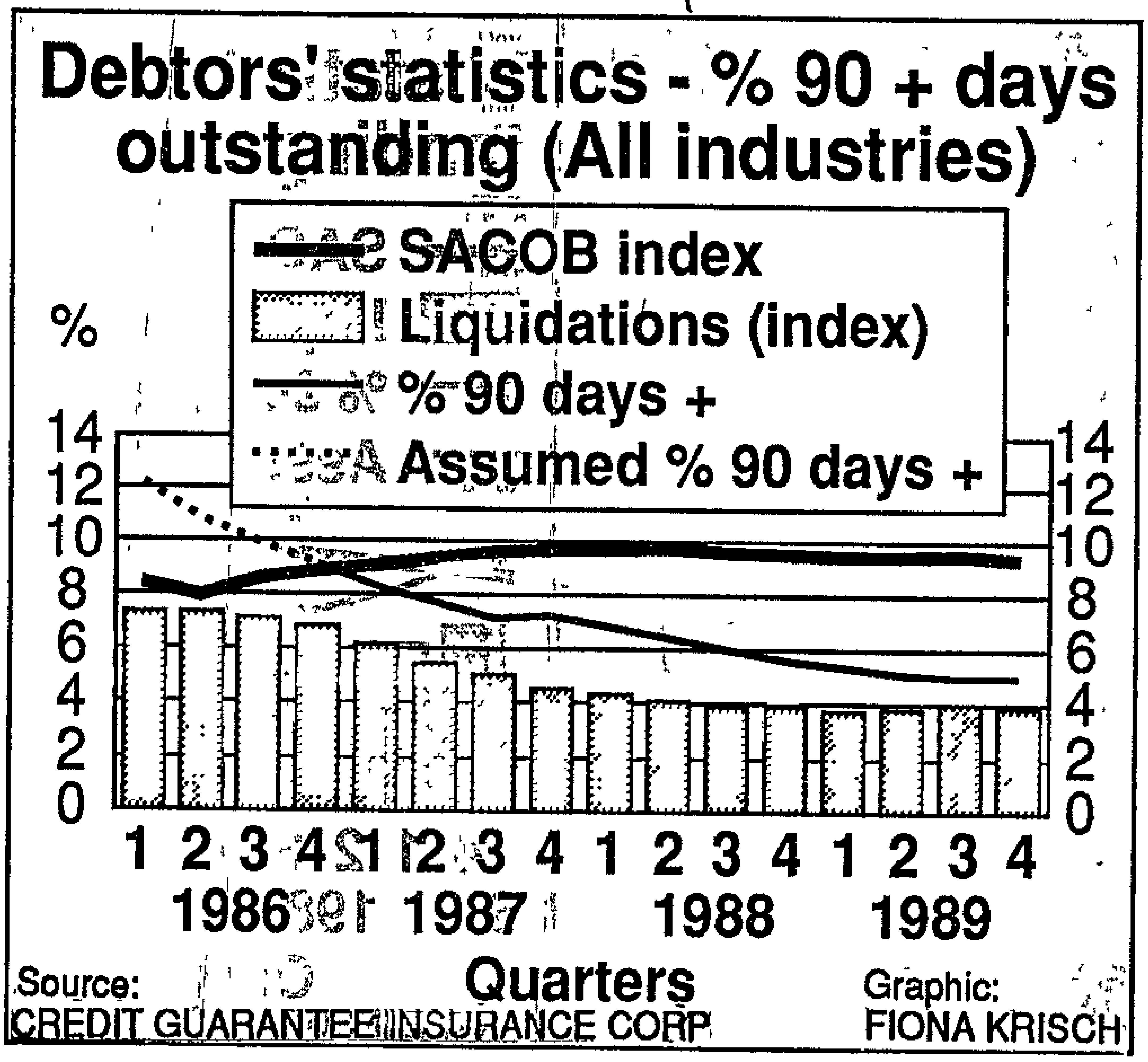
Latest figures from the banking world also reflect a dramatic drop in the demand for money and credit in the first quarter of the year

According to the most recent BA9 returns of the commercial banks, the growth in hire purchase and lease-credit slowed to a trickle in the three months to end-April, with a further decline predicted for the second quarter.

Although the outstanding debt for all banks rose to R25 billion, the increase of R788 million was the lowest since 1987.

Bankers are predicting that this slowdown in the growth of lending business — and the possiblity of a real decrease in the second and third quarters of the year — are posing problems for banks which are already experiencing low margins and artificial restraints on any increase in the prime overdraft rate.

B/Day (232)
7/6/90



Source: CREDIT GUARANTEE INSURANCE CORP

Graphic: FIONA KRISCH

The Sacob BCI is a quarterly average whereas the debtors' percentage and liquidations index are moving four-quarterly averages

Slowdown is well under way

An INCREASE of 40% in liquidations during January to March 1990 compared with the same period in 1989, and a 13% increase over the quarter ending December 1989 indicate the long-awaited economic slowdown is well under way, says Credit Guarantee Insurance Corporation economist Luke Doig

Based on quarterly statistics from some 30% of Credit Guarantee's policy holders, Doig says amounts outstanding over 90 days are also on the increase, rising from 4,23% for the quarter to September 1989, to 4,62% for the quarter to December 1989

At the same time, the SA Chamber of Business business confidence index (BCI) appears to have reached a plateau, standing at 96 for the quarter to September 1989 and 95 for the quarter to December 1989

"These figures indicate the convergence of a declining trend in the BCI with a rising trend in the amounts outstanding in debtors books over 90 days," Doig says

"These trends last intersected in January 1987, when business confidence was on the increase, and amounts outstanding over 90 days on the decrease Allowing for a nine-month lag in the data, this would have coincided with the lower turning point of the business cycle in March 1986"

Convergence

Doig says data from the March to June quarter this year will reveal a convergence of these curves, supporting an upper turning point in the business cycle late in 1989

Credit Guarantee senior manager of short term operations Cliff Simons says the number of liquidations and business failures is alarming

"Businesspeople are facing two risks — a political and a commercial one

"Civil unrest has impacted heavily in areas such as the Ciskei and Welkom, and political risks have to be reassesed

"On the commercial front, labour unrest has been one of the causes for the demise of several businesses, such as Edworks, while failing subsidiaries of large listed companies, such as Quality Tyres, GBS Wang and Wolnit, have been allowed to go to the wall."

Simons says although the company handled many more claims in the 1985-1987 recession, those being handled now are much larger.

"Credit managers need to act more cautiously than ever before

"They should not merely rely on insuring a risk, but follow up any overdue payment before it results in a claim," he says

Units bounce up R115

Cap Times 7/6/90

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Anamint shares rocket on split deal

By AUDREY D'ANGELO
Business Editor

THE price of Anglo American Investment Trust (Anamint) shares rocketed by R115 each to a closing price of R1 365 yesterday after an announcement that the share would be split, 10 for one, to make it more marketable

But stockbrokers said there was still little chance of the man in the street being able to buy them

According to the 1989 edition of McGregor's Who Owns Whom, 80,5% of the shares were owned by institutions in 1988 with Anglo American Corporation holding 32,8% of these

"The split, in theory, makes the shares more marketable but this is academic since few are likely to be available," said Frank Brewer of Frankel, Kruger, Vinderine

Yesterday 1 100 of the shares were traded, after chairman Julian Ogilvie-Thompson said at the annual meeting that the share split would probably take effect towards the end of July

He said this could be expected to reduce the share price to around R125, in line with the share prices of Anamint's holding company Anglo American Corporation of SA, and its main investment, De Beers Consolidated Mines

Anamint is an investment holding company Its major asset at the end of its last financial year was a 25,8% interest in De Beers

Its share price opened at R1 250 on the JSE yesterday, unchanged from its previous close when it last traded on May 30

"The high level of the company's share price led the JSE to ask the directors to consider subdividing the company's shares as this would carry administrative advantages for the JSE," Ogilvie-Thompson told shareholders "In response to this, the directors have decided on a 10 one share split."

The company, whose stock has been the highest priced on the JSE, has 10m ordinary 50c shares in issue

Attributable earnings rose to 3 768c per share in the year ended March 31, from 2 924c the year before The dividend increased to 3 770c per share from 2 900c

F/M 8/6/90 (332)

BUS INDUSTRY F/M 8/6/90

On the skids (332)

Government's attempt to create a black middle class by opening the way for the development of a robust black taxi industry may have been an ideological success But it has meant economic disaster for the bus industry

This is the view of Jackie Walters, professor of transport economics at Rand Afrikaans University and executive director of the SA Bus Operators' Association

Walters says the number of bus passengers dropped from 1,12bn in 1980 to 861m in 1988 — and it's still falling In the month of January 1989, only 66,4m travelled by bus, compared with 76,7m in January 1987 And Central Statistical Services figures show that total industry losses increased from R4,5m in the last quarter of 1988 to a massive R18,5m in the last quarter of 1989

A study by the National Black Panel (established by the Department of Transport to assist in policy formation by sounding out black traveller attitudes and monitoring response to policy changes) shows that 30% of blacks now travel to work by taxi compared with only 6% in 1984

The black taxi sector made these gains at the expense of the bus industry, which now has only 27% of the market (compared with more than 40% in 1984) and rail, which has 24% compared with more than 30% in 1984 The rest either walk to work (10% compared with 8%), go by car (12% compared to 9% in 1984) or use some other means of transport

As there is no control over the growth in black taxis, no one really knows how many there are on the roads, least of all government Estimates range from 55 000 by the Institute of Race Relation's Colleen McCaul, to the 110 000 of some transport economists Knox Matjila, communications manager of the SA Black Taxi Association, claims there are more than 100 000 affiliated to his organisation

Minibus ... strangling the bus industry

It matters little who is right and who is wrong The black taxi industry is now suffering from the same problems affecting the bus industry — vehicles standing idle between peak periods A small number of operators pick up loads during the day, but they are seldom profitable Most can be assured of profitable passenger loads only during peak periods

Walters recently took Transport Minister George Bartlett on a helicopter flight over black townships in the PWV area Large car parks were visible, filled with taxis waiting for the evening rush Most were destined to drive nearly empty, or unprofitably, to their pick-up points in order to get profitable loads back

Bus operators say government should continue subsidising commuters' fares Unlike rail, where the State subsidises all suburban line passengers, it only subsidises bus passengers who travel in peak periods Passengers who use buses between peak periods pay full or "economic" fares

But it is highly unlikely that government will continue picking up the subsidy tab This year's R573m subsidy is already 15% (in real terms) below the R540m paid out last year And, apart from this drop in support, government is intent on shifting the subsidy burden to local government shoulders

In his 1989 transport budget speech, Bartlett said provision would be made for regional passenger authorities in the new Passenger Transport Bill, to be tabled in parliament next year These authorities "will be obliged to compile commuter transport plans for their regions, taking into account land use planning and the available funds for the development of infrastructure and subsidy payment, where necessary"

Industry sources anticipate that large metropolitan municipalities — funded by local ratepayers, and regional services councils — funded by business levies, will be nominated as regional transport authorities, that subsidies will be phased out by the end of 1997 and that all routes will be opened up to all

Currently subsidised bus companies, unable to beat off competition, will fall by the wayside And local transport authorities will then have to decide whether it suits them to continue operating routes that are clearly uneconomic

If they feel a commuter transport service is necessary, they will be forced to subsidise it — but where the money will come from is a problem that has yet to be solved Regional services councils already struggle to meet operating expenses

The answer may be to follow government's example and to allow an unsubsidised black taxi type of service, which would be a sensible option for cash-strapped regional transport authorities For example, in 1984, government subsidised 71% of all black commuters Last year, because of the move to black taxis, it subsidised only 51% of them

But, shifting the transport burden on to the private sector is only part of the solution Additional funds will no doubt have to be found to provide the infrastructure of highways and roads to cope with the growing tide of minibus traffic At this stage, it certainly looks as if there are more problems than answers to the urban transport issue ■

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8 Cape Times, Friday, June 8, 1990

Voltex gets 52% in UK company

Financial Staff

THE recently restructured electrical and electronics giant Voltex Holdings has propelled itself into the international arena in a deal which will result in the company taking a 52% control in British-based Bennett & Fountain Group PLC (B & F), subject to the approval of B & F's shareholders.

The B & F group has a network of some 110 wholesale and retail electrical distribution stores throughout Britain, which "will provide Voltex with an offshore base for exporting products to the UK and increasing utilisation of Voltex's production facilities".

The group is listed on the London Stock Exchange, with a current market capitalisation of about £17,5m

The deal is expected to slightly reduce the net asset value and earnings of Voltex, which is jointly controlled by the Elcentre and Berzack groups, but the longer-term implications are considered to be favourable.

Based on Voltex's recent interims, which reported 50% higher earnings of 24,3c and a net asset value per share of 92c, the deal would reduce these to 22,1c and 85c respectively

The "infusion of new management, rationalisation of operations and Voltex's ability to increase substantially the level of its exports" are factors expected to improve B & F's performance and increase its earnings in the future.

B & F currently has 42,5m shares in issue which will be topped up to 89m by Voltex's investment of some £20m.

This amounts to about R130m at the current finrand exchange rate — funded through Voltex's borrowing facilities with a rights issue by Voltex, a longer-term consideration

Voltex director Phillip Aginsky will be seconded as CE of B & F and Reuben Mowszowski and Mayron Berzack will also join the board in non-executive capacities.

Voltex shares are currently listed at about 200c, having risen in response to the recent results announcement and rumous of a major offshore deal

The current yields at this price are 12,2% on earnings and 4,5% on dividend.

Thumbs up for Safegro unit trust

S/Times

10/6/90

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By JULIE WALKER

SAFEGRO unit trust, launched on Tuesday, has received a pleasing response, says fund manager Kevin Cockroft

Safegro Holdings, of which the trust is a part, was formed recently as the investment arm of Hosken Consolidated Investments — the major shareholder in IGI

The general equity fund is aimed at the IGI client base, well represented in rural areas

Mr Cockroft says the Registrar of Unit Trusts requires that trusts be for the benefit of the public

Mr Cockroft believes the public will be best served if the investment amounts are affordable to the expected client base The smallest lump sum will be R100, and the minimum monthly debit order R25.

High

There have been plenty of inquiries and cheques are arriving The number of debit orders will take longer to quantify

Mr Cockroft says the stock market has fallen since February, but because interest rates have probably peaked, share prices should recover when corporate earnings are not reduced by interest bills

The scrapping of tax on dividends in the hands of individuals is another plus for investing in a unit trust Unitholders will get a higher income

Safegro will invest in high-quality shares, although some money will be earmarked for second-line stocks with good earnings records and growth prospects

De Beers/Centenary AG listing today

Cape Times 11/6/90

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Own Correspondent

JOHANNESBURG. — De Beers/Centenary AG joins the list of JSE counters today in the most valuable listing in SA history

Based on Friday's closing price, the notional market capitalisation of De Beers/Centenary AG will be about R37bn, more than ten times bigger than Iscor's notional market capitalisation when it was listed on the JSE.

Friday marked the last day of trading in De Beers Consolidated, usurped today by De Beers/Centenary AG as SA's most valuable and charismatic share

New certificates, representing a linked unit in De Beers SA and a depositary receipt in Swiss-based Centenary AG will first change hands today on the JSE

According to circulars released by De Beers/Centenary AG, Centenary AG will be centred on diamond marketing and distribution, while De Beers SA will hold the diamond mining business and other domestic interests

Stock exchange listings for De Beers/Centenary AG have been sought in London, Johannesburg, Zurich, Geneva, Basle, Lausanne, Frankfurt, Paris and Brussels for the De Beers/Centenary AG linked units

De Beers/Centenary AG chairman Julian Ogilvie Thompson stated in a circular to shareholders: "The diamond industry operates on a global basis, and it is desirable that the two groups (De Beers and Centenary AG) should co-operate in the interests of shareholders and of the diamond industry as a whole.

"To this end, it is proposed that as far as possible the two groups will be administered by identical boards of directors, and their securities will be linked so that they will be tradeable only as linked units

Ogilvie Thompson stressed that the overall capacity of the De Beers/Centenary AG to pay dividends will be unaffected by the rearrangement.

"It is not intended that the rearrangement should result in any reduction in the combined dividend distribution per De Beers/Centenary AG linked unit by the De Beers and Centenary AG groups from the distribution by De Beers per equity share before the rearrangement.

"The only difference will be that unitholders will now receive dividends directly on their Centenary AG depositary receipts as well as their De Beers equity shares, instead of only from one source

"It is expected that no less than 80% of the dividends distributed by the Centenary AG group will be paid by the Luxembourg subsidiary, Centenary Holdings, the balance being paid by Centenary AG itself

It is also intended that dividends will be declared in such a way that unitholders can expect to continue receiving payment of dividends during or about November and May each year."

Ogilvie Thompson names as reasons for the re-arrangement, to:

- Enable equity shareholders better to identify the earnings, dividends and assets attributable to the foreign group and the SA group,
- Provide equity shareholders with linked securities representing interests in, and entitling them to receive dividends from, both the foreign group and the SA group,
- Enable the foreign group and the SA group better to develop their respective businesses overall, with appropriately focused strategies and objectives, and generally to facilitate the conduct of business internationally, and
- Facilitate access to the international markets.

Delta gets stake in Jasco

Star 12/4/90

232

By Ann Crotty

Delta Electrical has announced the acquisition of a 20 percent stake in electronics group Jasco.

The deal puts an average price of 73c on Jasco shares, compared with the current market price of 50c.

Delta will be injecting Procom, one of its operating subsidiaries, into Jasco, which has a similar business, in exchange for an 11,5 percent stake share in Jasco.

The purchase consideration is expected to be around R2,5 million.

Delta will buy an additional 8,5 percent from the controlling shareholders of Jasco for a cash consideration of 71c a share — ex dividend.

According to an agreement between Jasco and Delta, the latter will always be entitled to maintain its shareholding in Jasco at 20 percent should further shares be issued by Jasco.

Delta and the controlling shareholders of Jasco will have pre-emptive rights in the event of a sale of their respective shareholdings.

Delta will appoint two directors to the Jasco board.

If the acquisition of Procom had been effective for the 12 months to end-February 1990, Jasco's earnings per share would have been 13,1c, compared with the actual 12,8c reported. Net asset value would have been increased to 37,7c a share from 32,7c.

On the basis of the 50c market price, Jasco is on an historic P/E rating of just under four times. Delta has ascribed a P/E rating (on the basis of the pro-forma revised earnings figure) of 5,6 times.

This stamp of support from Delta and the fact that Delta is highly regarded by institutional investors should help lift Jasco closer to the 73c level at which Delta values it.

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SAB plans Suthsun delisting in R120m deal

Cape Times 12/6/90

Own Correspondent

JOHANNESBURG — SA Breweries (SAB) is to take its subsidiary Southern Sun Hotel Holdings (Suthsun) from the JSE in a R120m deal involving the buy-out of minority shareholders

Today's announcement follows last week's suspension of Suthsun's shares, and speculation since the release of Suthsun's results to March that it would be delisted as a wholly-owned subsidiary of SAB

In the wake of the announcement, market analysts are speculating that another of SAB's "underperforming" subsidiaries, OK Bazaars, could be going the same route "based on a comparison of the two group's results, and the logic behind the Suthsun delisting"

In terms of the Suthsun deal SAB — which holds 68,4% of Suthsun — is offering minorities (other than Kersaf) a premium of 65c on the prevailing 585c value of the share For the 10,6% stake SAB will be paying R48,4m. For its part Kersaf Investments will receive R71,6m for its 21% stake, translating to 485c a share

Shareholders also have the option of accepting SAB shares offered at a price of 4 030c a share, or a combination of shares and cash SAB dropped 50c to 4 000c yesterday.

Analysts said the cash option looked more attractive "SAB's share price is overvalued, probably pushed up in anticipation of this announcement. The 650c offer puts Suthsun on a high p e ratio of 17,2 "

The 485c offer, proposed by UAL Merchant Bank and accepted by Kersaf, was considered "highly satisfactory" by Kersaf, chairman Buddy Hawton said yesterday

"It was a straight commercial decision," he said, adding that Kersaf had no specific plans yet for the proceeds of the sale.

Suthsun directors said that the group's high gearing and urgent need for cash, in light of the group's expected profitability, necessitated that the current dividend distribution practice of 70% of attributable earnings be "re-assessed"

The gearing — presently at 64% and almost double the 33% level of the previous financial year — was due to past refurbishment requirements of both the Southern Sun and Holiday Inn hotel chains

OK Bazaars' gearing jumped to 67% (47%) in the past financial year

Suthsun had also budgeted to spend further "significant" sums on both hotel chains, directors said.

"It would be appropriate for Suthsun to be delisted to avoid any possible conflict between the long-term requirements of the company and the interests of minority shareholders "

The scheme is not expected to have any material effect on either the earnings of NAV per share of SAB

Cape Times 13/6/90 [illegible] 232

Three Allied board members voted out of office

Own Correspondents

JOHANNESBURG — The power struggle on the Allied Group board over the Allied/Sage co-operation agreement became acrimonious at a marathon general meeting yesterday when three prominent board members were voted out of office.

Hostilities bared, Allied MD Kevin De Villiers unsuccessfully proposed the non-re-election of 10% shareholder Sage's chairman and MD Louis Shill

The outcome of the meeting could result in a new direction being taken by the group.

The appointments of Blue Circle chairman Trevor Coulson, Allied Building Society MD Don Hunter, and retired Commissioner of Inland Revenue Micky van der Walt, which were made during the year, were not confirmed by the meeting which lasted about four hours

These three are believed to have adopted a "cautious" approach to the implementation of the agreement. Sage's position on the board was maintained by the re-election of Sage director Noel Mills

One source said the bone of contention between the Allied and Sage managements revolved around the extent of implementation of the agreement which Allied claims costs the group R6m-R12m in lost profits annually and boosts the ailing profits of Sage Sage fiercely rejects this allegation.

The agreement emerged out of the listing of Allied when Sage underwrote the issue of shares to the tune of R500m and there was a cross exchange of shares and directors with Allied. Sage took the maximum 10% stake in Allied allowed by law and Allied got a 20% interest in Sage

De Villiers claimed yesterday that Shill had canvassed proxy votes to boost his 10% stake to 18%, giving him an overwhelming majority of the 25% of the shareholders present — and the power to remove the three directors

The offensive had taken Allied management by surprise, he said

Explaining his actions, Shill said: "We exercised our vote for the first time in the three years since Allied was listed on the JSE.

"Our action was prompted by the fact that Allied was not performing satisfactorily and was not conforming to the substantial agreement and forms of co-operation we entered into in spite of our repeated requests for the situation to be rectified

"Allied management did not take cognisance of the views of non-executive directors and we were not getting anywhere. So we decided to exercise our vote

"We are aiming at establishing a stronger executive committee of the board and the appointment of a new chairman The first meeting of the new board will hopefully reflect the shake up", Shill said.

De Villiers said he had opposed the re-appointment of Shill on the grounds that he could not deal objectively with Allied's interests regarding the agreement and that Sage's results were uninspiring and no credit to Shill.

Furthermore, De Villiers gave the meeting details on Shill's "behaviour" regarding the agreement over a long period of time.

Shill was re-elected to the board with 57m votes for and 3,8m against. De Villiers also unsuccessfully opposed the re-election of Hugh Boonzaier, a stockbroker and former president of the JSE.

De Villiers said he was disappointed that the dispute over the agreement had deteriorated to such an extent, emphasising that over the last eight months Allied's management had been involved in the formulation of two alternatives to the agreement, one of which involved the inclusion of several third parties The response from Sage had not been negative, he said

"Management, who are also shareholders, have been looking for a positive way out of the agreement which would not involve washing our laundry in public and not involve giving notice to end it. We were not prepared to unilaterally end the agreement and believed the chances for a solution were quite high," said De Villiers

But Shill said last night that Sage was unaware of any such proposals regarding the agreement and that it had been "more than patient in waiting three costly years for Allied management to honour the undertakings in the agreement."

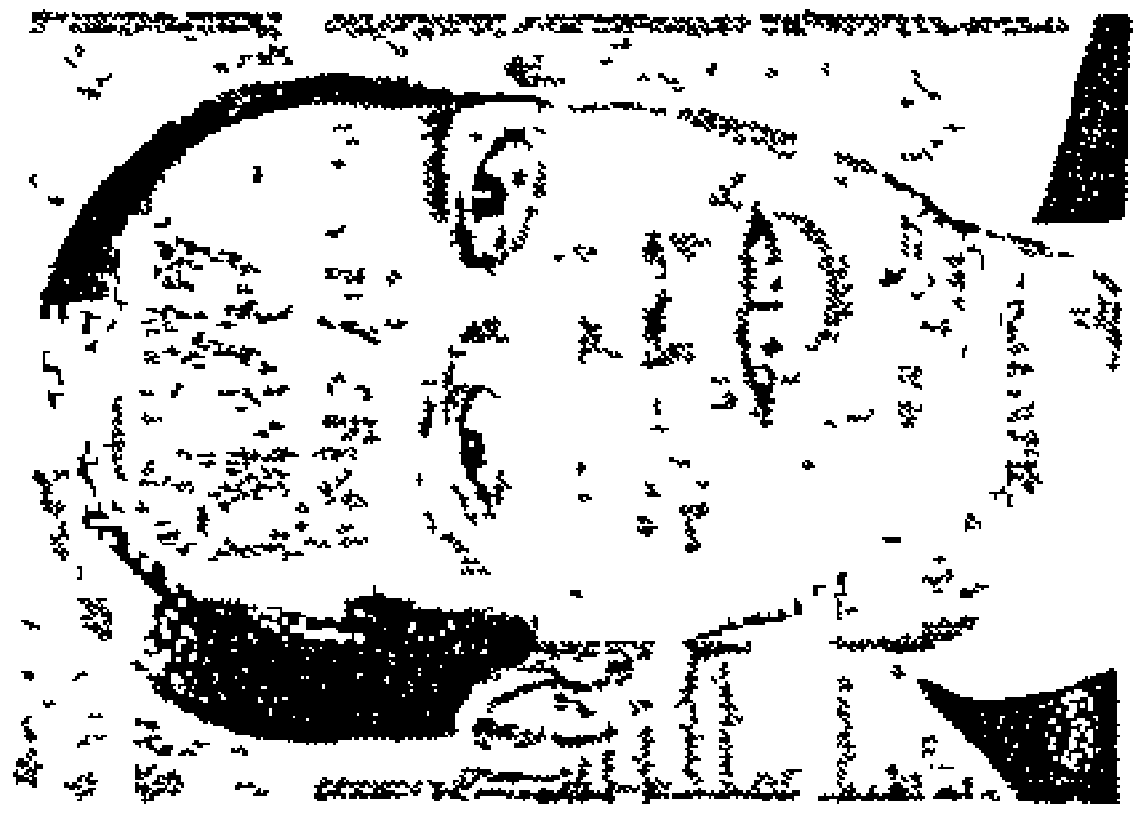
A director's meeting today could be a last minute attempt to resolve the issue.

Another possibility is for directors or shareholders to call a special general meeting in the next two months to air the dispute. De Villiers is confident that were this to occur, the Shill block of votes would be outvoted

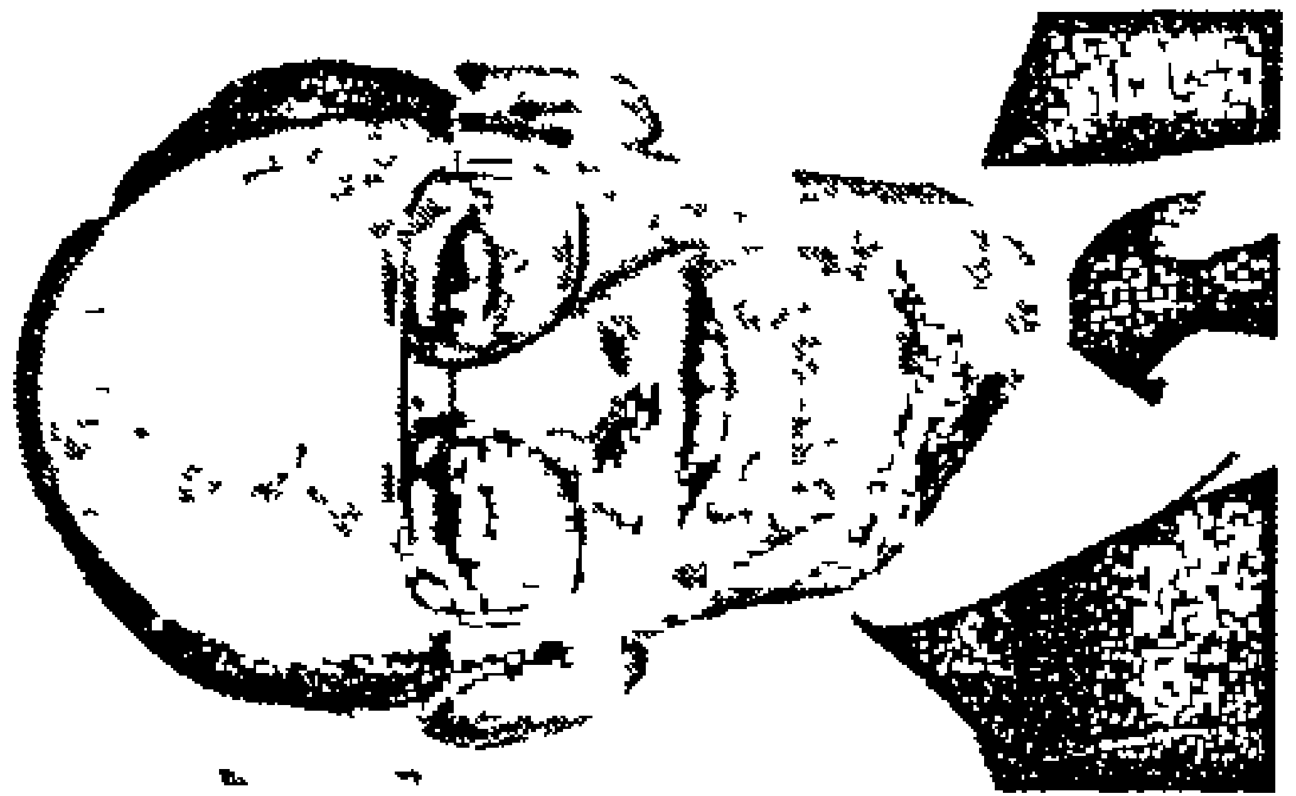
Chairman Dennis Paxton compulsorily retired yesterday and will have to be replaced at the next Allied board meeting, scheduled for June 25

The Allied share price rose 2c to 132c in heavy trade yesterday.

Carol Scott has been appointed an executive director of Imphold.



Alan Jacobson has been appointed an alternate director of Mathieson & Ashley Holdings Ltd and Vestacor Ltd.



Michael McMahon has been appointed MD of Impala Platinum Holdings.

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SAA fares to increase by up to 40%?

By **DANIEL SIMON**

SOUTH AFRICAN AIRWAYS looks set to increase its domestic fares so that private air carriers can compete with it on inter-city routes when domestic air travel is deregulated.

One private airline company managing director indicated yesterday that if his company was to compete on an equal financial level with SAA, the giant carrier would have to increase its fares by as much as 40%

SAA corporate affairs director Mr Leon Els said yesterday that SAA's present domestic fare structure was too low for competitors to compete against. As a result, an increase in fares was "very high on the agenda".

Mr Els said it would be wrong for people to think fares would decrease when competing airlines entered the market.

"Air fares will not decrease as a result of deregulation — they will increase."

He said increases would be announced before full deregulation was expected to come into effect in June next year

"Indications are that the new Domestic Market Act will be in force in June next year," Mr Els said.

He said a date for implementing the increases had not been finalised However, when they were implemented, the present 40% discount and other discount structures would be retained.

SAA last increased its domestic fares by 13% in December last year, he said

Civil Aviation chief director Mr Japie Smit said the Domestic Market bill was expected to be tabled in the next few days

He said that when passed, deregulation would take place with almost immediate effect — but in two phases

"The first phase will see airline companies being able to fly the same routes under the old act but without the 'economic regulation'. This regulation stipulated that only one carrier could fly a particular route," Mr Smit said

He said full implementation of the programme would take place over the next year.

The managing director of Comair, Mr Peter van Hoven, said though he was speculating, SAA would have to increase its fares by as much as 40% to make it economically worthwhile for his company to compete

In a R28m transaction . . .

Cape Times 13/6/90

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Investec acquires Corbank

By AUDREY D'ANGELO
Business Editor

INVESTEC BANK has bought Corbank from Cape Town-based Corporate Investment Bank Group (CIBG) in a R28m deal An announcement last night said it would be paid for "through the issue of shares and/or cash".

Investec executive chairman Bas Kardol — who tried unsuccessfully to buy Corbank 10 months ago — explained that the details of payment still had to be worked out

CIBG will ask the Reserve Bank to allow it to keep Corbank's foreign exchange dealing licence and will retain Corbank's Johannesburg dealing room.

"That was what they were after in the first place," said Kardol

"And we do not need it because we already have our own "

He said the terms of the deal were very much in line with those in the original offer Investec made for Corbank last September

The acquisition would put Investec a year ahead in growth projection It meant that assets under Investec's administration would grow to more than R5bn And it further positioned Investec as "a major player in its niche markets"

Kardol said there was considerable synergy between Investec and Corbank and the benefits would be significant. The acquisition would add about 8% to earnings per share on an annualised basis

"Our stated policy is to grow organically and by acquisition The rationalisation of the financial services industry is a major trend.

"This deal further strengthen's Investec's already sound position and brings together very compatible forces "

The deal, which has still to be approved by shareholders, was facilitated by Errol Grolman, a founding director of Investec, who joined Corbank a month ago

"I was asked by CIBG to reassess Corbank's asset structure and align this with the strategic objectives of the group We identified Investec as the best candidate to deal with.

"Synergies were the greatest and the potential to maximise the utilisation of assets the highest "

Last night's announcement said that "management takeover is immediate and there will be no suspension of shares".

Andy Swartz, MD of CIBG, said the deal would give his group surplus cash for substantial asset and organic growth without the need of a rights issue It would also ensure "that we comfortably comply with the provisions of the proposed Deposit Taking Institutions Act"

It would also mean a 20% rise in projected earnings for the period from July 20, 1990, to June 1991, from 44c a share to 53c

CIBG chairman Jan Pickard junior said: "We believe the rationalisation of Corbank operations resulting from the transaction will greatly enhance our future earnings and our ability to service our client base "

● A separate announcement last night stated that a consortium consisting of Investec, CIBG, Errol Grolman and others would launch an investment banking fund It would be managed by Grolman

CIBG scores in Corbank deal

13/6/90

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By Ann Crotty

After a delay of 10 months Investec has acquired Corbank and, according to Investec, for about the same price it was ready to pay last August.

Investec has acquired the Corporate Merchant Banking division of Corbank for about R28 million from Corporate Investment Bank Group (CIBG — formerly Cape Investment Bank)

The corporate merchant bank division of Corbank is its major asset, but because Investec is buying a division and not the listed entity, it does not have to make an offer to Corbank's minorities

These minority shareholders are currently considering an offer from CIBG comprising 60 new shares in CIBG plus R35 cash for every 100 Corbank shares held.

Yesterday CIBG was trading at 230c and Corbank at 155c, which means the CIBG offer is valued at R173 for 100 Corbank shares valued at R155

But now Corbank's main asset is the R28 million cash that has come from Investec plus some trading activities (chiefly forex-related). The cash alone is equal to about 200c per Corbank share.

If the bulk of the Corbank minorities accept the CIBG offer, Corbank will be delisted on June 22.

CIBG acquired control of Corbank early this year. It is paying R4,83 million cash and issuing 8,27 million new CIBG shares for Corbank.

This suggests CIBG's fairly brief involvement with Corbank has significantly enhanced CIBG's balance sheet. It has resulted in a stronger equity base and produced a hefty cash injection.

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Klipton in R10-m deal

Star 13/6/90

Finance Staff

Klipton has acquired 100 percent of Access & Mobility group for R10,5 million.

The purchase price will be paid in a mix of cash and shares. Two million new Klipton shares (an increase of 27 percent) issued to the vendors have been placed with a number of institutions at 300c a share. Yesterday Klipton was trading at 295c.

The use of shares means that despite the acquisition, gearing will remain below the group's self-imposed limit of 50 percent.

— Reuter

Cpt Times 14/6/90 (232)

Blue Circle takes stake in Luft Ind

Business Editor

THE Blue Circle Group has acquired a controlling interest in Cape Town-based Luft Industries, for an undisclosed sum.

Announcing this yesterday, the chairman of Luft Industries, Ray Ball, said he was delighted with the move "as it will not only strengthen the company's position in the marketplace, but also its access to technical expertise in addition to its existing overseas links."

Luft Industries is a rapidly growing firm employing about 100 people in its Montague Gardens factory, where it makes fans and heating and air conditioning equipment.

MD Ray Miller, a founder of the firm, said he had a contract to remain for another two and a half years. Both he and Ball, who lives in Britain, will remain on the board.

Miller said one reason for deciding to sell was to ensure continuing security for employees by making Luft part of a large group.

"I am no longer young. And I wanted to be sure the business would be carried on if I were knocked down by a bus, or anything like that."

A spokesman for Blue Circle said it complemented other engineering activities carried on by the group.

Pepkor group on acquisition trail

Business Editor

THE Pepkor group is investigating a number of possible takeovers which would complement its existing business, chairman Christo Wiese says in the annual report.

This includes export-orientated companies to strengthen Pep International — responsible for the development of group exports which, the report says, are "already contributing significantly to our profitability"

The examination of "various other expansion possibilities involving neighbouring states and other countries is at an advanced stage"

Discussing conditions in SA, Wiese says the group is "more optimistic than ever about the future

"This does not mean that we underestimate the obstacles en route, but we do believe that success is realistically achievable, given purposeful and inspiring leadership across the entire spectrum of our population "

Pointing out, however, that the past year "has also seen its share of reversals on the road to a better future", Wiese says that "the anticipated acceleration in the rate of decline of the economy, increasing political unrest in large areas of the country and a lack of sustained overseas optimism after February 2 have all contributed to difficult trading conditions"

But "in spite of the likely negative impact on our target market of the currently difficult trading climate, the group is still favourably positioned to perform satisfactorily"

The group's strength is in organic growth

But since it is "developing reserve capacity in terms of financial and management resources, a number of takeover investigations are under way within the ambit of our mission statement, with the emphasis on complementing our existing businesses"

The group achieved earnings per share of 579,8c (496,8c) and operating profit of R134,6m (R111,6m) on a turnover of R1,4bn (R1,1bn) in the past financial year

SOWETAN BUSINESS
Building the Nation

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Opening the doors to the stock exchange

Sowetan 14/6/90

THE Johannesburg Stock Exchange is a closed book to most people, but this must now stop For the next four weeks, starting today, Southern Life s Denis Marrilier will be giving us an insight into the exciting world of investment and the stock exchange

Dennis Marriler

IS there a difference between saving and investing? Not really

Saving is usually used in connection with many of the products which banks and building societies provide A savings account is an obvious example Whenever you have spare cash, you put it in the savings account and when you need money, you draw it out again

An investment suggests that there is more to it than simply putting your money in and drawing it out again Investment means making your money work for you - and it could involve some risk as well

Buying and selling stock market shares could be referred to as investing rather than saving

But there are other questions which are probably more important Where should I invest my money? Which company should I use? And which savings or investment plan will be best for me?

What I would like to do in this and subsequent articles, is give you, the reader, answers to some of your questions Please remember, however, that savings and investment is a personal matter

You will need to discuss your personal position with a trusted adviser in order to make the right decisions to suit your circumstances

1 What do you want from your investment plan?

Most investment plans only do one of two things for you

On the one hand, you could invest in a scheme or plan which will make your money grow - or to put it another way build up capital Whether you pay in a single amount or

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Opening the doors to the Stock Exchange

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* From Page 18

save regularly (each month) the idea is to increase your wealth by building up capital

Normally, you would use this type of investment for a specific reason and when completed, you will be able to satisfy that reason

In this and future articles, I will concentrate on this type of investment

On the other hand you may want your money to work for you by providing you with a regular payment To do this you would already have a sum of money and you now require to draw from this amount to live on

Annuities

Banks and building societies have a number of investment plans which allow you to draw money on a regular basis Life insurance companies offer an investment known as an annuity

This investment pays a monthly income (also known as a pension) When discussing this type of investment be sure to ask about the income tax implications In most cases, you will be required to pay income tax on some of the money you receive

2 Why do you want to save money?

Are you simply saving money for a rainy day or do you have a specific target in mind? The important point is that the time that you will take to save your money makes a difference to the type of investment plan you should be considering

Your goal

If you want to achieve your goal in less than one year, you should be talking to a bank or building society They offer savings plans and deposits where you can put your hands on your money immediately or at short notice

So if - for example you are planning a holiday at the end of a year, or saving for the deposit on a car next year visit your bank or building society

Now, consider saving money to educate your children If you are only going to need the money in 10 years - or later - several insurance companies offer attractive policies designed to provide for children's education

An advantage of these policies is that many of them offer other benefits as well - such as providing protection if say, the father dies before the plan has been completed

Because of inflation (increasing cost of living) it could happen that the amount payable at the end is not sufficient to cover the full costs of educating your child Be prepared therefore to supplement your child's education programme by using other investment at a later stage

If you are going to need money for your child's education before 10 years are up then you should not be considering an insurance policy - which must run for 10 years or more

You could consider one of the plans offered by the banks or building societies but if you are going to invest for 3 to 10 years, I would strongly suggest you consider unit trusts

Advisor

Remember though that unit trusts are stock market investments and it is in your interest to have your advisor explain what is involved - including the risks that may be incurred

Saving the deposit on your own home is another important reason for wanting to build up capital It might well take some time before you can actually go out and buy the house you want where you want But do not be caught napping Start your investment plan today so that when the time is ripe you have the deposit

Again the question of how long you are prepared to wait before you put down the deposit on your own home will influence the type of investment you need to consider

If you want to make the purchase within three years, pay a visit to your bank or building society If you need to invest for 3 or more years to build up the deposit, think about unit trusts

Should you believe it will take 10 years or longer you could use an endowment policy from an insurance company

Retirement

What about saving for your retirement? Usually saving for investment involves long term investment Insurance companies offer two products which are ideal for retirement saving

Firstly they sell endowment policies An endowment policy requires that you invest a fixed amount (which can increase each year) until the policy pays out You then receive a lump sum which is full tax free

Should you die before the policy is due to pay out a sum of money is payable to your beneficiaries

Options

It is also possible to include disability protection benefits with an endowment policy

Another policy marketed by insurance companies for retirement savings is called a retirement annuity

Retirement annuities (RA's) can be bought to run for any number of years (less than 10 if required) but you cannot draw benefits before you are 55 years old

When an RA becomes payable you can draw about one third of your capital in cash and the balance will be paid to you in the form of an annuity (pension)

When discussing retirement annuities be sure to ask about the income tax consideration

Another very useful investment for retirement benefits is a unit trust This too can provide a tax free lump sum on retirement and there are no restriction on when you can make withdrawals

3 What sort or risks are you prepared to take?

If there is a chance that you could lose your money in an investment they you are looking at a high risk investment Investing with a reputable institution will result in you carrying very little risk at all

Short term investments - such as those offered by banks and building societies - usually carry guarantees, making them risk free

Insurance

Insurance policies also carry guarantees although these are much lower than the potential payout figures

Some investments, such as unit trusts, carry no guarantee and you need to rely on the expertise of the investment company to achieve your returns for you

But why is taking some risk - even if the risk is very low - necessary? Inflation - that is the simple answer

If you invest at 10 per cent and the inflation rate is 15 percent then at the end your money is worth less than it was when you started So even if you have more money in your hands you cannot buy as much as with it as you used to be able to do Therefore you need to look at investments which can beat inflation

Investment

Stock market investments, which include unit trusts and certain insurances policies, have a record of beating inflation but because of low or no guarantees they can be seen as more risky than bank or building society investments

4 Are you committed to your savings goal?

If not then why save - you may well ask? Surprisingly many people start a savings programme and then let it fall by the wayside

In some cases - insurance policies for example - this could mean that you lose money

Before you decide on an investment or savings plan, make sure you can afford it If necessary, rather start with a smaller amount and increase it when you can afford to

When making enquiries about the type of plan you are interested in, be sure to ask whether the amount can be increased from time to time because certain investment plans do not allow for this

Whatever your reason for wanting to invest, you should always try to stick to your plan Make sure, at the beginning that you can afford to meet your commitment and then do so

If possible invest in a plan which allows you to pay a set amount each month and then put in an extra amount when you can

Hints

Hopefully I have been able to give you some hints on planning your savings but you should still speak to a qualified advisor

Banks, building societies and insurance companies employ people who are trained to give advice to people like you and me And remember, not only is their information free your call or visit will not place you under any obligation

Next week I will tell you something about the Johannesburg Stock Exchange how it works and what it stands for

Russians to save gold?

By JULIE WALKER 232

THE JSE paused for breath on Friday after one of the goriest weeks in years Foreigners long in gold began to hope that some of SA's mines would be forced to close by the metal's sharp price fall Until supply is retarded, few believe gold will sing a happy song

Others hope that the panic selling, triggered by the Commercial Bank of Jeddah's selling after oil eased, will dry up The price steadied on Friday at $347-ish, but there was no interest

S/Times, 17/6/90

Yet more optimists hope that the Russian bears will turn to fighting, and a power struggle in the Kremlin will save SA's day

SA institutions were sidelined, licking their wounds after Thursday's earthquake Private clients were right out Jobbers took a little stock but trade was tardy

There was a bit of window-dressing to push up the industrial indices on the closeout day for futures contracts But of concern is the fact that the economy will struggle more if gold dies Industrial shares held fairly well, but expectations of earnings growth will change if the economy is hard hit

Barlows shed R1,50 to R35,50, while Amic lost R2 to R91 Results from the Rembrandt group were in line with expectations and Remgro shares slipped by only 75c to 1 400c in sympathy with the market

But SA Breweries weakened by 300c to R37,50 Analysts believed they were overpriced SAB will probably have to pay cash to take out Southern Sun's minority shareholders, because the share alternative prices SAB at 4 030c

Nil-paid letters were hit because of their gearing to market changes Trade in Northam's NPL closed at 100c, the range was 450c to 80c Middle Wits NPL fell from 80c to 10c, closing at 30c

Barmines sank to a low of 370c before regaining 20c Talk persists that the plant has teething problems Holding company Barplats touched 850c before rising to 875c

The largest percentage changes in share price were confined to the lower-priced counters, generally the second-liners

Financier seizes Helical assets

232

PIERRE DU PREEZ

DCM-listed Helical Holdings was in a critical financial position, Merchant Trade Finance (MTF) MD Robert Taylor said on Friday.

B\Day 18\6\90

He said the engineering group had a total estimated debt of between R14m and R17m

MTF, which finances trade and working capital, extended loans totalling R1,9m to Helical for the period November 1989 to April 1990.

The company obtained a Rand Supreme Court order last week enabling it to take possession of Helical's moveable assets valued at about R2,5m.

Taylor confirmed some of the assets had already been sold for R750 000. Various offers had been submitted for the rest, he said

"MTF took action in terms of its loan agreement, securing its monies, and liquidation is inevitable," Taylor said.

An announcement on June 1 said Helical shares had been suspended at the request of its directors. It said negotiations were under way which could have resulted in a change of control of the company. Another

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Helical

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reason given for the suspension was that year-end results would be substantially lower than expected at interim stage

In August a 28% increase in after-tax income was reported for the company's maiden year to end-February 1989

However, Taylor said an investigation on June 11 revealed that Helical had sustained substantial losses and could not meet its daily commitments — including the rent at its Parktown offices — and was considering placing itself under judicial management

He said he believed Helical had extensive contracts with Armscor

However, Taylor said most of Helical's debt would be recoverable as sureties on plant and machinery existed

Repeated attemps to contact Helical management for comment proved unsuccessful

BUSINESS DAY, Tuesday, June 19 1990

Helical liquidation move expected today

PIERRE DU PREEZ

AN APPLICATION for the provisional liquidation of DCM-listed Helical Holdings would be on the roll of the Rand Supreme Court today, Merchant Trade Finance (MTF) MD Robert Taylor said yesterday.

Investigations regarding possible "substantial misrepresentations" to the board of directors were under way, a source said

MTF was involved in the granting of loans to the engineering company until it became apparent the group was in a critical financial state.

Taylor also confirmed that subsidiary, Helical Trading, was placed under provisional liquidation yesterday.

He added that as far as he was concerned, there was no light at the end of the tunnel for shareholders

Taylor did not know whether charges against anyone closely associated with the company were being looked at.

A person involved with Helical said yesterday he thought the company had been grossly mismanaged

"You had the basis of a fabulous company here," he said.

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Investigation

A non-executive director of the company echoed this sentiment more strongly.

"To say the company has been mismanaged is a gross understatement We are looking at the possibility of substantial misrepresentations having been made to the board," he said.

GM of listings on the JSE Richard Connellan confirmed yesterday the company was under investigation, but he would not comment futher.

On Friday, a market analyst said he thought Helical would not be the only company to experience problems with cash flow in the volatile economic climate

But he did not feel it reflected badly on the DCM, saying it was rather a sign of the times.

The non-executive director felt the Helical experience reflected badly on the DCM sector, but an investigation would help answer a lot of questions about the past conduct of the company's management.

A number of issues were still being investigated, he said, adding that the outlook for shareholders was not very bright

Helical was listed on the DCM in 1988. At one stage a move to the main board was even anticipated

However, shares were suspended at the beginning of this month and the group vacated its premises in Parktown last week as it could no longer afford to pay the rent, Taylor said.

Arwa sold for R42m

CM-Times 20/6/90

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Own Correspondent

JOHANNESBURG — The assets and liabilities of Tollgate Holdings' (TGH) subsidiary Arwa has been sold for R42m to Arwa chairman Johan Claasen in his capacity as trustee of a new company which has yet to be formed

The announcement today has put an end to weeks of speculation about the fate of Arwa, 87,7% held by TGH

The only asset of Arwa following the sale would be R42m in cash or 181,6c a share, a 26% increase of 37,6c a share over the consolidated net asset value a share of 144c at December 1989

Arwa is to become a cash shell and its JSE listing will be suspended for six months

Claasen has resigned all his directorships in Duros and its subsidiary and associated companies

A consortium of Julian Askin, Mervyn Key, Hugo Biermann, Lawrie Mackintosh and Claasen paid R45m for control of Duros, the 65% holding company of TGH in March

The Duros chair is jointly occupied by Key and Askin, the TGH executive chair by Askin, and Claasen is the TGH CE, SA operations

Claasen said yesterday a scaling down of operations would occur because of the economic conditions in SA, this would benefit Arwa and workers in the long run

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Gold closes at day's lows

LONDON. — Gold bullion came under slight pressure towards the close as New York values slipped on light selling interest, dealers said

Gold closed at the days low of $347,50/$348,00 an ounce, after trading in a narrow $1,25 range during the session On Monday the market finished at $349,25/$349,75

Dealers said turnover and interest for gold remained minimal, but underlying support at $346 had stood up well

However, one dealer said gold's tone remains bearish, with some investors anticipating further selling

Platinum also remained quiet and was fixed at $478,15 an ounce, down $0,10 on its morning fix and little changed from Monday's $477/$478 close

Silver was last quoted at $4,84/$4,86 an ounce, matching its opening and previous close

- **In Zurich,** gold closed $0,40 lower at $348,70/$349,20 an ounce
- **In New York,** gold closed at $348,25/$348,75 — Reuter

ERPM involved in balancing act

Star 20/6/90 By Ann Crotty [illegible] [illegible] 232

If ERPM had to exploit its rich ore reserves now, the mine would only have a life of about 18 months and not be in a position to re-establish reserves below its Far East area

This was the view of ERPM MD Karl Eich when he was questioned yesterday by Mr Justice D A Melamet at the commission of inquiry into the viability of additional government funding to save the mine

The judge asked why ERPM was worried about reserves for the future when it was faced with the near-term possibility of having to close down. Mr Eich said it had been necessary for ERPM to present a plan to meet its long-term commitments, including its interest payments

Earlier at yesterday's hearing Mr Eich said ERPM had reduced the number of underground workers from 7 641 in April to 4 400 and was planning to cut this figure to 3 400.

20 gold mines now facing loss situation

Star 28/6/90 232

By Michael Chester

New surveys by the Chamber of Mines have revealed that the number of gold mines threatened with operating at a loss because of the collapse of the bullion price has grown to 20 — with a combined labour force of more than 200 000.

The growing threat was disclosed by Kennedy Maxwell in his presidential address at the annual meeting of the Chamber in Johannesburg yesterday.

As the warning was being delivered, the gold price was still struggling below $350 an ounce on world markets, its lowest in four years

Mr Maxwell warned that unless there was a dramatic improvement in the bullion price, total gold production — at a peak of 1 000 tons a year in 1970 and already down to 608 tons last year — looked likely to fall as low as 600 tons or even 580 tons for 1990

Production at the 20 mines on the sick list had been running at about 210 tons, worth no less than R6,3 billion a year in total foreign exchange earnings

But Mr Maxwell made it plain the actual closure of any of the mines would be considered only as a last resort "Closing a gold mine is a traumatic and difficult business," he said.

"Not only does it give rise to the demise of thousands of jobs but it invariably means that even if the gold price were subsequently to recover the mine could have to be closed permanently."

A lowering of the rand exchange rate would help a number of the mines, but the danger was that inflationary pressures would be encouraged rather than curbed

However, the situation was more positive in the coal mining industry. According to Chamber estimates nearly 50 000 new jobs could be created by the lifting of sanctions on coal exports and a positive economic growth rate.

Mr Maxwell said the result could be a dramatic climb in total coal production to as high as 230 million tons a year by the end of the 1990s.

He saidit would mean the direct recruitment of 29 000 more mineworkers by the collieries themselves, and the creation of an additional 18 000 new jobs elsewhere in the economy.

The coal mines had already achieved new export records, with overseas sales last year jumping to 47 million tons, bringing in R3,6 billion in foreign exchange, or R800 million more than in 1988.

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Columbia 'on track for growth'

NEIL YORKE SMITH

COLUMBIA Consultants, restructured and refocused, is on track for controlled earnings growth, CE Gordon Polovin said yesterday.

Columbia has disposed of its diverse portfolio of investment holdings and focuses on its 85%-90% stake in listed rural retailing group Acrem.

Discussing Columbia's earnings for the year to March 31, Polovin said they were not strictly comparable with the previous year's figures because of distortions created by restructuring.

Earnings a share of 20,9c (53,1c) enabled the group to declare a 15c (18c) dividend.

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Expansion

"We've been through a difficult time. The problem with such a broad restructuring programme is that the holding company loses out on earnings from the operations it is selling, and does not necessarily gain the immediate benefit of interest on bank balances"

Polovin said all the companies display strong balance sheets. After its rights issue Acrem's gearing will fall from 124% to 33%.

The stronger financial base will facilitate further expansion, already begun with Acrem's recent R4m acquisition of I Lubner & Sons.

Acrem's performance for the year to March reflected an impressive 35% increase in EPS which reached 15,6c (11,6c). A dividend of 5c a share was declared.

Judge rules on Helical companies

SUSAN RUSSELL

DCM-listed Helical Holdings and a subsidiary, Helical Trading, were placed in provisional liquidation in the Rand Supreme Court yesterday following urgent applications by one of its creditors, Merchant Trade Finance (MTF).

The provisional orders, which were opposed, were granted by Mr Justice MacArthur.

In an affidavit, MTF MD Robert Taylor said his company was owed R1 996 151 by Helical.

He said Helical Trading was liable for the amount in terms of a suretyship executed by the company together with other subsidiaries in the Helical group

Taylor said he had seen a report in Business Day on June 1 to the effect that Helical's listing had been suspended

He had telephoned Helical deputy chairman Frederick Branton to ask him the true reason for the suspension of its shares. Branton told him the reason for the suspension was a boardroom dispute and not a financial one

However, at a subsequent meeting Branton said in contrast to previous statements — that the company had made a profit of R1m for the financial year ending February 1990 — the holding company had in fact made a R1m loss

One of the contributing causes given was that the Plastiforce business carried on by Helical Trading had failed to account for certain accrued interest

Taylor said Branton also stated Helical would not be able to meet its commitments to MTF 8\10am 21\6\90

He said that because of rumours about Helical's affairs, certain key personnel had threatened to leave

It was therefore necessary for a liquidator to be appointed to try and retain the services of these employees to ensure the continuation of business in the hope of disposing of them as a going concern, said Taylor.

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Arwa chief leads R42m buyout

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ACHMED KARIEM

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A consortium of Julian Askin, Mervyn Key, Hugo Biermann, Lawrie Mackintosh

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Arwa

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and Claasen paid R45m for control of Duros, the 65% holding company of TGH in March

The Duros chair is jointly occupied by Key and Askin, the TGH executive chair by Askin, and Claasen is the TGH CE, SA operations

Claasen has sold his remaining 5 890 000 shares in Duros for 650c a share to a new controlling consortium of Duros and institutional investors

Claasen said yesterday a scaling down of operations would occur because of the economic conditions in SA, this would benefit Arwa and workers in the long run

A SA Clothing and Textile Workers' Union (Sactwu) spokesman said the 700 workers were working a three-day week at present

Arwa is one of the major employers in the Free State town of Parys

AA Life, Crulife merge resources

Star 21/6/90 (232)

Finance Staff

A powerful new life assurance group, with total assets of R500 million, has been formed by merging the interests of AA Life and Crusader Life under the umbrella of Anglovaal

This represents a another major move into life assurance by diversified finance, industrial and mining group Anglovaal

To establish the new group, Cruhold (Crulife's holding company) is to acquire AA Life's 95 percent interest in AA Life Assurance Assocation in exchange for the issue of 123,8 million ordinary Cruhold shares.

Both AA Life and Crulife will continue to operate independently to exploit their own markets.

To reflect Anglovaal's 41,1 percent interest in the AA Life Group, Cruhold is being renamed Anglovaal Insurance Holdings (Avins), while the AA Life Group is being renamed the AVF Group

The acquisition will result in Avins becoming a subsidiary of the AVF Group and AA Life and Crusader Life becoming subsidaries of Avins

The combined assets under the group's control will be about R500 million and put it among the top ten life assurance companies in South Africa.

Clive Menell becomes non-executive chairman of Avins and Brian Benfield, CEO of AA Life, will be group managing director.

R Rowand remains chairman of Crusader Life and becomes non-executive director and deputy chairman of Avins

Bob Rowand remains managing director of Crusader Life and joins the board of Avins.

Outlining the rationale for the deal, Dr Benfield said last night "Crusader Life considers that the stage had been reached in its development where additonial capital will be required if it is to continue on its projected growth path, which could lead to a change of control

"The board felt it should reach agreement with a suitable new controlling shareholder now, rather than perhaps creating a situation of vulnerability in the future."

The financial effects of the proposal, still to be ratified by the JSE, will be to decrease AA Life's pro-forma earnings per share (in the year to April 1990) by 4,2 percent to 15,9c. Dividends will increase marginally by 1,8 percent to 11,4c per share, while the net asset value will fall from 82,8c to 81,5c per share

On Cruhold the effect is to increase EPS by 28,6 percent to 9c, while dividends will fall by 8,6 percent to 6,4c per share

The net asset value drops by 19,7c to 44,9c per share

Arontex share dealings investigated by the JSE

Star 21/6/90 (232)

By Sven Lünsche

The Johannesburg Stock Exchange yesterday called for returns from broking firms of all deals in the shares of Arontex Holdings in the two weeks before the company's provisional liquidation in the Pietermaritzburg Supreme Court on March 20

The company was finally liquidated in April.

Arontex shares were suspended the day after the provisional liquidation but it appears that word of the pending crisis at Arontex became known a week earlier.

On March 15 the share price fell from an already low 13c to 4c and the day before the suspension more than 1,2 million shares were traded, compared with a previous monthly volume of 140 000 shares.

The companies liquidated were garment manufacturer Arontex Holdings and four major subsidiaries: Lara's Manufacturing, Supergear Clothing, Personality Gowns and Roots Clothing, all of which traded in Port Shepstone.

Liabilities of the main operating firm, Lara's Manufacturing, were put by the court at R18,6 million with realisable assets of about R4 million

After the liquidation former directors of Arontex — including chairman Trevor Aron — were summoned to give evidence into reasons for the group's failure and to try to ascertain the movement of some of the stock.

Other subpoenaed witnesses included former financial director Alan Gitsham and company drivers, who were called in to try to resolve the stock question

Separate claims against Mr Aron totalling R257 000, arising from the liquidation of Durban-based Taron Properties, of which he was the sole director, were withdrawn last year.

In a report this morning Mr Aron said he had never sold any of his 5,1 million shares in Arontex, but former director Selwyn Kowolski indicated he had sold 100 000 of his 1,2 million shares before the suspension.

The JSE said it had considered the returns and "in accordance with normal procedure" had forwarded the documentation to the Registrar of Companies.

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Major pitfalls on the acquisition trail

Using mergers and acquisitions to boost corporate growth has had mixed results. In some cases it has proved disastrous. The element of risk can be substantially reduced if the acquirer first sets out a well considered strategy, reports ANN CROTTY.

Perhaps Fintech and Malbak got off quite lightly Their problems with Punchline and Quality Tyres respectively has not resulted in the possibility of liquidation.

UK-based, British & Commonwealth (known to SA investors through its former links with Sun International) wasn't quite so lucky

In September 1988 it acquired Atlantic Computers for £417 million. Within about seven months of the takeover worrying signs began to filter through to the new owners Within 18 months of the acquisition B&C announced that it was writing off about £550million in respect of its investment in Atlantic

Written off

According to recent reports B&C is now under administration and its assets are being sold off Apart from shareholders other casualties of B&C's acquisition of Atlantic include Barclays and Midland Bank The former has written off £100 million on loans to B&C and the latter has indicated that it will be making a significant write-off

The B&C, Fintech and Malbak cases represent fairly extreme examples of a merger or acquisition bombing out. There are plenty of other examples which proved not to be quite what the acquirer thought he was buying.

The list in SA includes Danech's acquisition of Norton, Basil Read's stake in Aurora Granite, Spareco's takeover of Fleishman, Malbak's acquisition of UK-based MY Holdings; Barlows acquisition of UK-based Bibby; Unidev's takeover of Milly's and Prestige Pots; Tollgate Group Holdings acquisition of Arwa and Gants; and Waltons acquisition of Ozalid.

According to Sam O'Leary, a partner at Price Waterhouse, around two-thirds of completed mergers and acquisitions are unsuccessful — some seriously so, and others to the extent that they do not meet expectations or realise the potential existing in the deal.

The danger is not only that the acquired company fails to perform, but as Mr O'Leary points out, management devotes its full effort to the merger scenario and takes its eye off its own business which consequently often suffers

Lack of success is usually due to the buyer not knowing exactly what he has bought and/or not having an appropriate funding or post-acquisition plan.

Although independent advisers do not guarantee success they do help to reduce the risk of failure chiefly because they can proceed through a fairly thorough execise, unaffected by any emotional considerations that may be influencing the buyer

In many instances a buyer might rush through the acquisition because he has a gut feel that this is a great deal for his company

"From a merger and acquisition point of view, there are many aspects to consider, including the compatability of accounting policies, the status of the pension fund, taxation structure, profit history and budget forecasts"

Mr O'Leary sets out a fairly exhaustive procedure for managing an acquisition programme.

First step involves developing an acquisition strategy This exercise will ensure that buying is not done on an ad hoc basis that leaves the acquirer with a completely unsuitable portfolio of interests.

According to Mr O'Leary an acquisition strategy will define the specific criteria to be applied in searching for and screening acquisition candidates "This planning exercise gives you a frame of reference to evaluate acquisition candidates It keeps you from wasting time on acquisitions that cannot be completed and it helps you avoid acquisitions you will later regret."

Acquisition strategy

In addition, a well thought-out strategy means that you will avoid paying outside advisers to follow through on transactions that stand little chance of success

The important steps in developing an acquisition strategy include:

- Establish an acquisition team with defined responsibilities and authority
- Outline your company's current operations and identify its strengths and weaknesses
- Analyse future growth potential and trends within the existing business sectors.
- Analyse your competition.
- Review past acquisitions and internal growth, noting successes and failure and identify the reasons.

From this analysis it will be possible to outline reasons for establishing an acquisition strategy It may be that the outcome of this procedure is the realisation that acquisitions are not the most cost-effective way of achieving the company's goals.

Before the potential buyer begins to look at possible acquisitions, it is important to determine the financial resources available for the acquisition programme.

In addition the buyer must establish a set of criteria to be used in screening and selecting candidates. This will include operating criteria, financial criteria. There are other criteria such as the sort of price/earnings ratio that the buyer is prepared to pay, the methods of payment and, the possibility of a consequent short-term earnings dilution.

Once a potential candidate has been identified a "due diligence investigation" is necessary This involves an intensive examination of purchase targets. According to Mr O'Leary "Due diligence reviews take a long, hard look at target companies to see if they are worth buying and to check for skeletons in the closet."

The due diligence investigations focuses on three major areas: the business, financial and accounting information and, legal matters.

It is important that there is interaction between these three areas. As Mr O' Leary points out. "The attorney reviewing loan agreements may find that the seller owes the bank outstanding penalties and interest for missed payments. These additional liabilities may not have been recorded in the financial statements presented to the buyer

Areas of difficulty

"Although the attorney may protect the buyer against the assumption of this liability through an express warranty or indemnification in the purchase agreement, the violation of the loan agreement may permit the bank to accelerate the due date of the oustanding debt.

"This is crucial information for the accountant since a possible higher interest rate negotiated under a new loan agreement would have a significant impact on the financial projections he is preparing"

According to Mr O' Leary, the financial and accounting "due diligence" will often reveal the following areas of difficulty

- Overvalued inventory due to unrecorded write-downs or write-offs of slow-moving or obsolete inventory or, failure to count inventory properly
- Undervalued inventory due to excessive obsolescence reserves or write-downs or the failure to count or correctly value inventory on hand. This situation may be encountered when privately held companies attempt to minimise taxes.
- No recorded liability for returnable inventory even though there is a practice of accepting returns several months after the sale.
- Unusual sales recognition policies such as pre-invoicing
- Unrecorded liabilities such as inadequate reserves for unexpected quality problems for recently introduced products' warranties
- Inadequate reserves for doubtful accounts, cash and trade discounts, sales returns and allowances

The "due diligence investigation" will also reveal the extent to which "window dressing" exists in the target company's figures Such window dressing could stem from delaying current expenditure as well as capital expenditure; accelerating income by pre-invoicing and changing accounting principles.

Mr O' Leary recommends that the buyer reconstructs the seller's income statement by applying the buying company's accounting methods — "This could significantly increase or decrease reported earnings."

As he sees it major reasons for the failure of mergers is that the buyer was overly optimistic or was unable to manage the business successfully Both reflect a lack of understanding of the business being acquired and, to an extent, a lack of understanding of the acquirer's own resources.

Learning to invest in the Jo'burg stock exchange

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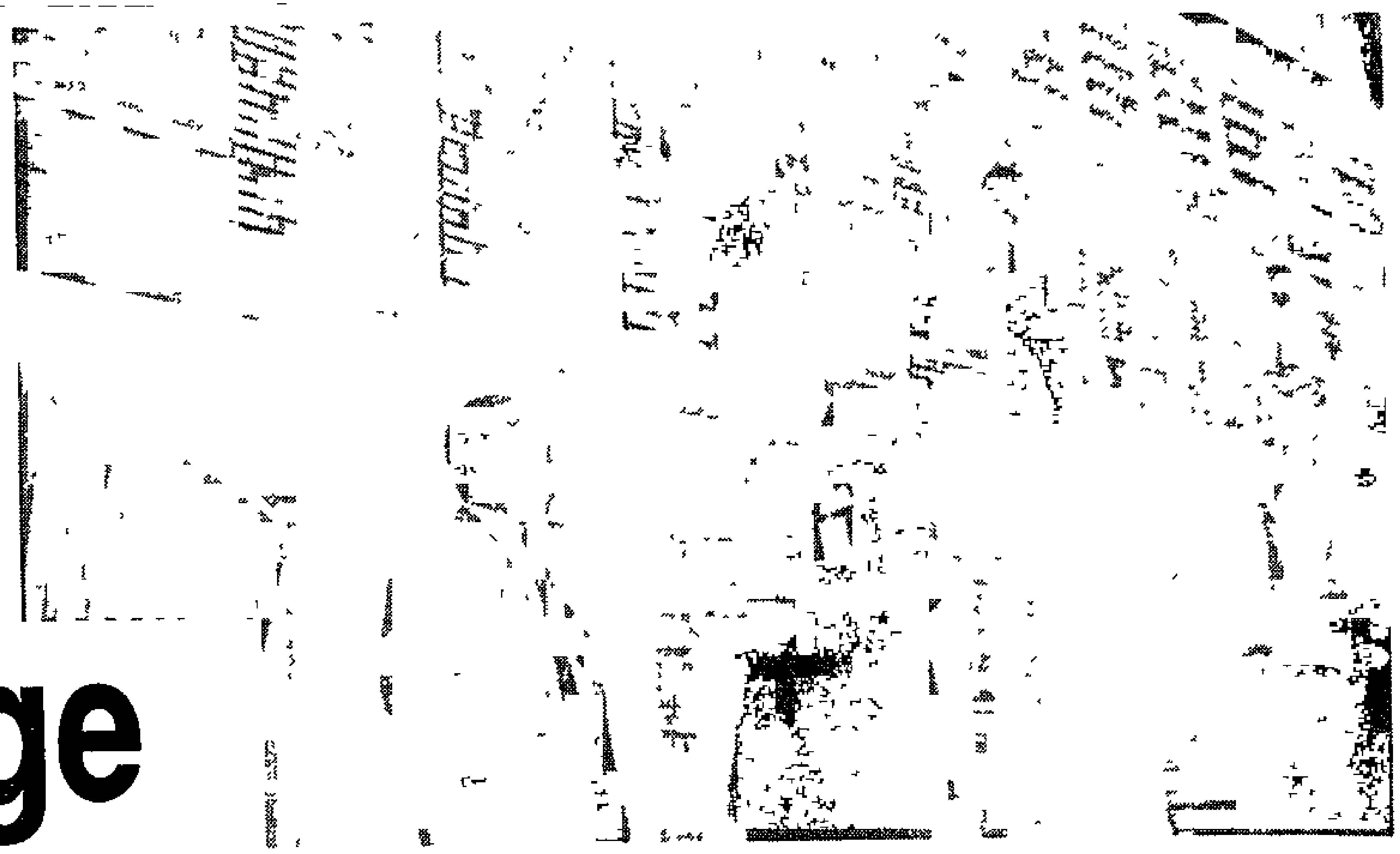


Sowetan Business editor Thami Mazwai paid a brief visit to the Johannesburg Stock Exchange where he met Tony Norton, president of the JSE. Mazwai and Norton are seen on the floor of the stock exchange, where billions of shares are traded daily.

LAST week I discussed the question of saving or investing your money. Several times I made reference to investments which are connected to the Johannesburg Stock Exchange (JSE). But what, exactly, is the JSE, and what is its purpose?

Why have a stock exchange?

Assume you want to start a business or expand an existing business. That requires money, or capital as it is called

You might need to build new premises. Maybe buy machinery, employ more staff For a big business, you would be looking at lots and lots of money - probably millions of rands.

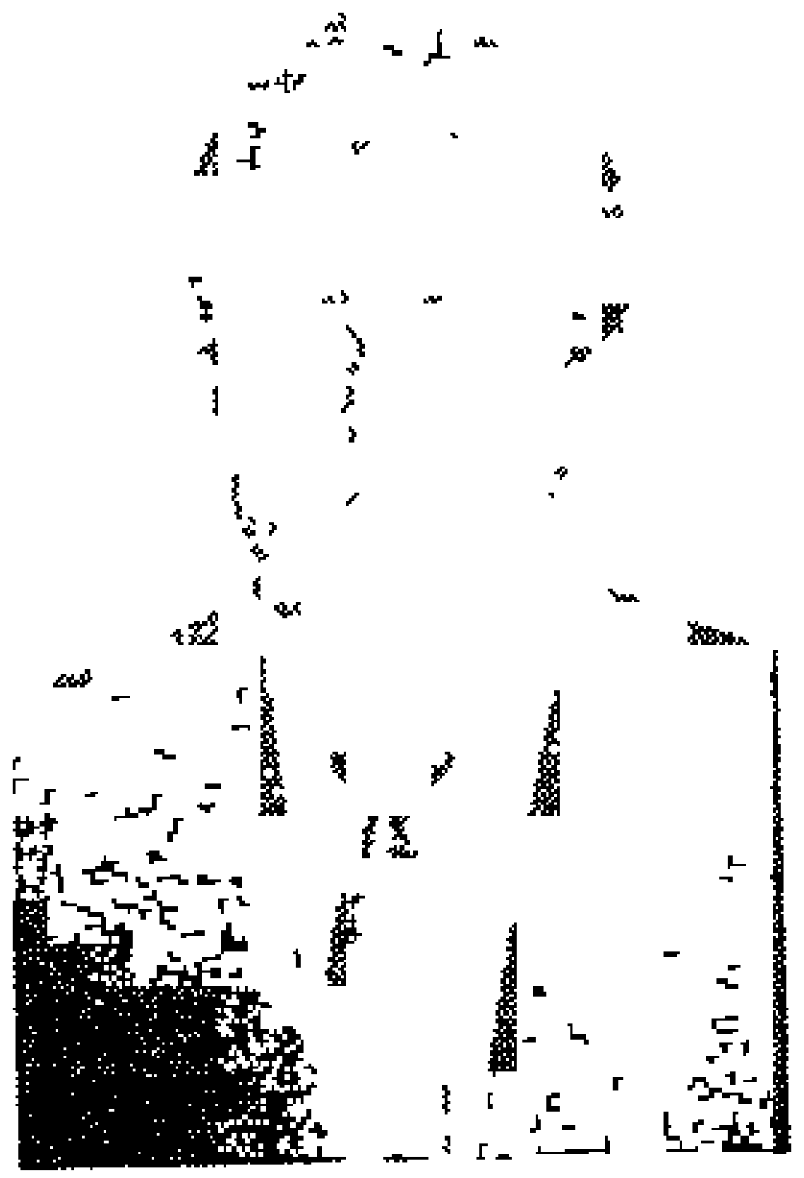
The investors who buy these shares now own a part of the company and the money paid for the shares is recorded in the company's account as share capital.

Because they own shares in the company, the investors are also entitled to a portion of the profits made by the company. When some of the profits are paid out, the payment is called a dividend.

Meeting

Most companies pay dividends twice each year, an interim dividend and a final dividend. The company is run by its board of directors who look after the interest of the shareholders

Shareholders, as the owners of shares are known, are entitled to attend the company's annual general meeting and can vote for directors to be appointed to the board



Denis Marillier

Southern Life's unit trusts marketing manager, Dennis Marillier, continues his educational series on the world of investment. Today he looks at the Johannesburg Stock Exchange

If one investor owns shares in the company and sells them to another, money changes hands between the investors and does not get paid to the company.

It is the same as buying a motor car and selling it to someone else later When you buy the car, you pay the garage When you sell it, the buyer pays you. This exchange of shares (which gives us the name stock exchange) is handled by stock brokers.

Every working day thousands of shares and millions of rands change hands between investors Compared to this type of trading, the listing of new shares does not happen very often

You may recall what happened towards the end of 1989 when Iscor listed its shares for the first time For months before hand, they used newspapers, radio and television to tell the public about Iscor and what they do, and to invite members of the public to buy Iscor shares when they became available.

What is traded on the JSE?

Equities

In JSE language, they talk about equities Equity, in this context, literally means share If you hold equity in a company, it means you own shares in the company You will find, however, that investors may use different words when talking about shares

They could talk about shares, securities, equities, scrip or counters. All mean the same thing, and to avoid confusion, I will stick to calling them shares

As I have already said, once the shares of a company have been listed, they are traded by investors. This trading is arranged by a stock broker Only a registered stock broker is allowed to deal with JSE shares and he or she will arrange transactions (trading) between investors

Traded

When a company lists its shares for the first time, they do so at a set price. For example, a company wishing to raise a million rands could list 1 million shares at 100 cents each. (By the way, share prices are always quoted in cents, not rands.)

But what happens to the price of the share after it has been traded for the first time? The value (price) of a share is determined by supply and demand. If I own a share and you want to buy it, we would negotiate the price through a stock broker If I do not particularly wish to sell the share, I could place a very high price on it and, depending on how keen you were to own it, you would buy it for that price

The more the demand (people wanting to buy) for shares, the higher the price of those shares will be.

On the other hand, if I want to sell shares and you are not that interested in buying, then you would offer a much lower price Depending on how eager I am to sell the shares I would accept the lower price.

This is the very important thing to realise about shares The prices go up and down, depending on the demand for the shares. That is why buying shares can be risky for the investor. If you buy 100 shares for 200 cents each, you will have to spent R200. Now, when you want to sell those shares, the demand for them may not be strong. Someone could offer you 175 cents per share, and you would only receive R175 if you accept the offer. That way you would have lost R25

The risks

Next week, I will discuss the risks of stock market investment and what factors influence supply and demand in a little more detail

The main reason for buying shares is to pay one price for them today and then to sell them for a higher price in the future If you buy shares for R1000 and sell them again for R1200 you will have gained R200. This is called a capital gain.

In most cases, especially if you have held onto the shares for a long time before selling them, you will not required to pay income tax on you capital gains.

Interest

Another reason for owning shares is to receive a portion of the company's profits - dividends.

Now where do you get the money from? Possibly you could go to the bank for a loan. But if the amount is very large, and it will take a long time to repay, you will be paying interest on your loan for a long time This interest will eat into the profits that you make. And there is no guarantee that the bank will lend you the money in the first place

In smaller businesses you might find that several people get together and each person puts money into the business. These people all then have an interest in the business, even though some of them might not even work for the company

Such people are sometimes called sleeping partners because they put in money to get the business started, but are happy to let others run the business.

Because they put money into the business, however, they are entitled to a share of the profits made by the company

The same thing happens at the JSE. A company wishing to raise capital can go to the JSE to do so When this happens for the first time, it is known as a listing.

Company

The company lists its shares on the stock exchange and investors then buy shares in that company. The next time the company wants to raise capital on the JSE, it can issue new shares and these are then available to be bought on the JSE.

What few people realise is that the only time that the company receives payment for its shares is when they list their shares for the first time or when they issue new shares

Since the beginning of this tax year, the Receiver of Revenue has decided that dividends received by individuals will not be taxed.

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Investing on the Stock Exchange

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* From page 30

One must realise, however, that a company does not have to pay out a dividend, even if it has made a profit. It could, for example, use the profit to expand its business or simply invest it for use at a later stage.

Investor

If an investor wants to buy shares in order to receive the dividends, then it would be neccessary to examine the dividend records.

You may have heard people talk about "blue chip" shares. What are they? Blue chip is a name given to shares where the company has a strong record of good performance, and investors believe that there will always be a high demand for those shares.

Any company's shares can be classified - by the investing public - as blue chip, but it usually takes a long time for the company to gain the reputation necessary to be regarded as blue chip.

Companies who list their shares on the JSE are divided into diffferent categories, for example mining companies, financial companies, industrial companies, etc. Within these categories are sectors.

Sectors

Within the mining category, for example, one has the gold mining sector, the diamond mining sector, the platinum sector, etc. By looking at the financial section of several daily newspapers one can see how the sectors of the JSE are made up.

Most shares traded on the JSE are what is known as ordinary shares When talking to someone who is involved with the JSE or who knows a lot about, the market, you may hear them discuss several other types of investments. Preference shares, debentures, futures, options, gilts.

These are different types of investments sold through the JSE However, they are often more sophisticated than shares, and require far more explanation than given in this article. I consider them to be outside of this discussion.

The Development Capital Market (DCM) and Venture Capital Market.

A relatively new section of the JSE is the Development Capital Market. DCM shares are, quite simply, the same as ordinary shares The difference between ordinary shares and DCM company shares has to do with the status of the company and not the type of investment.

Companies listed on the DCM board are small and relatively new to the JSE. Ideally, a company on the DCM board will, at some date in the future, be listed in one of the main sectors of the JSE.

History

Companies which are even newer and have less of a history may, to begin with, be listed in a sector known as the Venture Capital Market.

Like the shares of companies not listed on the JSE (ie private companies) the shares of DCM and VCM companies should be left strictly to the experienced investor.

In a sense, these companies still need to prove themselves. One should look at conditions carefully before investing large sums in yet to be proven companies. On the other hand, several of the companies listed on the DCM board could well be our industrial giants of tomorrow.

Now you have some idea on why the JSE exists and what shares and investing on the stock market is about.

Next week, I will discuss the factors which influence the price of shares and talk a little about the risks attached to stock market investments.

JSE probe into Arontex Holdings deals

B Day 21/6/90

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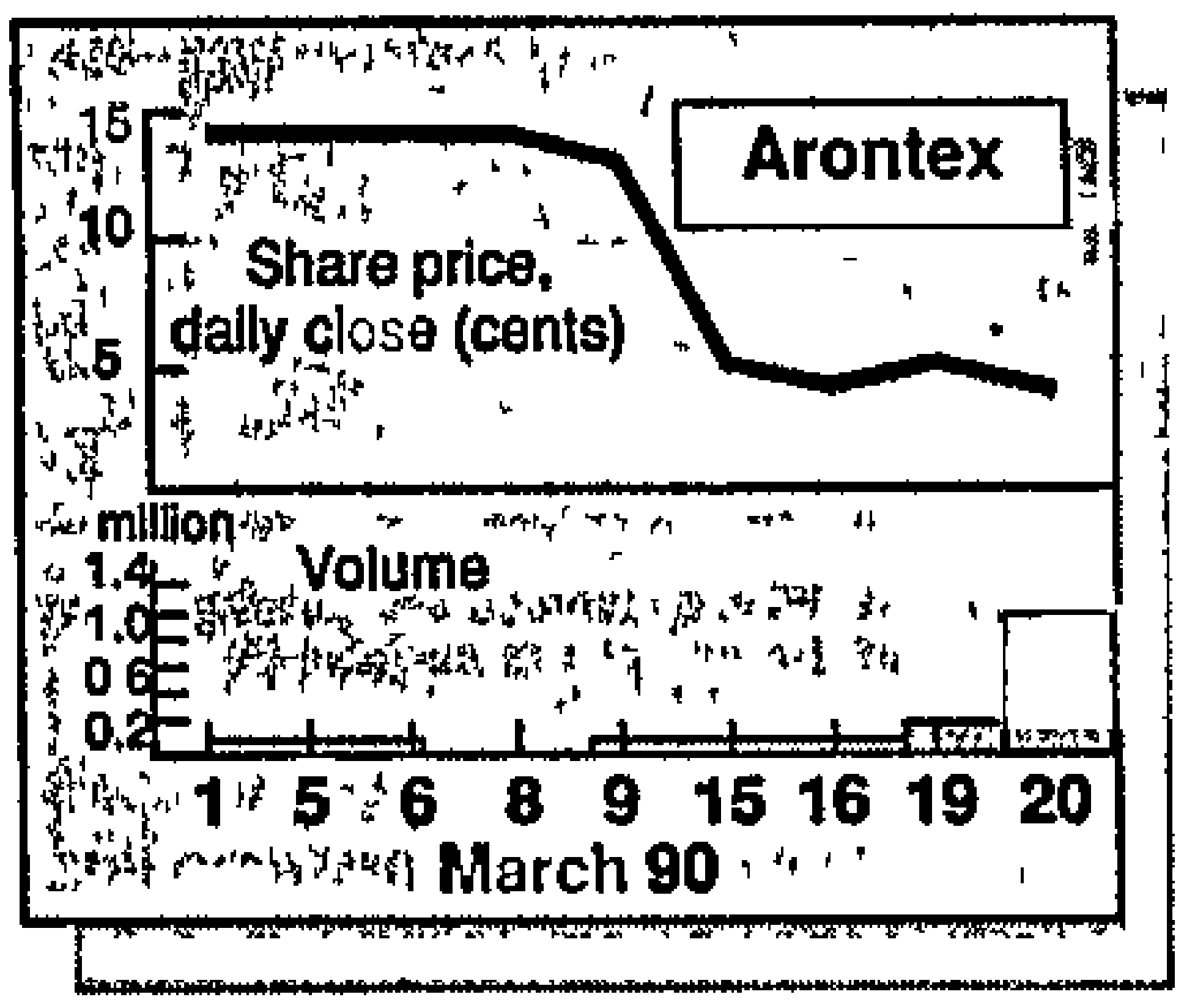
ANDREW GILL



Graphic: LEE EMERTON SOURCE JSE

THE JSE announced last night that documentation regarding deals in the shares of the now-liquidated clothing company Arontex Holdings had been forwarded to the Registrar of Companies

The announcement said the trading period under review was from March 7 1990 to March 20 1990 Market sources said it could indicate suspicion of insider trading, but JSE equity market GM Richard Connellan refused to comment

Arontex shares were suspended on the JSE on March 21 after it had been provisionally liquidated in the Natal division of the Supreme Court on March 20

During the period under scrutiny, more than 1,2-million Arontex shares were traded, compared with an average monthly trade of 141 862 shares

Arontex sources said a major shareholder had sold his shares during this period

Former director Selwyn Kowolsky said he had sold 100 000 of his 1,2-million shares at 4c a share before the suspension.

The share was suspended at 4c a share after reaching a high of 40c last June Its fall followed bad performances from various Arontex subsidiaries

Former Arontex chairman Trevor Aron commended the JSE's move, saying he had never sold any of his 5,1-million shares During the period in question they were all pledged to one of its creditors, Senbank

FM 22/6/90 · (232)

guered wood division can be achieved soon

Pam Baskind

TGH/ARWA (232) FM 22/6/90

Sale mooted

Duros and its subsidiary TGH are set to start selling off acquisitions made during their take-over spree launched in early 1988

The first transaction is likely to concern Arwa, whose sale could be announced this week A cautionary announcement referring to Arwa was published last week and on Monday TGH's share price jumped 16% to 330c.

TGH's Claasen . . . back to Arwa?

The price may have increased because of an article in the London *Sunday Telegraph*, which spelt out the intentions of the consortium that now controls the group This was apparently the first news London investors had on the subject

However, investors may have got wind of a deal in which TGH will sell its 59% stake in the debt-burdened Arwa Sources reckon the most likely buyer is Johan Claasen, who headed TGH during much of its expansion If so, then Claasen may fund the purchase of Arwa's assets and liabilities with his remaining 5,89m Duros shares

This would extend the rationalisation that started when Murray Louw and David McCay sold their Duros shares to Claasen — who was then chairman of Duros — and left the group Assuming Claasen now disposes of his Duros shares at a price in line with the 650c price at the time of the previous deal, rather than the present market price of 750c, the transaction could be worth some R38m

Claasen, who was previously the controlling shareholder of Arwa, would be resuming control of a business which currently has a debt equity ratio of about 2,7 and held interest-bearing debt of roughly R57m at the December 31 balance sheet (*Companies*-June 8)

The sale would thus remove Arwa's hefty borrowings from the TGH balance sheet, while also bringing cash into the group In total, it could mean a debt turnaround of close to R100m TGH's balance shows long-term liabilities of R113m

If the Arwa deal comes off it is unlikely to be the end of the mooted rationalisation Other potential candidates include Budget Car Hire, the bicycle interests of Deale & Huth, and bigger fish such as Gant's — provided buyers can be found

Gerald Hirshon

NEWS FOCUS

8 232

Baring the truth about options

B Day 22/6/90

JOHN WIXLEY

IT IS something of a conventional belief in our local options market that a "covered" option position is less risky than a "naked" option position Unfortunately for those who believe the convention is always right, this particular one happens to be an illusion

Surprisingly, the illusion is not confined to the local market According to Martin Mayer, one of the better commentators on the 1987 October crash and author of the well-known book, Markets, the only loss that can result from a covered option is "the sacrifice of an opportunity for gain"

Mayer is described on the inside flap of his book as "the last, best hope of the intelligent general reader attempting to understand modern economic man and his institutions" Heaven help us

Example

To explain why the conventional belief is misguided, let us consider what is meant by "naked" and "covered" positions A "naked" option position is achieved by selling (or writing) an option on an underlying asset and doing nothing else

Take the example of a stockbroker who sells you a call option on 100 De Beers shares at a strike of Rx, expiring in one month's time This gives you the right to buy 100 De Beers shares from your stockbroker at any time between now and the end of the month, at a cost of Rx Clearly, there is nothing to protect the stockbroker from losing an unlimited amount if the share price starts going up and doesn't stop Accordingly, he is said to be "naked"

Now say, at the same time as he sells you the option, your broker also buys 100 of the underlying shares If the share price rises and you exercise your option, he can simply deliver the share certificate to you. All he suffers is an opportunity loss — the amount he could have made had he been able to sell the share for its market value. Accordingly, your broker is said to be "covered"

On the face of it one might therefore say that a "covered" position is less risky than a "naked" position But is it? What would happen if the next day was October 19 1987? Or if the option were written on a gold share, and the gold price suddenly plummeted? The stockbroker would then be left sitting with a long position in the underlying share, with only the option premium to protect him. As any reasonably sophisticated option trader will tell you, your broker's exposure to the market is exactly the same as if he had written a "naked" put option.

In short, a "naked" and a "covered" option have exactly the same risk exposure. They merely hit you from different directions

Is the situation any different if your stockbroker is holding the underlying share at a much lower historic cost than the strike price at which he has written the call option? Your stockbroker is still effectively in a "naked" put position The only difference is that he has some protection from his unrealised gains on the share

In market jargon, he is said to have written an "out-of-the-money" put option. This position need be no more or less risky than than that which results from writing a "naked" "out-of-the-money" call.

In market jargon, a "covered" option is also known as a "synthetic" option Professionals will often create their own "synthetic" options from other options which are available in the market — either because it's cheaper, or simply because it may be more convienient to do so

If you happen to have been caught under the spell of this illusion, there's no need to be ashamed You're in good company

According to George Broekhuizen of the JSE inspectorate, the JSE rules allow a one-for-one offset of positions in equity options against opposite positions in the underlying share Stockbrokers are required to hold liquid assets only against this net exposure.

Rules

In other words, if a stockbroker writes a call option and holds the underlying share, the JSE regards his net exposure to be zero, and requires him to hold zero liquid assets Similarly, if a stockbroker were to write a put option and short the underlying share, his net exposure would also be zero The latter might ~~be~~ slightly more difficult to achieve because of the JSE uptick rule against short-sales Nonetheless, what the JSE is effectively saying is that stockbrokers need not hold anything against their "covered" option positions

The Banks Act is no better Banks are currently monitored on a quarterly basis by means of the BA Form 8, which aims at ensuring that they hold sufficient capital against their various risk exposures, including exposures to open positions in options on different underlying assets.

Like the JSE rules, however, the regulations require capital to be held only against "uncovered" option positions, where "a covered call option written means a call option contact written by the reporting institution against a corresponding asset held in portfolio"

According to Hennie van Greuning of the Reserve Bank, a special subcommittee is currently investigating the issue of how to regulate risks arising from the derivative markets In arriving at the risk coefficient for a position in derivatives, Van Greuning says that credit will be given for the reduction of price risk due to positions in the underlying asset.

While we wait for the new regulations, however, the existing regulations governing banks and stockbrokers give these players the ability to write "naked" options until they are blue in the face — provided these options are "synthetic"

This raises a fundamental point about regulation, which is that in order to be effective, the regulators need to be at least as smart as the market. That is why most regulators opt for self-regulation, since this places the responsibility in the hands of the market experts

But as John Maynard Keynes once remarked, "it might have been supposed that competition between expert professionals, possessing judgment and knowledge beyond that of the average private investor, would correct the vagaries of the individual left to himself It happens, however, that the energies and skill of the professional investor and speculator are mainly occupied otherwise".

Possibly in fooling the regulators?

☐ **Wixley is a consultant in derivative instruments for the banking and finance section of KPMG Aiken & Peat.**

Cape Times 22/6/90

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SAA won't be privatised in near future — Bartlett

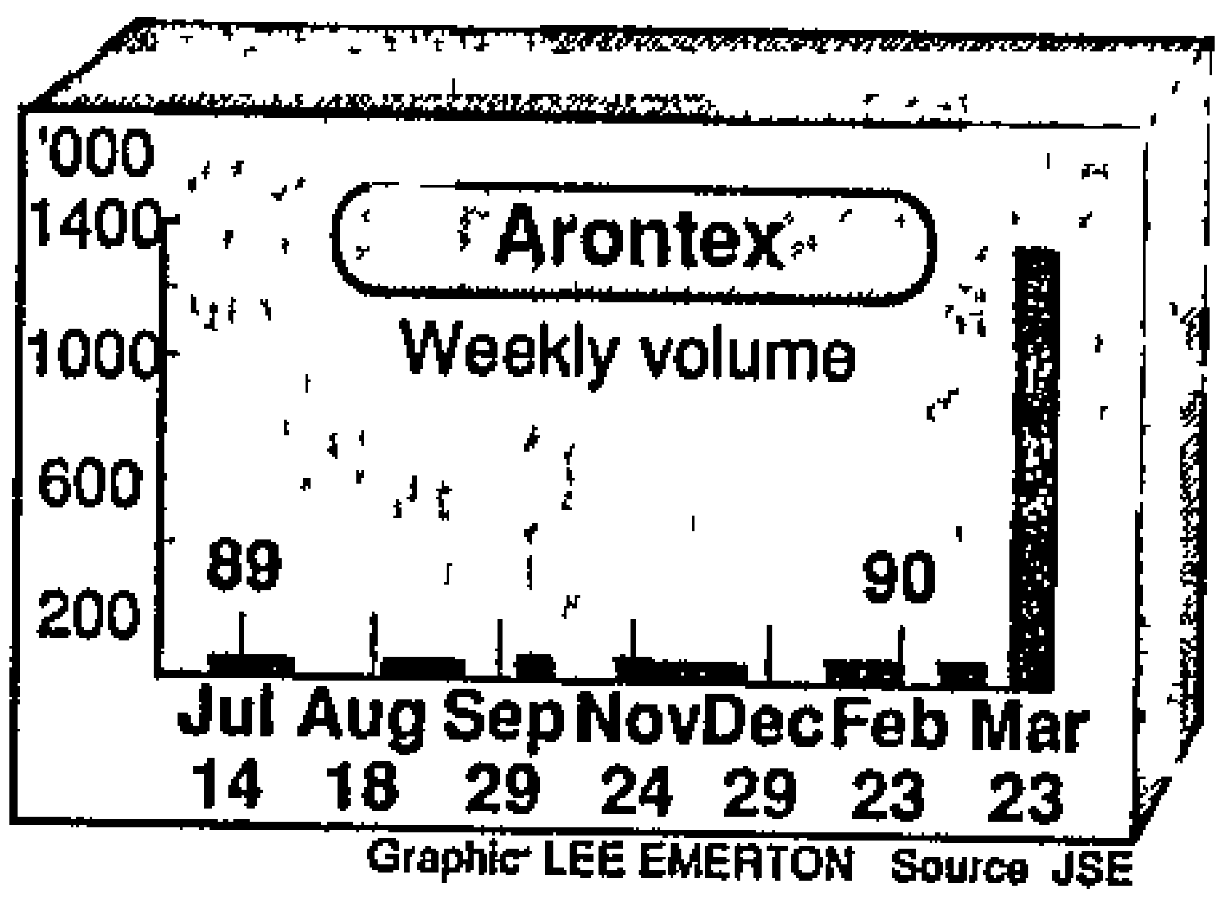
THE South African Airways would not be privatised in the near future, the Minister of Transport, Mr George Bartlett, said yesterday.

Introducing the second reading debate on the Air Services Licensing Bill, he said it was aimed at providing safe and reliable services to the public

In supporting the bill, Mr Robin Carlisle (DP Wynberg) said the bill needed the full support of the private sector.

Mr Errol Gordon (LP Bergrivier) said this was an authorisation bill to compete with the SAA and could be a forerunner for the privatisation of the SAA. The LP supported the bill

This bill prepared the SAA for privatisation, Mr Jurgens Prinsloo (CP Roodepoort) said The CP opposed the bill. — Sapa



Graphic LEE EMERTON Source JSE

Probe into Arontex

ANDREW GILL 232

AN EXAMINATION of Arontex Holdings's share register has shown that a director sold sizeable amounts of his shares in March. B Day 22/6/90

The examination followed Tuesday's announcement by the JSE that it had sent to the Registrar of Companies documentation relating to deals in the shares of Arontex Holdings for the period from March 7 to March 21.

During the last week of trade before the suspension of Arontex on March 21 more than 1,2-million Arontex shares changed hands. Arontex was provisionally liquidated on March 20.

Investigations into the transfer of Arontex shares during March disclosed that one of the company's directors, Jorin Ryckebusch, sold 800 000 shares, and Martine Yvonne Roessel (not a director), sold 380 000 shares to Kayemess Nominees

☐ To Page 2

Arontex

B Day 22/6/90

(Pty) Ltd

Both Ryckebusch and Roessel were registered at the same postal address in Port Shepstone Ryckebusch currently holds 8 000 shares in Arontex

The deal occurred after March 15, according to McGregors's ("Who owns Whom") database A McGregors spokesman said Kayemess had no more than a 0,2% holding in Arontex at that date

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Kayemess's 1,2-million shares represent more than 10% of the issued shares of Arontex No more than 200 000 shares changed hands in any Arontex deal during the year to March 16

Jan van Blerk, a spokesman for Arontex's liquidators Metrust, said shareholders were still not sure whether they would get anything for their shares because the company had been finally liquidated but details had not been finalised

STimes 24/6/90

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W&A restructure hints

Chairman Jeff talks of options

BY DAVID CARTE

FSI and W&A watchers are standing by for yet another restructure of Jeff Liebesman's many-tiered empire.

Chairman Liebesman says in the W&A report for the year to last December that the group will spend the early part of the current decade getting better at what it already does. The emphasis will be on consolidating and building up core businesses.

But some eyebrows have gone up over his promise to "remain alert for exceptional opportunities" and another statement: "We continually examine options for streamlining the financial structure of the group so as to improve operating returns and management effectiveness as well as to improve the upward flow of earnings."

JEFF LIEBESMAN ... rules a many-tiered empire

At a time when interest rates are positive in real terms, there is a considerable amount of debt in the FSI-W&A empire

Some analysts expect corrective measures Because of its outstanding return on equity (23,6%), W&A can contemplate a rights issue without dilution despite an earnings yield of only 13,8%

One speculation is that FSI will sell Formscaff to one of the subsidiaries or associates That would move cash higher up the structure and debt lower.

Revamped

The group could be more liquid, particularly since there is another R164m of long-term debt higher up in FSI.

W&A's net debt rose by 81%, or R110m, to R259,2m. Assets rose 27% to R1,2bn. Most (R93,6m) of the new debt was long term, R40m arising in new-look Vektra (formerly Tarry's) and R30m in a revamped Teamcor.

Mr Liebesman says gearing has been held at 31%, but that is to measure it less than conservatively.

If shareholders' funds are marked down for a R120m shortfall between the market value of associates at cost and intangibles, such as trade marks and patents (R135m) are left out, they are reduced from R823,5m to R555,6m Net debt total shareholders' funds becomes more like 47% Total debt (R357,9m) to total shareholders' funds is 64%

Last year the interest bill was high at R73,4m It equated to a rate of 23% on average total debt for the year. The abnormally high rate is because 49%-owned Homemakers' interest bill is equity accounted, but none of its debt is shown on the balance sheet

Homemakers' net debt has soared by R84,9m to R102,7m. This is out of sight in W&A.

Enlarged

Debt:equity, of course, is not the only measure of liquidity. Another is the number of years it would take net cash flow to mop up total debt — 3,3 years, which is quite comfortable.

But by yet another measure, interest cover is a bit slender at 3,6

The additional debt was needed to fund an enlarged group, whose turnover soared 43% Stocks and debtors were held to 18% and 28% rises respectively and the current ratio was a comfortable 2,7

Balance-sheet items that soared were patents (84%), investments (42%) and outsiders' interest (31%)

W&A's gearing could be a strong bull point when interest rates soften Each percentage point decline in rates over a year would represent a saving of about R3,5m Higher rates, of course, would cut the other way

The W&A report is impressive for its glossy pictures, copious information, good organisation of material, the clear statement of the company's mission and modus operandi But W&A could provide better segmental information and more on unlisted interests

Mr Liebesman paints a picture of a company growing fast "in a disciplined manner" W&A has a clear focus "Manufacture and distribution of basic consumer and industrial goods."

Brains

But the company seems to go for nearly any type of acquisition, from shoes to pharmaceuticals and even timeshare development

Hunts, which chipped in R46,1m to the bottom line, is by far the biggest income source, followed by Homemakers, which contributed R20,3m AAF brought in R7,3m and MacPhail R3,3m That accounts for R77m of earnings of R86,1m

The group does not lack for financial brains — there are 10 CAs and two BComms in a board of 15

There are only three non-executive directors, two of whom were full-time employees in the past A couple more independent outsiders would be reassuring now that the group is so large

The company is looking for "satisfactory" earnings growth this year If it achieves that in spite of the appalling economic climate, it will buck the trend and prove conclusively that the phenomenal successes of the past five years were based on far more than effective financial engineering

Light on horizon for FVB holders

S Times 24/6/90

Business Times Reporter

THE suspension of Federale Volksbeleggings (FVB) shares on Friday could herald the long-awaited offer to the long-suffering minority

A minority take-out is only one option for controller Sankorp It could also restructure the company, sell assets, or place the conglomerate, or parts of it, in its other conglomerate subsidiaries, Murray & Roberts or Malbak

It might have nothing to do with FVB, but some M&R directors are learning to speak Afrikaans

An analyst says that if M&R or Malbak were involved, their shares would also have been suspended It is also unlikely that a large scale carve-up will take place while the minority is still on board The best bet is a take-out, recapitalisation — then a ruthless rationalisation drive

If there is to be an offer to the minority, Sankorp will have to offer a good premium on the 300c at suspension, even though the closing price is a big gain since Business Times tipped the share as an asset situation at 230c on May 6

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Fat

One analyst says "Minority shareholders have stayed with underperforming management for years on the grounds that this was a good asset situation They won't accept any offer unless there is a fat premium"

FVB has done abysmally relative to its rivals for 20 years, hence the large discount to asset value, but it is of considerable historical and sentimental significance It was the vehicle by which Afrikaners made their mark in private industry Four years ago Sankorp had several problem children Today FVB is the only one

The company has sound subsidiaries with large market share, such as Fedics, Fedfood, SA Druggists, Firestone, Avis and Wilson Parking and a minority stake in Satbel — but it has always had acute problems in one area or another

Tractor-maker FedMech and white-goods producer Tek are the latest headaches The group has long been too highly geared After losing most of shareholders' funds to forex errors, it has twice been recapitalised in the past four years

Fed Volks may shed subsidiaries

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538

Star 25/6/90

Finance Staff

Analysts believe the suspension of Federale Volksbeleggings' shares on Friday at the company's request is related to the disposal of loss-making subsidiaries, in particular Fedmech and Tek.

These two subsidiaries were largely responsible for Fedvolk's 35 percent decline in earnings in the year to end-March 1990.

A company announcement said the Fed Volks directors were investigating proposals which could have a material effect on the company.

The shares stood at 300c when they were suspended after having risen by 40 percent since their April low

The listings of both Fed Volks' ordinary and convertible preference shares were suspended pending negotiations

Neither Fed Volks' chairman Marinus Daling nor managing director Peet van der Walt would expand on the announcement and said a further announcement would be possible next Monday when the listing might be reinstated.

US sale talk puts pressure on De Beers

(232)

MERVYN HARRIS

JSE flagship De Beers came under strong pressure on Friday on reports that a US fund was apparently selling its holding in the diamond leader as part of offloading a major portion of its portfolio

Market talk was that the US fund was quite illiquid and was taking profits on shares in its portfolio. It is believed to have sold 300 000 De Beers shares and another 300 000 were said to be overhanging the market

B/Day 25/6/90

De Beers shares tumbled 3,3% or 300c to close at R88 on Friday on 136 110 shares worth almost R12m changing hands in 138 deals The latest selling means the shares declined 5,9% on the week and it could open even lower on the JSE today as the shares were quoted at about R87 in New York dealings

The finrand firmed to R3,9050 from R4,050 at the start of the week with currency dealers ascribing its strength to supply and demand factors in a thin and quiet market. They said there had not been much creation of finrands on the JSE through overseas selling or buying of SA shares and the Sappi acquisition of five UK paper mills in partnership with an international consortium had no impact on the market.

The strength of the finrand provided no cushion for sliding mining shares on the JSE and gave a further twist to the downward spiral of the market. Most analysts believe the worst is not yet over for the gold price and expect the metal could go below $340

Trading was therefore sluggish in a nervous market as investors adopted the maxim, when in doubt, stay out, and most institutions remained on the sidelines

Relief from the woes on the mining board was, however, provided by activity in the financial services sector with market talk that Anglovaal, the only one of the major mining houses what did not have a financial services division, on the prowl for a bank after the group's formation of a R500m life assurance company

Richemont was the strong feature on the industrial board as the shares raced up to a peak of R25,80 before backtracking on Friday to close at R25,25

See Page 6

Federale shares suspended

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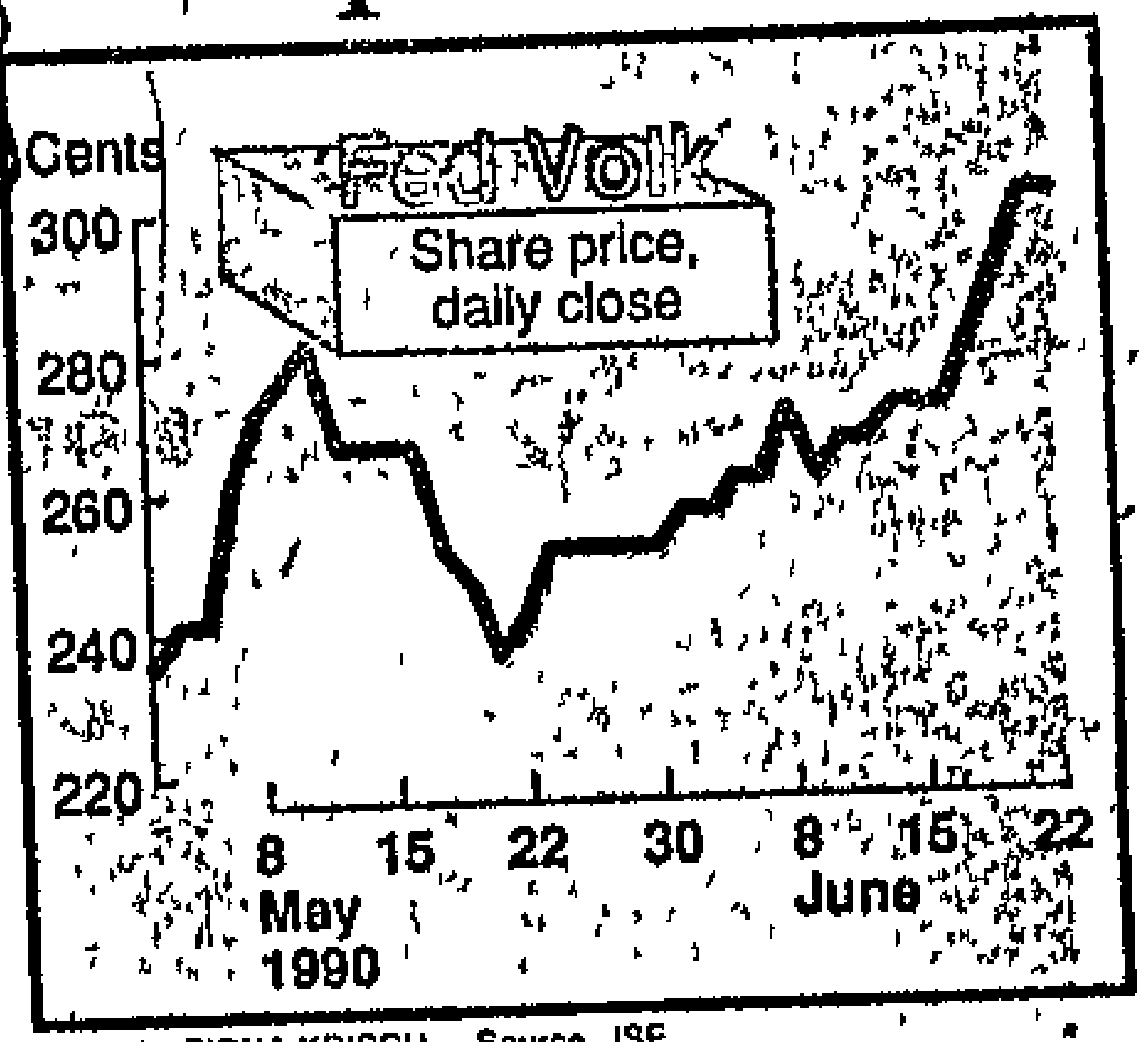
CHARLOTTE MATHEWS
and PIERRE DU PREEZ



Graphic FIONA KRISCH Source JSE

THE suspension of Federale Volksbelegging shares on the JSE on Friday was believed to be related to the disposal or restructuring of poorly performing companies that pulled down the annual results released in May. B|Day 25|6|90

Federale was suspended at 300c after climbing 27,6% or 65c from 235c at the beginning of May This contrasted with the net asset value of 538c a share

According to sponsoring brokers Senekal Mouton & Kitshoff, Federale directors were involved with a reorganisation that

☐ To Page 2

Federale

B|Day 25|6|90

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☐ From Page 1

could take up to a week to finalise

Federale CE Peet van der Walt declined to comment, saying that a full announcement would be made next Monday, when the company's listing might be reinstated

He felt Federale would benefit from developments currently under way An announcement said company directors were investigating proposals which "could have a material effect on the company"

Market analysts generally agreed on Friday that a reorganisation had been looming for some time

The Federale group includes a range of diverse activities including Avis, Ster-Kinekor, Link, Price Forbes, Teljoy, Firestone, Exide, Simba and Tabletop

Analysts said the major contributors to Federale's 35% drop in earnings for the year to March were appliance group Tek and farm equipment supplier Fedmech

At a media conference in May, Van der Walt said remedial plans had been introduced to return the group to profit growth, including rationalisations, disinvestments and other operating strategies

More than one analyst rejected speculation that holding company Sankorp could be planning to make an offer to minorities and to de-list Federale

Another said there were two options Federale would be looking to unlock some of the value of the wholly owned subsidiaries by listing them separately, or it would sell off the poorer performers

B\Day 26\6\90 (232)

chemont closes at new peak ahead of results

RIAL leader Richemont
to close at a new peak of
n the JSE yesterday after
steady rises over the past
ks

sts said the rise was prob-
ad of good results from
s-based corporation, con-
y the Rupert family of SA,
ear to March Results are
released on Thursday

ZILLA EFRAT

Davis Borkum Hare analyst Pierre Greyvensteyn said the earnings were expected to show growth of more than 30%

He said rumours that Richemont — listed in Zurich, Geneva, Basle and Johannesburg — might float off its luxury goods arm, Luxco, in a separate listing had been around for some time.

Richemont, through its own holding and its stake in Rothmans International, had a 99% interest in Cartier Monde, which consisted of Baume & Mercier and Piaget and which was largely involved in luxury watches and jewellery.

But Greyvensteyn could see no logic in the floating of this investment as Richemont was cash-flush

JD Anderson research head Charles Booth said a separate listing of Luxco might enable Richemont shareholders fully to realise Rothmans' true value

Another reason for the rand-hedge stock rising could be expectations of a weakening rand

A London spokesman for the group declined to comment before the publication of the results.

Tradegro companies in shake-up

B Day 26.6.90

MANDY JEAN WOODS

TRADEGRO subsidiaries Frasers Consolidated (Frascon) and Frasers Ltd will be delisted from the JSE on Friday, and the black clothing chain Smart Centre will be listed on July 2, merchant banker for the deal, DMB Securities, says in a statement issued today

This follows a deal in which Frascon and Frasers opted for voluntary liquidation as part of a major restructuring of Tradegro.

According to the terms of the deal, for every 100 Frasers ordinary shares, shareholders will receive 84 shares in Metro Group, eight shares in Cashbuild, and 200 shares in Smart Centre.

80 232

Cash

Frascon shareholders will receive 41 shares in Metro, three shares in Cashbuild and 98 shares in Smart Centre for every 100 ordinary shares they hold

Holders of Frascon and Frasers shares will receive a cash consideration of about 133,9c and 70,9c respectively for each share.

DMB Securities says final liquidation and distribution accounts of Frasers and Frascon will incorporate interest on the cash resources of the companies for the period since the date of liquidation

Shareholders will be notified of details of the final cash award once the final liquidation and distribution accounts have been confirmed by the Master of the Supreme Court, DMB Securities says mittee chairman

...ial responsibility programmes and major sport sponsorships, he said

Spectrum application

SUSAN RUSSELL

(232)

DCM-listed Spectrum Industrial Ltd was provisionally liquidated in the Rand Supreme Court yesterday following an urgent application by director and shareholder Brian Benjamin

B/Day 27/6/90

In an affidavit Benjamin, who holds 624 000 ordinary shares in the company, said Spectrum, a distributor of industrial and engineering products, had liabilities of R9 632 333 and assets of R8 411 667

It is also the holding company for three subsidiaries — National Hardware Wholesalers (Pty) Ltd, SA Industrial Supplies (Pty) Ltd and Weidner Cleaning Equipment (Pty) Ltd Another subsidiary, Spectrum Industrial Properties (Pty) Ltd, was recently sold

Benjamin said a fifth, Titan Tool Hardware (Pty) Ltd, was no longer a subsidiary and was now controlled by himself and three others

He said Spectrum was hard hit by high interest rates and difficult trading conditions last year

When interest rates rose more than 20% Spectrum found it necessary to rationalise and dispose of businesses which had proved to be unprofitable.

Benjamin said if the interests of controlling shareholders were to be bought the purchasers would be compelled to inject more than R2m into Spectrum to make it solvent and provide adequate working capital

"The alternative would be to dispose of the (company's) business In either event it is impossible for the company to continue trading indefinitely on a cash basis"

B Day 27/6/90 (232)

Share price shuffling could disguise market's fragility

With three days to month end, there is concern on the JSE that big players might be shuffling share prices, writes **MERVYN HARRIS.**

IT IS window dressing week on Diagonal Street.

With only three days to go before the important June quarterly and year end for major institutions and unit trusts, a shuffling of share prices could mask the underlying fragility of the market

Rising share prices make a big difference to the performance of institutional portfolios, and these figures are used to compete in the market place

Competition to attract new investments, particularly among insurance companies, has become more fierce over the past year and the past month's shrinking market could have tarnished performances

Unit trusts will better be able to market the units they have to sell if their funds can show consistent growth. Pumping small amounts of money into index shares in a thin market could transform the performance of the funds in the June quarter

This week's rise in the spot and futures markets has come on small volumes with turnover just under R72m on the JSE on Monday. This contrasts with turnover ranging between R120m and R142m in the previous week's market downturn

Rising share prices on small volumes is making some traders nervous They believe it indicates the fragility of the market, which should prompt extreme caution.

Igniting the market on Monday was the rise of less than $5 in the gold price to above $350 There is nothing like a firmer gold price to bolster optimism on the JSE

But the "mining town" mentality, still a feature of trading on Diagonal Street, tends to go into overdrive. Quickly forgotten is that gold has shed about $70 since peaking earlier this year around $425

Surging share prices were therefore out of proportion to the gold price's rise Professional jobbing could have accounted for much of the trade on both the spot and futures markets but the hot air coming out of the international gold conference in Venice could have also fuelled interest

Liquidations up by a ‘staggering’ 45%

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B/Day 27/6/90

GERALD REILLY

PRETORIA — Company and close corporation liquidations went up in the four months to end April by a “staggering” 45% compared with January/April 1989, Information Trust Corporation CE Paul Edwards said.

Compared with the last four months of 1989 liquidations increased 8% to 604.

He said the higher rate of business failures confirmed the economy was responding to constraints and was slowing faster than estimated.

However, the latest figures were nowhere near the record high of the 1 063 liquidations in 1985 — a figure 76% higher than the current rate.

“We are coming off a low base in 1989 and should rather look at the trend and not the size of the increase.”

Edwards said the economy was set to slow further before interest rates were lowered.

Referring to bank credit, he said this confirmed there were still signs of life in the economy. This was shown by the hire purchase credit growth increase in May of 15,7%.

Typical of the downward phase in the economy was that lending institutions tended to raise their minimum qualifications as the debt default risks increased.

He warned the prime lending rate could be expected to be maintained until the last quarter of 1990. Then rates could be expected to drop to about 17% over the next six months.

With the Reserve Bank’s commitment to maintaining real interest rates, prime rates were not likely to drop below 15% in the longer term.

Cap Times 28/6/90

Controlling with less than 50% equity

z-32

By ARI JACOBSON

WHILE the biggest of the big four on the JSE — Anglo American/De Beers — controls companies totalling 45,3% of the market's capitalised value, it owns a mere 11,9% of the assets reflected on the exchange, says Mathison Hollidge economist Jos Gerson

Writing in The Executive magazine, Gerson says this contrast between ownership and control is perpetuated through a variety of techniques by which dominant shareholders, whose equity falls short of 50%, obtain total control of companies

He explains "If a controlling shareholder acquires 50% of the shares of a holding company which, in turn, holds 50% of the shares in the underlying operating company, he has effectively acquired control of the entire group with a mere 25% (50% of 50%) of its equity If he interposes yet another holding company, his stake reduces further to 12,5%."

Gerson said the prominence of the pyramid structure on the SA scene is largely attributable to the fact that simpler alternatives — shares with dual voting rights — have long been restricted

"Companies that have already issued such shares are allowed to continue with them and to use them for the purpose of restructuring The Anglovaal group, Wooltru and Rex Trueform are among the exempted companies enjoying the concession"

Gerson mentioned that pyramids and/or dual-class shares are restricted in most major English-speaking countries but quite common in Scandinavia, West Germany, Japan and several other European countries

"As it happens corporate voting power in Sweden is so concentrated as a result of the prevalence of dual-class shares — a few families control almost ~~all~~ the major companies on the Stockholm Bourse."

Gerson said concentrated shareholdings did not necessarily retard corporate performance

"Many people object to the idea of too much wealth being concentrated in too few hands However, the issue is a red herring in the context of determining the ideal corporate structure . so is the colour and identity of the wealthy"

The second objection to the concentrated structure of corporate shareholdings and control was based on the suspicion that it enabled firms to rip off consumers by colluding at their expense

"The domination of a product market by a few big players (so-called oligopoly) does not automatically or necessarily lead to collusion

"The SA motor industry, an oligopoly if ever there was one, suggests that market prices and conditions are highly competitive"

Gerson adds that fears of "excessively" concentrated control which gives the dominant shareholders room to abuse their power at the expense of the minority shareholder must be taken seriously

However, non-controlling shareholders recognise their vulnerability and accordingly demand a discount on shares purchased said Gerson

"That is why, in the case of dual-class shares, the low voting shares almost always trade at a discount to the high-voting shares"

In addition, when controlling shareholders indulge themselves at the expense of the company, they always bear a portion of the cost — a salaried manager who indulges, often gets away scot free, says Gerson

"In the US where the problem is rife, managers and 'outside' directors accumulate all sorts of perks and benefits for themselves They also pile up cash reserves which they refuse to distribute to shareholders lest it diminish their power and influence

"For much the same reason managers keep debt to a minimum After all, having to service debt calls for greater efficiency which is hardly conducive to a relaxed working environment"

Gerson asserts that, to avoid managerial abuse, tough and powerful controlling shareholders are required

Besides the aforementioned methods of issuing dual-class or pyramided shares this could be achieved he said, by raising the level of debt within a company so that putting up 50% of a diminished equity base becomes easier to attain.

"Few individuals, even if one includes the Oppenheimers and Gettys, are sufficiently rich to put up 50% of the value of a large modern corporation"

‘Legalise’ insider trading

BDay 28/6/90

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LINDA ENSOR

PROHIBITIONS against insider trading were “bad laws” as they interfered with the relationship between controlling and minority shareholders and were thus harmful to the economy

UCT’s School of Business Economics director Brian Kantor expressed this view this week at a seminar organised by the Johannesburg chapter of the UCT Graduate School of Business Association

☐ KANTOR

There was an international trend towards giving additional protection to minority shareholders, Kantor said, the reasons for such interventions being political.

“I do not think one should interfere in financial markets in such a way,” he said, adding that it was necessary to take a firm stand on economic principles.

Kantor believed that insider trading was a solution not a problem, though his views aroused opposition from his fellow panelists, Standing Committe on Company Law member Professor Michael Katz and Johannesburg Stock Exchange president Tony Norton.

Kantor said controlling shareholders played an important role in the economy in disciplining managers and were thus vital to efficiency.

“It is important that they play that role and that we don’t interfere with the rewards for playing that role. Insider trading may be one of those rewards,” he said

The interest of outsiders was that the share be properly priced, that it reflect all the information available.

The question was how the information was disseminated

If insider trading was not illegal and the insiders had the freedom to place a value on the shares, they would be competing with each other for the shares, the information would be disseminated continuously into the market and the price would have more information in it and would be a better price for the seller.

“If insiders are trading you can be quite sure the price is the right price All information should be in the market, in the price,” Kantor said.

Kantor argued that a fundamental point was that the gains made by insider trading were expected in the market as a reward for control

Minority shareholders, knowing that insider trading was likely to occur, might still be willing to contract on that basis as they benefited from the close control exercised over management.

But Katz took issue with Kantor’s views saying the problem of insider trading was not limited to the majority shareholder

Insider trading was universally frowned upon and prohibited in every legislature where shares were traded because it undermined confidence in the market place, Katz said

Quoting from an authority on insider trading, Katz said it was not so much a question that the insider trader cheated one person, but that insider trading acted as a systematic bias against prompt disclosure

All ripe corporate information should ideally be disclosed as soon as possible “It is fundamental to the holder of securities that the pricing mechanism works effectively and that the price reflect the value of the securities and it will only do so if the price reflects all the information,” he said

One must have a regime “which provides an incentive to the potential insider trader to disclose information promptly,” Katz argued

Norton said insider trading was inimical to the JSE’s mission to seek “deep and liquid” markets

Public markets were based on confidence and these would not exist unless the market was perceived to be patently fair and honest This was especially important for the small investor who had systematically abandoned stock markets throughout the world

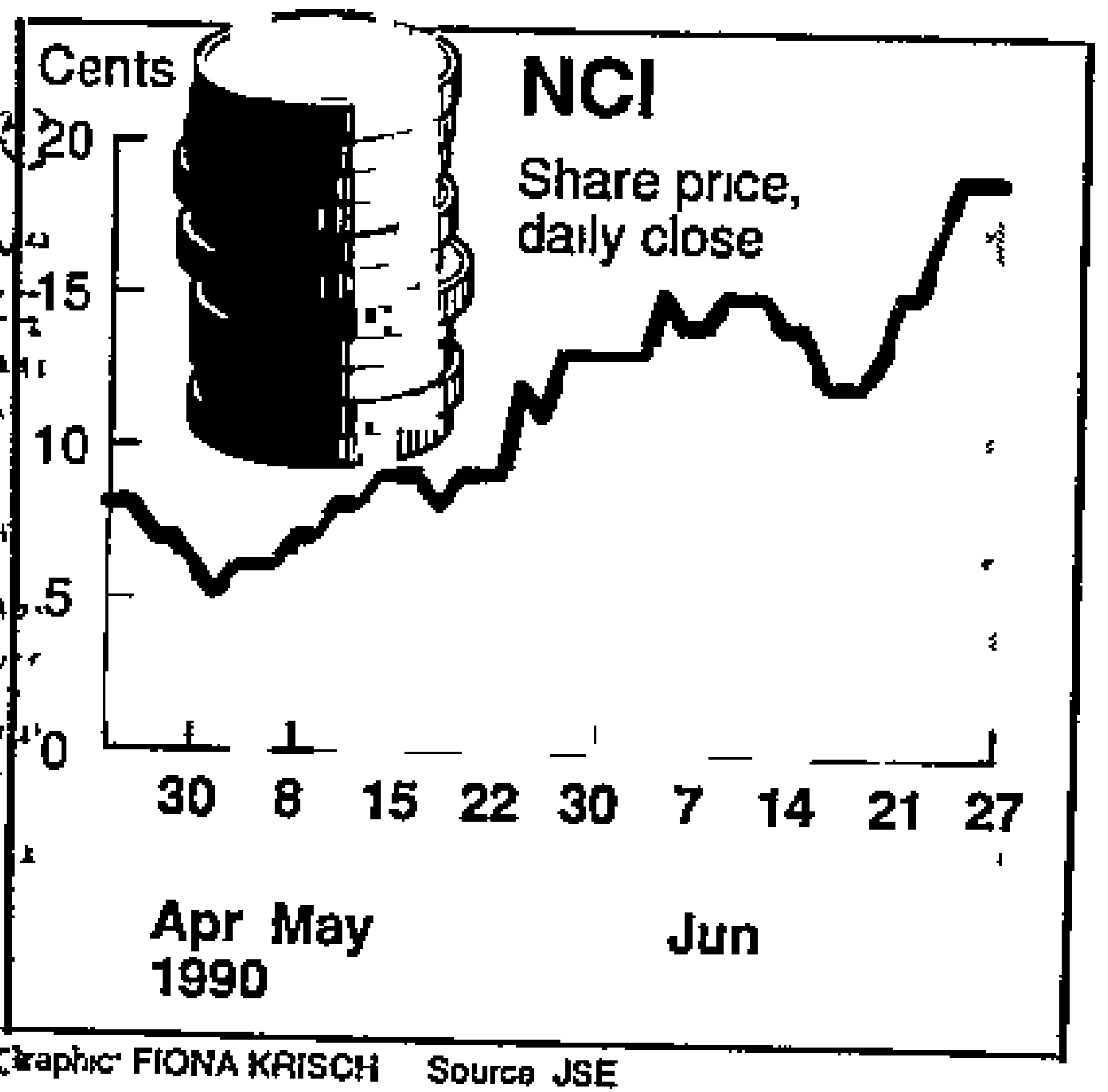
LETTERS

(232)

NCI in 'sensitive overseas negotiations'

B Day 28/6/90

PIERRE DU PREEZ



Graphic FIONA KRISCH Source JSE

NEW Company Investments (NCI), one of the three companies listed on the venture capital market, was busy with sensitive overseas negotiations, project manager Fouché Fourie said yesterday

This was the background to a cautionary announcement published today which could explain the tremendous activity experienced in NCI's share since the company's listing in April

NCI was the overall volume leader last week Since its listing, an average of 1,5-million shares have been traded per month

This is in stark contrast to other shares in the venture capital sector and the DCM

Last week NCI's share price posted the largest increase on the JSE — a rise of 58,3% from 12c to 19c compared with the yearly low of 5c

Fourie said he was optimistic about the company's future prospects

"The venture capital market industry is booming at the moment — we are also looking at a main board listing some time in the future," he said

But he emphasised that the NCI was a share for the serious long term investor, as most of the projects the company was involved with could only mature in about five to seven years

There was a definite move towards getting involved in new technological projects overseas, making it less prone to local economic conditions

NCI's interests include manufacturing electronics, mining supply and water purification

SOWETAN BUSINESS
Building the Nation

Protection for the worker comes first

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Sowetan 28/6/90

APARTHEID required regulations and licence control. To enforce separation of the race groups and suppress the black people, laws and rules were necessary.

Initially these racially discriminatory rules assisted business The market for goods produced was adequate and the White people could supply the skills needed for the economy But from late 1960's economic growth also became constrained by apartheid rules

Furthermore the 1973 Natal demonstration strikes and 1976 Soweto uprising worried business because they strengthened the international campaign against South Africa

Business formed pressure groups to lobby Government to change to what it saw was needed, eg. Urban Foundation and Free Market Foundation (FMF)

FMF argued that regulations should go and state enterprises be privatised This argument was accepted in the wider society because in the examples to explain those principles, the racial constraints on the Black people were quoted.

Hence initially the ideology of free markets and individualism was not challenged But as a new South Africa starts to emerge with no racial constraints the impact of that ideology as solutions for the country's problems has to be questioned.

Federations

The union federations have warned against privatisation and deregulation The assumption that no rules are necessary and collective needs of people are not the State's responsibility has to be challenged

Other pressure groups such as Job Creation and the Sunnyside Group want no restrictions to be placed on the small businessman in his employment practices Whose interests are they protecting?

Industrial relations

Unions fight for and have achieved throughout the world protection of their members against exploitation and industrial injustices Black unions fought for recognition in the last two decades

Industrial relations principles of due process and fairness, which procedures of the recognition agreement requirements are now supported by the Courts

WHY is deregulation seen as the answer to all problems? Should small businesses not be responsible to those who work for them? Will the removal of minimum working conditions create more jobs? This article raises the issues around the questions.

The minimum wages and working conditions in agreements negotiated by unions and employers' associations for an economic sector improve the quality of life of most workers covered by the LR Act

Civilised societies develop institutions such as the Industrial Courts, industry training boards and collective bargaining forums (industrial councils) because it is recognised the individual worker is powerless He has to beg for work and cannot protect himself

Contract

The employment contract between the individual worker and the employer cannot be equal unless

* there are minimum job protection requirements,

* there is enforcement to ensure that employer adheres to these minimum requirements

What are they?

Who does the checking?

The conditions of work and quality of life which have to be protected include.

* hours of work, control over amount of overtime, payment for overtime, paid holidays, mutual funds to pay for doctors and medicine and other medical costs, some protection when injured on duty, safety in the workplace, risks against dangerous substances which damage health,

* social security schemes to give sick leave when off work because of illness, when old age forces retirement, when unemployed, when there is retrenchment, when the factory is on slack, ie shortage of work because of unforeseen circumstances,

* a training levy to set up training institutions to help people learn a wide range of skills

This is why over the decades labour laws have been developed such as Basic Conditions of Employment Act, Guidance and Placement Act, Wage Act; Workmen's Compensation Act, Machinery and Occupational Safety Act, Unemployment Insurance Act, Manpower Training Act, Labour Relations Act

Apartheid

The removal of apartheid laws must not be used to quietly retrench social citizenship protection and rights of the above laws

Business pressure groups must not remove protection in the name of profit as the only goal to guide society

Are those business people prepared to say the following are not entitled to protection

The injured worker, the worker with a lung disease or cancer from chemical substances, the worker who is not paid on time, the worker who is paid for an unskilled work but does a responsible job, the widow whose husband was killed because of employer negligence, the worker retrenched after 10 years service, the worker who is sick, etc

Regulations require enforcement to ensure adherence In the field of industrial relations this is best done through shop stewards, agents of industrial councils, inspectors of the Department of Manpower

Since the 1980s the department's statutory institutions are emphasising ideas such as self-regulation by the parties in occupational health, devolution in the establishment of industry training boards

Industrial relations is concerned with social rights and procedural and regulatory requirements which cannot be compared with licensing controls

Pressure

The pressure from the current Government through the Department of Manpower to force industrial councils to give permanent exemptions for small business defeats the principles of labour policy of the Government

The present principles are tripartism, freedom of association, maximum measure of self-government, minimum measure of state intervention, etc

The present Government cannot claim to protect public interest in the deregulation and privatisation policies as they were set by a white Government in response to interest of business pressure groups

Should the Department of Manpower not stop all privatisation and deregulation plans?

The exemption process and renewal

The business lobbyist for free enterprise, deregulation and privatisation can no longer hide behind apartheid restrictions and inappropriate licences requirement to promote their ideology

The social context for the situation has to be acknowledged The FMF attempts to deregulate everything in the Ciskei ignored the social context

The above concerns do not mean certain situations do not require special consideration and exemption from regulations A number of industrial council agreements might require renewal

Process

Now that black unions are party to industrial councils this renewal process can be started

But those situations and the disputes caused by them can be processed Industrial councils do grant exemptions to small business or companies making specialised products

In the 1960's industrial councils did exempt certain employers in consultation with the workers, from certain clause of wage agreements - but for a specified period

If these exemption processes are not working or cumbersome, then they should be and can be simplified There might be a need for an independent objective arbitration procedures for temporary exemption from certain rules established in the name of protecting of social rights, if industrial councils are believed to be unfair

The idea of a body like a small claims court but, then for the employment relationship, could be considered

The experience of a decade of industrial relations can be brought together by federations such as Saccola, Nactu and Cosatu to negotiate a code of conduct to help small business

Such a code could ensure specific agreement clauses of certain industrial councils are not restrictive for a small business in the first year of its operation

Business

Small business faces financial costs to ensure the social rights of the ordinary worker are protected But they are not exorbitant and do not prevent their operation

At the same time they are for the common good And the new South Africa is a South Africa where privilege cannot be maintained for a select few

SOWETAN BUSINESS

Investing on the JSE

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Sowetan 28/6/90

LAST week, we discussed some of the principles of investing on the JSE. Today I would like to talk about how one accumulates wealth by investing on the JSE and what the risks might be.

Let us consider what it means to buy shares.

Assume you have R1 000 to invest; share A has a price of 100 cents and share B a price of 1 000 cents. (Remember that share prices are quoted in cents) Which one should you buy?

Well, for R1 000 you could buy 1 000 of the A shares and 100 of the B shares. Now, assume that there is a strong demand for B shares and the price increase by 15 percent to 1150 cents. Your 100 shares would now be worth R1 150.

If the price of share A moves up by 5 percent to 105 cents, 1 000 shares would be worth R1 050 Clearly share B would have been the better one to buy.

Some tips

The important message is that it is not the original cost of the share which should influence your decision to buy shares What will happen to the share price in the future is what counts.

Here are a few tips on buying shares.

1. Never borrow money to buy shares If the share price go down and you have to repay the loan before the prices go up again, you will be in trouble.

2. Never use money which you are going to need in the near future to buy shares. If you have saved up money and are going to need it within the next 12 months, do not invest it on the JSE. The prices of the shares you have bought could go down and may not have gone up again by the time you need the money.

3.Before you buy shares make sure that you have enough life insurance and have some money for emergencies in a savings account. If you buy shares and then unfortunately die, your dependants will only get the value of the shares

Life insurance will see that they are better looked after financially And if you suddenly need money for an emergency, you might have to sell you shares at a price lower than you paid for them.

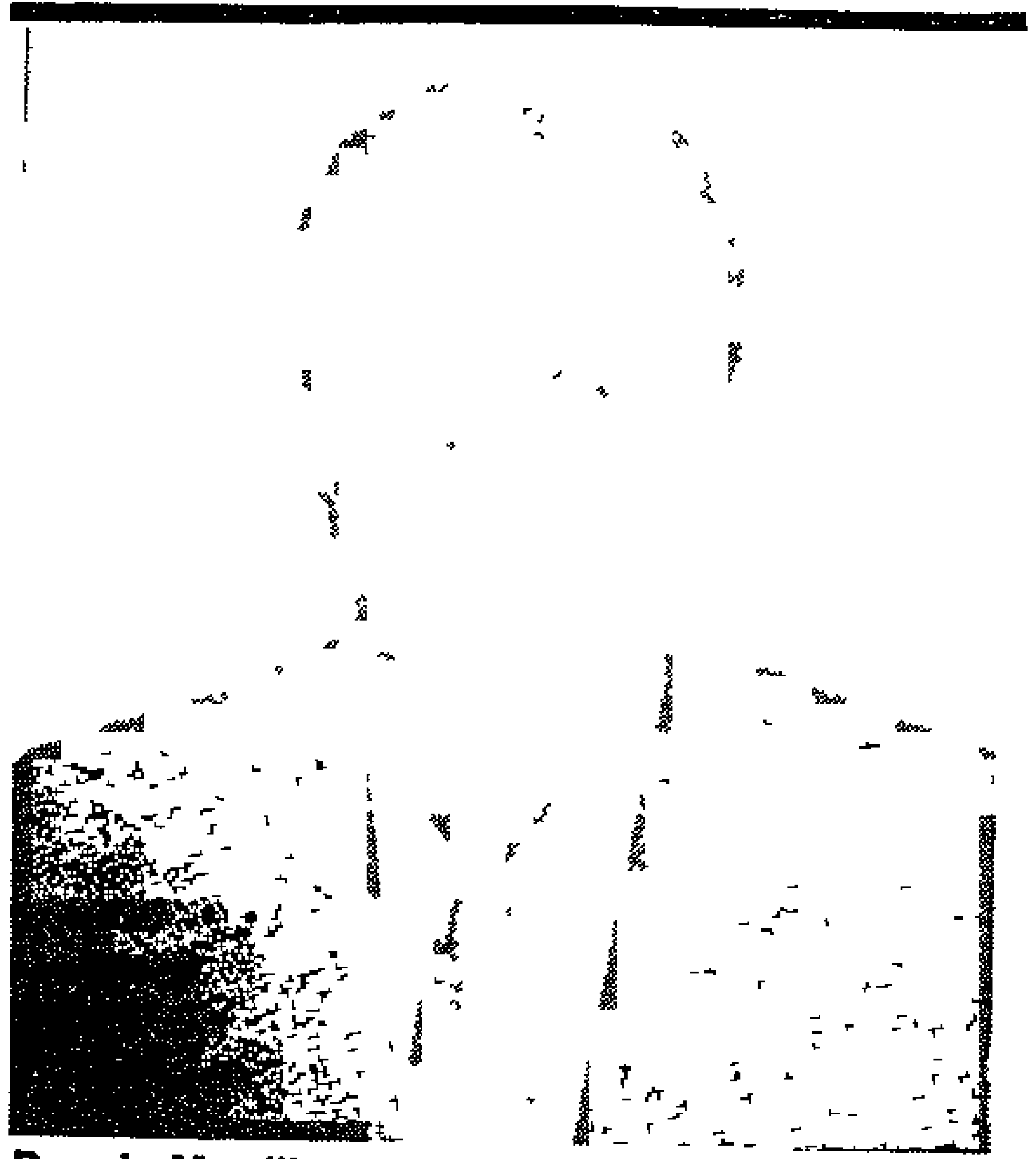
4 Do not buy shares on hot tips Several people buy shares in the same way they put money on the horses. Quite often, at the race track, the hot tip does not win the race. The same thing happens with shares.

Rather get qualified advice from someone who knows the market very well before buying shares

5. Do not be afraid to ask for advice As I have said, only a stock broker can buy and sell shares on your behalf. On the other hand many financial institutions like banks, building societies and insurance companies employ advisors who can help you. They will be happy to give you advice and put you on the right road.

When you buy shares, you must buy 100 shares or multiples of 100 You can buy 500 shares in a company, but you cannot go out and buy 530 shares.

What is more, you must pay for your shares within seven days



Dennis Marrilier of Southern Life continues his articles on the Johannesburg Stock Exchange. This is the third in a four-part series to help readers gain an understanding of the JSE, hitherto a closed book to us. For more information contact any office of the Southern Life, one of the bigger investment companies in the country.

Let us have a look at what it costs to own shares. I have calculated what you would need to invest in just four companies' shares; namely Anglo American, First National Bank Barlows and Rembrandt.

Company	No of shares	Price bought in R
Anglos	100	12 975
First National	100	3 000
Barlows	100	3 835
Rembrandt	100	1 070
TOTAL	400	20 880

* Price as at 31 May 1990 and stock broker charges have not been takeninto account

As you can see, one requires a substantial amount of money to buy blue chip shares And we have only looked at four shares, so if one buys shares in 20 or more companies, the cost will be so much higher

In fact, many stock brokers would expect you to have at least R20 000 (some require as much as R100 000) before they will set up a portfolio of shares of you

The secret to successful investment on the JSE is to buy shares and then sell them for a higher price at a future date. The difficult part is knowing which shares to buy, when to buy them, and when to sell them

This is the risk attached to investing on the stock market. If you buy the wrong shares, or at the wrong time, you could stand to lose part of your money

Risks

Let us examine the question of risk a little more closely

To explain, let us divide the "risk" into two categories On the one hand, we have what is known as "market risk". Market risk does not affect a specific company but applies to shares in general Company risk, on the other hand, affects a specific company and its shares.

Market risk factors

Politics can cause a change to the supply and demand of shares in general in a number of ways

For example, in February this year Nelson Mandela was released from detention This political action was welcomed by many and the optimism which followed caused and increase in the demand for shares The result was that, in general, shares prices went up

When Mandela discussed early views on nationalisation the following week, however, the business community reacted adversely to his political statement The result was a fall in share prices

Local politics will also affect overseas investors. If they are not happy with our political situation, they will not want to invest their foreign monies on the JSE. This, too, will cause a drop in share prices

Factors

Politics is one example of the many things which affect share prices. Other factors include sanctions, interest rates, inflation and exchange rates These are simply some of the things that cause share prices, in general, to go up or down.

The important thing about market risk is that there is nothing which you and I (as individuals) can do about the factors to make them change. For years, share prices have gone up and down

If prices are low, be prepared to wait and they will go up again. But remember, it could take months, even years for share prices to increase

Company risk

Company risk relates to specific companies What may effect one company may not have any relevance at all to another company.

For example, good management will mean much for one company but nothing for other

Some of the factors which impact on the prices of specific company shares include management ability, industrial realations within the company, competition, etc. For example, a well run company (good management) is likely to prosper and its profits should increase

An increase in profits could mean an increase in the dividends which it pays to its shareholders, thus increasing the demand for its shares.

Again, you there is little that you and I can do in our personal capacities about company risk. If you buy just one company's shares, and that company does not perform well (or, worse still, should go under) you would lose your money

On the other hand, if you owned shares from a number of different companies and one does not do as well as all the others, you will still gain from the good performance of all the other.

Concept

This concept - of owning a number of different company shares - is known as spreading your risk. It is like the expression "Do not put all your eggs in one basket"

In summary, therefore, the best way to invest on the JSE is to spread your risk and to have time on your side Do not invest all your money in the shares of one company, but buy the shares of a number of companies. If the share prices, in general, fall then you must be prepared to wait until they go up again before you sell your shares.

Next week I will tell you a little more about investing on the JSE, and show you a very effective way of investing on the stock market

Futures floor tensions rise

GRETA STEYN

TENSION about the cost of trading on an exchange floor is mounting in the gilts and futures market as the time draws near to start putting down money for dealing facilities on the recently completed floor in the JSE's new building. (232)

Bus Day 28/6/90

Banks are becoming increasingly worried about the extra cost of running a floor operation alongside their traditional screen trading rooms Another source of major worry is the insistence of the JSE — as owner of the building that houses the new floor — that members who take up floor space have to sign three-year leases.

These fears, which have been simmering since a compromise decision to have a dual floor/screen trading system, this week sparked a special meeting of players in the gilts and futures markets It was attended by most of the banks and other non-JSE members of the exchanges, as well as futures exchange (Safex) CE Stuart Rees.

Rand Merchant Bank's Russell Laubscher said yesterday "People are worried about costs, especially in the current depressed and uncertain state of the markets, and the meeting was held to voice our concern and get the facts straight"

There has been market talk of a mass pull-out from the floor by the banks, most of whom 10 months ago agreed in principle to take up space on the floor. Notable

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exceptions were Nedbank and UAL

But Rees yesterday dismissed rumours of a mass walkout, saying "The floor is going to work Market participants who had not committed themselves to dealing on the floor are now coming forward and asking to join"

He took seriously the concerns raised with him this week about the cost of the dual trading system But he noted that Safex and the EMA (the gilts exchange) had not deviated from the original budgets presented to the markets 10 months ago

He could understand reluctance to sign up for three years because of uncertainty over the future of the markets

"But I also understand the JSE's point that its building is a special one requiring the certainty of a longer term lease That is the dilemma we now have to resolve"

The average down payment for space on the floor comes to R35 000 Banks, and other market players with screen-based dealing rooms, would still have the added cost of keeping a dealer on the floor and the cost of telephones and Reuter trading screens However, Rees says a futures dealer with a reasonable share of the all-share index contracts will find the exchange-imposed costs of one contract (excluding clearing fees) would come to only about 0,01% of the contract's face value

He said Safex expected to be opened as a formal exchange on August 10

The JSE was the only market participant to vote in favour of floor trading when a vote was taken on floor versus screen trading two years ago — but in spite of the majority view, a compromise decision to have dual trading was eventually reached

FM 29/6/90

ARWA/TGH/DUROS FM 29/6/90

Claasen's full circle

Why has Johan Claasen just paid TGH R42m cash for a group with a net asset value (NAV) of R20,5m (*Companies* June 8) and interest-bearing debt of R56,8m? Like a gypsy peering into a clouded crystal ball, the answer is not immediately apparent

Claasen consummated the deal by selling his remaining 5,9m Duros shares at 650c a share to the Duros controlling consortium led by Mervyn Key and Julian Askin

For Claasen, it was full circle He first bought control of then ailing Arwa in 1986 In 1987 the company was listed and he was appointed to the boards of the Duros/TGH group From R3,9m, attributable profits rose to R7,3m in 1988, in which year he sold his 58,5% to Duros/TGH 232

The 1989 accounts show an attributable loss of R2,8m, a debt equity ratio of almost three, a fall of more than 50% in shareholders' interest since 1987, and zero debt cover

There are a number of reasons why Claasen reckons it worthwhile to buy back the group Since his original acquisition, the group has diversified both vertically and horizontally There are now six separate entities which make hosiery, fabrics, textiles, yarns, ties and leisurewear on which, says Claasen, about R26m capex was spent last year on expansion and modernisation

These expenditures, reasons Claasen, will not recur for a long time Stocks, far too high at year-end, will be run down to realise cash This, in turn, will ease the debt situation Moreover, he says, he still has great support from the trade and finance houses

The listed Arwa has become a cash shell, its only asset being R42m Claasen says the name goes with his operation and the shell is obliged to drop its use immediately

While he has walked away from the listing with the group's total assets and liabilities, there has been a loud silence from the Duros/TGH consortium on the position of minority shareholders Before the Claasen deal, the Arwa share price was firm at 300c Now R42m cash is NAV of 181c a share, at which the share is "bid" in the market

Perhaps they should not be too upset After all, before Claasen's buy, NAV was just 89c a share And with last year's deterioration in performance and interest-bearing debt equivalent to 245c a share, it is a matter of opinion whether more can be done with the cash in the shell than with the credit in the company 232

Claasen knows the Arwa operation better than anyone He has turned it around before As it is now a Pty operation, the market will be none the wiser about his progress Maybe anonymity was an important reason for paying that premium

Gerald Hirshon

Pillar to post for Manserv minorities

S I Times 1/7/90

(232)

MANSERV minorities can neither sell their shares nor have they been made an offer — several months after the major shareholder has been paid out for its stake.

A special general meeting of Manserv to approve the sale of assets to Cashworths was assured on January 12 this year that the minimum downside of shareholders' investment was a voluntary liquidation amount of 106c a share plus interest.

The two companies had common boards of directors, and were hard pressed by shareholders to prove the arm's length nature of the deal.

In the deal, cash-shell Cashworths came to hold Manserv's assets and Manserv in turn became a cash shell.

The major shareholder of Manserv was the Map consortium, represented by Jeff Wiggill, Harry Spain, Yakoob Paruk, Roy Eckstein and A Klitofski. Map bought control of Manserv in April 1989 and extended an offer to the minority at 64,5c a share.


JEFF WIGGILL . . . a stronger company on the way

Originally, Manserv was to be the vehicle for the development of Map's proposed financial services group But on December 14 last year Map announced that the Manserv cash shell would be sold

After an agreement between Map on one side and Datakor and Punch Line on the other, Map announced that Manserv would become a cash shell worth 106c a share, and that the minority should bear this value in mind when considering whether or not to accept 64,5c.

Now, what to do? Take 64,5c in December, or hang in for 106c plus interest less tax on the interest.

Suspended

The market price was in line with the 64,5c offer at the time, and there would be no opportunity to sell Manserv shares at a higher price because trade was suspended on the JSE for six months after Manserv's reaching cash-shell status.

What is worrying the minority is that the six months are nearly up — technically expiring on July 15 — and there is no sign of an offer to them.

Map announced on February 28 that its shareholding had been sold to a company called Financial Limited for 106c a share cash. This has been ceded to Garditex International. The announcement said Financial had undertaken to make a similar offer to the minority for 100% of their interests, and that a circular would be posted Four months later, there is nothing.

The worst fear is that Manserv will be delisted and minorities left in the hands of Financial. Mr Wiggill says Financial is a foreign consortium, possibly Swiss-based, acted for by Naas Ferreira.

Mr Ferreira was a director of Turf Holdings, which the JSE delisted more than a year ago, partly because its asset value was in doubt.

The onus lies on Map to ensure that the minorities are looked after Mr Wiggill says Financial lodged bank guarantees with the JSE and they cannot go wrong UAL issued the guarantees, but will not comment.

The JSE says it cannot delist Manserv without calling a meeting, at which something concrete must be presented by Map and Financial. Irrespective of what happens, the minority must receive the same offer in terms of JSE rules.

Mr Wiggill says Map members have received 105c a share cash, and documentation is being prepared

Minorities will not be compensated for the delay by the inclusion of an interest factor in the offer to be made to them. Mr Wiggill says Manserv has earned interest and shareholders will benefit because the company will be stronger

In my view, this does not compensate minority members who wish to accept the offer It is possible that they will not wish to remain aboard the new Manserv.

Mining

Mr Wiggill says 105c is much higher than minorities could have got on the market because Manserv always traded at a large discount.

He says large industrial interests and possibly one mining asset worth at least R15-million will be injected into Manserv

Manserv's minorities have been tossed around from pillar to post for long enough. The company was originally listed as Don Gray Computer Holdings, became Manserv after buying other assets, sold them all and is now on the road to who knows where

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DIAGONAL STREET

By Julie Walker

Slow on the draw

LATE payment of dividends and interest causes many complaints. An example of tardiness is given by a Cape holder of Tradegro participating preference shares

It is the duty of the transfer secretaries — in this case Central Registrars — to provide such services on behalf of companies to shareholders.

The reader belongs to the Shareholders' Association, which passed on the proof to me. The dividend cheque for R403 is dated April 23, 1990 Yet the envelope in which it was sent is franked May 2, 1990

Why is there a nine-day delay between the issue and dispatch of this and other cheques?

The registrars say the reader mistook an envelope sent in later correspondence. But the reader is confident of his facts.

Some registrars credit shareholders' accounts directly on the right day.

Equity trusts declined in second quarter — CFM

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B Day 31/7/90

LINDA ENSOR

EQUITY trusts have produced a negative performance of approximately 5,4% in the second quarter of 1990, Consolidated Fund Managers (CFM) MD Clive Fox says in the company's latest newsletter.

This was due to the general decline in the equity market

CFM is a portfolio management company which invests in unit trusts on behalf of its clients

On average, the general equity funds continued to outperform the specialist equity funds, Fox says, due largely to price weakness in specialist funds with a heavy weighting in gold shares

The JSE Actuaries Overall Index declined about 5,5% in the second quarter due to the weakening of the gold price and the relatively sharp contraction in the economy

"We concur that fundamentals are far from encouraging, but long-term investors should be taking advantage of periods of market retreat to establish long-term positions," Fox says

As for the future, he says the gold price is likely to consolidate at lower levels for some time before the trend is reversed, and corporate profits are likely to be pressured until the burden of higher interest rates starts to abate

"Interest rates will probably remain high through the larger part of the third quarter of 1990 We would then expect rates to start showing marginal declines as the demand for money eases

"While these prospects do not augur well for equity investment or investment in unit trusts, there is a considerable amount of liquidity accumulating in institutional hands, and when this is deployed in the stock market, share prices could rise materially in the face of negative fundamentals

"It is estimated that in excess of R13bn may need to find a home on the JSE during the course of 1991 Those funds coupled with accummulated liquidity, could provide a significant boost to share prices"

Metalclo to buy out minorities

(64)

Star 3/7/90

(232)

By Ann Crotty

Shareholders of Metal Closures Group SA (MCG SA) will attend a general meeting next Tuesday when they will be asked to pass the necessary special resolutions in terms of which the shares held by minority shareholders will be converted into redeemable preference shares and then redeemed.

The deal has been proposed by UK-based group Wassall which acquired MCG SA's UK parent MCG in the first quarter of this year

Wassall has decided that for strategic reasons it wants MCG SA to become a wholly owned subsidiary of MCG.

According to the official document the proposal, which will be implemented in terms of section 98 of the Companies Act 1973, "will entail the conversion of the shares held by the shaeholders, other than MCG, into redeemable preference shares and their redemption for cash, utilising the profits of MCG SA available for distribution as dividends and will result in such shareholders receiving a consideration of R23 per ordinary share in MCG SA held by them."

Some R22,50 of the consideration will constitute a dividend for income tax purposes with the balance of 50c constituting a return on capital.

The JSE has asked MCG not to vote at next Tuesday's meeting because the resolutions can be passed by 75 percent of the shares present and voting.

As MCG has 77 percent, the outcome would be a foregone conclusion and not give the minorities a say in the matter.

However, according to the official document. "Primarily because of the necessity for MCG to attend the meeting to secure the necessary quorum, but also because MCG SA has been advised by Finansbank that the proposal is fair and reasonable to shareholders of MCG SA, MCG has in the interests of such shareholders decided to attend the meeting and vote in favour of the resolutions proposed thereat."

Tongaat-Hulett to spend R250m on new investments

CM Times
4/7/90

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By JON BEVERLEY

DURBAN. — The Tongaat-Hulett group plans capital expenditure of R250m this financial year and has set up a unit to find new investment avenues, the chairman, Chris Saunders, says in the annual report.

He says that maintaining and advancing "our competitive position in the diverse businesses which make up the group heads our list of priorities."

The first two months of the financial year had been difficult and the economic climate was not expected to improve in the immediate future

"At this stage it is difficult to forecast earnings for 1991, although it is unlikely that they well exceed those achieved in the past year "

Earnings per share were 236,6c (previously 214,3c) out of which dividends of 79c (71c) were paid.

He noted that following the political changes flowing from the State President's speech earlier this year there had been proposed economic action which included the nationalisation concept to tackle the mass grievance and bitterness displayed in the wide disparity between rich and poor

He said that there was no evidence anywhere in the world of the effectiveness of nationalisation or of its economic success and it has "become totally discredited".

Privatisation rather than nationalisation would appear to be a far more effective way of bringing about a new economic order, he said

The report also mentioned the various divisions

In the sugar division (pre-interest earnings of R76m) the weather had been promising and a cane increase was expected — sucrose results were "encouraging"

Domestic market sales were expected to stabilise and export prices had fallen to last year's levels and were likely to move within narrow limits

The forecast was for a similar profit contribution this year.

The report notes that construction of an ethanol plant is "unlikely" but that the deregulation proposals for farmers within 30km of mills will benefit the group

The building materials division (with pre-interest earnings down to R18m from R28m) forecast that the delibrate slowing of the economy by the government and political uncertainty would affect sales of their products

But demand is thought to be in balance with affordability levels at current high intererst rates Sales levels and profit levels are expected to be similar this year to the 1989/90 contribution

It is noted that considerable funds are heading towards the building market but were still held by the government.

In March the Vitro brick factory at Springs was exchanged for Tongaat's 50% holding in Coverland. Two new production facilities were commissioned

Tongaat Foods with pre-interest profits at R29m expects a substantial profit improvement this year which will be cut by increased taxation

The mushroom division will bring into operation a high-technology farm at Shongweni and the third phase of the Phesantekraal (Bellville) this year pushing capacity to where it can meet local demand and export.

Hulett Aluminium with R70m in pre-interest profits says that as a significant exporter it will be "severely" affected by the drop in prices and changes to export incentives and expects a drop in earnings

Delivery of the 3 800 ton extrusion press was delayed and will now be commissioned towards the end of this year

The textiles division (pre-interest profits of R23m) faces the clouds of a projected 36% cotton price rise, a downturn in local trading conditions and deterioating labour conditions

The first half will be difficult but an improvement will follow allowing for an increased contribution to group earnings.

Employees at the Hebox division at Mpumulanga face severe unrest and violence and production and export orders were impeded

African Products (R20m profits) expects an increased demand to continue this year but it was unlikely that the same rate of growth would be achieved. The division aims to achieve a low-cost producer status

Profit levels should improve in spite of the tighter economic environment.

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Unit trust performances not expected to shine

HELENA PATTEN

SOFT market conditions will mean the performance of the unit trust industry for the June quarter will not match that achieved during previous quarters, industry sources say

The flow of results from unit trusts began yesterday and will continue for the next few weeks.

Clive Turner, deputy chairman of the Unit Trust Association, said the market's performance during the last quarter would not allow the same kind of dramatic figures reported by unit trusts in recent quarters, when some funds showed 50% or more year-on-year growth

"But the top performers in this quarter are likely to report percentage growth in the high 20s for the year to end June, which still beats inflation"

The funds will be competing with an overall JSE index which has moved up 18,2% in the past 12 months, and the all gold index which has improved only 3,5% during the same period

Turner said general equity trusts were likely to rank as better performers than specialist and income funds

"In the coming months, we would like to think investors will use the quieter market as a good time to invest in unit trusts, but uncertain, volatile markets are not necessarily conducive to any major investment thrust On the other hand, unit trusts are increasingly being better sold and on the strength of that, we might see people coming in"

Liquidity would generally be higher to reflect the uncertainty in the market

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Sanlam's five unit trusts outstrip indices, inflation

B|Day 4|7|90

LINDA ENSOR

ALL five of Sanlam's unit trusts outstripped important indices as well as the inflation rate in the quarter to end-March

This was despite the listless stock market, said portfolio manager Stafford Thomas, adding that the strategy adopted was to concentrate on blue-chip shares and to maintain cash levels

Share purchases for the five trusts — Sanlam Mining Trust, Sanlam Trust, Sanlam Index Trust, Sanlam Industrial Trust and Sanlam Dividend Trust — were focused on mining and industrial shares with the most important purchases being De Beers, Palamin, Anglovaal and Minorco

The emphasis was on rand-hedge stocks which have performed well relative to the market, Thomas said

He added that no gold shares were bought but a significant penetration was made into the coal sector on a weak rand, hopes that sanctions would be lifted and heightened export prospects arising out of European integration which is likely to see a cessation of subsidisation and the closure of some coal mines

The interim income distributions declared were Industrial Trust 16,1c bringing the income for the 1989/90 year to 29,1c (27,6c) per unit, Index Trust 23,8c, giving a yearly income of 41,4c (32,6c), Mining Trust 7,7c, translating into a yearly income of 16c (15,7c)

The Sanlam Trust and Dividend Trust declare income distributions in March and September

Thomas attributed the increased income yield in the Index and Industrial trusts to strong dividend growth of the larger shareholdings, such as De Beers, Rembrandt and SA Breweries, and the higher interest rates on cash balances

Three of the unit trusts increased their cash levels in the last quarter — Sanlam Trust from 18% to 20%, the Index Trust from 14% to 16% and the Dividend Trust from 12% to 15%

Sanlam Industrial Trust's liquidity level remained unchanged at 20%, while the Mining Trust's level was lowered from 20% to 15%

Thomas said one of the reasons for the slight drop in the Mining Trust's quarterly income per unit was its lower cash content

"Because interest rates are so high, even a small change in cash content can have a significant effect on income," he said

Thomas did not envisage any significant change in the portfolio in the coming quarter

Picprop applies to change sectors

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ACHMED KARIEM

PICARDI Holdings (Pichold) subsidiary Picprop has applied to the JSE for a transfer of its listing to the banks and financial services sector

The move follows the disposal of its investments and operating assets, excluding its interest in a property-owning company, for about R17,6m cash and the acquisition of Pichold's indirect investment in Corporate Investment Group (CIBG).

Directors said the disposals were motivated by the fact that the growth potential of "the company's operating assets was limited by capital constraints and extensive competition within their industries"

B\Day 4/7/90

Expand

The acquisition of the stake in CIBG has been accomplished by Picprop's purchase from Pichold of the entire share capital of SA & General Investments & Trust Company (SAGIN), which has a 30% interest in CIBG, for R13,2m

The directors said the effect of the transactions has been to create a company well-positioned to expand further in the financial services sector Pichold's name will be changed

Had the transactions been in place in the year ended June 1989, and on the basis of other assumptions, Picprop's earnings would have decreased from 25,6c to 25c a share and net asset value to 275c from 316c

Advice on Sankorp offers

B Day 4/7/90

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SYLVIA DU PLESSIS

FEDVOLKS shareholders should take up parent Sankorp's cash-plus-shares offer rather than its cash offer

Ed Hern, Rudolph analyst Sid Vianello recommended this yesterday despite the fact that neither SA Druggists (SAD), Fedfood nor Teljoy — whose shares investors have the option of taking up — offered good short-term prospects

He was commenting on Sankorp's proposed offer to minorities, in terms of which it plans to increase its 63% stake in the ailing Fedvolks to 100% and delist it in a bid to restore it to profitability

Holders of ordinary Fedvolks shares are offered 460c a share, or 56 SA Druggists, 12 Fedfood and 12 Teljoy shares — valued at an unchanged R260,40 last night — plus R205 per 100 Fedvolks shares held

Vianello said both SAD and Fedfood had problems which would hamper growth in the current year, but were "fundamentally good long-term investments"

"Teljoy also offers a good long-term investment While it is burdened in the short-term by heavy debt financing costs which will dampen profit growth in the current year, the TV rental business as a whole has a bright future," Vianello said

"In addition, both SAD and Fedfood shares are difficult to trade in, and shareholders taking up shares in these companies will be circumventing this problem The shares are also not over-priced at current levels "

Meanwhile, Fedvolks' shares — reinstated yesterday — closed at 425c, a 41% gain over their pre-suspension price of 300c on June 22

According to Vianello, past history has shown that new management in any company tends to begin by writing off "everything they can find above and below the line"

If Fedvolks's new management decides to start with a clean slate, results for the current year will be "a near-disaster", he says

But financial 1992 should reflect a significantly better performance, aided "hopefully" by a better economy, he adds

SOWETAN BUSINESS

sowetan 5/6/90

(232)

Weighing up the risks on the JSE

Dennis Marrillier of Southern Life concludes his series on the Johannesburg Stock Exchange. The series was sponsored by the organisation as its commitment to enabling our community understand the workings of the economy, notably the JSE.

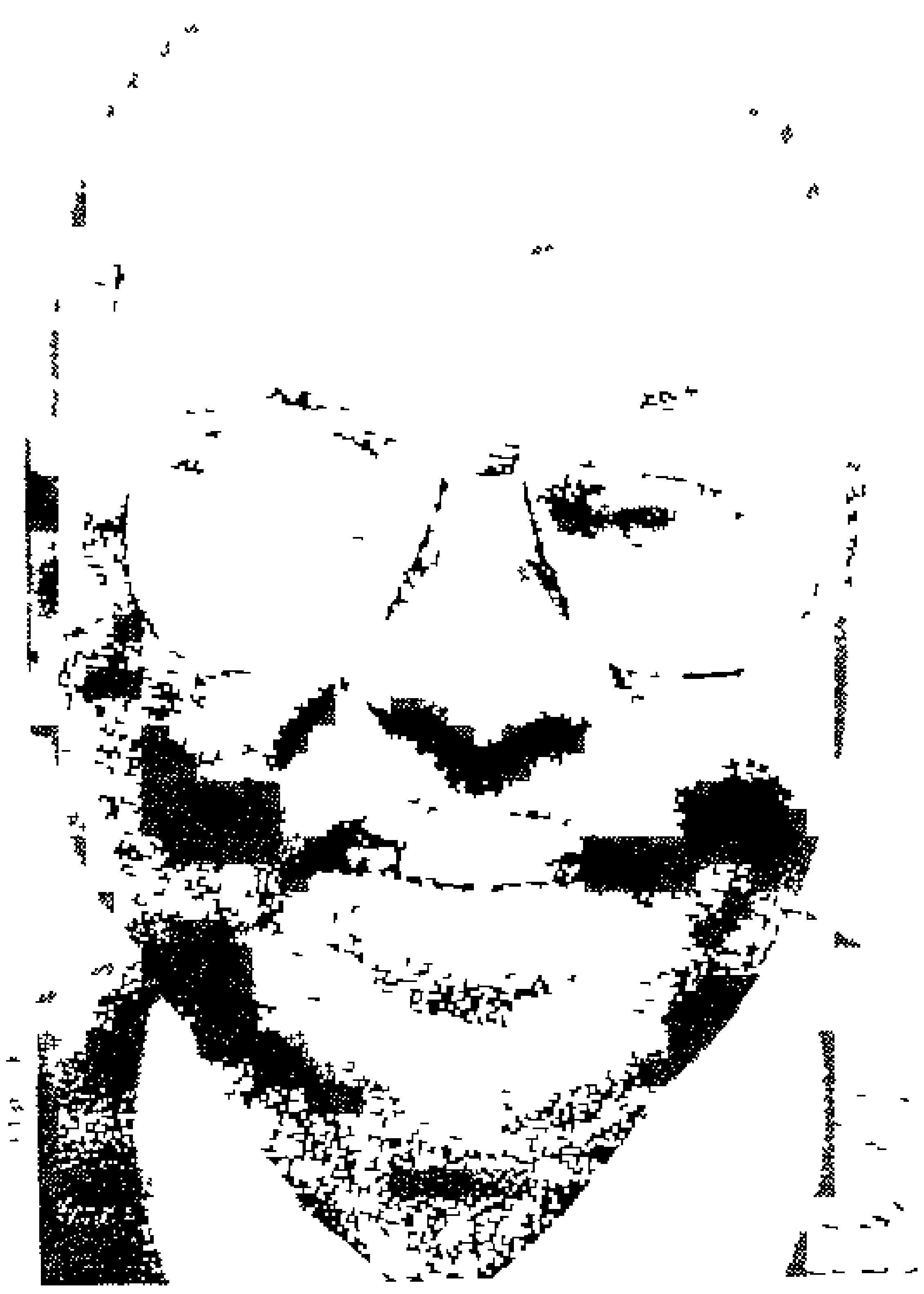
LAST week we examined some of the risks involved in investing on the Johannesburg Stock Exchange.

In order to invest successfully on the JSE and to reduce the risks involved, you really need three things - knowledge, money and time

Let us have a look at each of them in a little more detail

Knowledge In the previous article we looked at the factors which affect market risk

The factors which make a specific company's shares risky or not include the company's different fields to be able to anticipate the level of risk involved in the JSE management ability, competition, internal industrial relations, etc



Ralph Lehlokoe

The important fact that is emerging from these discussions is that you need to be something of an expert in a number of or a specific share

Unfortunately, one cannot look at a situation in hindsight (after an event has already taken place) and then make your investment decision

The key to accurate risk calculation is to anticpate matters in advance and then act accordingly

Sanctions

For example, if you believe that sanctions are a likely threat, you could avoid investing in a company whose market is going to be affected

What I am really saying is that to understand all the factors affecting JSE investment, you need to have knowledge and experience

This could take years to accumulate

Time Time is the one factor which you, as the investor, controls By this I mean that you decide for how long you are going to hold onto shares before you sell them

Now, if one considers just these three requirements for JSE investment - knowledge, money and time - the task of investing becomes quite difficult

Is there an alternative?

Yes The alternative is to invest in a unit trust fund

How does a unit trust fund work?

In many ways, a unit trust fund works like an investors' pool or syndicate While one person may not be able to buy shares if a number of us pool our money, together we would be able to invest on the stock market So, many investors - thousands - put their money into a unit trust

The fund manager in charge of the unit trust then buys and sells shares on behalf of the fund This way the fund can afford to buy a whole portfolio of shares (at least 20 different companies' shares), thereby reducing company risk significantly

Experts

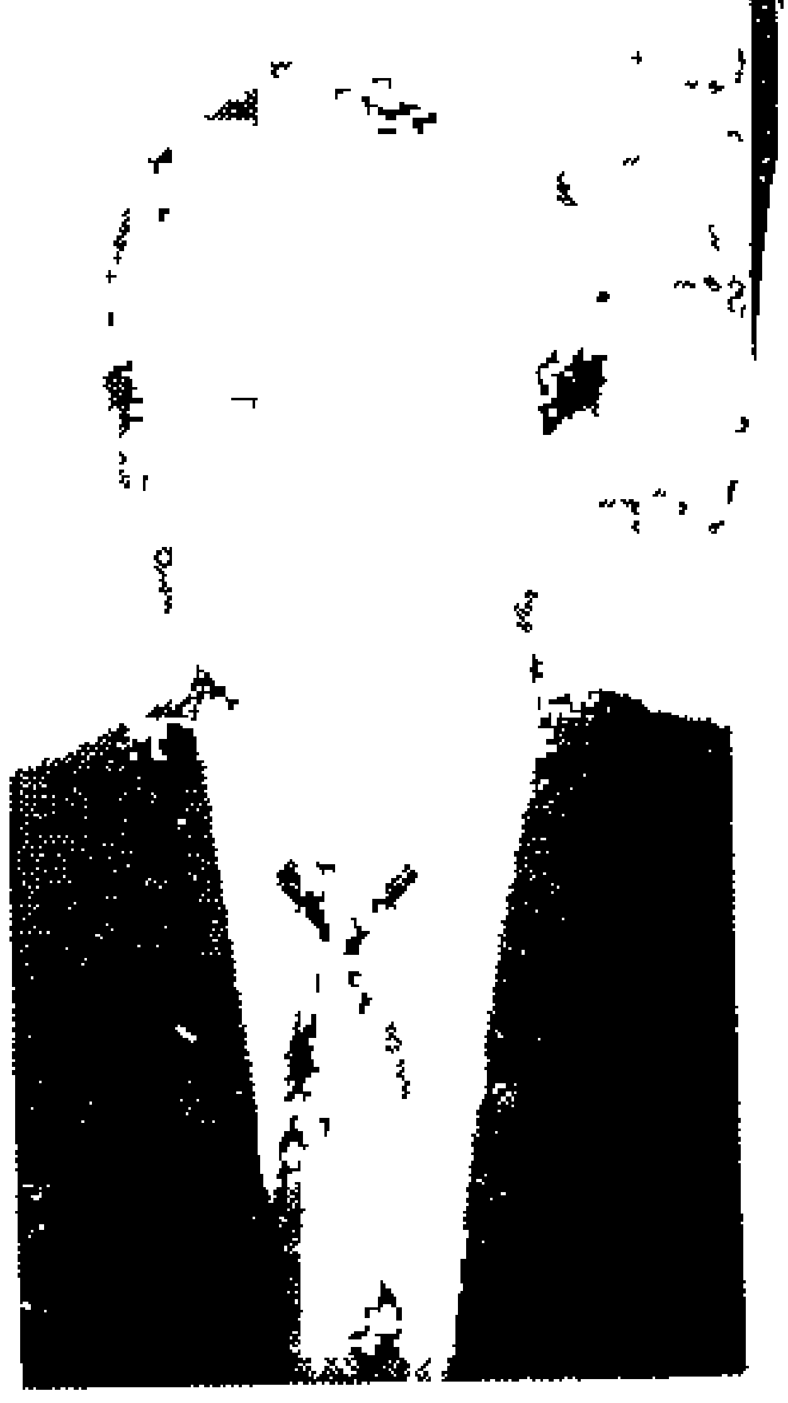
Just as important, the management company will employ a number of stock market experts - portfolio managers, analysts, etc

These people are trained to interpret JSE developments and they usually have years of experience in this field of expertise

By investing in a unit trust, therefore, two important matters - knowledge and money - are taken care of for you

You, of course, have to provide the time Unit trusts are not short-term investments Management companies will suggest that you invest for at least three to five years, if not longer

There is quite a lot more to unit trusts than I have covered in this article I do believe, however, that they offer one of the easiest and, often, most profitable ways of investing on the JSE



Dennis Marillier

What is more, they provide one of the only ways of being able to invest a regular monthly amount So you can start off with say, R50 a month and build up your investment over the years.

All unit trust funds are very flexible They will allow you to increase your monthly amount at any time and if you suddenly have a cash amount which you want to add to your investment, they will let you do so

In a nutshell, you decide how much and for how long you want to invest with a unit trust

If you would like to make use of a unit trust investment then I suggest you contact you adviser and obtain more details

Most management companies produce usefull booklets which provide full details of how their unit trust funds work

Ralph Lehoko at 496-1650 can be contacted during working hours Why not give him a ring right now

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Listing of Sequel to be terminated

LINDA ENSOR

THE JSE listing of Sequel Computer Holdings will terminate from close of business on Friday, the JSE said in a statement yesterday

The delisting will take place despite the owner of the suspended cash shell not having fulfilled his offer to purchase the shares of minorities.

Hermanus Redelinghuys bought 88% of Sequel from Fintech last July for R9,7m, offering to buy out the minority stake at 41,52c a share The cost of purchasing the 3,2-million minority shares would have been R1,32m.

JSE equity market GM Richard Connellan said yesterday the JSE expected Redelinghuys to fulfil his obligations to minorities

He would be given an opportunity to take action, but if he did not do so, "we reserve our rights", Connellan said, adding that there was also the question of interest on the amount owed to minorities

He said the delisting was necessary because Redelinghuys had not met the JSE's requirement that assets be injected into a cash shell within six months of its becoming one

Simultaneously with the purchase of Sequel from Fintech, it was announced that Sequel had, subject to certain conditions, acquired Westcoast Quarries from Redelinghuys for R20m

Westcoast was said to own a tract of land near Saldanha Bay on which two granite quarries were located

But Connellan said the quarries did not meet up with the JSE's listing criteria

B|Day 5|7|90

Tongaat-Hulett to invest R250m

Own Correspondent

DURBAN — The Tongaat-Hulett group plans capital expenditure of R250m this financial year and has set up a unit to find new investment avenues, chairman Chris Saunders said in the annual report.

He said that maintaining and advancing the group's "competitive position in the diverse businesses which make up the group heads our list of priorities"

The first two months of the financial year had been difficult and the economic climate was not expected to improve in the immediate future

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The report on the sugar division (pre-interest earnings of R76m) said sucrose results were "encouraging"

Domestic market sales were expected to stabilise and export prices, which had fallen to last year's levels, were likely to move within narrow limits

The forecast was for a similar profit contribution this year.

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Sales levels and profit levels were expected to be similar this year to the 1989/90 contribution

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Hulett Aluminium, with R70m in pre-interest profit, said in its report that as a major exporter it would be hard hit by the drop in prices and changes to export incentives, and expected an earnings drop

The textiles division (pre-interest profits of R23m) faced a projected 36% cotton price rise, a downturn in local trading conditions and deteriorating labour conditions

The first half of the year was expected to be difficult but it would look up later, increasing its contribution to group earnings

Employees at the Hebox division at Mpumulanga faced severe unrest and violence and production and export orders were impeded

African Products (R20m profits) expected increased demand to continue this year but it was unlikely that the same rate of growth would be achieved

The division aimed to achieve a low-cost producer status

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SA equities' foreign sales rise in June

LIZ ROUSE

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FOREIGN sales of SA equities speeded up in the latter part of June, according to the latest figures released by the JSE

Sales increased to nearly R180,1m in the week ended June 22 from R141,4m in the previous week while purchases declined to R88,8m from R105,6m This resulted in a net deficit of R91,2m (R35,8m) on foreign transactions handled through the JSE

These transactions are a small part of total equity transactions of 60,5-million shares worth R493,8m transacted in the week ended June 22 (51,9-million shares worth R479,1m were transacted the previous week)

Foreign transactions in the gilts market remained steady, with purchases at R38,6m (R37,4m) and sales at R28,3m (R25,4m) resulting in a net surplus of R10,2m (R11,9m)

The weak gold price caused a sharp decline in the number of coins traded — 4 695 coins worth more than R4,4m changing hands in the week ended June 22 against 8 206 coins worth R8,3m traded on the JSE in the previous week

New share deal fee proposed

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LIZ ROUSE

BDay 25/7/90

THE JSE has proposed a basic R30 fee per one share deal, whether small or large

Currently investors pay a basic cost of 1c a share on the purchase and sale of shares, with a maximum charge of R25. An investor who buys fewer than 2 500 shares therefore pays less than R25 per deal

The Registrar of the Financial Services Board has approved the proposal but has opened it for inspection and comment, favourable or otherwise Final approval is expected within weeks.

JSE president Tony Norton says the rationale for the proposal is to raise charges to a more economic level for broking firms, which are having to turn away small investor business because they have to carry the ever-rising costs of handling small individual deals

Raising the charges can only lead to a healthier position for small investors and brokers alike as brokers will actively seek the business of the serious small investor, says Norton

He says built into the charge are not only the costs involved in processing one transaction, but also the benefits of free advice and guidance by brokers backed by teams of investment analysts.

If the higher charge is approved, the JSE will still be one of the cheapest bourses to handle investments, also comparing favourably with the 5% charge by mutual funds.

Norton says that, without any investment advice, the charge on a single transaction by London broking firms is £25 or £16 outside the City

In recent years some broking firms have

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Share deal fee

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become reluctant to accept small investor business because they are carrying such an investor by actually financing the costs on a deal.

For example, one broking firm, whose policy has always been to accept all business from small investors, has found itself financing about 35% of small deals transacted, with 40% of deals just breaking even

The amount of the basic fee has been calculated carefully in the interests of both the broking firms and the serious small investors, Norton says

The charge will discourage the small jobber or speculator who dips into and out of shares Investors will now be encouraged to invest on a longer term basis to maximise their profits on sale, taking the higher charge into effect

Robin McGregor of McGregor's Online Information, however, believes that the higher charge will reduce the number of small investors in the market — certainly the dabblers — at a time when the shareholder base should be broadened Small investors currently make up less than 15% of the total market

However, Norton is disappointed that the authorities have not seen fit to speed up the phasing out of the additional 1,5% tax levied on the purchaser's price and broker's costs

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CORPORATE PROFITS

Falling into step

■ The downturn has arrived and the outlook is gloomier

A corporate profits crunch — for so long predicted — is rapidly becoming a reality Until early this year, businessmen had for some time been surprised at the continued resilience of profits The rate of increase in earnings and dividends had been slowing markedly from the previous year — but many forecasts proved unnecessarily gloomy as the economy kept its momentum and sales kept growing at rates well into double-digit figures.

The past six months, though, have been a clear turning point as government's restrictive economic policies have bitten hard and South Africans' political hopes and fears have vacillated White elation over President F W de Klerk's reform initiatives and Nelson Mandela's release was rapidly transformed into apprehension, no more so than in the outwardly-confident business sector Everyone expressed confidence, in public at least But confidence was dealt a series of blows as the ANC repeated its party line on nationalisation and wealth redistribution

There had been some hope that the informal sector, estimated by a few optimists to be as high as one-fifth of official GDP, would act as a flywheel to keep some business momentum going But even that was illusory For while this sector may be growing rapidly, it remains still very basic

For most corporations the profit pace has slowed abruptly Few are managing to keep profit growth ahead of even a declining inflation rate, and several large groups have posted earnings sharply lower than those for their year-ago periods

The table (**pages 34 & 35**) shows the effects on about 170 of the larger groups listed in the JSE's industrial sector It includes much the same list of companies whose results were summarised in a similar table six months ago (*Leaders* January 5) The main criteria for inclusion are size (measured by turnover) with sales of around R100m taken as an arbitrary cut-off point, and comparability

In the previous table, the general trend by no means reflected hard times turnover was still rising by an average 31,5%, operating profits by about 40% and EPS 28% When the latest table was compiled, based on results published since the beginning of the year, it showed an average turnover increase of roughly 23%, operating profit rising by about 24%, EPS by 14,5% and dividends by 16%

These figures are based on a simple, unweighted calculation, and comprise a mixture of interim and year-end results Reporting periods and seasonal factors will thus have influenced the trend, with groups reporting for a full year still reflecting some of the momentum that all were enjoying in the middle of last year.

The averages thus understate the severity of the deceleration that became evident from the performances posted for the six months to end-March Generally stodgy sales and slower volumes throughput — particularly since February — as well as high real interest rates and, often, fiercer tax charges have all taken their toll Margins are falling again and now even the exporters, including the vaunted rand-hedge stocks, are being hurt by softer commodity prices and a firm exchange rate

As a result, some of the largest groups have surprised many investors with the extent of the deterioration in their latest results Examples include Barlow Rand, whose EPS were down 9%, Federale Volksbeleggings (down 35%), Plate Glass (down 27%), Boumat (down 25%), Altron (down 25%), TSI (down 33%); Metkor (down 39%) and OK Bazaars (down 16%)

It may be argued these include special situations, and some beleaguered industries, but on the whole management must now be well aware that the economy has thudded into a recession — wistful talk about a soft landing is fading fast

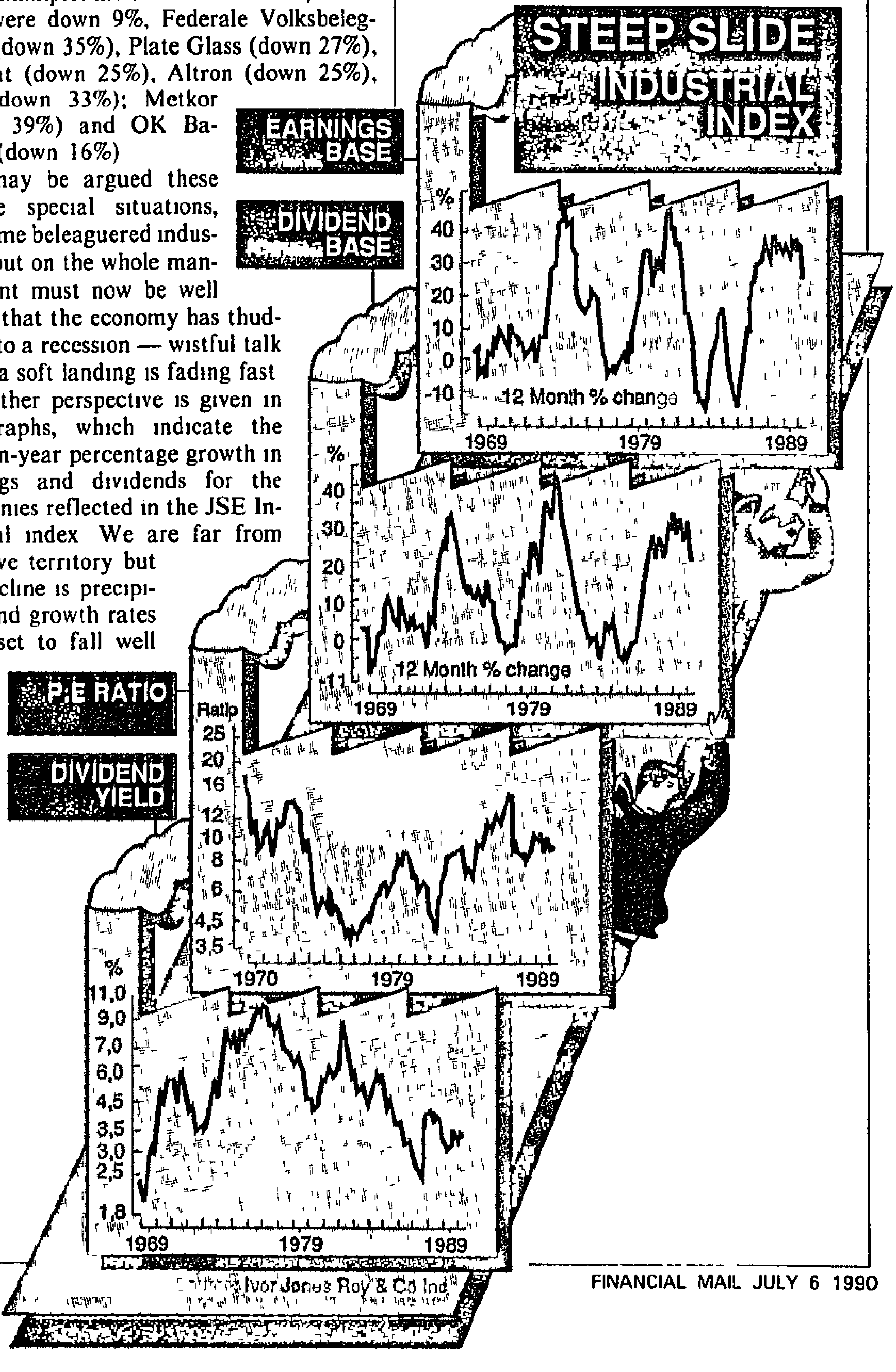
Another perspective is given in the graphs, which indicate the year-on-year percentage growth in earnings and dividends for the companies reflected in the JSE Industrial index We are far from negative territory but the decline is precipitous and growth rates seem set to fall well below inflation over the next half year

As for the likely progress of the JSE for the rest of this year, yields on industrial shares remain comparatively low on a 20-year view — investors have not yet responded fully to the deteriorating earnings and dividend outlooks

The influence of the large, cash-flush insurance companies and pension funds remains the dominant factor in an hermetically sealed market

But they are becoming increasingly demanding — particularly as more and new financial products are being devised to tap the institutions' cash hoards

Andrew McNulty



A concentration of corporate power need not be an evil

B|Day 4/7/90.

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JOS GERSON

CORPORATE power in SA is highly concentrated in the hands, of a few large groups and (with the exception of Old Mutual and Sanlam) a few wealthy families

McGregor's research suggests that the top four groups *control* companies comprising 80,7% of the JSE's market capitalisation Yet, *ownership* is quite a different matter For instance, Anglo-American/De Beers *controls* 45,3% of the JSE but it *owns* only 11,9% of the assets reflected on the exchange

This divergence between control and ownership is effected by the pervasive use of "pyramided" holding companies Shares with unequal voting rights, which serve much the same purpose as pyramids, are restricted in SA and only a few companies (e g Anglovaal, Wooltru and Rex Trueform) have been allowed to continue using and developing such differentiated instruments

In the US, the UK and much of the English-speaking world pyramids, cross-holdings and dual-class shares (all of which serve to concentrate the power of principal shareholders) are restricted or prohibited altogether Yet, in Japan, West Germany, Switzerland and Scandinavia they are quite common, even ubiquitous

In Sweden, the corporate structure is so concentrated that a mere nine families control nearly the entire Stockholm Bourse, almost 40% of which falls under the sway of the Wallenbergs alone.

Although corporate performance can conceivably be undermined by allowing too great a divergence between shareholdings and control to evolve, the perils of prohibiting any divergence are far more onerous, as the dilemma of corporate America clearly illustrates.

Well-managed companies normally require powerful shareholders who can whip management into line Yet acquiring 50% of a typical large corporation, without sacrificing the security of a well-diversified portfolio, is usually beyond the reach of even the richest individuals

So how is the dilemma resolved? In two ways Firstly, use may be made of dual-class voting shares or pyramids which allow the dominant shareholder to reduce his equity stake without losing control. Secondly, corporate debt may be employed in order to shrink the equity base, thereby making control, say a 50% stake, more attainable The problem with the latter option is that the debtholders will worry about the risks that a highly geared firm may be tempted to take

The solution is to allow the principal creditor (usually a bank) to acquire a significant number of shares and, therefore, a say in the running of the company In Germany and Japan, it has long been the practice for banks to acquire an equity stake in the companies which they finance

In the US, however, both of these "front doors" to shareholder control stand shut Dual-class shares were prohibited in 1926 and pyramids in 1935 The Glass-Steagall Banking Act of 1933 ruled out the possibility of banks holding equity

The result of all these restrictions is a corporate landscape characterised (as far as the bigger companies are concernd) by disparate and weak shareholders, and by managers and outside directors accountable in effect to no one but themselves

Much of the recent spate of takeovers and the development of a market in junk bonds is a desperate attempt to open a "back door" to shareholder control Takeovers constitute one way of getting rid of underperforming managers and were facilitated by the relaxation in the 1970s and 1980s of an absurdly over-restrictive antitrust policy

Junk bonds were used to obtain a higher level of debt finance in order to effect the takeovers, often of dismembered conglomerates by the various division managers themselves This back door route has run into trouble, but that merely reinforces the need to unbolt the front door routes to effective shareholder control

In last October's Harvard Business Review, Michael Jensen hints that the relative decline of America in the postwar era and its displacement by Japan and West Germany may well be attributable to the strengths and weaknesses of their respective corporate structures

What are the lessons for SA? We do not have a problem of weak and disparate shareholders, the oft-heard complaint is that our dominant shareholders control too much It would be presumptuous to conclude that all is well in our corporate backyard but, in contemplating possible changes, we should be careful not to throw the baby out with the bathwater

We should certainly not be lured by shallow and populist arguments into importing the American disease Rather, we should ponder the very different (and seemingly superior) structures of Japan, West Germany and Scandinavia, with which we already have much in common

More importantly, in the face of new political pressures, we must be able to distinguish between serious and spurious criticisms of our present corporate structure On the serious side, if enhanced corporate efficiency is our objective, the main worry is that managers are not the only group that can indulge themselves and abuse their position

Powerful controlling shareholders can do so too, and in all sorts of ways (especially if their equity stake is small) That is why the shares of a company have been known to rise upon the death of its controlling shareholder Examples are provided by the deaths of Walt Disney, Henry Ford and Philip Frame On account of idiosyncracies in their latter years, they were perceived as hampering their companies' profit potential or in some way prejudicing the interests of their co-shareholders

An important mitigating consideration is that whereas managers may get away scot-free, a controlling shareholder, who indulges at the expense of this company, pays for it through the depreciated value of his equity He also faces higher costs of capital in the event of a rights issue, since his indulgent behaviour will have frightened off prospective co-shareholders to the point of effecting a discount on the price of the new shares

Most often, therefore, controlling shareholders go out of their way to reassure prospective investors and to maintain the value of their shares

A semi-spurious charge against our present corporate structure is that it facilitates collusion and therefore rips off the consumer This cannot logically be deduced as a criticism of the divergence between ownership and control (which is determined by the "vertical" depth of the pyramids) It must be taken as an attack upon the 'horizontal" diversification of the major conglomerates

There may be some substance to this argument but, more likely, it is a figment of the popular imagination An economy which trades so openly with the rest of the world (imports comprise about 30% of total spending) cannot have a serious collusion problem. The existence of a few big players is no evidence of collusion If occasional instances occur, the solution is to put more teeth into the Competition Board

The most misguided criticism of the corporate structure is the one that associates it with the country's maldistribution of wealth. The two issues are separate and distinct.

Imagine a future government diluting the Oppenheimer family's say in Anglo-American/De Beers or even buying out the controlling nominee companies Would that change the nation's distribution of wealth? Not a jot — unless, of course, the assets were confiscated

Even then, the equalising effects would be trivial whereas the blow to business confidence would be catastrophic

☐ Gerson is chief economist at Mathison and Hollidge Inc These ideas form the backdrop for a UCT-based research project.

FEDVOLKS ~~58~~ ~~180~~ 232 FM 6/7/90

Thank the Mutual

Minorities have Old Mutual to thank for the revised offer for Fedvolks from the Sanlam group The Mutual, which for years has held an 11% interest in faltering Fedvolks, flatly rejected Sankorp's original cash bid and demanded that underlying quoted assets — SA Druggists, Fedfood and Teljoy — should be distributed in specie Once Sanlam had given Sankorp the green light to accede to the demand, the offer had to be extended to others

The net effect is that minorities are being offered R460 cash for every 100 Fedvolks held Or they can take R205 cash plus 56 SA Druggists shares, 12 Fedfood and 12 Teljoy Before Mutual's intervention, Sankorp was hoping to succeed with a bid in the region of 350c (*Fox* June 29), the top of Fedvolks' trading range of the previous 12 months

The revised bid will be pushed through willy-nilly Old Mutual has accepted for its 11% and so has Southern Life for its 5%

Fedvolks vd Walt . . . restoration after delisting

Other institutional acceptances bring the total up to 22%, which lifts Sankorp's support from its own 63% to about 85% Other minorities will accept without demur, and those who don't will be flushed out in terms of Section 311 of the Companies Act

Sankorp's Anton Roets makes no bones about the fact that a complete take-out was his group's best option He makes the points that Fedvolks, or at least some of its subsidiaries, needs to be refinanced and that minorities would be unlikely to follow a rights issue The market has been unforgiving about Fedvolks' operating performance and rates the conglomerate's share way below net worth So a rights issue based on market price would be impractical, while one based on net worth would leave all the shares with the underwriter

Roets adds that Sankorp was reluctant to give minorities what he describes as a free ride of an effective refinancing by Sankorp

Sankorp's plans for restructuring Fedvolks are still in the melting pot It has not decided how necessary finance will be injected into underfunded subsidiaries Nor, it seems, has a decision been taken on the eventual resting place of Fedvolks' ill-matched subsidiaries Some will go directly to Sankorp, others could end up in another Sanlam company, Malbak

Roets says there will be no bid for SA Druggists minorities If a transfer of the controlling shareholding in the pharmaceuticals company seems to require a bid to minorities, ownership will be left with Fedvolks

The only part of the restructuring to be disclosed is the immediate appointment of Peet van der Walt as CE in place of Johan Moolman, who is retiring a year earlier than he'd planned Roets assures me Moolman, who led Fedvolks into its latest troubles, has not be pushed out Rather, he says, Moolman himself decided to leave early to give the new CE as much time as possible to put his mark on the company

Minorities are best advised to accept the cash and share offer *Jim Jones*

M-NET

More enjoyment

The M-Net share offer could be oversubscribed two or threefold This translates into between 60 000-90 000 of the 430 000 subscribers Stockbrokers say the offer could even surprise with a higher oversubscription

The offer is 20m new ordinary shares of 2c at R1, to subscribers (15m shares) and business associates (5m) The R20m proceeds will help the company cash up for satellite broadcasting, and possibly expansion of broadcasts beyond entertainment and sport, and cut gearing from 217% to 22%

After the August 1 listing the public will hold 13,2% of M-Net's 152m shares, management 7,9% and M-Net Holdings (in turn owned by the major press groups, including the *FM* proprietor Times Media Ltd) 78,9%

Wynand van Niekerk, of Senekal, Mouton & Kitshoff, one of the sponsoring brokers, says the most attractive reason to invest in M-Net is that downside risk is limited, but there are significant opportunities and

Businessmen less optimistic about real growth this year

The South African Chamber of Business (SACOB) says its business confidence index (BCI) declined marginally during June to 91,8 percent from May's 92.

Sacob says that the decline would have been harsher had it not been for "One-off" developments in the CPI figures and a bunching in motor car sales as a result of the launch of the Uno.

The three main factors affecting the BCI were:

- The weak gold price;
- The length and depth of the current economic downswing and
- The uncertainty arising from political developments internally and abroad that affect South Africa.

The main negative factors affecting the BCI, says Sacob, are:

- A small decline in imports which is seen as a slow-down in the economy;
- The fall in share prices on the JSE and
- The rise in the number of insolvencies and a sharp decline in the value of building plans passed.

Positive developments are:

- A slight improvement in the rand/dollar exchange rate;
- A decline in the rate of increase in the consumer price index;
- A slight decrease in the three month BA rate;
- A sharp increase in new car sales;
- The number of new companies registered continued to increase slightly and
- An improvement in the net immigration figure.

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Star 6/7/90

Milder slowdown

Sacob comments that at the moment the economy is in a relatively modest recession but that business slowdown is milder than the two previous downswings in the last decade.

"Overall, it would seem that, although the current downswing is somewhat harsher than expected, it cannot yet be designated a deep recession."

The body went on to say:"There is less optimism now about the real growth rate for 1990 which is likely to be zero or slightly negative.

"Two big disappointments which have affected growth performance this year are the weak gold price and a less than satisfactory agricultural season."

Sacob goes on to emphaise the negative impact that the low gold price has had on confidence and says that prevailing supply and demand patterns indicate that there is little reason to expect a significant increase in the bullion price within the next 12 months or more.

Sacob concludes by saying: "1990 Must be seen basically as a year of adjustment and consolidation for the economy so that a sound basis is built for renewed growth next year. Business sentiment will adjust to the new economic and political realities as they evolve.— Sapa.

Bidcorp aiming at R48m buying spree after rights offer

BDay 6/7/90

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CHARLOTTE MATHEWS

THE BIDCORP group is looking for substantial, self-sufficient operations for the R48m net new capital being raised as part of the Bidvest/Africom R120m rights offer, Bidcorp executive chairman Brian Joffe said yesterday

Earlier this week the group announced the restructuring of the organisation following the recent acquisition of Afcom

In terms of the restructuring, Bidcorp will become the pyramid holding company of the group and 60% held Bidvest will become the holding company for the group's underlying operations

Bidvest in turn will hold 100% of Cater Plus, manufacturer and distributor of products to the catering industry, 50% of cosmetic house Justine and 53% of packaging group Africom.

Debentures

Afpac will become a cash shell holding R48m.

"We are looking at a few things," Joffe said "Our basic philosophy on investment is to invest in trading, distribution and light manufacture or, to put it another way, we like to invest in niche markets on the fringe of major industries"

The R120m rights offer will be raised by the issue of 5,9-million convertible debentures at R18 each in Bidvest to raise R106m and 13,3-million convertible debentures at 105c each in Africom to raise the remaining R14-million

Joffe said the restructuring was now complete.

"It is very difficult in the SA context to build up businesses unless you seek out opportunities When you start small you don't always end up with exactly what you want.

Targets

"You have to be flexible until you have reached a certain size No one is going to sell you Premier or Fedfood You have to achieve that size yourself over time"

The Bidcorp group's results for the year to June are due out shortly. Joffe would not comment on performance except to say that the group would achieve its original targets

Actual target figures for the year to June 1990 quoted in a recent newspaper report were R400m turnover with earnings a share between 110c and 115c and a dividend of approximately 45c

The objectives stated in the 1989 annual report were to hold gearing down to 60% of total shareholders funds, to pay dividends covered no less than 2,5 times and to achieve at least a 40% return before interest and tax on funds employed.

UNIT TRUSTS

UAL results a mirror of subdued market sentiment

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BDay 6/7/90

HELENA PATTEN

THE quarterly results of UAL unit trusts reflected the subdued market sentiment in the three months to end June.

Total assets under management amounted to R880,1m, which was down on the R906,7m reported for the quarter ending in March

Its flagship UAL Unit Trust produced a year-on-year appreciation of assets of 28,86% to R450,9m in the 12 months to end-June, making it one of the top five achievers, but which was not as good as some of its previous comparative performances

The management company was happy with the results given the long-term nature of unit trust investment.

The general equity fund would pay an income distribution of 26,75c a unit.

MD of the management company Clive Turner said in a statement this demonstrated that unit trusts were an "ideal investment for producing a rising income stream in an inflationary environment."

Of the equity fund he said· "There is no direct exposure to gold shares and the view that these shares offered relatively poor value was vindicated during the quarter

"On the other hand, the diamond sector has continued to perform well, and diamonds now constitute the largest sectional weighting in the portfolio UAL is also bullish on platinum and its exposure to platinum is second only to diamonds"

Changes to the portfolio included the sale of Barlows and the conversion of Liberty preferred ordinaries to Liberty ordinary shares

Both of UAL's specialist equity funds had adverse market conditions to contend with

The Mining and Resources Unit Trust maintained a low exposure to direct gold shares in favour of mining houses and base metals and turned in a year-on-year performance of 20,71% Total assets amounted to R263,9m

A statement from UAL said although negative sentiment towards gold had an adverse effect on mining-related shares generally, this performance placed the trust at the top of the specialist resources trusts for the year

Income distribution of 4,38c a unit has been declared for the quarter

Direct gold exposure was reduced further with a portion of the trust's holding in Hartebeesfontein being sold, while the total holding of Sasol was also sold. Rights to further Northam Platinum shares were followed, thereby increasing the weighting in this sector

The UAL Selected Opportunities Unit Trust reported a 15,77% rise in the value of the fund to R77,4m This fund has 68% of its portfolio in the financial and industrial sectors — "mainly small-to-medium-sized industrial companies with rerating potential"

Half-yearly income distributions were made in September and March The Gilt Unit Trust did well to increase assets to R87,9m — a 20,07% return for the year to end June

Liquidity was reduced to 35% because of certain conversion options exercised in the quarter The trust's exposure to the long end of the gilt market was increased.

Joffe turns R8m shell into R110m

SUNDAY TIMES, Business Times, July 8, 1990

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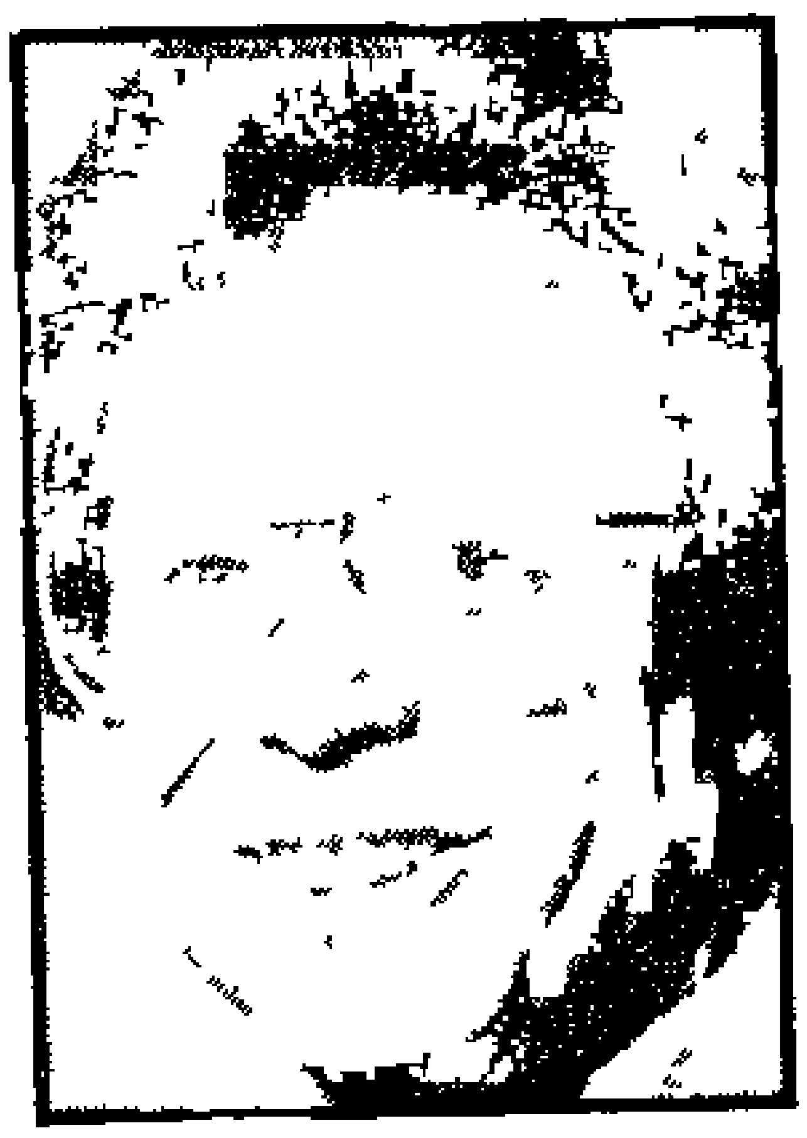
Bidcorp restructure offers tasty carrots

S Times 8/7/90

By JULIE WALKER



BRIAN JOFFE

BIDCORP's 13% convertible debentures (SCRDs) will be redeemed early at 750c — 200c above the pledge to holders when they were issued in February 1989.

This was announced with details of the proposed reorganisation of the Bidcorp group 19 months after the nucleus was formed Executive chairman Brian Joffe bought the Iclef cash shell worth R8m and turned it into the R110m-plus company.

The SCRDs were issued with a view to their being converted into equity in Cater Plus — dominated by the Walter Chipkin businesses If Cater Plus did not meet JSE requirements the debentures would be redeemed at 550c

This week's announcement says a Bidcorp subsidiary already owns 98% of the SCRDs and a meeting will be called to approve their early redemption Cater Plus will not be listed individually

The new group structure will have Bidcorp as the top company, its sole investment being 60% of Bidvest — formerly Curries

Bidvest will hold all the operating companies These are catering products maker and distributor Cater Plus (to be bought from Bidcorp for R80m), 50% of skin-care company Justine (sold by Bidcorp for R2,5m), and 53% of Africom

Africom will buy the businesses of Afpac for R48,7m, and sell its holding in Afpac to Bidvest for R35m Africom serves the packaging industry and makes office products

Bidvest will own 75% of Afpac, a cash shell worth R48m, or 120c a share, which will be sold or liquidated Bidvest will also have net cash of R4m

Bidvest will raise R106m by issuing 5,9m convertible debentures at R18 The offer will be jointly underwritten by Bidcorp and Investec Merchant Bank

Africom will raise R14m by the issue of debentures at 105c, underwritten by Bidvest

Both sets of debentures will be convertible one for one at the holder's option either immediately or on June 30 each year, but not before 1992 Any outstanding will be automatically converted in June 1994

The interest will be paid twice yearly in arrears

The interest payments will be guaranteed to grow by not less than 20% a year

The group has dangled enough carrots to ensure that the debentures are well subscribed

Bidcorp shares at 850c are 10c off a recent peak, Bidvest's are 50c below their R22 high, Africom has rallied 5c from a 90c low, and Afpac is also 95c — worth 120c

Metaclo minorities decide on legal action against controlling shareholder

Star. 11/7/90 ⑵③②

By Ann Crotty

Minority shareholders in Metal Closures SA (MCG-SA) are taking legal action to prevent the controlling shareholder MCG-UK from implementing a proposal that would convert MCG-SA into a wholly owned subsidiary of MCG-UK.

A group of minority shareholders will be making an application to court today to prevent the Registrar of Companies from registering the four special resolutions passed at yesterday's general meeting

The special resolutions were passed by 77,2 percent, with 12,5 percent voting against.

MCG-UK holds 77 percent of the shares and voted in favour of all resolutions, which are not effective until they are registered.

Donn Jowell of attorneys Jowell, Glyn & Marais who is acting on behalf of the minorities believes the effect of the special resolutions in this instance is oppressive and that a majority shareholder cannot exercise his power in a way that discriminates against minorities.

While it is generally accepted that a majority shareholder can vote in his own self-interest when a proposal is for the benefit of the company as a whole, in this instance the results of the proposals being voted upon discriminate against the minority and advance the interests of the majority.

Major grievance

The major grievance of minority shareholders is that the procedure being used by MCG-UK gives minorities absolutely no say in their expropriation from the company. (The procedure involves the conversion of the 23 percent minority shares into redeemable preference shares and their subsequent redemption at an effective R23 a pref.)

Of secondary importance is the level at which the takeover price has been pitched, which is felt by the minorities to be very low

At least one of the major minority shareholders seems keen to continue to hold listed MCG-SA shares

Graham Dickason of the Mines Pension Fund makes the point that it has been invested in MCG-SA since the company was listed "We would like to stay with it"

There are two legs to the action the minorities are taking

The first leg argues that the majority shareholder has exceeded its power in the implementation of the proposal.

The second argues, under section 252 of the Companies Act, that the minorities have been unfairly prejudiced .

At yesterday's meeting Gerald Stein of attorneys Werksmans, representing Finansbank, said the procedure used by MCG-UK was legitimate in terms of the law and that if the procedure had been abused then minorities had a remedy through section 252

Mr Stein referred to the suggestion by brokers Martin & Co that MCG-SA should be valued at R34,80 to R48,30 as "horribly misleading" and asked Martin & Co's Winston Floquet to explain why he felt R23 was an unfair price.

In support of his contention that the price was too low, Mr Floquet said the company's asset base had recently been replaced Gearing was low by industry standards and the earnings pattern of MCG—UK was less volatile than that of other players in the industry

"Our valuation of the company is a minimum of R30"

According to Mr Stein, MCG-UK believed it was availing itself of its rights within the law.

"The minorities are well protected in terms of both the procedure and the price"

He said an independent party (Finansbank) had advised on the fairness and reasonableness of the price

Anglo spells out policy on 'new' SA government

A/R645 11/7/90

~~240~~ 232

Business Editor

ANGLO American Corporation, the country's largest conglomerate, says it is prepared to enter into mining-venture partnerships with a future South African government.

The chairman, Mr Julian Ogilvie Thompson, said Anglo had enjoyed successful partnerships with the governments of Botswana and Namibia and he believed this also could happen in South Africa.

A future government would be able to take shares in new mining ventures in exchange for mineral rights, he said.

RAISE GROWTH RATE

Mr Ogilvie Thompson said that from 1985, trade and financial sanctions had compelled the country to restrict the growth rate to 2 percent a year or less [illegible] finance [illegible]billion in international debt repayments.

"Simply stopping the haemorrhage — a prospect which the European Community summit meeting in Dublin has now brought closer — would enable us to raise the growth rate to about 3 percent a year.

"With a resumption of trade credits and capital inflows, we could raise it to between 4 and 5 percent, perhaps more."

That would add a further R5-billion to R10-billion a year to the country's total resources.

●See page 13.

Claims of monopolistic power refuted

CAH Times 11/7/90 (232)

Anglo 'owns 6% of SA's assets'

By AUDREY D'ANGELO
Business Editor

ANGLO American Corporation, its associates and "the companies they allegedly control", own only 6% of SA's fixed assets, the corporation's chairman, Julian Ogilvie-Thompson, says in the annual report

Suggestions that they account for 45% of the total capitalisation of the Johannesburg Stock Exchange are "grossly exaggerated by double counting and other errors", he says in his first annual review since taking over as chairman from Gavin Rellv

"In fact the number of shares constituted by Anglo American and associates and the companies they 'control' is no more than 30%"

Ogilvie-Thompson says it is "fashionable in some quarters to assert that big companies are monopolies

Monopoly

"If the term is used in its true sense, as meaning control over a sufficiently large part of the production of a particular commodity to be able to manipulate its price, then neither Anglo American itself, nor any of the companies it controls, is a monopoly

"Anglo American is also criticised, even among those who accept that it is not a monopoly, on the grounds that it is very large It is large, but not as large as is often claimed"

In any case, Olgilvie-Thompson continues, "administration and control are not — as is so frequently assumed — synonymous There are generally large, often majority, public shareholdings in companies we administer, particularly the gold mining companies

"Moreover a director's fiduciary responsibility requires him to take decisions in the interest exclusively of the company on whose board he sits, not the interest of the company which may have nominated him to represent it

"More illustrative of the real worth of Anglo American and its associates is that ventures they have developed from grass roots now account for some 25% of the JSE's capitalisation That is an achievement we are proud of"

"But", he goes on, "let us examine the true measure of the concentration of ownership of the national economy by relating ownership to the nation's total fixed assets

"After adjusting the latest statistics for the recent privatisation of Iscor, about 54% of those assets is owned by the government and parastatal organisations, and 4% by agriculture

"Another 36% is owned by non-Anglo American companies listed on the JSE, by unlisted entities such as the SA Mutual and Sanlam, the multi-nationals and private businesses Anglo American and its associates and the companies they 'control' account for the remaining 6% That surely puts the matter of concentration in perspective"

However, Ogilvie-Thompson continues, SA needs large corporations if it is to compete effectively in world markets

"Small countries have to compete in the same world markets as large countries and in many cases — not all — successful competition is possible only if companies are of broadly comparable size, able to provide or have access to the technologies that keep them competitive

"The US and other large countries can afford the luxury of preventing what they dem to be unduly large aggregations of capital, as this still leaves them with the largest companies in the world

"Small countries such as Switzerland, Holland, Sweden and SA cannot — and should not try to

"Moreover, countries which are both small and developing have to stretch their skills and resources to the maximum possible extent The group system practised by the SA mining houses came into being precisely because there have never been enough skills to go round

"So evolved a system of combining in one organisation a range of managerial, financial and technical skills that could be made available, economically, to a number of mines, together with the financial resources required to provide for their present and future capital needs"

Ogilvie-Thompson said critics alleged that large accumulations of capital in the hands of conglomerates led to a socially undesirable pattern of investment or to too little investment altogether

But it was "absurd to argue that the minimal growth in net real investment is due to a failure of the savings system It has delivered an immense flow of savings, part of which is being used to finance the capital outflow (a use which, however negative to most people, seems to find favour in the pro-sanctions lobby)

Anglo holds monopoly, say analysts

Cape Times 12/7/90

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AUDREY D'ANGELO
Business Editor

MCGREGOR's Who Owns Whom insists its claim that Anglo American Corporation controls 45% of the market capitalisation of the Johannesburg Stock Exchange is correct — in spite of a denial by the corporation's chairman, Julian Ogilvie Thompson, in his annual review.

But a spokesman for Anglo American said yesterday that McGregor's was mistaken and that it had been guilty of double counting and even multiple counting

And Jos Gerson of stockbroking firm Matheson Hollidge said that "this numbers game" was beside the point — what mattered was whether the size of the corporation's holdings did good or harm to the economy or had a neutral effect.

Gerson said he did not agree with McGregor's that it had a debilitating effect. There were other countries where ownership of listed companies was highly concentrated but where the economies performed well

In the US, on the other hand, where such concentrations were prevented, "you find a kind of disease in the corporate world"

Ogilvie Thompson, in reaction to criticism that the corporation was "monopolistic", said in his review that it controlled no more than 30% of the JSE and owned only 6% of SA's fixed assets

Andrew McGregor, an executive director of McGregor's On-Line, said it had analysed the shareholding of every single company listed on the JSE. "We identified 70 companies controlled by Anglo American."

Asked how big the corporation's stake in each company had to be before it was considered to have control, McGregor said this varied with the spread of the shareholding.

"We stand by our claim of 45% They say some of these companies operate autonomously But whether they exercise control or not is not the issue — it is whether they could exercise it that counts"

McGregor said he would like to see the calculations on which Ogilvie Thompson based his statement.

Mike Spicer of Anglo American said a great deal depended "on how you define control"

The corporation had tried to follow McGregor's definition but had found some double counting and "once you tidy this up you get the figures we arrived at"

Spicer said that, before its latest edition, Who Owns Whom had included Consgold and Gold Fields of SA among companies controlled by Anglo American. "They still have us controlling Palabora Mining, which must either amuse or annoy Rio Tinto Zinc.

"Freegold has been counted six times through various holding companies"

Jos Gerson, who estimated in a recent article that the corporation owned 12,9% of SA's fixed assets, said the figure of 6% given by Ogilvie Thompson was "interesting"

Gerson said he had quoted McGregor's Who Owns Whom verbatim, when saying the corporation had control of 45% of the JSE, and had acknowledged it as his source

He pointed out that the dispute between the corporation and McGregor's could not be resolved unless their calculations were available for comparison

Large firms urged to pay up promptly

By JOSHUA RABOROKO

THE managing director of Small Business Development Corporation, Dr Ben Vosloo, this week appealed to large corporations to pay promptly when dealing with small businesses.

In a statement, Vosloo pointed out that a stable cash flow was of vital importance for the financial survival of a small business

He said that was particularly evident in the present economic climate.

Liquidations of companies and close corporations increased sharply during the period January-April 1990, while the average number of liquidations a month in 1988 and 1989 was 130. In March and April this year, they were 172 and ~~170~~ 232 respectively.

Annualised, ~~that~~ represented an increase of 16 percent on the number of liuquidations during 1989.

Cause

Undoubtedly, a major cause of the increased occurence of liquidations was the high interest rate. This affected all business by increasing the cost of loan capital which, if not matched by increased prics, reduced profits.

Sowetan 12/7/90

Cape Times, Thursday, July 12 1990 11

Employee share schemes hit by tax exemption

By DAVID CLEGG
of Ernst & Young

ALTHOUGH the general exemption from tax on dividends just confirmed in the Income Tax Bill will be welcomed by most shareholders, it has an adverse impact on employees who are able to purchase shares in their employer's company under a share incentive or share trust scheme

In terms of these schemes the employee is granted a low-interest or interest-free loan to purchase the shares He is then taxable on the deemed fringe benefit on the difference between the "official rate" of interest (currently 19%) and the actual interest paid

Prior to exemption from tax on dividends he would, however, have been able to claim a deduction of two thirds of his deemed and actual interest cost from his two-thirds taxable income from dividends. He would thus effectively have paid tax only on one-third of the deemed interest benefit

Now, because his dividends are not taxable, he will not be able to claim the interest deduction and will therefore be at a cash flow disadvantage

To partially counter this problem the Income Tax Bill provides for a deduction of 50% of the deemed interest, but only for employees who are prevented by the rules of the particular scheme in force at March 15, 1990 from selling their shares and repaying their loans.

The deduction only applies to loans granted before March 15, 1990 and will be allowed for the shorter of five years to February 28, 1995 or the period during which the employee is prevented from selling his shares

The deduction will not apply to new entrants to share incentive schemes, nor to existing participants who are free to dispose of their shares but choose to retain them and not repay their loans

This means that the benefits of share incentive schemes to employees will now be denied to many employees who will be forced to sell their shares in order to avoid the punitive tax cost.

Speculation mounts over Kanhym, Fedfood merger

Star 12/7/90

232

By Ann Crotty

There's growing speculation in the market that a deal may be hatched between Fedfood and Kanhym, which would create a giant food empire with an annual turnover in excess of R2 billion.

Kanhym sources are emphatic that there are no talks on the go

Both food groups are within the Sankorp stable — Fedfood is a subsidiary of Fedvolks and Kanhym is a subsidiary of Malbak.

Analysts believe that with Sankorp currently studying the Fedvolks portfolio — with a view to cleaning it up and sorting out problem areas — combining the two groups in the Sankorp organisation seems a reasonably logical step.

There may have been some reluctance to undertake such a step while Fedfood was stabled at Fedvolks

But now that Fedvolks is being delisted, and possibly dismantled, the situation becomes much more fluid and gives Sankorp management a freer rein to link up appropriate assets

Although both Kanhym and Fedfood are major players in the food industry there is little apparent duplication in their activities

This is the justification for keeping the two groups separate

It could also be regarded as justification for merging the two to form a giant conglomerate with a well balanced portfolio

Fedfood operates in five sectors of the industry bakeries, grain processing, fishing, frozen foods and snacks

Kanhym is an integrated meat producer and retailer

It has interests in livestock auctioneering, and leather production.

In recent years emphasis at Kanhym has been on value-added products — this has been a successful attempt to give management more control over its bottom line

At the release of interim results early this year, Kanhym management said it was interested in moving beyond meat products into groceries and was keen to add to its own basket of branded food products

Although Fedfood is by far the larger of the two and profitability has recently improved, the market gives Kanhym management a better rating.

Analysts believe that if, and whatever way, they are put together Kanhym management will feature more prominently at the top.

W/Mail 13/7 - 16/7/90

Unit trusts show moderate gains

AS expected the record-breaking pace set by the unit trust industry in the first quarter of the year slowed somewhat in the second quarter

Figures released yesterday by the Association of Unit Trusts reflect the more modest trend. However, the market value of the assets held by the country's 36 unit trusts amounted to R7,58-billion, which is only marginally lower than the all-time record of R7,62-billion reflected at March 31, 1990 (232)

Sales of units during the quarter registered R476,8-million company with the record R638,6-million reflected for the first quarter of the year With industry-wide repurchases at R209,5-million (R273,9 million) the net inflow for the three months was R267,3 million compared with the R364,7 million record established the previous quarter

Association chairman Roy McAlpine says he is very satisfied with this trend

"It would have been unrealistic to expect unit sales to be maintained at the hectic pace of the first quarter"

During the quarter, the unit trust capital index declined by 2,6 percent and stood at 172,98 points at June 30 This decline is considerably less than the 5,5 percent decline evidenced by the JSE all-share index for the same period

The income index however continues to forge ahead and stood at 2 076,39 points at June 30, a rise of almost 6 percent during the quarter — Sapa ons, we naturally

similar device now under development by Toyota for the Hilux bakkie This is an

seemed to be
following the re

Cape Times 13/7/90

Metalco deal fair, says UK chief

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Own Correspondent

LONDON — Chris Miller, chief executive of the Wassall group which owns Metal Closures UK, yesterday defended his group's buy out offer for the 23% minority in the SA subsidiary

"We think that what we have done is legal, fair and reasonable," he said after returning from Johannesburg where Metaclo SA was taken to court by minority shareholders to try to block the deal which would give the UK parent 100% ownership.

"The matter is now before the Supreme Court and we will have to wait to see what happens But as people who want to invest in South Africa I can only note that disinvestment doesn't seem to attract the same amount of fuss," he said

"I can only repeat that we took a course of action on the basis of valuations by three advisers all of whom concluded that Metal Closures SA shares were worth less than R23 each."

McGregor's sticks to guns over Anglo

W/E Argus 14/7/90 (232)

From MALCOLM FOTHERGILL

JOHANNESBURG — Unchastened by having its figures rubbished by Anglo American this week, McGregor's On Line Information is sticking to its guns.

The giant corporation, it insists, accounts for 45 percent of the total capitalisation of the Johannesburg Stock Exchange

Anglo's view, expressed in the 1990 chairman's statement by Julian Ogilvie-Thompson, is that the corporation accounts for no more than 30 percent

The root of the dispute is that McGregor's and Anglo are using different criteria to measure Anglo's size

Anglo, says spokesman Michael Spicer, takes issue with McGregor's on two counts One is that Anglo does not control some companies McGregor's says it does control The other is that McGregor's has been double-counting

"They have companies in their list that by no stretch of the imagination can be said to be controlled by Anglo," says Mr Spicer

"Until this year's edition of *Who Owns Whom,* for instance, they claimed for many years that Palamin was controlled by Anglo In fact, it is clearly controlled by Rio Tinto Zinc

"And when they say Consgold and Gold Fields are controlled by Anglo, this is clearly quite wrong — at no point in history has Anglo controlled those companies"

Examples Mr Spicer gives of double-counting are Ofsil, which owns shares in Freegold, and Placor, the Plate Glass pyramid

These should not be included, he says, because they relate to the same underlying operations= so Anglo counts Freegold, but not Ofsil, and Plate Glass, but not Placor

The argument fails to convince McGregor's Andrew McGregor

"Anglo is making its own rules," he says

"We're talking about the value the market places on a company, and we find what that is by looking at the price the market is willing to pay for the company's shares

"Is Anglo saying Placor shares are worth nothing ? If they're looking at underlying assets rather than market capitalisation, that's a totally different story"

McGregor's criteria for judging where an investment shades into control are flexible, says Mr McGregor

"There's no fixed formula We look at the spread of shares in each company to decide who controls it You can control a company with say 30 percent of the shares, if the other shareholdings are all small

"We're confident our market-capitalisation figure for Anglo of 45 percent, which is based on the methodology we've been using for 10 years, is correct"

Over the years, changing market conditions have caused McGregor's estimate of Anglo's size to fluctuate from 52,5 percent of the JSE's market capitalisation in March 1983 to 60,1 percent in March 1987

Anglo's nearest rival, Sanlam, is far behind, with a 1983 low of 9,4 percent and a 1985 high of 12,2 percent

Debate on who controls what rages on

B Day 16/7/90

(232)

HELENA PATTEN

ANGLO American chairman Julian Ogilvie Thompson last week, in his annual statement, entered with a new aggression the debate about the concentration of power in the SA economy when he said his company and associates controlled only 30% of the JSE, rather than the 45% popularised by watchdog Robin McGregor.

Ogilvie Thompson described McGregor's figure as "grossly exaggerated by double-counting and other errors".

McGregor regards 70 companies as being "controlled" by Anglo. Anglo declined to say how many companies it included in the 30% calculation because it wanted to focus on Anglo's role in the broader economy, the national fixed assets of which the chairman said Anglo controlled just 6%.

In his book, The Mechanics of the Johannesburg Stock Exchange, McGregor defends the methodology he uses, which is that used by the JSE itself, and internationally.

"Market capitalisation has been used as the measure as it provides the ideal weighting of the company's shares

"Furthermore, market capitalisation ensures that there is no danger of 'double-counting' as the price of the share automatically values the *performance* of assets of a company *not the assets themselves* — including all investments to the degree that the company benefits from those investments "

Anglo finds McGregor's basis for calculating "control" misleading because of double-counting Anglo maintains that this accounting principle was best explained by example and cites Freegold whose gold mine features in five companies on top of it

Michael Spicer, adviser to Ogilvie Thompson, said to include all of the companies was tantamount to counting "pig on pork"

Double-counting had been eliminated by reducing the market capitalisations of companies with investments in other JSE-listed companies by the market value of such investments

Thus pyramid companies like Ofsil and Welkom (holders of Freegold), investment companies like Amgold, Genbel and Altron and investments such as Southern's shareholding in First National Bank and FNB's holding in Southern had all been taken out of the equation.

In addition, the market capitalisation of "jointly controlled" companies had been apportioned between the "controlling" shareholders.

JSE sources put total market capitalisation at the end of June at R432bn which Spicer said would be reduced to about R275bn if double counting were eliminated Of this, Anglo controlled R82bn — or 30%

One analyst agreed that the 30% figure was a "lot more realistic as an economic vehicle than McGregor's".

"McGregor is looking purely at the value of marketable securities and the market is probably overvalued on this basis Share prices are attached to the fringe trading — the core value of the market is much less."

Executive director of McGregor's On Line Info, Andrew McGregor, said Anglo was looking at the value of the JSE's underlying assets and was engaged in an essentially different study

Robin McGregor said "We are measuring share prices as valued by the marketplace which take into account the underlying consolidated profits and assets

"Are they suggesting that both the shares of Anglovaal Holdings and Anglovaal Ltd are worthless because of the treble-counting of some of the assets actually being accounted for in Anglovaal Industries?"

Double-counting is not the only issue in the debate There are crucial disagreements on the semantics of "control" and they are not easily susceptible to objective resolution If Anglo had its way it would exclude many more companies from the sums

Ogilvie Thompson said "Administration and control are not — as is so frequently assumed — synonymous There are generally large, often majority, public shareholdings in companies we administer, particularly the gold-mining companies "

McGregor includes all companies to which Anglo, through its shareholdings, could theoretically dictate He does not maintain that it actually does issue countless edicts from Main Street

For example, SAB is included as Anglo-controlled in McGregor's figures, but isn't in Anglo's.

Anglo is concerned that this approach is misleading and claims that McGregor has also been guilty of blatant errors

Before the Minorco bid for ConsGold failed, GFSA and ConsGold were included in the list of companies McGregor said Anglo controlled, and McGregor concedes he may have made an error, although he still suspected an understanding that went sour between Anglo and Rudolph Agnew

BOOKS

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Tollgate embarks on time of consolidation

BDay 16/7/90

SYLVIA DU PLESSIS

TOLLGATE Holdings (TGH) is embarking on a period of consolidation during which growth will be organic rather than by acquisition, says outgoing chairman Johan Claasen in the diversified industrial holding company's latest annual report

He says the emphasis in the coming year will be on rationalising investments, increasing profit margins by effecting improvements in asset management, particularly working capital, cost reduction and greater operating efficiency

TGH, whose subsidiaries include Gant's, Entercor and Budget Rent-a-Car, posted earnings of 23,5c a share in the 18 months to end-December, compared to an annualised 15,7c Dividends of 27,5c (18,3c) were declared

"Certain of the divisions have been operating well below their true potential and we expect improvements in their results in 1990," Claasen says.

The economic slowdown and continued high interest rates would still affect the group's results in the coming year.

"At this stage it still seems that a further period of slow economic growth is ahead of us, with no likelihood of a material reduction in interest rates before the end of the year," he says.

"The recent political developments could have far-reaching implications for the economy of southern Africa, quite apart from the changes in political and social life facing us."

He said that while a settlement would set the stage for a period of long-term growth, the immediate future was one of uncertainty and high risk

The past 18 months had seen the transformation of TGH from a road passenger transport company into a diversified industrial holding group with a wide range of interests, Claasen said.

"This has been a most intensive and strenuous period, involving a number of major transactions, which has resulted in total assets employed increasing by 248% to R808m and shareholders' funds increasing by 55% to R167m.

"Such a period of rapid change and expansion has not been without its difficulties"

He said while group turnover and operating profits almost reached the levels targeted, net profit after tax was below expectations.

The interest saving that would result from TGH's R44m rights issue would have a considerable impact in the future, he added

Writing in pyramid Duros's latest annual report, Claasen said emphasis during the remainder of the current financial year would be on increasing profit margins and rationalising industrial investments

4 BUSINESS DAY, Monday, July 16 1990

Trade finance houses are underrated, say analysts

BDay 16/7/90 (232)

NEIL YORKE SMITH

TRADE finance houses are underrated on the JSE, say some analysts This is despite their "recession-proof" nature and recent impressive earnings performances.

For example, GDM Finance recently announced a 38% increase in attributable earnings and dividend growth of 41%, yet the share price has failed to respond The shares traded at 130c last week At this price they offer historic earnings and dividend yields of 22,5% and 9,2% respectively Net asset value is 97c

Major competitors Merhold and Reichmans are also poorly rated, according to analysts Merhold's dividend yield is 6,8%, Reichmans yields 10,1%

A misunderstanding of the business of trade financing could be behind the low ratings, say analysts and industry executives

"This business is relatively recesson-proof, especially in an inflationary climate," GDM MD John Cowper said on Friday.

In a recession there might be a small fall-off in volumes, but in monetary terms the value of business was bound to increase, he said

"Demand for our services may grow in a slowing economy as clients who are overstocked may need help while reducing stock levels."

Trade finance activity is split between imports and local buying In boom times the ratio might be 60 40 in favour of imports, and in a recession this might be reversed, said Cowper. "The point is that although the ratios change, the same amount of business is still being generated"

Another benefit enjoyed by the trade finance houses is their relatively low tax rates. GDM's rate was 22% for the year to end April because of assessed losses in certain subsidiaries and lower rates applicable to offshore operations

Cowper said that Reichmans and Merhold enjoyed even lower tax rates.

The companies offer financial services to groups involved in trade. Profits are earned from commissions and from interest income

There are some similarities with traditional banking operations, but these are limited. Some players describe trade finance houses as offering "secondary financial services".

Like all industries trade finance was susceptible to bad debts during economic recesson, said Cowper.

"We try to limit bad debts by holding security over assets," he said. GDM also limited its exposure by maintaining a broad client base

No client, or even sector, represented a majority of the assets, so individual risk was minimised, said Cowper.

Regarding debt to equity ratios, trade finance houses resemble banking groups more than normal trading companies

GDM's stated objective is to limit gearing to 5 1. At end-April the ratio was 4 1 Total assets were R121,7m compared to capital employed of R29,4m

GDM should maintain strong organic growth, said Cowper Recently acquired African Shipping — a clearing and forwarding operation — had excellent prospects, he added GDM turned the loss-making Afship around within three months of acquisition

Investment warning for SA

KIN BENTLEY

LONDON — A director of one of Britain's largest merchant banks yesterday urged Nelson Mandela to call off sanctions immediately, or let SA run the risk of losing out to Eastern Europe in the "intense" international competition for investment funds.

Kenneth Costa of S G Warburg and Co Ltd, said if the ANC deputy president was serious about his commitment to maintain economic growth ahead of population growth, "this could only be done through foreign investment requiring at least £2,5bn (R11,75bn) per annum in foreign capital.

B Day 18/7/90

"It is also interesting to note that every one year's delay adds 1-million people seeking jobs to the population in SA."

Speaking at a seminar on Britain and SA organised by the Centre for Policy Studies (CPS) here yesterday, Costa said it would take time for the various legislative and other sanctions directives to be dismantled.

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"This process needs to be put in place immediately in order for the economy to begin the process of readjustment"

Turning to nationalisation, Costa said· "For as long as nationalisation in any of its guises remains a commitment of the ANC, for so long will international investors be deterred from investment in SA.

"This much is clear from the reaction of the business community to Mandela's recent visit.

"Privatisation is a key to the development of a vigorous enterprise economy This market-led economy is the natural way to help eliminate the disparities between black and white in pensions, housing, social welfare, education, etc.

"The command economy distributes poverty and will not create the wealth necessary to establish an economy in which all can participate."

Costa also called for the estimated £20bn (R94bn) of assets in state-controlled companies to be privatised and for these shares to be distributed free to people in SA as a "peace dividend".

"These shares are, after all, owned by the state on behalf of the people To distribute, say, R2 000 per head as a peace dividend will be a significant step towards establishing the enterprise culture of the market economy."

He said· "Before the lever of nationalisation is pulled, consideration should be given to the proper deployment of all state-controlled assets.

"In the context of SA, nationalisation is the one option that is not consistent with prosperity."

Tollgate restructuring: final plans are outlined

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LESLEY LAMBERT

CAPE TOWN — Plans for the final restructuring of Tollgate Holdings (TGH) have been announced.

Masterminded by London-based entrepreneurs Julian Askin and Hugo Biermann and their local colleagues, Mervyn Key and Lawrie Mackintosh, TGH is to become the group's holding company while Duros, Entercor and Norths are to be delisted

The main purpose of the restructuring is to make its shares more attractive to foreign investors

TGH is listed in SA and on the International Stock Exchange in London It is understood to have attracted a foreign institutional interest since Askin's consortium acquired the group in July.

Most of the group's assets are based in SA, but Askin and Biermann plan to expand the group internationally by acquiring new assets in the UK and the US

The consortium plans to convert Duros, Entercor and Norths into wholly owned subsidiaries by buying out their minorities

Entercor shareholders will be offered 66 TGH ordinary shares and R2,23 in cash or R223,33 in cash for every 100 shares held, while Norths' will be offered 33 TGH ordinary shares and R1,12 in cash or R111,67 in cash for every 100 shares held

If shareholders approve the transactions, both companies will continue to operate as wholly owned subsidiaries

It is proposed that Duros sell its insurance investments — 4,1% in Hosken Consolidated (HCL) and 24,1% in Safrican Life — to cash shell Arwa for R35m.

TGH will then offer Duros shareholders about 240 of its own ordinary shares for every 100 Duros shares and 200 TGH 14% compulsorily convertible debentures worth 350c each for every 100 Duros 14% compulsorily convertible debentures worth 700c each This will convert Duros into a wholly owned TGH subsidiary

The JSE yesterday approved the scheme subject to certain amendments Once shareholders have approved the Arwa transaction, the company will be suspended from the JSE for six months in accordance with the normal stock exchange ruling Once the acquisitions from Duros have been concluded, it will apply for reinstatement

BDay 19/7/90

Gilt trade's second successive record

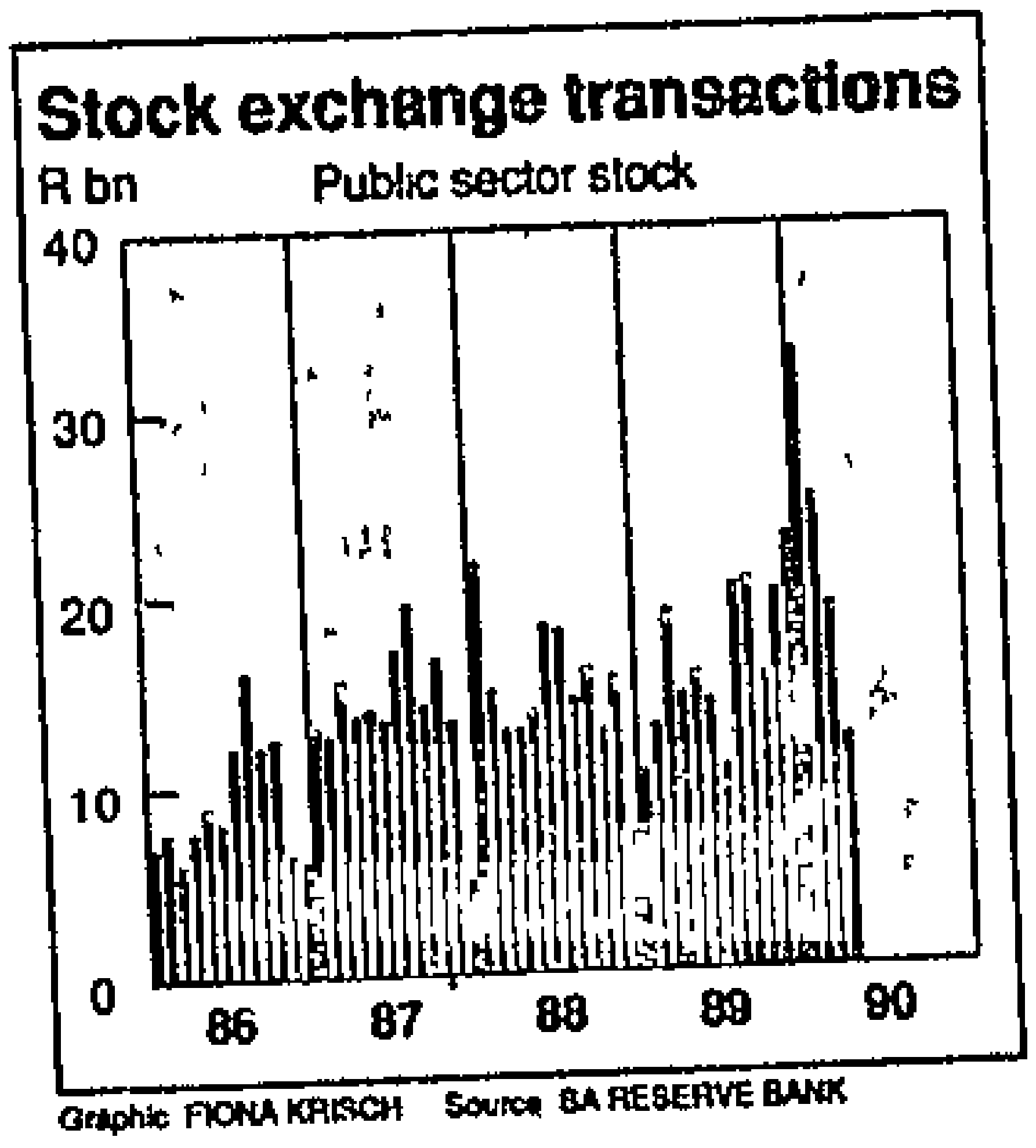
ROBERT GENTLE

THE value of public sector stock (gilts) traded on the JSE in the first quarter of 1990 leapt from the previous quarter's record R58,1bn to a new record of R77,3bn, the Reserve Bank's latest quarterly bulletin revealed

However it fell sharply in April, a decline the bulletin attributes partly to the large number of public holidays during that month, and to a lesser extent, to a marked fall-off in net purchases by non-residents These retreated from a monthly average of R200m in the first quarter of 1990 to "significantly less" than half that amount in April

Although non-residents account for a very small proportion of all gilts traded on the JSE, market sources have seen in the decline evidence of increased nervousness abroad.

They attribute this mainly to the dashed expectations that arose after Nelson Mandela's release in April.



Graphic FIONA KRISCH Source SA RESERVE BANK

Spokesmen from the gilt divisions of Standard Merchant Bank, stockbrokers Edey Rogers and Simpson McKie said Mandela's statements on a future SA economy had had a negative effect B Day 19/7/90

It was also pointed out that in recent months general political uncertainty was not confined to the words of Mandela, and also included far-right activities

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The Simpson McKie spokesman, who returned recently from a trip to Europe to gauge foreign investor sentiment, said that a wait-and-see attitude had developed there

"Those who already have large positions in SA gilts appear to be staying put Those who want to come in are thinking twice before doing so"

This explained why there were no signs of any massive selling orders, she added Indeed, there was even the odd small buying order.

The bulletin said another possible reason for the fall-off in foreign interest in SA gilts was the hardening of real yields on similar instruments in other Western countries.

Soviets flood SA mission with immigration requests

B Day 19/7/90

PETER DELMAR

THE SA mission in Helsinki, Finland, had received 6 000 immigration applications from Soviet citizens in the past six months, Foreign Affairs spokesman Alayne Reesberg said yesterday.

And Eastern Europeans had addressed 30 000 inquiries about emigration to SA's embassy in Vienna, she said. Sapa-Reuter reported from Helsinki yesterday that the unprecedented wave of applications — from all over the Soviet Union including the Baltic republics, Moscow and Azerbaijan — had taken the embassy by surprise

Ambassador Johannes Lotter said he was amazed that the Soviets chose to apply to his mission, adding that there had previously been no applications.

He said 90% of letters were from unqualified people with little chance of acceptance Most seemed to be applying for economic reasons and none had yet been approved.

Reesberg said it was well-known that Eastern Europeans often "shopped" around at a number of foreign missions when they crossed the Iron Curtain.

Confirming that most of the Soviet applicants were unlikely to be approved, Reesberg said that in addition to their lack of needed skills many of the applicants had no knowledge of languages other than their own dialects.

The ANC Helsinki representative Mohamed Hussein said the organisation objected to "this attempt to mop up the disenchanted people from the East"

The ANC, he said, opposed immigration controlled by SA, adding that the government ensured that only whites were allowed to immigrate

FINANCE

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Gloom for most JSE companies

B Day 19/7/90

HELENA PATTEN

BOTTOM-LINE profits of JSE companies are expected to come under attack on a number of fronts in the coming year, with few likely to rise above the gloomy economic and stock market conditions, say analysts.

High interest rates, political uncertainty, inflation, unexciting prospects for precious metals prices and dwindling consumer confidence will all play a role in the assault on profits.

One analyst sums up the situation by saying that it is now "a very difficult time to pick any winners"

Steve Rubenstein of Fergusson Brothers says an average growth of 13% is predicted for the financial and industrial sectors of the JSE for companies with 1990 year-ends

Output

More beleaguered than most is the mining sector

Gold mines are being squeezed "every which way" An unrewarding gold price, high cost inflation and Reserve Bank determination to protect the rand are some of their headaches

Platinum companies are also looking at a flat world price because of more output in the global market The benefit from a good rhodium price is likely to be small

Base metal companies have similarly few highlights to look forward to, although one analyst says the improved nickel price could have a positive spin-off for platinum companies

Coal's outlook is less than bright, because Eskom's consumption has reached a plateau and export prices have weakened

The banking and financial services sector is the one with happier prospects than most and shares in this sector are described as "defensive in an uncertain market"

The consensus among analysts is that margins will hold up well compared with the rest of the industrial sector and earnings and dividend growth of 15-20% can generally be expected

Financial companies are expected to do well in their portfolios, said one stockbroker. This was due to an undemanding price earnings range of between about 5 and 7, compared with substantially higher ratings of some blue chips like Richemont, SAB and Tiger Oats, but their earnings outlook was not particularly good.

Thorns

Building societies' margins are benefiting from favourable interest rates in the retail market and the fact that the cost of funding is likely to start declining faster than the cost of their retail lines

The thorns in the otherwise rosier picture for this sector are potentially worsening bad debt ratios and slower volumes

The insurance sector has to be seen in its two distinct components life companies are forecast to produce earnings of between 20% and 22% and are said to be relatively recession-proof, because policies are not easily cancelled

Short-term insurers, on the other hand, are much more cyclical performers and earnings are expected to be well down on last year's 35%-40% earnings growth Earnings improvement this year is not expected to exceed 10-14%

The industrial sectors are being affected by the slow-down in the economy, uncertainty about politics and the looming probability of retrenchments

Trouble

Some analysts forecast a 20% decline in the earnings of the likes of Barlows. Amic is also expected to see a dip in earnings

Remgro's earnings growth is not expected to be more than 5%-10%, Rainbow's results were forecast to be well below prospective forecast, Kanhym could not expect more than 10% growth, the cement producers could expect a 20% drop in earnings and the building and construction industry is said to be in trouble

The only relief from a generally depressing scene was in the furniture and household sector, which has seen a 30% annual growth in the past three months, but even this is not expected to be sustained

The clothing sector has also been showing some real growth, a broker said

Plunge in earnings growth of SA firms

W Mail 2017 – 24/7/90

YEAR-on-year earnings growth of financial and industrial companies has slowed from 33 percent in January to 23 percent by June, and this trend will continue, says UAL managing director Clive Turner (232) (150)

In the UAL quarterly report released yesterday, Turner said the present economic conditions dictated a cautious investment stance and UAL would maintain conservative liquidity levels for its trusts under these conditions

Commenting on the unit trust quarterly results, Turner said UAL Unit Trust had no direct exposure to gold shares, but the diamond sector performed well and now constituted the largest sectoral weighting in the portfolio

The present level of liquidity, in excess of 20 percent, is considered a suitable buffer against market volatility.

UAL Mining and Resources was affected by negative sentiment towards gold

UAL Selected Opportunities stood up well to the uncertain investment climate over the quarter, and UAL Gilt's exposure to the gilt market through stock options was currently in balance — Sapa

Tollgate 'won't bypass SA potential'

Cpt Times
26/7/90
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ARI JACOBSON

BUILDING Tollgate Holdings into an international organisation which will generate the bulk of its earnings in foreign currency does not mean bypassing the potential of its SA market, CE Julian Askin said yesterday

In a telephone interview Askin, who is based in London, said the decision to get involved in SA was based on a decision to take advantage of the changing perceptions of this country "by building an international business with SA connections"

Local acquisitions

He stressed the policy of the group would be one of active management by acquiring assets and stripping-off unproductive parts to enhance the underlying value

"Local companies with potential could be acquired by the group to fulfil its growth strategy, within the next 12 months"

Askin said a clearcut corporate structure coupled with an owner/manager scenario of the group's assets was the force behind the restructuring of TGH.

The removal of the existing pyramid structure in TGH provided management with direct control over the trading assets, he said

"This also prevented the possibility of frightening-off potential investors through the complexities of a corporate structure which had little appeal on the London Stock Exchange"

The restructuring is being planned through a scheme of arrangements in which Duros, Entercor and Norths are delisted and incorporated within the holding company TGH

Duros will cease to exist and the other two will remain in business as wholly owned subsidiaries of TGH

Both the Entercor and Norths minorities are being offered substantial premiums to the respective market prices at 223c and 112c a share

Cash flush

Arwa and Gants will remain as listed subsidiaries

Arwa, the recipient of Duros's insurance investments worth R35m, will remain cash-flush with the R42m injection from the sale last month of its operating assets to Johann Classen

Askin said this streamlined approach was an attempt to tidy up the cluttered structure of the group and place emphasis on the value contained in the holding company.

Sufrets Cape Times

FM 20/7/90 [redacted] (232)

LABOUR CONFERENCE FM 20/7/90

Guarding the flame

Deregulation and privatisation — and their impact on collective bargaining — were at the core of this year's labour law conference, jointly organised by the labour law departments of UCT, Wits and Natal

The conference, now the premier event of its kind, commenced with the general issues of economic restructuring and democracy in societies in transition, before tackling the impact of political policies on collective bargaining, directions in labour law and the role of collective bargaining in what was assumed would be a social democratic state (undefined) in future. [redacted] (232)

It was regretted that there was "unwillingness by government and certain large employer representatives to participate and advance positions in public which they espouse in practice. For example, on levels of bargaining" — an indirect reference to Barlows' preference for plant-level bargaining.

Broadly, three themes emerged:

☐ That democratic regulation of organisations and, ultimately, society involves pluralism and the importance of maintaining free and independent trade unions,

☐ That some level of regulation is necessary to ensure a balance of power between unions and employers, and to check the unfettered use of power by either; and

☐ That collective bargaining must be institutionalised at relatively central levels if there's to be any kind of social regulation or compact between the State, capital and labour

The assistant director of the Wits Centre for Applied Legal Studies, Halton Cheadle, argues that some form of regulation is important to set reasonable standards. The Free Market Foundation is very wary about this

The Labour and Economic Research Centre's Taffy Adler illustrated how industrial councils have made a significant contribution to general social welfare, preventing wages from sinking to very low levels. He argues that the gradual demise of industrial councils has had the effect of lowering employment standards and damaged collective bargaining as an institution

Ironically, says Adler, the result of the break-up of industrial councils is a massive additional burden to the State and society as a whole

It is argued that deregulation and privatisation are taking place without reference to unions or negotiation, and here Competition Board chairman Pierre Brooks, unable to gainsay the charge, came in for a roasting. Natal University's Chris Albertyn describes this by-passing of the unions in the changing of regulations as typical of the features of the authoritarian state, as outlined by UCT Prof Andre du Toit in an earlier address

The charge seems to be supported by the concerns expressed by Adolph Landman (chairman of the labour relations committee of the National Manpower Commission), about the Department of Manpower holding back the law-making process for pushing through the Saccola-Cosatu-Nactu accord "I suggest the department is overstepping the mark," Landman stuck his neck out, adding that though the NMC is government's official adviser, "it does seem to have other advisers who are not publicly accountable "

UCT's Clive Thompson says any new legislation has to serve two periods — the present transitional phase as well as the new order to come

It is ironic that labour, once at the progressive forefront, has now started to lag behind political developments. The search for better dispute resolution procedures that measured up to ILO standards, says Thompson, is being thwarted by the Department of Manpower

He believes it a curious omission that the draft labour legislation makes no mention of affirmative action — essential to the future

While we have a core of fairly well-protected industrial workers, says Thompson, there is a crucial need, linked to the land issue, to extend such rights to rural workers Labour and management are going to have to adjust their attitudes in order to replace SA's deeply adversarial labour relationship with a co-operative one Union autonomy, he adds, is going to be crucial in the new SA if democratic pluralism is to succeed

But should the right to strike be inalienable? Thompson believes the ILO convention should form the basis of this right in law. Cheadle says it isn't inalienable but a question of where you draw the line — either the court is given that power or it's written into the statute

Numsa's Geoff Schreiner reckons the line should be drawn by the parties themselves, adding "we don't believe in the absolute right to strike " He suggests more emphasis should be placed on compulsory arbitration in extreme cases

Cheadle revealed that the Saccola-union accord proposes restructuring the labour appeal court to make it more of a specialist labour court — with the status of an appeal court, beneath which would function the industrial court

Discussing unions and political affiliation, Chris Gilmore, of the Italian union federation CGIL, drove home the message of the "incompatibility between trade unions and political office," which has been formally adopted by his union

Not only does this make the formation of more cohesive unions possible, it is a question of different roles, says Gilmore, who is here advising Cosatu. This does not mean unions reject intervention on socio-political issues that affect workers as citizens ■

BROKERS' PORTFOLIOS FM 20/7/90

Golden egg cracks

(232)

This time last year we made the obvious point of how difficult it was to get the market consistently right. This time around let's make another. It's easy to go badly wrong or wonderfully right if you put all your eggs in one basket — particularly golden eggs in a leveraged basket That's certainly the lesson from the performances of the six brokers who participate in our light-hearted portfolio

Iscor shares facing a long haul

232 (10) 21/7/90 W/Mail

From JOHN SPIRA and JABULANI SIKHAKHANE

JOHANNESBURG — The lingering threat of a 300 million-share "overhang" held by the Industrial Development Corporation could help keep Iscor share prices in the doldrums for years.

The share, which swept to R2,85 in January after opening at R2,25, declined to around R1,90 in December and is currently trading around its issue price of R2,00.

And brokers warn that factors beyond the IDC's holding could affect the share's price, possibly for several years, before it finds its market level

They say the current weakness in Iscor shares can be attributed mainly to the huge issued share capital — R1,85 billion — and the large number of relatively unsophisticated shareholders

Mr Brian Thompson, of brokers George Huysamer, says in a report on Iscor that as was the case with building societies after their de-mutualisation, it will take time, perhaps years, for the share register to stabilise

Mr Thompson notes that it took more than two years for UBS, with only 241 million shares in issue, to stabilise its share price at a market-related level

He says the combination of Iscor's failure to meet forecast earnings and the large quantity of loosely-held shares could lead to a steady supply of scrip which could take years to absorb

"These considerations will have a correspondingly negative effect on demand, so prolonging the process of consolidation"

Recent debates on nationalisation and privatisation have also had a negative impact on the share price

The overhang of 300 million shares (16,2 percent of the total capital) still owned by the IDC and earmarked for sale "as soon as practicable", is making matters worse

Cheap way

Of these shares at least 75 percent must be offered at 15-for-100 to other shareholders by way of a rights issue

This means that when it decides to sell, the IDC will offer its holding to all holders of Iscor shares in the ratio of 15 shares for every 100 they already own at a price fixed by the IDC

The price of shares offered in a rights issue is often pitched below the market value as a cheap way of raising cash Buyers usually do not have to pay brokerage, which is borne by the company

In these circumstances institutions are unlikely to increase their holdings by going to the market where the price might be higher

Analyst Keith Bright of Frankel, Kruger & Vinderine doesn't think the IDC is likely to dump its shares on the market at the present time and diminish the value of its holdings

Positive note

But he points out that the large number of investors — including employees — who got discounts of up 20 percent on the issue price through preferential schemes, could sell their shares at the current price and still make a handsome profit

On a more positive note, Mr

See page 5

Iscor shares are facing a long haul

W/Mail 21/7/90

From page 1

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Thompson says there is probably little downside risk in the current share price, given that holders will probably not be inclined to sell below the original issue price.

Also the share must at some stage overcome the present period of indigestion, permitting a rating based purely on fundamentals

But although disillusioned investors have been selling Iscor, the outlook suggests the shares are cheap at their extremely depressed price.

Consider

- The rand-dollar rate has declined moderately, thereby aiding export receipts which account for more than 30 percent of Iscor's turnover And "logistical" problems relating to Iscor's export drive have been overcome
- Western Europe's steel industry is already recovering Although European production of basic steel was down by 2,3 percent in the first five months of 1990 (against this period last year), the May figure revealed a rise

It could be the start of a sustained upswing, as steel companies begin to benefit from the reconstruction of East European economies

- Iscor is starting to benefit from improved access to foreign markets, as unofficial boycotts diminish in intensity It has, for example, achieved a breakthough with exports of iron ore to Poland
- Iscor is stepping up its involvement in beneficiation

A R120 million joint venture with Dorbyl to manufacture seamless steel tubes will go ahead, and there is the distinct possibility that a semisteel plant will be launched at Saldanha Bay Iscor may also enter the stainless-steel market

Rising exports should have helped ensure that Iscor's earnings a share reached 48c in the year to June 1990

The original dividend forecast of 17,6c will almost certainly be met On this basis, the prospective dividend yield is a generous 8,8percent

Although the domestic steel market is weak, expected international improvement should lead to a further export boost

Hence, it would not be surprising to see Iscor earn at least 55c a share and pay 20c in the current financial year for a forward yield of 10,1 percent

Tollgate seeks world centre stage

S/Times 22/7/90

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DUROS, Entercor and Norths will become wholly owned subsidiaries of Tollgate Holdings (TGH) and Arwa will buy Duros' stakes in Safrican Life and Hoskens.

The proposals have to be accepted by a general meeting. Control of Duros was acquired by a consortium of Julian Askin, Hugo Biermann, Mervyn Key and Lawrie Mackintosh in March.

The first pair have had great success in Britain

The consortium intends to expand TGH's earnings and asset base internationally. Because TGH is listed in London and Ireland, it will be retained as the integral part of the new grouping

The restructuring announcement says "Investment criteria used by overseas institutions include a bias against investing in pyramid and control companies or in a multiplicity of listed companies within a group."

Entercor and Norths members are given an opportunity to realise their investment at

By JULIE WALKER

a premium to the market price at any time in the past three months, or to switch into TGH, which will become Tollgate's official name

TGH offers the holders of 100 Entercor either 66 TGH plus R2,23 cash, or R223,33 Holders of 100 Norths are offered 33 TGH plus R1,12 cash, or R111,67

Duros currently holds 60,6% of TGH. It is proposed that the TGH shares and debentures held by Duros be cancelled, and that TGH buy ordinary shares and debentures in Duros

Duros shareholders will be offered between 235 and 245 TGH shares for every 100 Holders of 100 Duros debentures will be offered 200 TGH 14% debentures, convertible on July 1, 1993, or sooner by option.

Duros will sell to Arwa — which recently sold its assets to Johan Claasen — its stakes in Safrican Life and Hoskens for about R35-million

Tollgate's annual report, issued last week, was signed on May 15 by chairman Johan Claasen and by company secretary N Blackshaw It included a notice that the annual meeting would be held on July 30 It erroneously included Mr Key as a director — he was not then, but is now

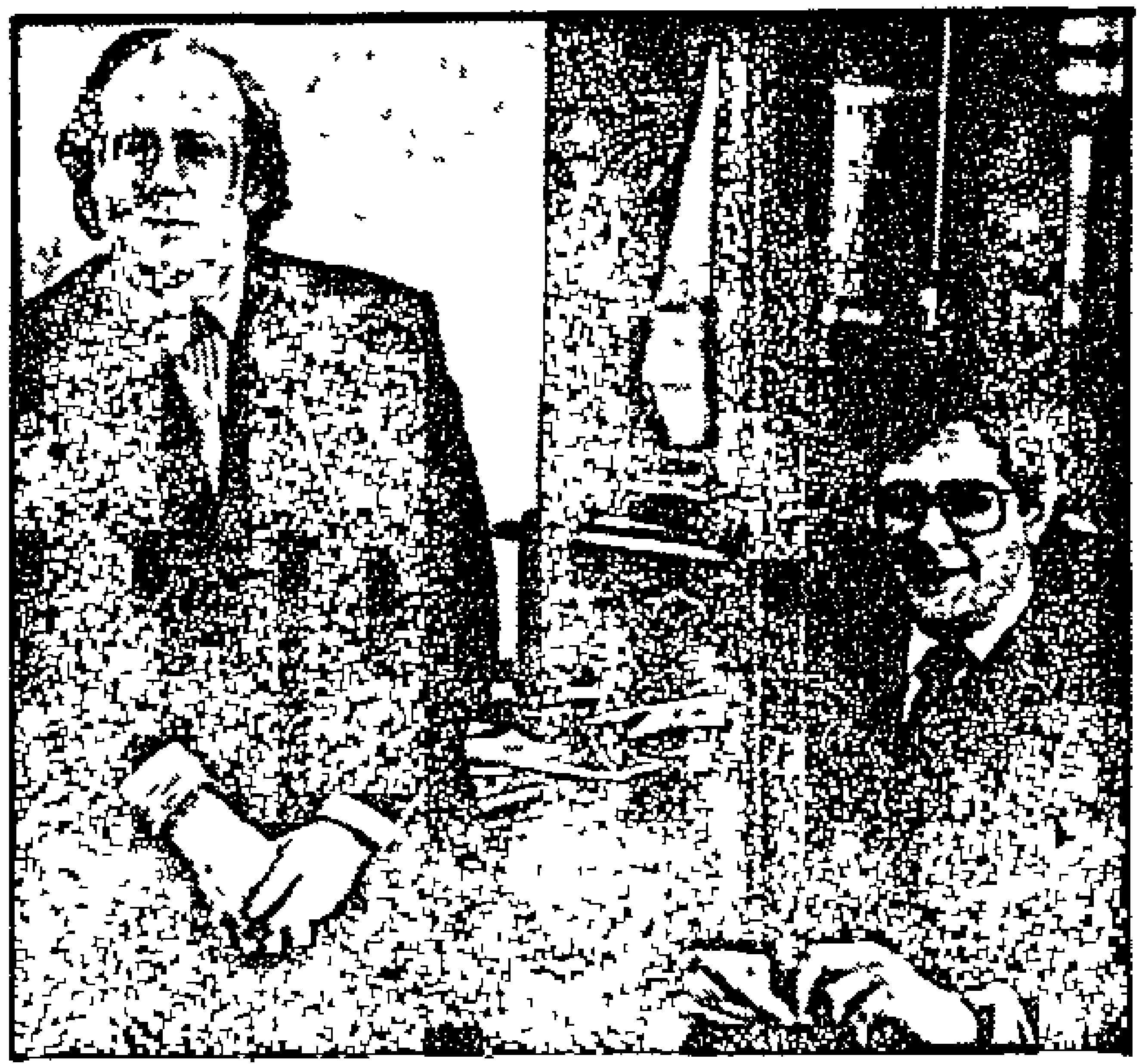
Since then, the chairman has resigned and has bought out textile division Arwa The restructure was announced only two days after the report for the year to December 1998 was published

Mr Key says the consortium was unable to act before the end of June because the change of control became effective only from then

Deal architect Mr Askin is on holiday but will be in SA soon The mere whiff of foreign investments is enough to excite the JSE.

Tollgate jumped smartly from 345c at the start of the week to 380c and was offered higher after the announcements. Duros gained 25c to 750c, but closed bid at 830c

Norths — formerly Drivetech — gained 30c to 110c, as did Entercor — formerly Deale & Huth — to 210c.



JULIAN ASKIN and HUGO BIERMANN ... consortium members building on a solid reputation

Volkskas on wheels

S/Times 22/7/90

VOLKSKAS Industrial Bank has changed its name to Volkskas Motorbank and will concentrate on motor financing

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The bank has been involved in industrial instalment financing since 1977

The bank has 13 branches on the Reef, in the Cape Peninsula, the Free State and Durban.

WEEK IN BRIEF

A SUMMARY of the week's corporate announcements.

MONDAY: Metal Closures scraps proposal to buy out the minority Last day to register (LDR) for Retprop members to accept 40c is 3/8 Titaco warning.

TUESDAY: Frigate borrows R5-million in redeemable prefs from Finansbank, which takes 40% of Frigate for R100.

WEDNESDAY: Western Areas warning.

THURSDAY DPF Investments warns, so does Leegall

FRIDAY Western Areas to reduce operations at North Shaft and sell its 41% stake in the South Deep project to a mining exploration company to be formed and listed Members will have rights to the new company

Money & Management's offer to Anjet minority accepted in respect of 10,1% of the company Interboard to raise R14-million in a rights offer and restructure with Buildcor.

Focus Holdings rights offer 83% taken up.

TV rental tough for T

By DIRK TIEMANN

S/Times 22/7/90

TV-RENTAL newcomer Tedelex is finding the going tough

Tedelex entered TV rental in July 1989 through subsidiary Empisal, challenging market-leader Teljoy

Empisal, now with four stores fewer than the 68 it had at the start, has set aside R40-million for its rental business.

Tedelex managing director Jack Cohen says the aim is to gain a third of the market — 140 000 sets in five years, starting from July 1989.

Mr Cohen says: "The market has been quiet. We are up against Teljoy, a sound trader running an excellent business.

"Our rental business will show a profit this year and will be a significant contributor to earnings in the future

"Interest rates have not affected business because they were high when we launched our operation "

Teljoy chairman Theo Rutstein is not worried about Empisal's arrival, saying "Tedelex is not the threat we thought it would be We are trading

ST Times 29/7

Trouble in store for Mandellas!

ST Times 29/7/90

Business's colours clash with the town's right wing

TWO Afrikaans businesswomen, trying to cash in on the Mandela name, have infuriated right-wingers in their town.

Rudi van Wyk and Elize Faul, owners of "Mandellas — Clothing For The People" have been abused, threatened and attacked because of their plan to attract black customers.

Mandellas, a second-hand clothing shop in downtown Vanderbijlpark, is hardly a month old but its plateglass windows — painted green, yellow and black — have been smashed twice.

Mrs Van Wyk and Mrs Faul, who say they support President FW de Klerk's reform policies, have lost R10 000 worth of stock and have received a torrent of abusive phone calls.

One anonymous caller asked the owners why they did not rather open their shop in the neighbouring black township of Sebokeng and name it after Eugene Terre Blanche.

Mrs Van Wyk said. "Someone else called to say we should be ashamed of ourselves. He said blacks were terrorists, Communists and the anti-Christ and we did this because we wanted to sleep with them."

But the defiant women say they have the support of their families and friends and are not prepared to change the shop s name or close it down.

NAME DROPPING businesswomen Elize Faul and Rudi van Wyk outside their shop in downtown Vanderbijlpark Picture JOE SEFALE

By MANDLA TYALA

"We are providing a ser vice and don t see anything wrong with the idea."

They said they had no problem securing a trading licence from the Conservative Party-controlled town council.

Mrs Faul said young whites in cars have pulled up in front of the shop to hurl abuse about Nelson Mandela and the African National Congress.

"When some of them walk past the shop — even if they don't say anything — you can actually see the agitation in their faces," she said.

The controversy over the shop is so intense that the signwriter they hired to paint the shop windows in ANC colours would only do the job after trading hours so that passers-by would not recog nise him.

The shop also sells ANC T-shirts and Mrs Faul said that, to her surprise, she has sold more of the T shirts to white college students than blacks.

"When I asked one of them why he was buying the shirt, he said he wanted to shock somebody " she said.

While businesses in the Vaal Triangle are being strangled by a black consumer boycott, the owners of Mandellas say a significant number of shoppers are buying goods on a lay by system to take home once the boycott is over

On the night before the first day of business right-wingers broke a huge hole in the shop s plateglass facade. Five bricks were found in the shop and a large amount of stock still in bales was stolen.

Two weeks later as the row heated up right-wingers struck again, this time breaking two side windows.

Soweto

The two women then placed an advertisement in the local newspaper asking for information about the at tacks and giving their phone number Instead they received a torrent of abusive

Said Mrs Van Wyk. "The way these people have been carrying on you could swear this has something to do with Mr Mandela himself

"The only caller who was not threatening or abusive was a sweet old lady who said that instead of closing down the shop or changing the name why didn't we just open it in Soweto"

Mrs Faul and Mrs Van Wyk said they definitely did not support the Conservative Party

"We are not choosing sides politically We have no problems with Mr De Klerk, in fact, we support the new reforms," said Mrs Van Wyk.

Reality

"We simply chose Mr Mandela's name because he is playing such an important political role among blacks and whites We think he is a symbol of the new South Africa

'If you really think about it it's time whites in Vanderbijlpark and elsewhere faced up to reality

"Well, we also chose the name because we thought it would attract a lot of black customers"

But what if Mr Mandela himself is not amused by the idea?

"Then we can always tell him that its not really his name The shop's name is spelt differently from his name. But we think Mr Mandela will like the shop because it promotes the ANC"

SOWETAN BUSINESS

Unit trust trend slows somewhat

Sowetan 23/7/90 (232)

AS was expected the record-breaking pace set by the unit trust industry in the first quarter of the year slowed somewhat in the second quarter.

Figures released by the Association of Unit Trusts reflect this more modest trend. However, the market value of the assets held by the country's 36 unit trusts amounted to R7 583m, which is only marginally lower than the all-time record of R7 624m reflected at March 31, 1990.

Sales of units during the quarter registered R476,8m compared with the record R638,6m reflected for the first quarter of the year With industry-wide repurchases at R209,5m (March R273,9m) the net inflow for the three months totalled R267,3m compared with R364,7m record established for the March 1990 quarter.

Roy McAlpine, chair-man of the Association of Unit Trusts says that he is very satisfied with this trend.

"It would have been unrealistic to expect unit sales to be maintained at the hectic pace of the first quarter when, for the first six weeks of the year, the Johannesburg Stock Exchange was booming with turnover reaching record levels

"The pace has moderated but the net inflow into unit trusts for the quarter is nevertheless, the second largest inflow since the heady days of the 1987 share market boom.

"As far as gross sales are concerned, the industry achieved its third largest sales ever during the quarter. Only in the first quarter of 1989 and the third quarter of 1987 were industry sales higher."

McAlpine said that another pleasing feature of this quarter's results was the rise in the number of unit trust accounts to 645 000 He commented "This means that an ever increasing number of South Africans are coming to appreciate the benefits of unit trust investment In three months the industry has attracted almost 44 000 new accounts which is very gratifying."

The association figures show that most of the accounts (76 percent in fact) are in general equity trusts. Of the balance 22 percent are in specialist equity trusts and the remaining 2 percent is held in high income funds

Analysing the portfolios one can see that the general equity funds' liquidity levels did not increase dramatically during the quarter in spite of the quieter share market conditions.

Mr Bastion van der Westhuizen, assistant GM: Investments

Old Mutual strengthens leadership

- Sowetan 23/7/90

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OLD Mutual Unit Trusts strengthened its leadership position in the industry with unit holders investing more than R660 million in its five unit trusts for the financial year ended 30 June,1990

In this period 64 000 new accounts were opened, bringing the total to some 270 000 and making the company by far the most popular choice of unit trusts in the country, the giant institution says in a statement

"These numbers constitute the investments of the man-in-the-street of which a large portion invest on a regular monthly basis," said Mr Bastiaan van der Westhuizen, assistant general manager for investments, unit trusts

More than half of the accounts opened were debit orders

The combined assets of the five unit trusts exceeded R2,5 billion, a leap of 39 percent from the previous year, making the organisation's unit trusts more than twice as large as its nearest competitor.

Van der Westhuizen contributed their success to an exceptional "track record", its range of products and the value for money investors received.

"Unit holders received more than R110 million in distributions declared during the financial year

"In addition, we offer superior investment returns.

"For example, in over five years the Investor's Fund achieved a return of 30 percent. An amount of R25 000 invested on 30 June 1985, was worth more than R93 000 on 30 June 1990.

"We were also the most active unit trust company during the past 12 months, launching two new specialist funds

"The Gold and Industrial Funds were introduced to offer investors a wider choice The investor's fund is the ideal vehicle for the average investor, but for the investor who takes a view on gold and industrials, we offer superior share selection,"he said

Allegro unit trust sets a brisk early pace

LINDA ENSOR

AA LIFE'S Allegro unit trust, established in March, ended its first quarter with assets of R5,9m and more than 2 500 individual unit holders. (232)

Although income is distributed/reinvested at six monthly intervals, the annualised yield projected at the end of its first quarter was over 6%. B/Day 24/7/90

"This projection compares favourably with the current general equity fund average yield of 5,2%," the quarterly report noted.

In an uncertain and volatile stock market, Allegro's fund managers adopted a "balanced and defensive" investment policy They believed long term value could be found in some of the low cost producers of platinum and gold should precious metals consolidate at current levels.

Liquidity at end-June stood at 10,4%.

New holdings in AA Life and Genbel were established, while the fund's exposure to Mid Wits and W & A were reduced The holding in Anglovaal Loan Stock was replaced by increased weightings in Harties, AVI, ABI and Grintek.

Top ten holdings were Implats, ABI, De Beers-/Centenary, Lonrho, Johnnies, Genbel, AVI, Anglos, Altron and Knights.

"All Allegro's holdings were increased to utilise the benefits of the current maket weakness for long term performance," the report said,

Earnings up at Tempora Investments

BDay 24/7/90 232

Business Day Reporter

SUNCRUSH subsidiary Tempora Investments, listed in the investment trust sector, has lifted earnings before a R1m extraordinary item to 32,1c (28,5c) a share in the year to June.

This was based on turnover which grew 5% to R4,3m (R4,1m), and taxed profit which climbed 13% to R3,5m (R3,1m). After the extraordinary item — surplus on the sale of listed investments — this translated into a R4,5m profit (R3,1m) A dividend of 32c (28c) has been declared.

Traders fall through collapsed futures floor

B Day 24/7/90

ROBERT GENTLE
and ANDREW GILL

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THE brand new R3,3m futures and gilts trading floor in the JSE annexe opened yesterday — literally — and at least two traders fell through it.

There were no serious injuries when the traders crashed through a section of a false floor covering a 50cm-deep area for computer and other cabling.

A spokesman from the Bond Market Association, which runs the new floor with the SA Futures Exchange (Safex), confirmed the incident.

He said the company that had installed the floor had been called in to check on the structural integrity of the area

Safex CE Stuart Rees, asked whether this could jeopardise the formal opening of the floor on August 10, when 300 people — including Finance Minister Barend du Plessis — would be present, said

"Under no circumstances will anyone be allowed on the floor under the auspices of Safex until we are absolutely certain that it is safe"

Cynics lost no time in speaking of a couple of traders "going short" when the "bottom fell out of the new market" after "heavy position taking"

Johannesburg Options Market MD Dave Bullard wrote on his Reuters screen of the "collapse of capitalism"

On a more serious level, there was much activity in the gilts pits, where trade now takes place after the closure last week of the JSE's gilts floor.

There was no trade at all in the futures pits. Most traders said they had not been formally notified about the opening — a charge Safex denied

Afex predicts satisfactory final results

B Day 24/7/90

Business Day Reporter

DIRECTORS of Luxembourg-incorporated investment company Afex Corporation are predicting "satisfactory" results for the year to end-September following an increase in midway earnings to $0,0773 ($0,0403) a share

Chairman David Marshall says in a statement accompanying the interim results that while the JSE-listed company's US property investments had a "disappointing" period, its general investment portfolio reflected the bullish conditions on Wall Street

In addition, Afex's farming results will be brought to account in the second half, as in previous years

(232) ([illegible])

Barring unforeseen circumstances, directors will "at least maintain" the $0,9 dividend and again offer the scrip dividend alternative, Marshall says

FSI stable takes beating as shares tumble on JSE

B 109 25/7/90

(232)

BRENT MELVILLE

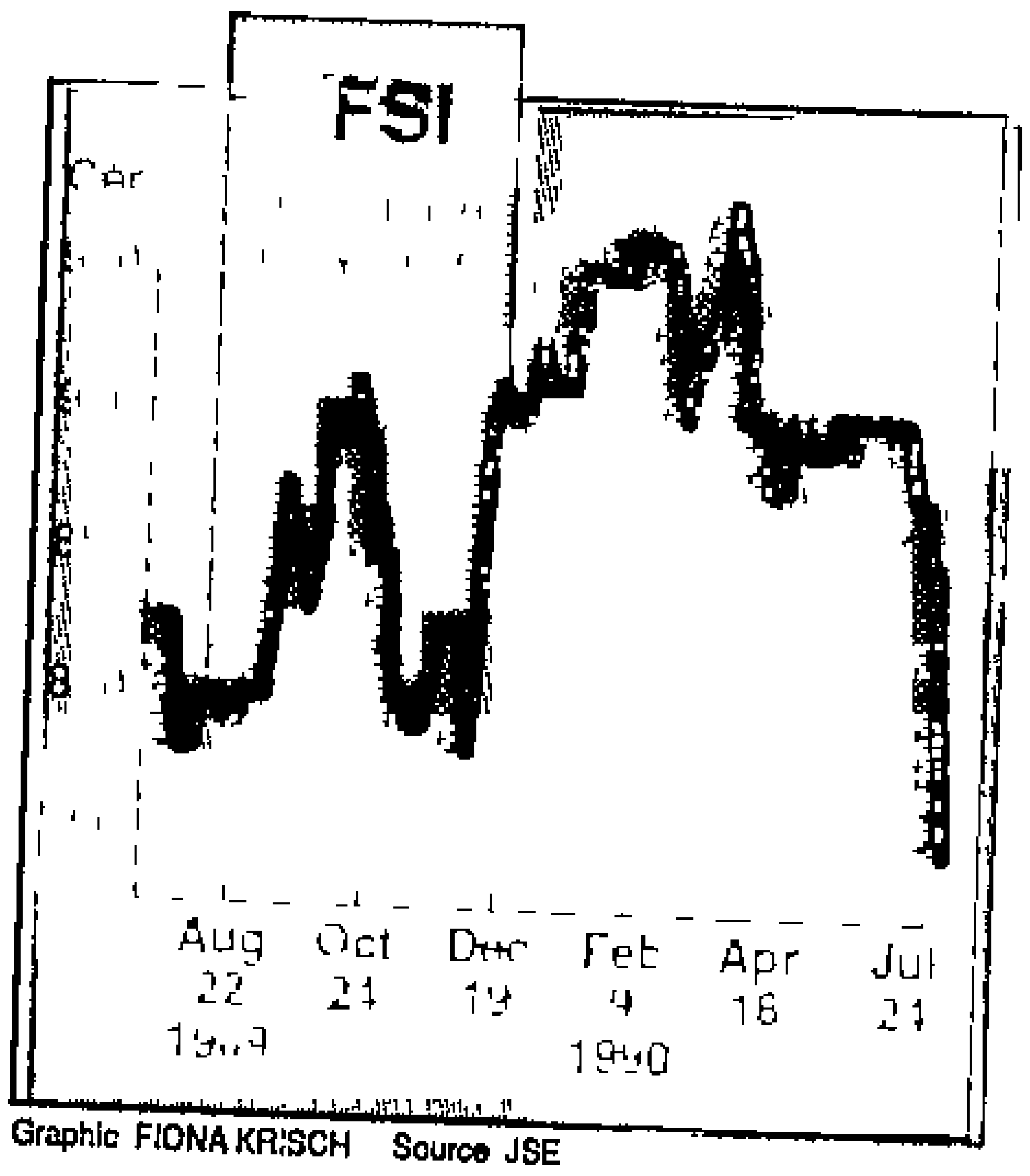
SHARES across the FS Industries (FSI) stable took sharp dips yesterday amid speculation of problems within the group's overseas interests.

FSI tumbled from 850c to close 11,7% down at 750c The share is being offered at a seller's price of 775c although buyers are trying to pick it up at 700c (An FSI spokesman said last night it was understood that the JSE computer had mistakenly shown buyers at 500c rather than the correct 700c.)

Homemakers dipped by 20c to 380c and Hunts fell 10c to 740c a share, and is being offered at 730c. The big chill, however, came with W & A which shed 140c to hit a low of 650c before finding lower-end support to come back and close at 690c — a decline of 12,6%.

An analyst said that the declines could reflect impending poor results, especially within the group's far-reaching international interests, and a general downswing in the mood of the market towards underperforming and overrated shares.

In response, FSI group chairman Jeff Liebesman said he had no idea why the shares had slumped, adding that the group was expecting good interim results and had stabilised its overseas operations.



Graphic FIONA KRISCH Source JSE

In his 1989 annual review, Liebesman expressed concern over the fact that international alliances were developing as organisations responded to opportunities opening up within the major trading

☐ To Page 2

FSI shares

b 109 25/7/90

(232)

☐ From Page 1

blocks, and to the intrusion of foreign competitors into their home markets

He said in the review the group was continually examining options for streamlining its financial structure, to improve operating returns and management effectiveness and to assist investors in SA and overseas to gain a clear understanding of the group

A market source said yesterday that it was known that FSI had made a proposal to the JSE to restructure the group He said that while the salient details of the proposal were not known, it was ostensibly made to accommodate the poor results of FSI's overseas concerns, diluting the effect of any losses among the lower end of the pyramid

"And apparently the JSE committee has rejected any suggestion to restructure," he said Liebesman commented only that the JSE had "declined nothing that might or might not have been put to them"

BUSINESS

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Good news for all Unidev shareholders

B Day 25/7/90

LINDA ENSOR

UNIDEV shareholders can look forward to good prospects of sustained future growth, says chairman Henry Vorster in his latest annual review

He says the consolidation and tight controls which have been introduced will contribute to the 1990 results being well above the rate of inflation "providing shareholders with a real return on their investment"

The Unidev share closed at 108c yesterday on a dividend yield of 13% and a p e of 1,9 times The share reached a low of 85c in March after its October high of 190c

Its pyramid company, Unidev Consolidated Holdings (Unicon), closed at 185c on a dividend yield of 4,3% and a p e of 12%. This was slightly below its yearly May low of 190c and well below the October high of 225c Industrial holding sector averages were 3,6% and 9,3% respectively

Last year Unidev underwent a restructuring and strengthened its financial ratios by raising just under R20m in a rights offer underwritten by newly-created Unicon, which holds 56% of Unidev's shares

In the year to end-December, Unidev reported a 31% increase in attributable profits, increasing its dividend by 17% to 14c (12c) Net asset value at year-end was 286c

Unidev has an industrial division which holds 23% of Rusfurn, 81% of Prestige, 53% of Medicor (unlisted), 33% of Hyperette and 26% of Debonair

Its property division has been consolidated into a 40% stake in listed Equikor Holdings, a development company operating mainly in the western Cape which is involved in development projects worth more than R200m

The electronics division consists of Cortech, one of the top five electronic companies in SA

Finally, the group operates a financial services division comprising investments in Unidev Financial Services, Mercantile Bank Holdings, Unidev Registrars and Quaestor IV

Divisional contributions to total group operating profit and equity earnings of R25,6m was industrial (R8,9m), property (R1,7m), electronics (R2,8m), and financial services (R12,1m)

● VORSTER

'Foreign gilts deals have to go via JSE'

GRETA STEYN

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THE Reserve Bank is compelling banks to do foreign gilts transactions through JSE-registered brokers after indications earlier this year it would relent and allow banks to do their own deals.

In January, it was reported the Bank was on the point of changing the ruling so that the JSE would not be the only avenue for foreign gilts deals. This followed intensive lobbying by merchant banks, commercial banks and discount houses who objected to paying an "unnecessary" fee to a broker.

BDay 26/7/90

Reserve Bank senior deputy Governor Jan Lombard yesterday confirmed the banks had recently been told the authorities felt the JSE was a necessary intermediary in the interests of greater control.

"We understand the banks' problem and naturally the issue will be reviewed again once the entire gilts market is formalised under the auspices of the Bond Market Association (BMA)," he said.

The authorities wanted to be certain the prices quoted to foreigners reflected market prices for gilts. As the deals went through the financial rand, there was much scope for abuse. The Bank wanted the safety of a regulatory authority such as the JSE. But once BMA structures were in place there would be a different authority and banks would be able to supply their own "broker's notes". Discount houses would also be able to do their own deals.

● See Page 3

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New-look Tollgate Group on the cards

From JOHN SPIRA

JOHANNESBURG — Tollgate Group Holdings, which holds its annual meeting in Cape Town on Monday, is undergoing a fundamental transformation involving rationalisation of its domestic businesses and overseas expansion

Accordingly, the share has been reincarnated as an investment with exciting growth prospects and intriguing rand hedge qualities

TGH is a diversified industrial holding company with interests in high volume consumer and brand orientated industries

Subsidiaries operate in the food, textiles, tourism, sport and leisure sectors.

In addition, TGH retains its long-established tranport interests.

In the 18 months to the end of 1989, total assets employed soared from R232 million to R808 million as the group diversified away from road passenger transport

Not surprisingly, so rapid a change in focus was accompanied by a measure of dislocation

Thus, while sales have rocketed, taxed profit has fallen way short of expectations

On an annualised basis, earnings fell from 31,7c a share in 1988 to 15,7c in 1989 And the distribution sagged from 20c to 18,3c

Flies in the ointment were Arwa and Gants Foods, along with the group's high gearing and the resultant heavy interest burden.

To reduce borrowings, TGH raised R44 million by way of a rights issue of convertible debentures in June.

Profitability

To improve operating profitability, TGH is busy rationalisation certain of its interests

But this is all background to the main attraction — the change in control at holding company Duros, which has been acquired by a consortium led by London-based former South Africans, Julian Askin and Harold Biermann

The new management team has ambitious plans Already a major restructuring programme has been announced.

Duros is being absorbed into TGH, while minority shareholders in Entercor and Norths are being taken out

TGH will become a pyramid company, with just two listed subsidiaries — Arwa and Gants — and two wholly-owned subsidiaries in the form of Entercor and Norths.

As a result, TGH's net worth should increase by 18 percent to 366c a share, while earnings should rise by 34 percent to an annualised 23,9c a share in the year to December 1990

Significantly, TGH is listed in London and management has extensive plans to convert the company into an offshore vehicle for making foreign acquisitions using TGH paper.

Indeed, it is well worth noting that TGH has become the first South African company in many years to have developed an active market in its shares in London

Messrs Askin and Beirmann are highly regarded in the UK If their foreign strategies come to fruition, TGH will become an important rand hedge counter and a shield against ANC-inspired nationalisation threats

Track record

A track record is required before the shares can be regarded as more than speculative in nature

But they could in due course come to be highly rated on the back of the overseas plans

In the meantime, an encouraging recovery looks to be in prospect following the rationalisation programme and the emphasis on boosting profit margins

An unchanged 1990 dividend of 18c from earnings which should be in the region of 25c a share makes the prospective yield an undemanding 6,2 percent

FSI shares stabilise after plunge

BRENT MELVILLE

FS INDUSTRIES' (FSI) share price stabilised yesterday after plunging to its lowest level in over a year on Tuesday, with rumours of house support rife on the market.

However, a nervous wobble appeared on the JSE with FSI preferred ordinaries dipping 15c to 325c, and FS Group preferred ordinaries dropping 25c to 375c. W & A's holding group Waicor also shed 10c to close at 310c, while Homemakers continued its slide to close 10c lower at 370c and McPhail lost 5c, finishing off at 230c a share.

Sidney Frankel, of house brokers Frankel Kruger Vinderine, dismissed suggestions the house had been propping the share or that FSI was buying its own shares. Stockbroking firm Anderson Wilson & Partners was understood to have been buying FSI shares and J Bosman & Co FS Group shares.

Responding to an assertion in yesterday's Business Day by FSI spokesman Richard Wagner that the JSE computer had misrepresented a 700c buyer price on FSI shares yesterday as 500c, a JSE spokesman said there had been "no error" in the computer and the bid price had, in fact, been 500c. B.Day 26/7/90

Wagner yesterday apologised for the misinformation and said the error had been made in "good faith".

A market analyst said despite assertions by FSI chairman Jeff Liebesman to the contrary, "informed sources" in certain of the overseas countries where the group was believed to have "significant operations" had indicated a severe downturn in that market.

"In that respect it is clear the impact of the downturn would have a significant effect on on FSI's results," he said.

However, another analyst said he believed operating levels were likely to be up, with profits for the overseas interests "significantly" improved. He said that at current levels the share offered sound value. But a third analyst said there was "unlimited downside potential to FSI".

Sowetan 26/7/90

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A quiet week on the JSE

By GILLIAN COUNIHAN

THE past week has been very quiet on the Johannesburg Stock Exchange, so quiet that on most days over 80 percent of the shares have been unchanged.

Of the five shares in this month's competition, it's not surprising that one has recorded a price change That was a mere 5c drop in Malbak to close at 635c

Looking at the JSE prices pages in *Finance Week* (July 26) you will see that Sasol closed at 1270c, Lion Match at 250c, Foschini at 7200c, and our two-year guarantee store Morkels at 82c

At 250c Lion Match offers a dividend yield of 5,2 percent, which compares favourably with the interest offered by building societies and banks on amounts under R1 000

Asset

Its net worth is 221c, which shows the share has good asset backing

Your net worth would be your house/car/possessions less all your debts, so its your Real value, and in the case of shares it's always interesting to know what the share is really worth, compared to the price you pay for it on the JSE

The share at 250c reflects a per ratio of 8 which is below the market average of 10, a good point to consider when buying shares

Lion Match is 71 percent owned by SA Breweries, a strong well-managed parent There are 45 million shares in issue, making the company worth about R106 million

The share has recently risen from 235c to 250c, compared with a high of 275c and low of 205c in the past 12 months

Apart from manufacturing matches, Lion has interests in packaging, domestic appliances (Berdea and Salton are two of the brand names) and personal care consumer products including Wilkinson Sword

Our competition for July closes at the end of the month So watch the prices and see how they move then

Shares

You stand a chance of winning 100c Gencor shares, which are worth R1 110, by watching the share prices of our five companies and sending in a list of the five shares showing how they have performed

There was no winner for our last month's share competition, so the share prices have been increased to 200 Malbak shares, valued at R2 220

This competition is sponsored by Genbel, one of the major investment companies in the country

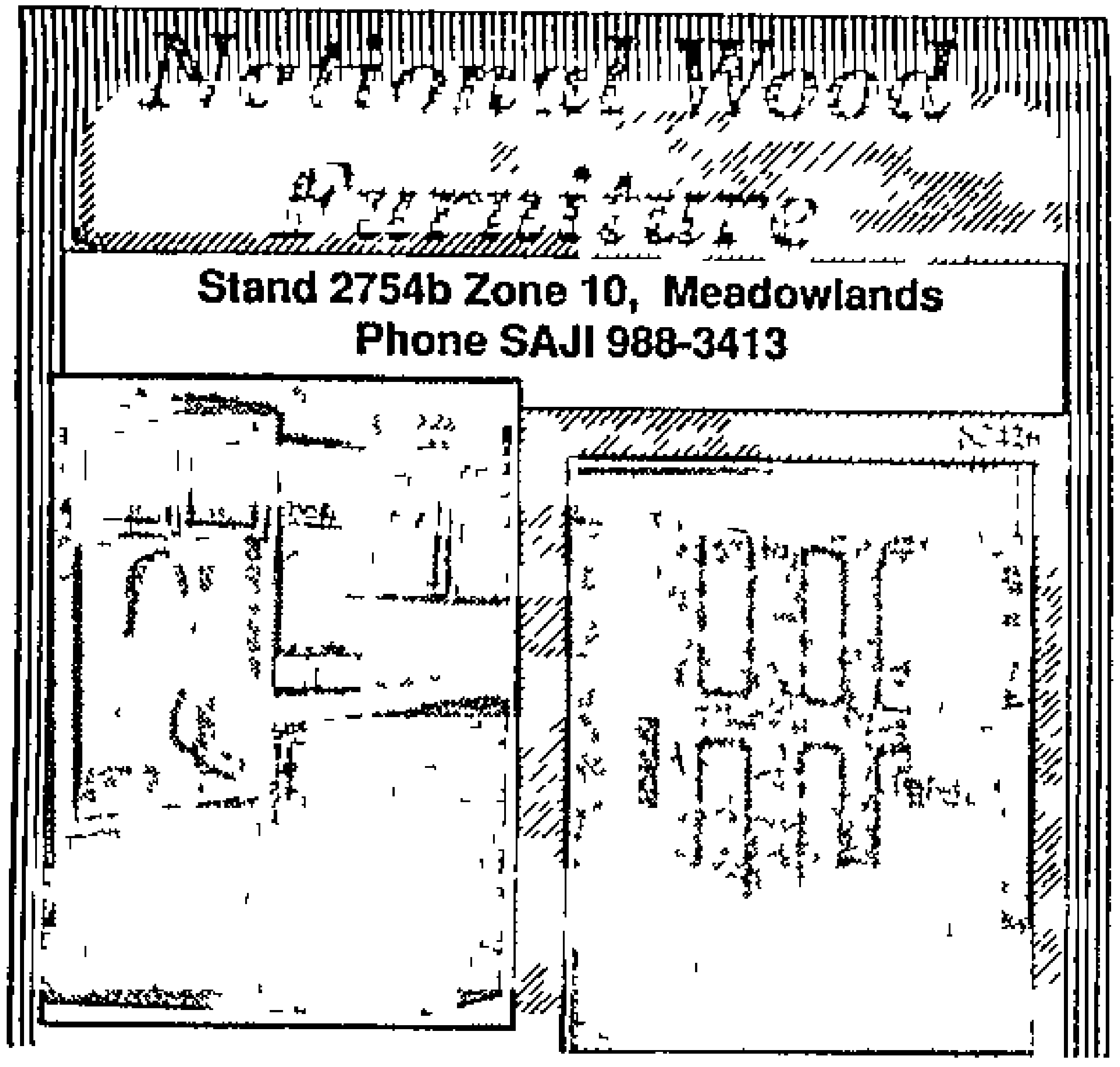
Concern over slaying of Soweto traders

THE Soweto Independent Traders Association will hold a crucial meeting on August 8 to discuss the killing of black businessmen

Secretary Thami Skenjana said that over the past four weeks four traders had been killed in Soweto alone

"Something must be done about this and we call on all our members and those interested to come to this meeting It will be held at the Jabulani Standard Bank and starts at 12 noon," he said

The murder of traders and salesmen in the townships has always been a matter of concern with chambers of commerce Late last year Sointsa held a meeting with the Soweto police chief and even closed shop on days when members were being buried The spate, however, continues and traders are now to consider new methods of addressing the problem



Gold revival continues: Up to $371

By TOM HOOD
Business Editor

GOLD has gained about $12 an ounce this week, bouncing over the important $370 level and holding at a two-month high of $371 on world markets this morning

Political tension in the Middle East is reported to be encouraging wealthy Arabs to buy gold again Dumping tons of gold by Arab countries forced the gold price to crash this year

Analysts also believe the prospect of Iraq forcing Middle East oil producers to curb production in a bid to push up the oil price could also be behind the firmer gold price.

TRIGGER INFLATION

A higher oil price could trigger worldwide inflation and set off renewed investment demand for so-called hard assets.

The prospect of lower interest rates in the United States could have triggered the latest wave of buying, say analysts

If the price stays above $370 it could boost the coffers of the depressed gold-mining industry, where about half the mines are running at a loss

When gold hit its 1990 low of $346,90 on June 20 the mines were receiving only R29 740 a kilogram

However, the price is still below the average R33 500 a kilogram the mines received in the March quarter.

● See page 3.

De Beers shares rocket at news of $5-bn deal

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Business Staff ARGUS 26/7/90

NEWS of a $5 billion (about R13 billion) diamond deal between the South African De Beers organisation and Glavalmazzoloto of the Soviet Union started a rush for De Beers shares on the Johannesburg Stock Exchange.

The price jumped R3,50 to R97,25 yesterday as shares worth more than R30-million changed hands

The Argus Foreign Service reports from London that the Swiss-based De Beers Centenary AG yesterday agreed to export and sell the Soviets' production of rough diamonds for the next five years

Glavalmazzoloto is the main administration for precious metals and diamonds under the Soviet Council of Ministers.

Centenary said political developments in South Africa helped to bring about the deal, which took three months to finalise.

The stones will be marketed in London and Lucerne

Centenary Holdings SA, De Beers Centenary's Luxembourg subsidiary, has also agreed to make a secured advance of $1 billion (about R2,6 billion) to the Soviets against future diamond deliveries

Repayment will be over five years, beginning in November this year.

The agreement was signed in London yesterday by Glavalmazzoloto head Mr Valery Roudakov and Mr Nicholas Oppenheimer, deputy chairman of De Beers Centenary AG.

"GOOD NEWS"

Mr Julian Ogilvie Thompson, chairman of De Beers Centenary, said· "The establishment of a close business relationship between De Beers Centenary and the Soviet Union's diamond industry — one of the world's top producers of gem diamonds — is very good news, not only for De Beers Centenary but for the continued stability and prosperity of the international diamond industry "

Mr Oppenheimer said· "At a time of considerable financial strain the Soviet Union has been able to raise a loan of $1-billion while signing a contract with De Beers Centenary, which assures it of a steady flow of funds from its diamonds for the next five years."

De Beers Centenary AG was formed at the end of May this year to head the non-South African business of the De Beers group.

Cape Times, Friday, July 27 1990 9

'Most acquisitions fail'

By ARI JACOBSON

MOST acquisitions fail rather than succeed — a chilling thought for CEs considering growth through acquisition, said the latest edition of the Executive

"Five common mistakes can be identified Acquisitors are unsure about precisely what they want, they pay too much, they fail to do their homework properly, they pay inadequate attention to people issues and do not realise the synergies made possible by the acquisition "

The magazine said, "time and again acquisitions are done for reasons unrelated to enhancing the overall value of the acquisitive firm".

"These range from buying a company because its offered and include the indiscriminate purchase which is loosely perceived to have something in common "

"One wonders how Interleisure felt once it had bought a wide range of small fast-food outlets which negatively affected its profitability "

Recent moves to franchise off some of the operations which were acquired, appeared to be a reversal of the company's original strategy

"Opportunistic acquisitions should not be confused with the unplanned ones "

The spate of disinvestments over the past few years were not anticipated but acquisitors knew what they wanted, it said "The management buyouts (MBO) of General Motors and Hudaco are two good examples "

Perhaps the greatest failing of most first-time acquisitors is the temptation to overpay.

"This is invariably a combination of the runaway emotions and a shaky understanding of the valuation process "

"Through rigorous analysis of expected future performance and understanding of the economic value of the net assets of the target company and their ability to generate returns, it is possible to arrive at a stand-alone value of the target."

The magazine said if you accept that more often a premium will be paid to entice the vendor to sell — the importance of synergy in acquisition pricing is essential

"Synergies include the ability to increase prices of existing products through greater market control, selling target comapany's products through existing distribution channels to realise reduced costs, rationalising overheads, pooling research, more accesible finance, access to tax losses and reduced risk "

The magazine underlines another failing in a merger situation — an inexperienced acquisitor acting to quickly and not doing a thorough study of the company to be acquired

"The seller knows his business whereas the buyer is largely ignorant and bases his assessment on information provided by incumbent management "

It pointed out the spectacular failure of Altech's purchase of Punchline, the personal computer and software dealer

"The retail end of the personal computer market compared with Altech's traditional markets, were not incorporated into the purchase price "

Further the article emphasised the importance of people in running companies and making profits "If on the takeover trail your target company must have adequate operational management which will remain after the acquisition "

Finally, the article concluded, synergies anticipated and paid for must be realised ex-post aded the CSO for nine years from

⊙ Comment Page 6

Rooikraal's shareholders sell for R1,2m

CHARLOTTE MATHEWS

B/Day 27/7/90

SHAREHOLDERS holding 62% of DCM-listed food company Rooikraal Foods have sold their 4,96-million shares to Stratplan for R1,2m, says an announcement released today

Stratplan has paid 25c a share in cash to these shareholders, and has undertaken to make a similar offer to minorities to acquire all the issued shares

Rooikraal shares closed at 32c on the JSE yesterday with buyers offering 31c

The company's results for the six months to end December showed an 11% drop in attributable profits to R328 000 from R367 000 and sharply higher finance charges Stratplan has indicated its intention of selling the Rooikraal business as a going concern

Details of Premcon and Retco share offer

CHARLOTTE MATHEWS

(232)

DETAILS of the offers to be made to Retco and Premcon shareholders were released today after the announcement in May of the reorganisation of the Property Group of SA (PGSA)

B Day 27/7/90

The objectives of the re-organisation are to simplify and streamline the corporate structure of the group and make Retco the industrial arm and Premcon the property arm of the group

Retco's capital will be reduced by a distribution of 50 Premcon shares at 45c each for every 100 Retco shares held Retco shareholders registered on August 17 will qualify for the distribution

With effect from August 17, Retco will consolidate its capital on the basis of four shares into one Shareholders who hold less than 400 shares on that day will be able to sell their entire shareholding to PGSA for 300c in cash for every consolidated Retco share

In a separate announcement, Premcon minorities are being offered a cash consideration of 45c for every Premcon share held or one consolidated Retco share for every five Premcon shares sold

Premcon minorities registered on August 10 can take part in the offer.

This offer does not apply to Retco shareholders who obtain Premcon shares as a result of the reduction of Retco's share capital

FM 27/7/90 (232)

UNIT TRUSTS FM 27/7/90

Liquidity levels rising

The JSE's dismal June quarter performance did not deter investors from pouring more money into unit trusts But the slide in share (232) prices, and lack of investment opportunities, caused the funds to be largely inactive and their performances deteriorated

Quarterly figures from the Association of Unit Trusts show a net inflow of R267m in the June quarter This is a 27% reduction on the first quarter, when the JSE was extremely buoyant, but was still well above quarterly inflows during 1989 Reasons for the continued strong inflow probably include the fact that many investors realise the benefits of investing in a weak market, the abrogation of tax on dividends and the appearance of new unit trusts

With a few notable exceptions, unit trust investment managers barely changed their portfolios Investment decisions were heavily influenced by the fall in the gold price, from about $420/oz in February to just above $350/oz in June, and by adverse sentiment created by the vacillating political environment

Deteriorating economic fundamentals, weakening corporate profits and high interest rates helped to limit the appeal of non-mining counters

Investment managers turned cautious Liquidity levels were raised to 19% from 17% at March 30 in general equity trusts and to 17% (14%) in specialist equity trusts

The notable exception is Momentum, which reduced its liquidity level to 17% from 29% in the first quarter despite sales of all gold holdings (representing about 15% of the portfolio) Industrial holdings — Imperial, Lonrho, Messina and Richemont — were the major area of additional investment, large blocks of cash-rich Msauli, Commercial Union, J D Group and Pepkor were also bought

Metfund was another of the more active funds It moved right out of mining financials — in which 23% of its assets were invested last quarter — into other mining operations and cash.

Across the board, general equity funds' reduced their holdings in gold to only 4% and in mining financials to 17% Funds sold a wide variety of gold mines but a number opted to dispose of their holdings in Gold Fields of SA and Amgold.

Investment in financial and industrial counters remained steady but there appeared to be general sales of Barlow Rand

Specialist equity funds reduced gold and mining financial holdings and raised their exposure to other mining, including copper, platinum and coal

During the June quarter short-term interest rates remained stable at high levels, whereas longer-term rates were fairly volatile and the yield curve flattened A number of the high-income trusts lengthened their portfolios in the expectation of lower, short-term rates as the economy cools and inflation slows Medium and long-dated stocks were bought in an effort to limit a fall in income when the decline in rates begins

Though the association does not provide quarterly performance figures, a comparison of annual figures to March and those for June show the latest quarterly performances were dismal and mirrored that of the JSE During this quarter the Overall index declined by 5,5%, the All Gold index fell by 22,4% and the Financial & Industrial index by 0,4%

Fixed income trusts appear to have the advantage for now

Based on R1 000 invested as a lump sum in June 1989, best performing funds are Sygro (general equity fund), Sanlam Industrial (specialist fund) and Senbank Gilt (high-income trust)

On a five-year basis the best equity fund performers are Old Mutual and UAL Mining & Resources.

Unit trusts are continuing to operate in difficult conditions this quarter The slowing economy, political uncertainty and a low gold price are limiting activity and price movements on the JSE

Current liquidity levels are likely to be maintained and a further slide in performance may be on the cards *Pam Baskind*

De Beers to control world diamond sales

CH-Times 27/7/90 232

By ARI JACOBSON

THE $1bn-deal struck between De Beers Centenary (the offshore arm of the giant SA-based mining house) and the Soviet Union's diamond industry is set to stabilise the allied precious metals but unlikely to affect the market for precious gems

While direct channels between Moscow and the Central Selling Organisation (CSO) were cut after Sharpeville, the bulk of Soviet uncut diamonds has continued to find its way to the CSO for selling at its headquarters in London or, for smaller stones in Lucerne, Switzerland

Market sources said gold bullion would be the largest precious metal benefactor as the Soviets gave-up its "distress seller" tag in the quest to satisfy short-term creditors

They added that roughly 90% of world diamond sales was now officially administered by the CSO

The deal worth $5bn over five years — Centenary has the exclusive rights to sell all the Soviet's rough-diamond exports over this period — provides the cash-strapped Soviet government with short-term debt finance

In exchange diamonds valued at $1bn will be held with the CSO as collateral

The CSO, a network of operations in the De Beers Centenary fold, has controlled diamond distribution, up to now, with 80% of the world's stockpile

The inclusion of the Soviets leaves Angola as the only major diamond producer as a non-member of the CSO and tightens the organisation's control over the diamond market worldwide

Frankel, Kruger, Vinderine & Co's mining analyst Keith Bright said the latest addition allows the organisation absolute discretion over diamond pricing

However, he added this was a cartel that, in the past, had acted in the interest of both buyers and sellers in setting prices.

Bright said obtaining finance for the loan had provided some interest because the partitioning of the group into an offshore and local division, last year, left the overseas staple with "very little cash"

"The local arm kept the balance sheet items, which included the cash, while Centenary maintained control over the trading operations which generated the profits but lacked reserves "

Bright said exchange controls prevented profits from remaining abroad until the separate staples were consolidated

"The CSO, now able to retain profits, has concluded about R6,5bn worth of sales over the six months to June, which translates into profits of R1,5bn or $560m "

This partially covered the funding of the loan, with the rest, coming from financial institutions abroad He ruled out the possibility of an inter-company loan with the knock-on effect it would have on the value of the rand

UNIDEV'S DEBT PILE SHOCKS

UNIDEV'S debt, as disclosed by the financial statements to December 1989, is enough to make a shareholder's hair stand on end.

At that date the conglomerate had borrowings of R86,1-million against shareholders' funds, net of goodwill, of R65-million In addition, there were prefs (redeemable in two or three years) of R49,4-million, to make debt plus prefs R128,1-million

By DAVID CARTE

Servicing the prefs alone will cost about R7,5-million in the current year Assuming a constant prime overdraft rate, short-term debt will cost R16,6-million a year and long-term about R2,3-million

Panic

So debt remaining unchanged, Unidev would be looking at interest and pref costs of R26,4-million this year

That is a daunting amount against last year's interest bill of R13,5-million and pre-interest profit of R18,9-million

Unidev was able to report a bottom-line profit of R11,6-million last year only because it equity accounted R6,7-million of earnings of associates (mainly Rusfurn)

But no need to panic, say chairman Henry Vorster and managing director Ronnie Stein

They are confident that dividends on Unidev's shares in Rusfurn will carry most of the cost of the R44,4-million prefs issued in the acquisition

Mr Stein says "We get the upside in our 23% stake in Rusfurn with only a fraction of the downside If, as we are confident he will, Jeff Austin makes a success of Rusfurn and the PE of that company improves from the present two to four, we stand to make a capital gain of about R50-million

"On the other hand, if things go crazily wrong and Rusfurn disappears, Trust Bank and Finansbank pick up R44,4-million of our R60-million exposure to this promising investment

HENRY VORSTER

"So, in the inconceivable event of total collapse, we stand to lose at most R10-million It is a great investment"

Mr Stein says the consolidation of Cortech lifted debt, but it intends to reduce it from R20-million to R5-million this year

In addition, hospital subsidiary Medicor is to sell and lease back properties valued at R35-million Other properties worth R11-million could also be sold So Unidev is looking at reducing debt by R60-million this year

The turnaround plan as described to me by the chairman and managing director is encouraging — but it is strange that shareholders are not told about it in the annual report

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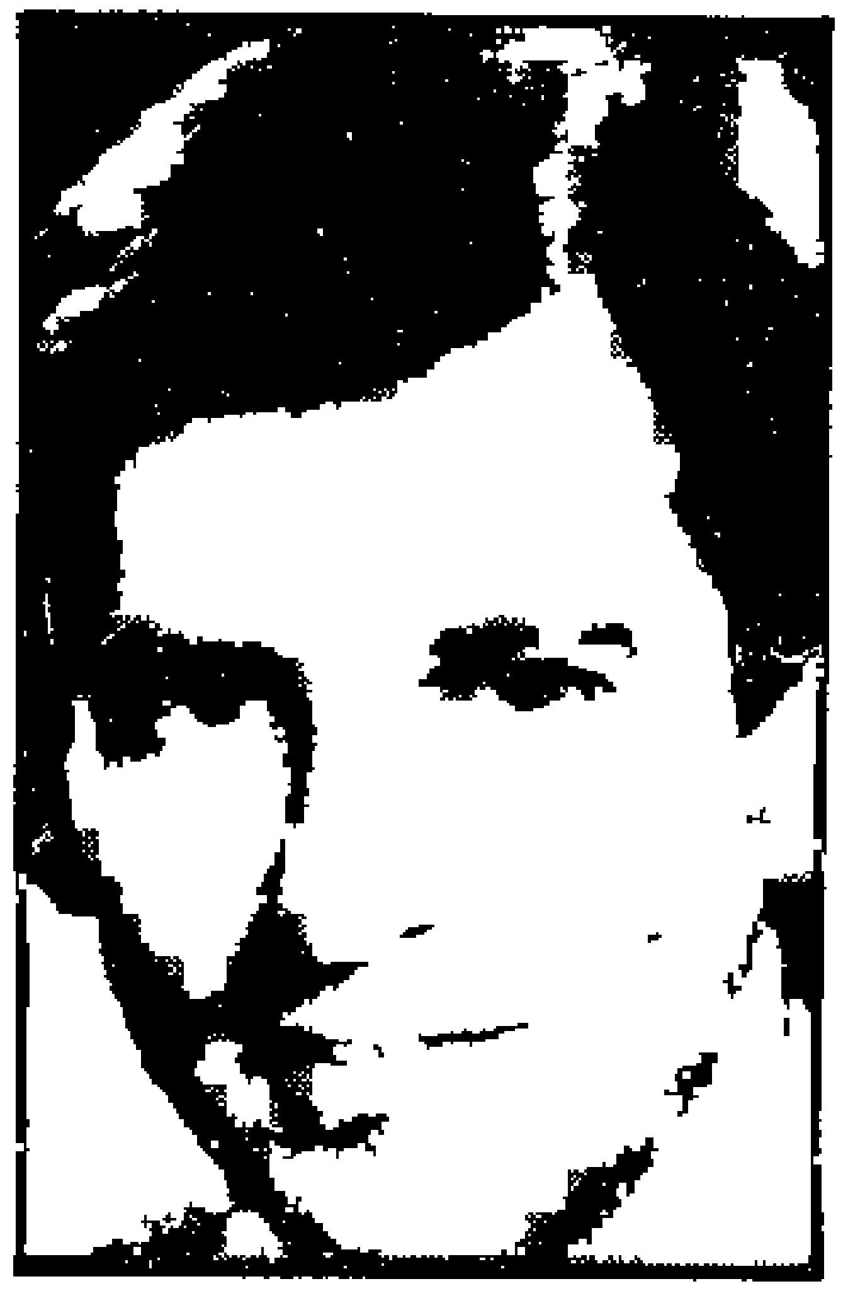
Arms

Mr Vorster, a Johannesburg corporate attorney, says he has been uncomfortable with the debt He accepted the chairmanship on condition that certain remedial steps be taken One was reduction of debt, another improved management Finally, he insisted on better focus

Unidev comprises four arms In the industrial portfolio it has 23% of Rusfurn, 81% of Prestige, the pot and pan maker, which is now back in the black, as well as 53% of Medicor, which is profitable and promising, says Mr Vorster



RONNIE STEIN

Hyperette, formerly troubled Milly's, is making profits, and household textile group Debonair is prevented by economic recession from staging a strong comeback

Under the management of former ICL chief John Miller, Cortech, with Control Data and Hamrad as key assets, made R2,9-million after tax last year in spite of write-offs, which are not expected to recur

Financial services, comprising Mercantile Bank, Quaestor 1V, and other smaller interests, are profitable and expect better this year

S/Times 29/7/90

Faith

Partly because of its faith in Rusfurn but also because of the proposals outlined here, Unidev is confident of earnings growth exceeding inflation

Mr Stein admits that the market view of Unidev has been "that we are a bunch of cowboys"

The present may mark the beginning of the long-awaited improvement in Unidev's fortunes Upside in a lower interest-rate environment looks outstanding

But the market will want to see Unidev and its critically important associate Rusfurn deliver on some of these promises before it improves the rating from the present humiliating PE of 2.

argument .s that share prices will not fall through the floor More than 85% of

power is lessened

The degree will be small

interest than the rate at which capital is eroded by

improvement to bene ie entire economy

This agreement was

Long, long trail nears the end

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S/Times 29/7/79

MINORITIES in Manserv, the cash shell worth R15-million plus interest, have had a long wait for their money But there may be hope

Control of the cash shell was held by the Map consortium after the Manserv assets were stripped out into Cashworths, now named Colfin Map sold its 90% stake for 105c a share cash in February

Since then, minorities have heard nothing They cannot sell their shares on the JSE because cash shells are supended pending the acquisition of assets The JSE allows six months for something to be injected, otherwise a shell is delisted.

Six months and a bit have passed since Manserv was suspended.

It would not be in the minorities' interest if steps were taken to delist the shell as long as no offer has been extended to them.

The JSE says it is trying to resolve matters

I spoke to Colfin, which told ~~me a~~ few weeks ago that it was preparing documentation on behalf of the new controlling shareholder, represented by Naas Ferreira

Colfin's Chris Shone says the paperwork is almost done, and will be sent for comments by the sponsoring broker and others so that a clean copy can be presented to the JSE within the next two weeks

Reasons

He tells me that an offer of 105c a share will be made to minorities without disclosing details of the assets to be injected into Manserv

The reasons are that a long time has elapsed, and the potential delisting is always in the background

"Judging from the minorities we have spoken to, they will be happy to get their money back"

It looks as though an interest component will not be included to compensate minorities for the long time between the dates on which the controlling shareholder got its capital back and the date on which they will get theirs This is a separate issue, complicating an already difficult position

Mr Ferreira says he is not a shareholder and is merely acting for the new shareholder Manserv's new assets will comprise

- 20% of Osprey mine, which issued a warning recently
- 25% of Lanchem "which is in a troubled stable" at the moment, according to Mr Ferreira He says there will be a rights issue of R20-million in Lanchem, which is to to become a granite producer
- 80% of current cash shell Meters Systems, which will buy "one of SA's largest engineering concerns" Mr Ferreira declines to name it because the deal has not been signed

He says the offer to minorities is safe, backed by bank guarantees Only technical problems are holding up proceedings. The new Swiss controlling shareholder cannot buy Manserv shares through a bookover because trade is suspended

Assets

It will be up to the JSE to scrutinise the assets Manserv proposes to take aboard, but by that time at least the minorities should have had the opportunity to disembark.

My view is that the Lanchem connection in particular smacks a little too much of the delisted and liquidated Turf Holdings, with which Mr Ferreira was associated

I would take the money — when it is eventually offered — and run

FOR

Triple-A rating for blue-chip giant Eskom

CAL TIMES 30/7/90

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By ROBERT GENTLE

JOHANNESBURG — Electricity giant Eskom, widely regarded in the market as a blue-chip state corporation, has been awarded a triple-A (AAA) rating by local rating agency Republic Ratings.

Seven of Eskom's gilt issues were also rated AAA. An eighth, the actively traded and liquid E-168, was rated AAA+.

This development, announced by Republic on Friday, means Eskom is the first SA company to receive such a rating It will almost certainly serve as a benchmark for subsequent ratings

Overseas, agencies like Moody's and Standard & Poor routinely rate both companies and debt issues The ratings are then used by investors as a basis for investment decisions.

The Eskom rating was welcomed by the Reserve Bank and by those in corporate treasury circles as a positive development on the road to a more sophisticated financial market.

A Reserve Bank spokesman, echoing the sentiments of a spokesman from Discount House of SA, said "We would like to see the concept of ratings gain momentum. It creates an additional measure of prudency in the market and is a good example of self-regulation "

Republic's executive director Gideon van Rhyn said a number of other important public and private sector companies had also requested ratings for their debt issues

Eskom Finance GM Mike Davis said the ratings would provide overseas investors with an additional tool with which to judge the merits of different SA debt issues

"Without rating agencies, the SA financial markets will never reach a level of maturity."

On the fact that the rating was AAA, Davis said this came as no surprise and merely confirmed Eskom's standing in the market.

Marilyn Visser, gilt trader at stockbroking firm Simpson McKie, agreed "It was to be expected," she said.

The consensus among those canvassed for reaction was that the Eskom rating will force other companies with a good reputation in the market to get themselves and/or their commercial paper rated.

Overseas expansion plan for Tollgate

Cit Tues 3/7/90

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By **AUDREY D'ANGELO**
Business Editor

THE restructured Tollgate Holdings will be "a totally different animal within the next nine months", new chairman Julian Askin said at the annual general meeting yesterday.

He told shareholders that the restructuring so far announced — with Duros to be re-absorbed into Tollgate, Entercor and North Industries becoming wholly owned subsidiaries and Arwa sold — was "only the beginning".

Its London listing was one of the reasons his consortium had bought control of the group Most of the new board were based in London and a great deal of expansion was planned overseas

Within 18 months more than 80% of group earnings would be non-rand "so the SA activities will become less relevant"

However, Askin said, he would not make any move overseas until "the situation in SA has been tidied up."

The first priority was drastically to reduce the group's debt, which cost R56,1m in interest in the 18 months to December "I have never liked high borrowings I have never run highly geared companies."

He was reticent about his plans "I know precisely what I want to do, but I am not going to show my hand at this stage I am very reluctant to be more specific ," he told shareholders

He added "I have put a great deal of my own money in and I am not going to blow it. I stand as the largest shareholder and I have no intention of shooting myself in the foot."

In answer to questions from the Chairman of the Shareholders Association of SA, Issy Goldberg, Askin said the group would have survived without the takeover of control by his consortium

"There were some excellent businesses in it. It expanded too quickly, and it was over-borrowed, and overtaken by high interest rates"

But, he said, its asset value "would have pulled it through"

Askin said it had been a priority of his to dispose of Arwa "It was not doing well and was not a company I understood I have not got a manufacturing background and textiles are very volatile."

There had been inquiries about other companies "There always are after any takeover"

In answer to Goldberg, he said the group was not at present involved in negotiations to sell any company There had never been any negotiations to sell Gants

The company was not under pressure, and did not need shoring up. There was activity in its stock in London, and would be more.

Premier acquires Atlantic Fishing

CAPE TIMES 3/7/90

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Business Editor

THE Premier Group has acquired the entire fishing operations of Cape Town-based Atlantic Fishing Enterprises, for an undisclosed sum, with effect from today.

Premier chairman and CE Peter Wrighton said, in a statement issued yesterday, that it had been bought as a going concern and would continue to be run by its "highly competent management".

Atlantic, which has modern premises in Cape Town Harbour, is involved in the catching, processing, storing and trading of fish and shellfish including deep sea lobster from the south coast.

Wrighton said the acquisition "presents Premier with a rare opportunity to complement and expand its fishing operations in a tightly held industry, particularly in the profitable south coast lobster market."

He said Atlantic also had "a well developed export marketing arm enabling Premier to increase its participation in this substantial market

"The acquisition of Atlantic Fishing, which has been funded by the issue of shares in Premier, should marginally improve the group's earnings in the current financial year"

Atlantic was owned by Caspar Wolff, who founded it in 1975 in partnership with Peter Cuttell and Sean Keegan, and bought complete control three years ago.

He said yesterday "I have had 35 years in the fishing industry, and I think that is enough I am retiring from it, at least for a while."

He will retain his interest in a harbour restaurant.

Wolff said that, although the coastal fishing industry is having a difficult year, his deep sea operations have done well. "The deep sea lobsters are a different species from the West Coast rock lobsters. We filled our quota in as good a time as any other year."

Confirming this, Premier deputy CE Gordon Utian said the West Coast lobsters had been of poor quality this year and in limited supply But this had not applied to the deep sea variety

The acquisition of Atlantic would widen the scope of Premier's fishing activities "It will give us an entry into the white fish market."

Shoprite features in acquisition talk

(232)

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SYLVIA DU PLESSIS

PEPKOR-controlled retailer Shoprite appears to be poised to acquire Score Foods' wholly owned Grand Bazaars supermarket chain for between R50m and R60m

This follows separate announcements from both groups on Friday advising shareholders that negotiations were underway and warning them to exercise caution in dealing in their shares

Pepkor group MD Arnold Louw yesterday admitted his group was "busy talking to (Score Food subsidiary) Trador about acquiring one of its divisions".

"Negotiations are fairly far advanced and we'll probably make an announcement tomorrow or Wednesday," he said.

"We've cleared the decks and are now cash-flush All divisions are now autonomous and looking at their own acquisitions. And Grand Bazaars is in line with what Shoprite would be looking for," he said

Score Food MD Carlos dos Santos and directors John McLean and Ronnie Taurog could not be reached for comment

BDay 31/7/90

CAP TIMES 3/7/90 232 269

'Buses should be sold'

Business Editor

TOLLGATE Holdings should sell its fleet of buses to the Government or local authorities and manage them under contract, the Chairman of the Shareholders Association of SA, Issy Goldberg, said yesterday

Recommending this at the AGM, he said it was ridiculous that a company which paid taxes should take over the responsibility for providing public transport — which should be that of the authorities

Tollgate chairman Julian Askin said the transport side of the business was profitable He told Goldberg "I hear what you say about the buses

"I have ideas of my own, and I don't want to prejudice any negotiations that may be held "

After the meeting Goldberg pointed out that the replacement value of the company's fleet of 2 400 buses all over the country would be enormous

"Their value would be very great if they were exported — but the Government would never allow that "

If, instead, Tollgate sold the buses to the authorities — allowing them credit over 10 years — the paper could be discounted, to clear the company of debt, he suggested

It should be made a condition of the sale that Tollgate would continue to run the bus services under contract, so that it would be done efficiently

OWNERSHIP & CONTROL — 1990

AUGUST — DEC.

Gilts system delay after banks protest

B Day 1/8/90 (232)

GRETA STEYN

A CAMPAIGN of resistance by the banks against using the JSE's gilts clearing system — once the gilts market is formalised — has paid off with authorities giving the market time to develop a new system.

This means the formalisation of the gilts exchange, known as the Bond Market Association (BMA), will be delayed by at least nine months. Banks will continue trading in the current informal way and will in the meantime not take up space to trade gilts on the new trading floor in the JSE annexe.

The banks fought against the JSE system — the GCH — because they maintained it was ineffective, especially from a cost point of view.

But the BMA decided that the GCH should be used as an interim arrangement to hasten the formalising of the market. A new system, known as Unexcor would be developed in the meantime and would be up and running by mid-1991.

The banks' protests against the interim measure of using the GCH were heard by Registrar of Financial Institutions Piet Badenhorst at a meeting in Pretoria yesterday.

BMA spokesman Willem Kok yesterday declined to confirm that the status quo would continue in the gilts market until Unexcor was up and running.

He said there had been a meeting between the Registrar, three members of the BMA's executive committee and three representatives of the banks.

Proposals had been made which would be conveyed to the full BMA executive committee at a meeting today, Kok said

Market talk is that the JSE pushed hard for the GCH to be used as an interim measure, arguing that the formalisation of the market should not be delayed and that the system was adequate. But the banks' presentation convinced the Registrar. About 12 trading banks, representing more than half of the market, were involved in the move to ditch the GCH.

The formalisation of the BMA and the futures exchange (Safex) has been dogged by hard feelings, much of it directed at the JSE. There has been unhappiness about the futures clearing system and banks are still resisting dual floor/screen trading for cost reasons

JSE futures floor's outlook questioned

B|Day 2/8/90

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SAFEX (SA Futures Exchange) CE Stuart Rees said yesterday that if the absence of futures trading on the new R3,3m trading floor continued, the floor's existence would have to be re-examined

ROBERT GENTLE

The floor in the JSE annexe is owned by the JSE and administered jointly by Safex and the Bond Market Association (BMA)

Since it opened for futures trading on Monday — a week after it opened for gilts trading — there has been little activity.

Routine visits to the floor have shown Safex surveillance officials chatting at their posts, surveying empty futures trading pits. The impressive electronic display boards overhead, meant to be the focus of attention for dozens of keen traders eager for the next deal, pass unnoticed.

The only activity is in the adjacent gilt pits, where traders operate since the closure earlier this month of the gilt trading floor in the JSE main building.

"However, it is still too early to make a definite prognosis," Rees said.

The floor is scheduled to be formally opened on August 10.

The virtual absence of futures trade on the floor has rekindled debate over the usefulness of such trading in today's screen-based environment, prompting questions over why the floor was even built.

Two JSE brokers gave three reasons for their reluctance to use the floor it was too remote from the main market, too slow, too exposed to competitors' eyes, and too expensive

They said it was better trading on screen within the JSE main floor area where one was in closer contact with the rest of the market (equities, finrand, gold)

One broker said "all the running around" on the new floor meant a deal could require five phone calls

The other wondered how the new floor in the annexe was expected to succeed if the informal futures floor the JSE had prepared for its brokers before the Safex opening had not worked

JSE brokers continue to do good volumes in the futures market — but on screen Safex statistics released yesterday showed they accounted for 20% to 30% of the market.

● See Page 3

B/Day 2/8/90

Amrel shares are expected to stabilise

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MARCIA KLEIN

AMREL should show a static turnover growth rate in 1991 followed by a 20% growth in 1992, according to Frankel Kruger Vinderine retail analyst Jacques Magliolo

He expects a 77% total return — on capital and dividend growth — on a 1990 share investment with a two-year view.

Group MD Stan Berger said in the annual report it would be difficult for the group to match present earnings in the year ahead due to anticipated high interest rates and a tapering off of retail activity.

Chairman Meyer Kahn said "Long term prospects for retailers in a new SA remain most exciting."

Magliolo expects the share price to stabilise with an increase in earnings of 1,2% a share to R2,48 in 1991, and 32% to R3,27 for 1992 The shares are trading at 925c

Pepkor aims for R2bn turnover

Cape Tim B 3/8/90 232

By PIETER COETZEE
Financial Editor

THE Pepkor group of companies expects turnover to exceed the R2bn-mark in the present financial year to end-February 1991, said group chairman Christo Wiese at a banquet on Wednesday night in Upington to mark the group's 25th anniversary

The results for the first six months of the year show an improvement of more than 30% over the corresponding period last year, when turnover rose to just under R1,5bn

"A total turnover of R2bn is therefore within our reach as the best months of trading still lie ahead," said Wiese

"We expect operating profit to increase to the same degree — from R135m last year to R180m this year"

The Pepkor group has shown a dramatic increase in turnover since it was started 25 years ago It rose from just R100 000 in 1966, to R6,6m in 1970, to R158m in 1980, and to R1,5bn in the 1990 finacial year

Pepkor, which grew out of a small shop in Upington, has just become the first SA retail operation to have 1 000 branches country-wide The group currently employs about 15 000 people

The celebration at Upington coincided with the opening of a R8m shopping complex by Shoprite, one of the operating companies in the Pepkor group

In R17m cash deal . . .

Cml Tms 3/8/90

Shoprite buys Grand Bazaars

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By **AUDREY D'ANGELO**
Business Editor

SHOPRITE, the rapidly expanding supermarket chain in the Pepkor group, has bought Grand Bazaars — for only R17m, in cash, plus the value of grocery stocks

A joint announcement was made by Pepkor and the sellers, Score, late yesterday afternoon Market rumours had put the price in the region of R24m.

The acquisition of Grand makes Shoprite, which will open its 49th store this month, one of the largest food chains in SA with a projected annual turnover of more than R1bn

Grand has 27 stores, of which 17 are in the Western Cape

Asked if the present recessionary conditions made this a good time to take over a supermarket chain catering mainly for the lower end of the market, Shoprite MD Wellwood Basson commented "This is the best time in terms of buying it"

The announcement said Grand had been bought as a going concern, with effect from August 20 Basson said that, in addition to the R17m, Shoprite would pay for stocks in hand on August 20

It was estimated that these would be worth R35m But it could be less, because they would be run down for the stocktaking.

A statement issued by Score MD Carlos dos Santos said "The transaction will enable Score to concentrate on expanding its traditional core businesses of Trador Cash and Carry and Score Supermarkets

"We will also be looking at opportunities in the rest of Africa"

Grand, de-listed after control was bought from the Sachar family by Score Food Holdings three years ago, did well at first under its new management

Score achieved a R925 000 turnaround after Grand had reported a loss of R275 000 in the first half, and lifted earnings to 75,1c (43,5c) a share

But in 1988 a weak performance by Grand was blamed for Score's failure to lift earnings in the first six months It was said this was due to stock write-downs at Grand, and pressure on margins

Last year control of Grand was switched from its head office in Epping to Johannesburg.

Basson said yesterday that the Grand stores had "not been doing very well if you relate it to what Shoprite was doing".

But he hoped this could be changed. Score supermarkets had smaller stores than Grand and "it must have been difficult to run two different types of supermarkets"

He said this problem did not exist for Shoprite Both chains had stores similar in size and were aimed at the same target market

Grand would in future be managed from Shoprite's headquarters Barney Rogut, who was the founder of Shoprite and a former director of Grand, would play a key role in its management.

Basson said Grand would retain its separate name and identity. But the acquisition would give his group an entry to areas where it had been unable to obtain suitable premises, including Sea Point and the Southern Suburbs.

Shoprite picks up Grand 'bargain'

Star 3/8/90

Diagonal Street

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ANN CROTTY

Shoprite has acquired Grand Supermarkets from Score — picking up 27 supermarket outlets for just R17 million cash.

To establish similar supermarkets from scratch would cost Shoprite approximately R1,4 million a piece (or R37,8 million in total) for furniture, fixture and fittings and, related assets (excluding stock). Shoprite is paying less than half of this — R630 000 for each of the stores.

In addition the R17 million includes some payment for trade marks and this can be written off with tax benefits.

Of course the Shoprite management may not have chosen exactly the same sites if they were starting from scratch — but Shoprite MD Mr Wellwood Basson believes that only four or five Grand Supermarkets (formerly Grand Bazaars) will overlap with existing Shoprite stores.

The bargain price at which Shoprite has picked up the Grand Supermarkets reflects the damage that this poor perfomer wreaked on the Score group since it acquired Grand back in 1986.

Group earnings

For Score the acquisition was trouble from day one. Not only did it never make any contribution to group earnings but with so much management time devoted to trying to sort out the problems, other areas of the Score operation may not have received the appropriate amount of management attention.

In the second half of calendar '88 Score's rating on the JSE dropped sharply on speculation of trading difficulties.

During financial 1989, Score merged the Grand and Score trading operations into Grand Score Supermarkets. There were some savings on management structures but still no profits from Grand. According to Score MD Mr Carlos dos Santos, in financial '90 Grand broke-even.

Referring to the sale of Grand, Mr Dos Santos says: "It will enable Score to concentrate on expanding its traditional core; businesses of Trador Cash and Carry and Score Supermarkets."

The acquisition will only be a bargain if Shoprite can make the supermarkets perform without investing much additional money or management time.

Mr Basson seems confident, despite the fact that the deal substantially increases Shoprite's asset base in one go — from 48 to 75 outlets. "We are not worried about problems. The Grand Supermarkets are very similar to the Shoprite outlets — we will apply the Shoprite formula to Grand." Both are dominant in the Cape and target the B/C markets with an 80/20 split of food and non-food merchandise.

Intervening years

As major competitors, Mr Basson is already familar with the Grand Supermarkets. Mr Barney Rogut, who is a founder director of Shoprite, was also a founder director of Grand Supermarkets.

Shoprite had expressed some interest in acquiring Grand back in '86 but Score clinched the deal. It is likely that Shoprite management has been closely tracking Grand's performance in the intervening years.

In contrast to Grand's failures, the Shoprite formula has been extremely successful. For the 12 months to end-February, Shoprite reported a 34 percent increase in turnover and a 19 percent hike in earnings.

Despite ongoing openings of new stores, Shoprite continued to enjoy relatively low gearing. This will help it carry the debt burden attached to the R17 million acquisition.

This burden will put some strain on the balance sheet in the initial years. Funding for the deal will come from Shoprite's cash rich parent, Pepkor.

The deal is effective from August 20. The stock valuation will be determined at that date and is likely to lift the overall cost to around R50-R60 million. But as Mr Basson points out, the stock element of the price will pay for itself as stock is sold.

Mr Basson does not expect much of a contribution in the current financial year but thereafter the Shoprite formula should produce significant benefits.

Escalating liquidity crisis forces firms to defer debts

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B/Day 3/8/90

MARCIA KLEIN
and ZILLA EFRAT

THE escalating liquidity crisis in SA has forced many companies to defer their debts to improve cashflow and to finance their operations.

Latest Credit Guarantee Insurance Corporation (CGIC) figures show a 6,74% increase in debtors outstanding over 90 days — for all industries — during the first quarter of this year This compares with 4,62% for the previous quarter, and a further rise is expected

CGIC statistics show that liquidations rose 33% during the first five months of this year, compared with the same period last year High interest rates, banks' strict credit restrictions, strike action causing longer operating cycles, decreased sales and stock movement, and increased debtors' days are forcing businesses to use credit to improve cashflow effectiveness.

Kreditinform director Jack Browrigg says debts overdue increased 8% for the period from November 1989 to June 1990 compared with the previous six months

Companies are extending credit by increasing their credit days, issuing post-dated cheques and "creating queries on their accounts", he says.

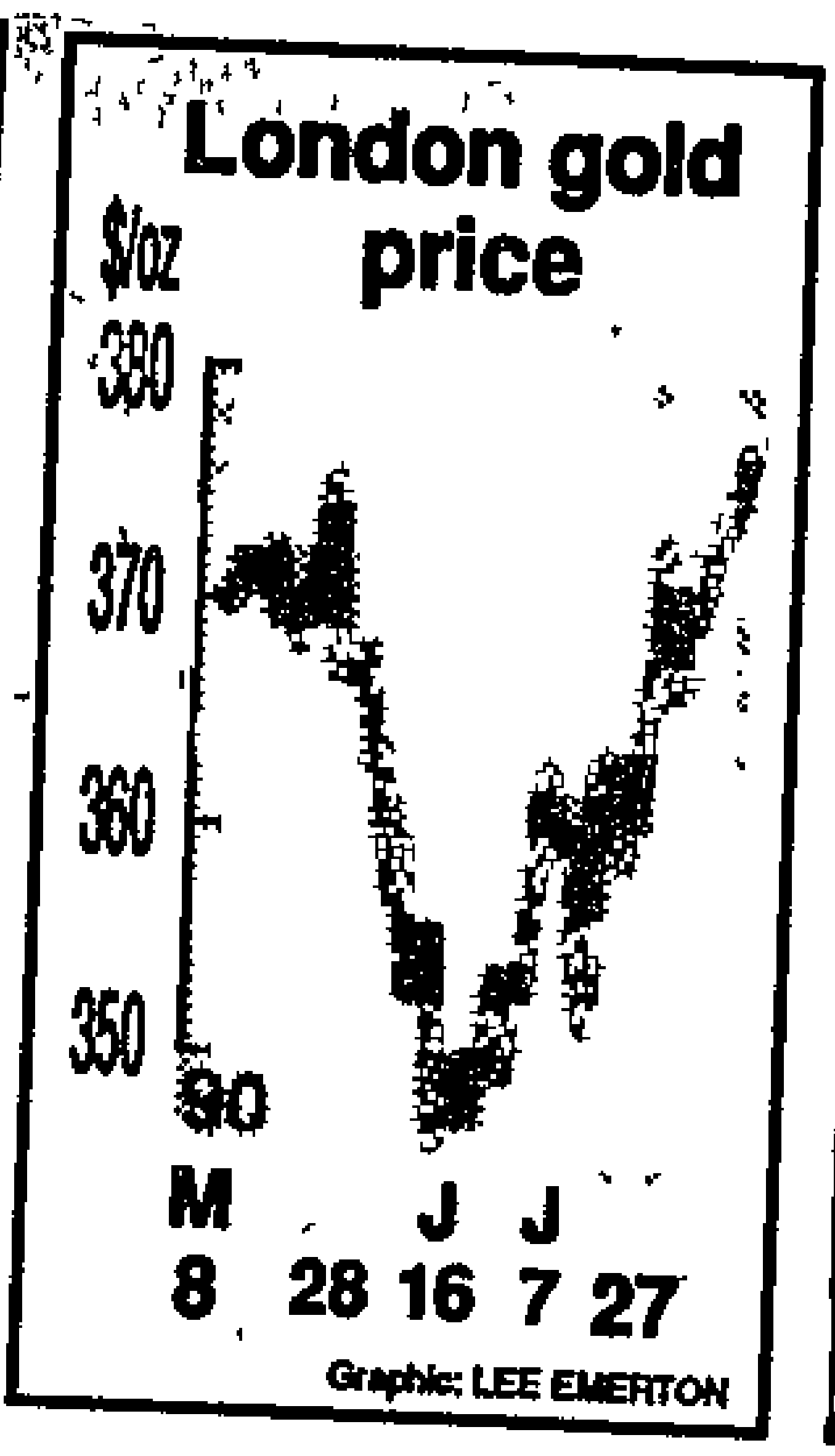
Westrust director Les Cohen says companies can meet cashflow problems through deferred payment on GST, government levies and medical aid.

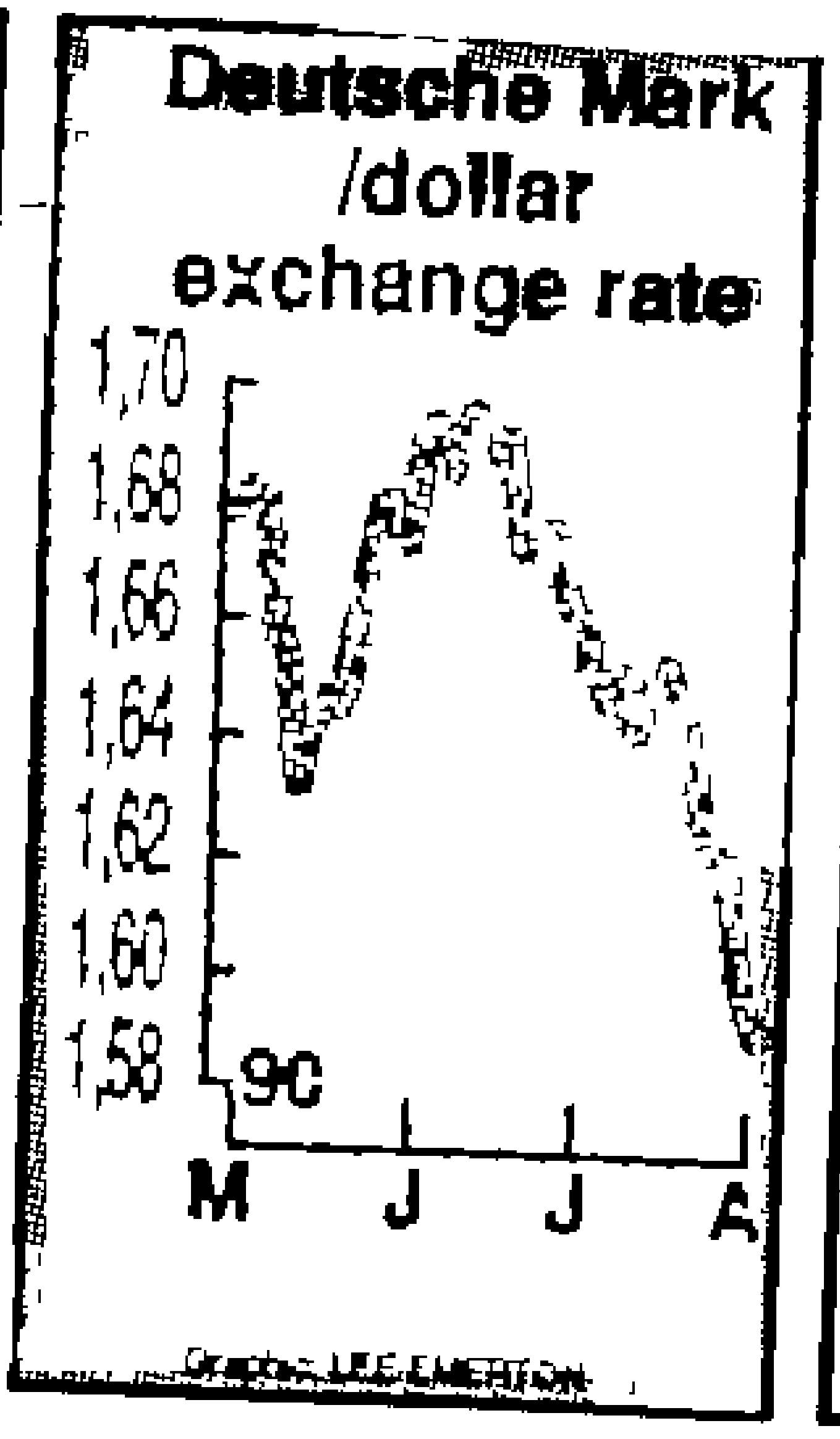
Problems vary depending on industry and region, says Information Trust Corporation chairman Paul Edwards. The situation was causing concern.

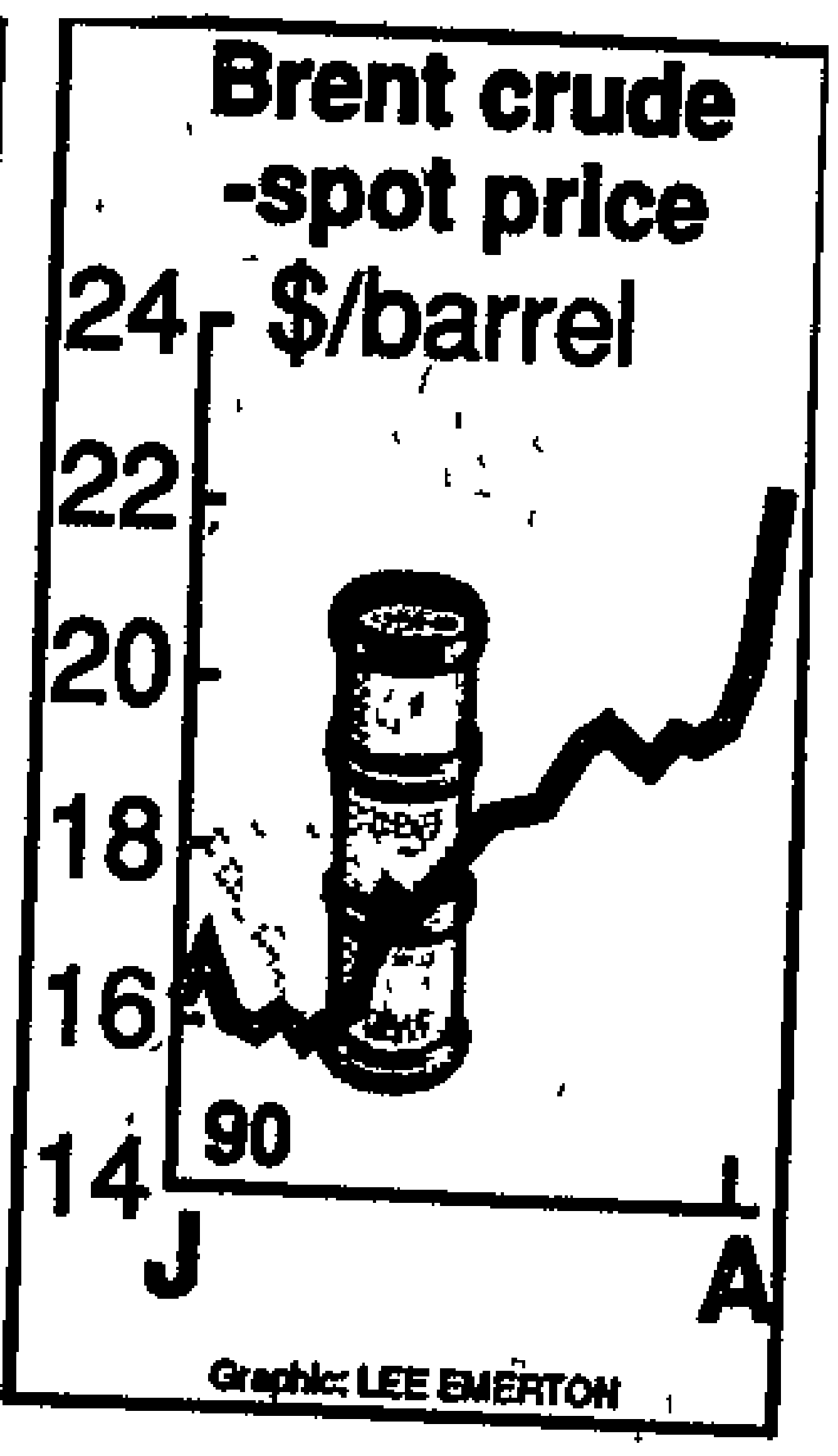
Worst hit are companies operating in cyclical, overtraded industries or competitive markets, those with poor management and new companies

CGIC said average quarterly percentage figures for debtors outstanding over 90 days showed that some industries were more adversely affected than others in the first quarter of this year than in the quarter to end-December.

The percentage for the wool industry rose from 6,32% to 9,25% in March, clothing from 6,50% to 11,36% and engineering (electrical goods) from 12,53% to 16,58% Furniture increased from 3,94% to 8,53%, printing and stationery from 4,85% to 8,70%, clothing and textile wholesalers 5,24% to 10,27% and consumer durables wholesalers from 9,63% to 10,99%.







Gulf war sparks JSE share surge

B/Day 3/8/90

(232)

MERVYN HARRIS, ANDREW GILL and JOHN CAVILL

LED by golds, shares surged across the board on Diagonal Street yesterday as gold jumped to a high of $387 in the wake of the Iraqi invasion of Kuwait

The Middle East action also boosted oil prices to their highest levels since 1986

The moves on Diagonal Street mirrored the violent roller-coaster ride on world markets — gold, oil, equities and currencies — as panic buying of bullion drove up the gold price and the price of Brent North Sea Blend crude

But sentiment cooled both on the JSE and international markets as gold retreated to close only $4 up on the day in London at $379,25 amid confusion and uncertainty in financial markets.

The metal closed in New York last night at $377,25

"The markets got very hysterical when New York opened and a lot of short sellers of gold rushed in to cover their positions but then people started to think through the situation and started to take profits," said Robert Weinberg at brokers James Capel

The previously quiet capital, forex and futures markets saw the return of much-needed volatility, and reacted feverishly to gold's jump

However, the rand's usual appreciation in tandem with the gold price did not materialise as the dollar found support as a traditional safe haven in times of crisis or uncertainty. It fell back to R2,6190 to the dollar earlier before closing at R2,6072 from Wednesday's R2,59 close

In active two-way trade, the JSE all gold index climbed 6% or 94 points to end at 1 652, but was off a high of 1 672 as profit taking emerged to trim early gains

The overall index rose 1,7% or 55 points to 3 216 as the improved sentiment spilled over to industrials and the index gained 17 points to 3 062 — against the trend of sliding industrial shares on major stock markets

Producer selling of gold, notably by the Australians, and a reassessment of the implications of rising oil prices were mainly responsible for taking gold off the boil, analysts said

The outbreak of hostilities between Iraq and Kuwait, among the world's biggest oil producers, sent the spot price of North Sea Brent Blend up from $20,40 a barrel to $23,62, the the sharpest jump since the Iran revolution in 1979.

☐ To Page 2

Share surge

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(232)

☐ From Page 1

Later, Brent crude (for September delivery) was back to $22,70/barrel

While the inflationary implications of rising oil prices was good for gold, observers feared higher oil prices could turn already sluggish growth levels in major industrial countries into recession

In the capital market, the key long stock indicator, Eskom 168, fell nearly 20 points in early trade as gold leapt to $387 and the quarterly options close-out revealed the market's fundamentally bullish sentiment.

Dealers said last month's encouraging money supply and inflation statistics and next week's talks between the government and the ANC underpinned the bullish market, which has seen the E168 fall 75 points in under two months.

Sentiment, however, was mixed as to whether rates could fall further without another substantial rally in the gold price

The E168 closed at 15,81% from Wednesday's 15,94% after falling all the way to 15,745% earlier and the RSA 150 fell 11 points to 16,25% after touching 16,17% earlier

The dollar strengthened against the Deutschmark trading at Dm1,62 after testing its all-time low of Dm1,58 earlier in the week. It closed weaker in Frankfurt at Dm1,6037

The financial rand continued its upward trend strengthening to R3,8350 from R3,8650 partly on the back of reasonable offshore demand for gilts ahead of next week's talks

The recently sluggish futures market attracted renewed interest with the all-gold index future for September jumping 82 points to 1 684 points in substantially higher volumes

PC to meet on 'economic ownership'

4/8/90 232

Political Staff

THE President's Council is to meet on Thursday next week to discuss a Democratic Party motion on the economy which calls for as many people as possible to share in the ownership of the means of production

The Minister of Finance, Mr Barend du Plessis, will also speak on the motion, the council's secretary, Mr Johan Weilbach, said in a statement yesterday

The motion, to be moved by the chairman of the DP's national council, Mr David Gant, recognises an urgent need to "sustain a high rate of growth and provide full employment"

New ‘loan stock’ JSE sector

CHARLOTTE MATHEWS

A NEW SECTOR for property loan stock companies will appear on the JSE from Monday August 13, GM, listings and equity markets, Richard Connellan confirmed on Friday. BDay 6/8/90

The loan stock companies that have been invited to participate include Amaprop, Barprop, Boardprop, Growthpoint, Hyprop, Retprop, RMS Property Holdings and Pangbourne Properties

Of those invited to join, three or four have so far confirmed acceptance

“We have not put out a release yet because the process is not as easy as it sounds,” Connellan said.

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“There are some candidates with linked units which move across quite easily, such as Pangbourne and Boardprop, but units such as Amaprop or Barprop raise the question whether the whole unit moves across or only the loan stock portion

“We will also have to sort out the indices for each sector You have to ensure that the bottom does not fall out of the property sector index with the removal of some listings.”

Max Pollak & Freemantle property analyst John Rayner welcomed the move, saying it was difficult for the inexperienced investor to identify loan stock companies

“The property trusts and the property loan stocks are perceived as physical property according to the new prudential requirements, while property companies are regarded as equity

“By separating out property loan stock companies it becomes easier to make comparisons with the property trust sector”

Shareholders benefit as Tomkor cuts gearing

B/Day 6/8/90

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MANDY JEAN WOODS

THE decision to address the problem of Pretoria property group Tomkor's high gearing by eliminating about R80m in borrowings through the restructuring of the group would enable shareholders to enjoy the benefits of that growth, Tomkor chairman Alec Wapnick said in the company's latest annual report.

Tomkor's capital structure served its purpose well when it was essentially a capital building vehicle, using gearing and untaxed growth to build wealth. But, Wapnick said, this structure did not reflect the changing face of the company, and of circumstances.

Tomkor was involved in two separately identifiable and fundamentally different activities, he said. One produced relatively high earnings from rental on developed properties and the other derived lower returns from the acquisition and development of land and property, its value being chiefly its capital growth potential.

The company is to be split into two — Tomkor and Octodec Investments, a wholly owned subsidiary of Tomkor, the listing of which is anticipated for September. Octodec will focus on maximising returns on developed properties while the reconstituted Tomkor will concentrate on acquiring and developing properties, he said.

Both companies will be listed on the JSE.

Octodec will be established by way of a renounceable rights offer to Tomkor shareholders as a totally debt-free entity. It will acquire the bulk of the existing Tomkor properties, a portfolio of mature properties valued at about R148m after assuming the R80m of Tomkor debt. The R80m debt will be extinguished from funds raised in the rights offer, he said.

"Following the restructuring .. Tomkor will be reconstituted and will initially hold developing properties valued by the directors at about R115m with a reduced level of interest bearing debt of about R38m," Wapnick said.

Genmin in R36-m granite deal

Star 7/8/90 **Finance Staff** 232 [illegible]

General Mining (Genmin) has acquired a 75 percent interest in Transkei Pioneer Mining Company (TPMC), with effect from the beginning of July, for R36,19 million from private investors.

TPMC owns three high-grade black granite deposits in the Willowvale area of Transkei Exploitation began in 1989. Current production is 300 to 500 cubic metres of granite a month. Some 95 percent is exported.

Genmin's general manager, business development and strategy, Trevor Rees, says an extensive drilling programme proved the deposits are not only high quality, but substantial.

Production will be raised over the next two years It is estimated the reserves will last well into the next century even if production is increased to 3 000 cubic metres a month

Mr Rees says there is a huge demand for quality black granite abraod and that granite produced by TPMC is equal to the best Belfast Black. World demand for quality black granite exceeds production by 50 percent.

The mine provides job opportunities for 100 people and if production is increased the number could double The company is investigating the possibility of cutting and polishing the stone locally, which will increase revenue substantially

The previous owners, AC Baradas, PN Zappa, F Soldati, C Ferrari, M Zappa and E Zappa, still own 25 percent of the company.

Number of shares traded soars as gold recovers

ANDREW GILL

THE value of shares traded on the JSE in the last week of July — when the gold price recovered to $370 for the first time in two months — jumped 31,9% to R490,3m from R371,8m in the previous week, latest JSE statistics show. (232)

This translates into an average turnover of R98m a day compared with the previous week's R74,3m, a welcome relief for brokers who have recently been struggling with low turnover

The volume of shares traded, however, increased by only 5,6% to 51,2-million shares, with the real difference showing up in the average price per share, which jumped 25% to R9,59 from R7,67.

Non-resident transactions conducted through the JSE realised a net gain of R41,2m compared with R12,9m the previous week

This was reflected by a stronger finrand in the last week of July, which had firmed to R3,90 by the end of the week compared with R4 on the Monday of the previous week

The total consideration in respect of gilts and semi-gilts traded increased by 96% to R4,5bn compared with the previous week's R2,3bn

B/Day 7/8/90

Aspects of statements challenged

BDay 8/8/90

ROBERT GENTLE

MARKET sources, mainly audit firms and derivatives experts, have contested certain of the statements made by the JSE in defending its handling of the development of the Traded Options Market (TOM).

On the specific issues of consultancy fees, two leading chartered accountancy firms have said that FMDC's hourly $200 (about R550) fee was much higher than local figures

They put their hourly rates at about R150-R200 for average level consultants to about R300-R350 for the very senior categories.

On the issue of non-availability of local expertise in options, a spokesman from Andersen Consulting says Andersen has helped design a number of leading overseas exchanges

These included the fully automated Soffex (the Swiss Options and Financial Futures Exchange) and the similarly designed West German Deutchse Terminborse.

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David Bullard, MD of options broking firm Johannesburg Options Market, says SA could have had two futures exchanges for the money TOM has so far absorbed.

The SA Futures Exchange (Safex) has an all-in cost of R3,4m which includes building, infrastructure, salaries and computer systems.

Says Bullard "One wonders which poses the greater danger to capitalism — the ANC or the JSE"

Meanwhile, at least one merchant bank has told Business Day that it is working on its own traded options market and has suggested the financial markets would probably be able to get by without TOM.

NEWS FOCUS

JSE lifts the veil of secrecy over TOM

BDay 8/8/90 (232)

ROBERT GENTLE

THE JSE has finally lifted the veil of secrecy hanging over its Traded Options Market (TOM), which is a year behind schedule, has swallowed up R7,8m in development costs and is still no nearer completion.

TOM is designed to be a state-of-the-art system of unrivalled sophistication which will enable trading of options on key JSE indices and a number of blue-chip stocks.

In an exclusive interview with JSE president Tony Norton and three senior colleagues, Business Day has learned that the second module of the computer systems part of the project — about half the, total work — has to be redone A key project member has resigned.

The man, who has now left, had sole responsibility for writing the crucial systems software and to all intents and purposes answered only to himself.

"With the benefit of hindsight, maybe we should have had a team of programmers on the project," says Norton

The man had also never programmed before on financial market packages, much less on options, his background was industrial. Had the JSE erred in hiring a man with no direct experience?

"He was a consultant who performed well and had the intelligence to learn things quickly," says JSE GM Darryll Till. "It was not important that he have the exact previous experience."

The TOM project manager, a UK citizen recruited by the JSE from London, is not an options specialist either "He was hired as a project manager, not an options specialist," says Norton

The JSE then brought in an overseas consultancy firm, Financial Markets Development Corporation (FMDC) in 1988 to provide the options expertise and oversee the operation

It is FMDC that has been the subject of rumours in the market about high consultancy fees (paid in dollars), accomodation in Bryanston and a constant coming and going of jet-setting consultants.

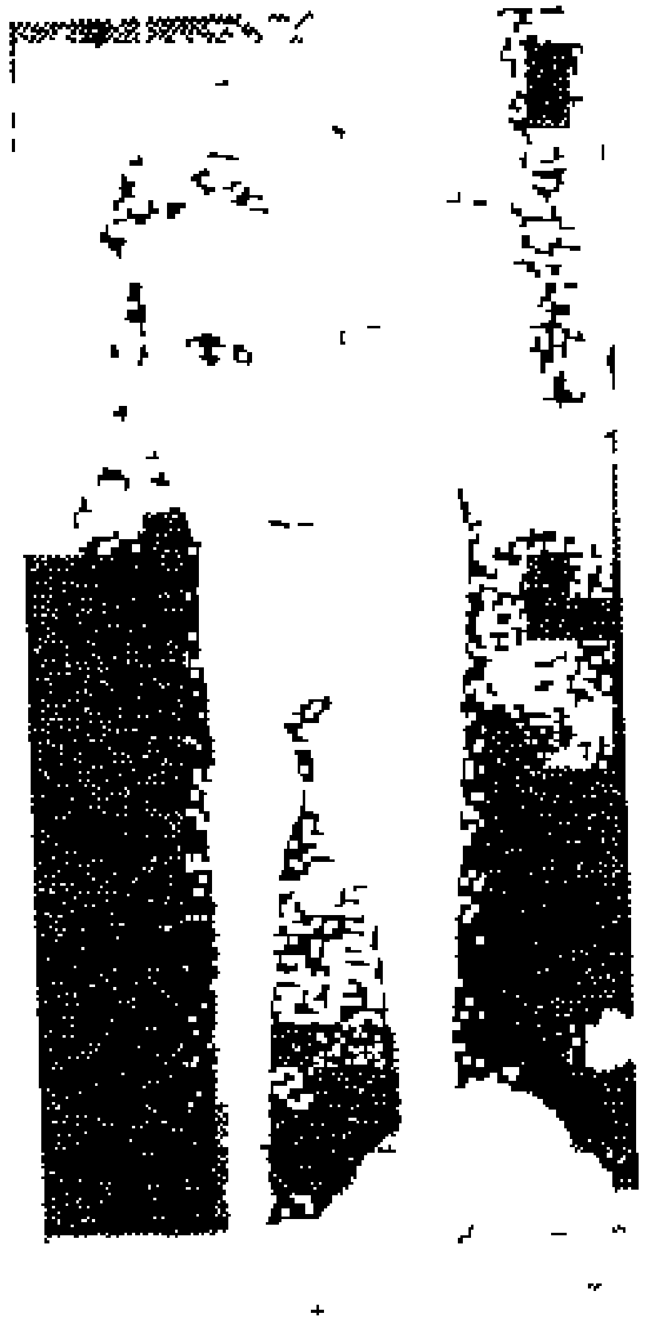
The JSE admits to all of this, but sees nothing sinister in it Yes, they are expensive at about $200 an hour, but only marginally more than local consultants, yes they do have a Bryanston townhouse with a small swimming pool, but it is much cheaper than keeping them in a hotel; yes they do fly in and out, but then that is normal as they are based overseas.

Norton says FMDC is a top-class outfit Nevertheless, could the JSE not have hired local consultancy/audit firms like Andersen Consulting, Aiken & Peat, Ernst & Young or Deloitte Pim Goldby?

"Expertise in options may be available at some of these outfits today, but that was not the case two years ago," says Till

FMDC's fees to date have been the single largest item in TOM's still-growing R7,8m price-tag They accounted for half of the R4,5m design cost Programming took R2m, electronic price recording systems R892 000 and the computer interface R233 000.

On whether TOM needed to be written at all as there are plenty of off-the-shelf packages on the market, Norton says "That is the case now — and we are looking into some of them — but they certainly did not exist when we started out."



● NORTON

The JSE did look at alternative systems even then, Norton says, but none was suited to the peculiarities of the SA market. low liquidity, strong institutional dominance and the need for agency trading

"If we are guilty of anything, it's naiveté" says JSE chairman Peter Redman, referring to the fact that the present TOM project is itself a complete recasting of the original low-budget R2,5m model first mooted in 1987. "We thought we could do it quickly, cheaply We were wrong."

On ultimate responsibility for the mess, Norton holds himself accountable "We fast-tracked the project," he says. "We took a commercial risk. But on the facts at the time, it was a fair, commercial decision."

However, he does not see it as grounds for his resignation, not least of all because the JSE cannot be judged on one single project which is not even complete yet. "TOM is not a commercial disaster."

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. [illegible] 8/8/90 [illegible] (232)

"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

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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 in-

Mondi scoops R500m

GM 7/4 BS 8/8/90 (232)

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%

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

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De Beers in capex injection

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"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

Liquidations surged 67% during June

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B Day 9/8/90

ZILLA EFRAT and GERALD REILLY

LIQUIDATIONS surged 67% from May to June and were 51% higher than during the same month last year.

The downward trend is expected to continue into next year

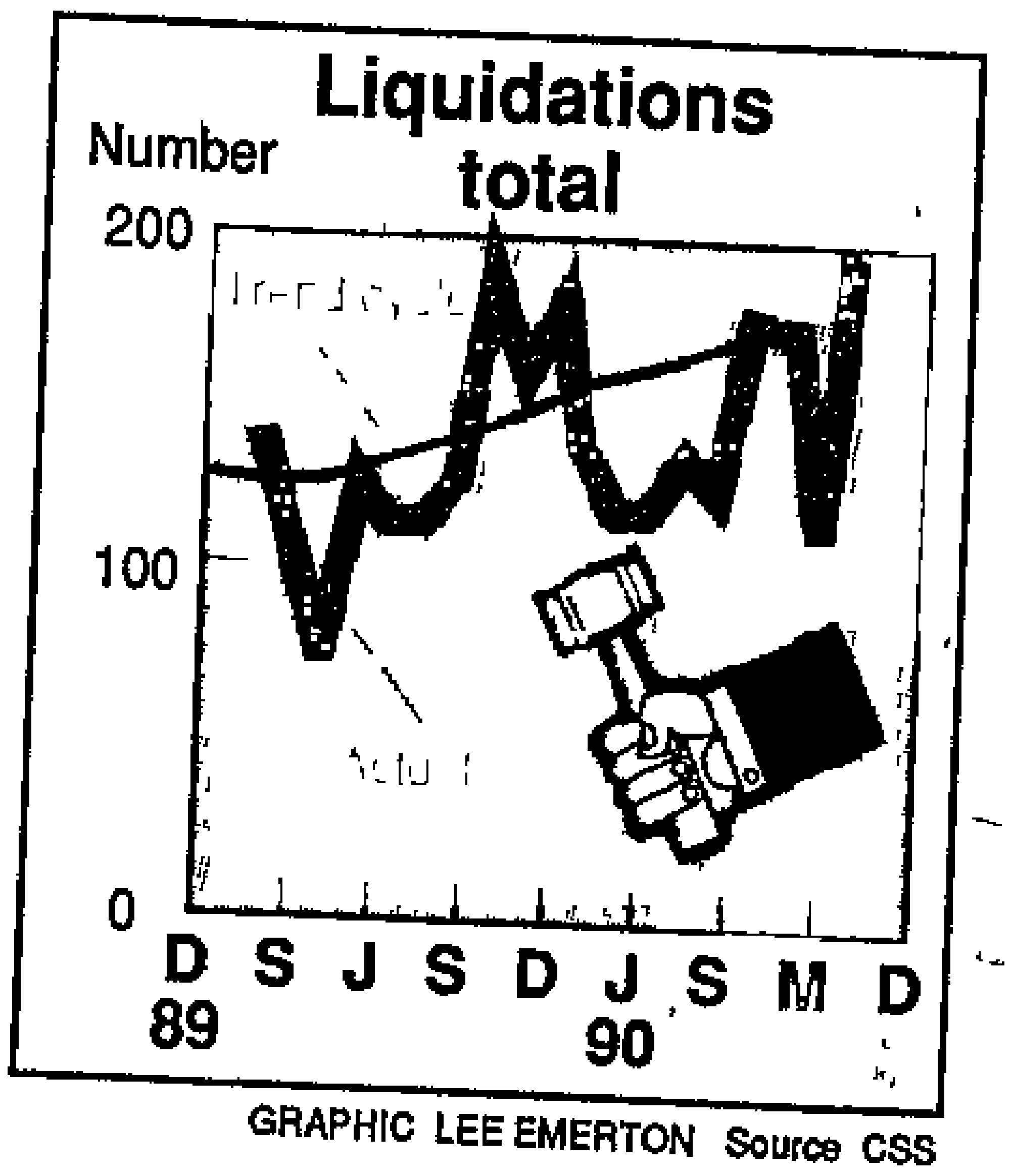
Central Statistical Service (CSS) said the April-to-June quarter saw liquidations, which involve companies and close corporations, rose 33% to 482, compared to 362 during the same period last year, and 11% on the 434 seen during 1990's first quarter

SA Chamber of Business (Sacob) economist Keith Lockwood said the June figures confirmed the economy had moved into full-blown recession. He expected to see the number of liquidations rise steadily until the first quarter of 1991, but not to reach the levels seen in the 1985 recession

Credit Guarantee Insurance Corporation (CGIC) economist Luke Doig said the downturn had permeated all facets of business. The worst-hit sectors in June were manufacturing, construction, wholesale and retail, and financial services

During the second quarter liquidations in the construction industry leapt 34% over the first quarter They jumped 54% from 13 in May to 20 in June

Liquidations during the second quarter in the wholesale and retail sector, which includes catering and accomodation services, rose 37% to 180, compared to 131 during the first quarter. The manufacturing sector saw a 46% rise to 83 in the second quarter, compared to 57 in the first.



GRAPHIC LEE EMERTON Source CSS

"The sectoral increases confirm our prognosis that even medium and larger-sized enterprises are now suffering under high interest rates and a contracting economy," said Doig

Volkskas economist Adam Jacobs said it was clear a major shake-out was in progress "We are now entering the second phase in the downturn in the business cycle, and there are no prospects of a turnaround for the rest of this year or even 1991. Although short of a juddering halt, constraints have brought a marked and

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Liquidations

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☐ From Page 1

intended deceleration in business tempo."

Stellenbosch University Bureau for Economic Research head Ockie Stuart said the figures dramatically outlined the sharp reaction in the economy to goverment's financial and other restraints.

He expected the trend to move sideways between now and the end of the year. A relaxation of interest rates during the fourth quarter could slow the process.

"By mid-1991, if we're lucky, there could be signs of recovery or at least that we have hit the bottom," Stuart said

CSS figures also showed that insolvencies — which involve individuals and partnerships — jumped 32% to 245 in May from 186 in April, and were 9% higher than during May last year. From March to May they rose 5% to 680 compared to the same 1989 period. Compared to the previous three months — December to February — the increase was 20%.

REES . . relaxed ahead of Safex opening.
Picture CATHERINE ROSS

Safex will be formally licensed tomorrow

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B Day 9/8/90 ROBERT GENTLE

SA FUTURES Exchange (Safex) CE Stuart Rees is looking a lot more relaxed these days, and for good reason, his exchange, ticking over nicely since it opened in April, is to be formally licensed tomorrow

Finance Minister Barend du Plessis will open the exchange in a ceremony which takes place on the newly opened trading floor in the JSE Annexe.

It marks a long slog for Rees, who has been in the spotlight for most of this year as the exchange's various problems, from serious to trivial, made headlines

However, he can now point to an exchange which is covering operational costs and handling volumes comfortably higher than last year, even if these are less than initial estimates had suggested

"In the first week of this month, we did nearly 50% of the volume done in the whole of August 1989," Rees says

He says this helps clarify the misconception in the market that because the floor is not working — for now — that futures as a whole are not working

"People are trading where they always have been — on screen That said, the floor deserves to be given a chance. At the end of the day, however, the old adage will apply, namely that market is a price, not a place"

Rees was part of the team at Rand Merchant Bank that introduced SA to futures over three years ago.

Now that Safex is operational, he believes its perceived image in the market has improved considerably. "People doubted we'd ever open."

His plans for the future? To get volumes up, and stay abreast of market developments "One can't be too complacent in this fast moving field," he says

Small investors 'do well'

NEIL YORKE SMITH

THOUSANDS of small investors on the JSE have seen the value of their holdings soar in recent weeks

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"Some companies in which individuals have big shareholdings have enjoyed good stock market performances recently," said JSE president Tony Norton

B/Day 9/8/90

"This is most pleasing as it should encourage more small investors to participate in the market"

The main groups in which small investors control substantial blocks of shares — the building societies — have found strong buying support recently

Share price gains in many such companies have far outstripped the market during the past few months, say analysts

"When groups like Allied and UBS were listed small investors were encouraged to invest — many have retained their shares," said one.

"They were aided by legislation which limited any institution to a 10% equity holding in such companies"

Small investors had done well out of share price increases, encourging further investment on the JSE, he added

M-Net has also been a good performer for smaller players It was listed on August 1 The offer to purchase 20-million shares at 100c each was aimed at M-Net subscribers who subscribed for 3,6 times the number of shares on offer M-Net shares are trading at about 145c

Iscor shares performed well immediately after they were listed last year but later fell below the initial offering price.

The JSE has long been criticised as being too dominated by institutional investors

A few institutions chase only selected shares and are often reluctant to sell once they acquire a quality portfolio, so liquidity is poor, said an analyst.

Norton said he would be delighted to see an increase in the number of small investors on the JSE

HLH to exploit growth avenues

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SYLVIA DU PLESSIS

HUNT Leuchars & Hepburn Holdings (HLH) directors' preference for growth remains organic, but they will exploit all appropriate opportunities for acquisitive growth and actively pursue them as they arise, says chairman Louis Rive

He says in his latest annual review the obvious opportunities in this regard exist in the expansion of the group's sugar milling capacity and the development of new differentiated products in Transvaal Sugar (TSB).

B Day 9/8/90

They lie in the acquisition of added timber beneficiation processes and product positioning, and the reaping of benefits from investments in research and development in mine stope supports

"This will, we believe, have a radical effect on lowering the cost of support to the mining industry in real terms, and gives the mining timber company a unique strategic positioning advantage as well as bringing significant benefits to our customers in the industry

"Also, within the Robertsons fold, we have secured the local rights to key brands and have grown markets and market shares appreciably"

Rive says HLH management, while committed to performance that will outstrip the economy, is unlikely to sustain growth in the food and timber group's earnings.

The group, held by Rembrandt through pyramid company Huntcor, produced a 37% rise in attributable earnings to R100m to end-March

The increase in issued share capital following its R147m rights issue to acquire a 25% interest in Rainbow Chickens eroded growth in earnings to 22%, or 81,4c (66,8c) a share. Dividends of 28,8c (24c) were declared.

Crookes investors approve share split

Own Correspondent 232

DURBAN — Shareholders of Crookes Brothers yesterday agreed to a four-for-one share split and the distribution of one C G Smith share for every four Crookes shares held.

The new shares will be listed from August 20.

The divestment would lead to the reduction of about R1,223m in dividend income, but the dividend estimate of 75c (18,75c on the new shares) would remain firm, chairman Ian Gillatt told the shareholders' meeting BDay 9/8/90

Gillatt said the purchase of four Eastern Transvaal farms was part of a long-term plan which would be enhanced if a proposed sugar mill in the area was commissioned

No capital would be required yet, but the grant of a cane quota and a decision to turn the land to cane would require capital expenditure.

Interest and tax charges were expected to be higher, with the result that operating profits would be much the same as last year's.

Gold shares firmer amid indecision

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LIZ ROUSE

GOLD shares were generally firmer on the JSE yesterday, although minor declines in heavily weighted counters such as Vaal Reefs caused the JSE all gold index to record a small gain of three points to 1 674.

In general, the market was indecisive as the gold price churned in a narrow $3 range between $383 and $386 on European bullion markets. However, the JSE board showed reasonably active trade in golds and mining financials.

The industrial index shed four points to 2 994 while the overall market index was off five points to 3 132. Platinum shares continued to slide in relation to oil price moves. B/Day 10/8/90

Bullion dealers said gold's movements were in tandem with new developments in the Gulf region. The market was very nervous because of the Gulf tension and if the situation there flared up, many players felt gold had room to move higher, said an AP-DJ report.

Good support is seen at about $382, while light resistance is seen in the region of $386/$387. Some dealers believe that if those levels are pierced, gold could surge towards $400

The London afternoon fix was $383,60, and it rose further to close at $385,75, $3,50 up on the previous day's close. In New York gold closed at $386,00, up $2,75.

JSE brokers increasing their share of market

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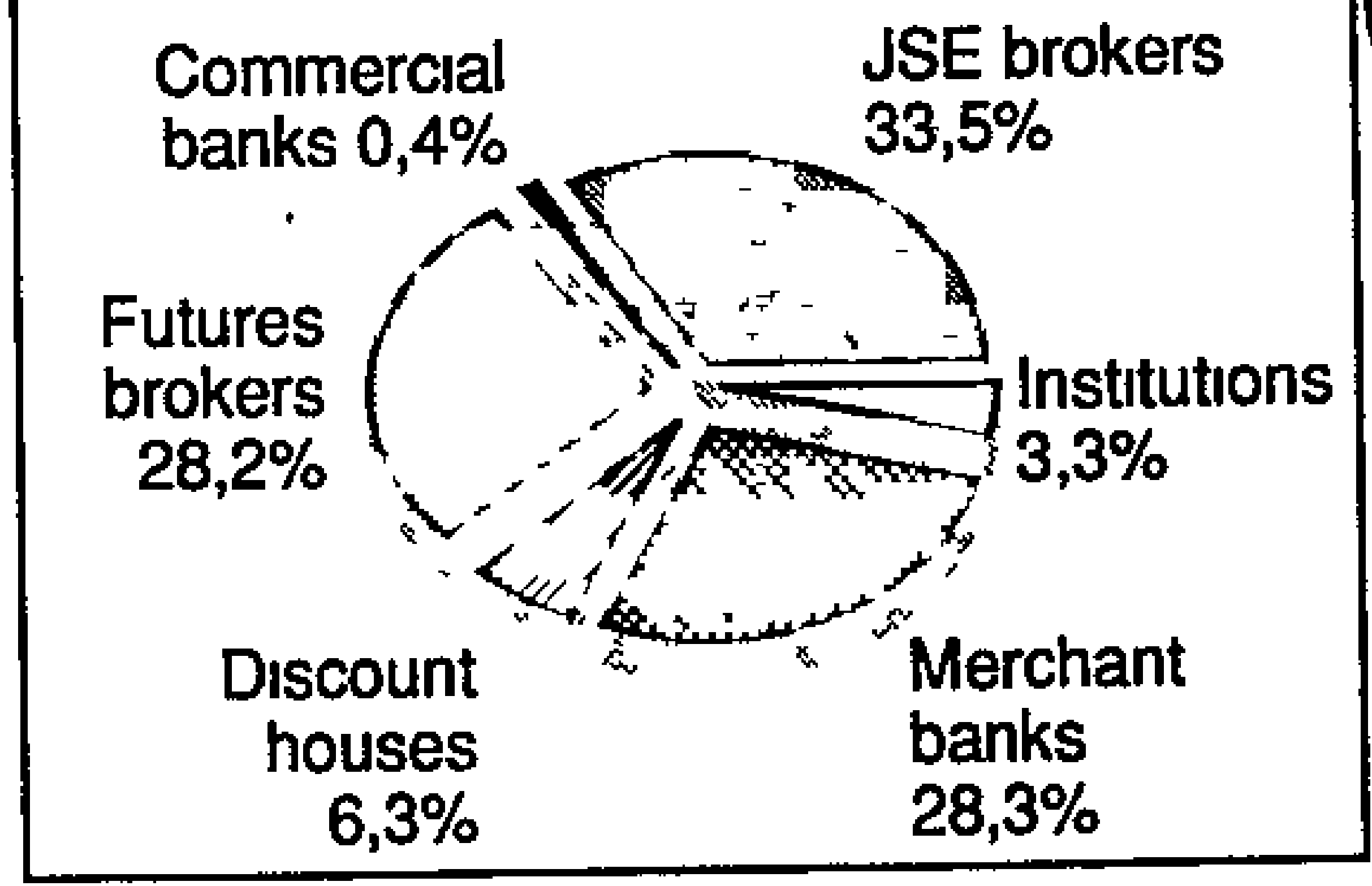
B/Day 10/8/90



Safex turnover by sector

Based on booking fees charged in July 1990

Graphic FIONA KRISCH Source SAFEX

THE cake representing the futures market has been growing bigger over the years, though the way it is being consumed has changed

The most noticeable aspect of the accompanying chart is the way JSE brokers have increased their market share over the past year, moving from 4% to over 25%

This is because brokers were only allowed by the JSE to start using the futures markets (for themselves and their clients) in February this year

Their gains appear to have been primarily at the expense of the merchant banks and institutions Futures brokers still constitute a solid core, accounting for about 25% of the market, while commercial banks pick up the crumbs

The curious way the cake is sliced is also a reflection of how the different players of the SA financial markets view the issue of risk and how they hedge price exposure in the underlying instruments of their respective sectors

Hedge

Futures brokers, JSE brokers and merchant banks are in the market almost exclusively to hedge exposure to, or take speculative positions on, volatile share price movements

This explains why the bulk of activity is in the share-index futures

In July 1990, for example, Gold Index futures accounted for about 37 000 contracts and All-Share index futures 24 000 Next in line was the E-168 long bond future, which traded a mere 1 400 contracts

Discount houses, commercial banks and building societies are active in money market futures (three-month liquid BA future) and capital market futures (E-168 future), reflecting the underlying nature of their business — short-term and long-term interest rates

However, the banks and building societies are nowhere near as active as they could be in interest-rate futures — surprising when one considers about 75% of their earnings are interest-rate related

In June 1990, for example, interest rate futures accounted for only 2,8% of all contracts traded

Volatility

The reasons are varied, and include the lesser degree of volatility in interest rates compared to share price movements because of the pegging of the Bank Rate by the Reserve Bank, the lack of liquidity in these markets, the reluctance of banks to actively manage interest rate risk and the so-called "mining town mentality" where few people dare take opposing views in the market

Safex is hoping the licensing of the market and the legal framework it will usher in will remove the key obstacle that has always stood in the way of conservative fund trustees — the risk of operating in an unregulated market

Marshalls' earnings rise 20%

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B/Day 10/8/90

SYLVIA DU PLESSIS

JSE-listed Marshalls, which owns rental income-producing commercial and industrial properties and garages mainly in Durban and Pinetown, has posted a 20% rise in earnings to 14,2c (11,8c) a share in the six months to end-June

An interim dividend of 9c (8c), covered 1,6 (1,5) times, has been declared.

Midway turnover — consisting of sales, commission and rental income — fell to R14,4m (R17,8m), but group profit increased marginally to R3m (R2,5m).

After interest paid of R652 000 (R534 000) and taxation of R2m (R1m), this translated into attributable earnings of R1,2m (R1m)

Chairman David Marshall said demand for rented premises remained strong, with Marshall's commercial properties in Cape Town, being fully let

Pyramid company Marshalls Controlling Investments (Marcons), whose sole investment is a 68% stake in Marshalls, produced earnings of 6,7c (5,6c) a share, and a dividend of 4,25c (3,75c) was declared.

Marshalls' performance during the period under review comes on the back of a 3% rise in taxed earnings to 22,4c (21,8c) a share at December year-end, when a dividend of 17c (15c) was declared.

FUTURES FM 10/8/90

Safex gets its wings

The SA Futures Exchange is due to open on August 10 as an approved, self-regulatory body for a fully public market. It is the first financial exchange to be licensed under the Financial Markets Control Act (232)

The controversial R3,7m JSE annexe floor is still a big problem. Stockbrokers who insisted on the floor in the first place are having second thoughts about using it — despite leasing 27 of the 40 booths.

FINANCIAL MAIL AUGUST 10 1990

FM 10/8/90 (232)

Stockbrokers do 28% of all local futures traded and 90% of contracts are equity based. They are still dealing via screens on the JSE equity floor where they are in immediate touch with the underlying shares that drive the share index futures and get immediate international feedback from equity colleagues. This is essential when even a two-minute lag could cost business, says one.

Safex CEO Stuart Rees (see **People**), says lack of support for the floor is not critical to the success of the market. Volumes through the screen-based market, he says, "are thoroughly respectable for a market established for three months."

He points out that, since Safex took over the market in May, volumes each month are exceeding those of the same month in 1989:

☐ May by 8%,
☐ June by 12,5%, and
☐ July by 30,1%.

All were traded on screen. (A total of 58 595 contracts were traded in July including 18 261 in the week ended July 27, of which 17 537 were share index futures.)

Safex and the Bond Market Association (BMA) are committed to a one-year lease with the JSE — recently reduced, at Safex and BMA members' request, from three years. The clock on lease payment started ticking for members in June. Rees says unless the floor is used, no further money will be spent on it. "Safex and the BMA will have to make a straight business decision whether to continue with it when the lease is up."

Solutions suggested include closed-circuit TV showing real-time JSE equity prices and unauthorised stockbrokers' clerks on the futures floor who would deal on instruction from the equity floor.

Aside from the floor, Rees says the challenge now is to boost trading in interest rate futures, which have underperformed. As a start Safex will cut its charge on the E168 future from R15 a R1m per trade to R5.

Rees also hopes recent political decisions may lead to readmission to the international community. "When that happens we must have the skills to compete." ■

CM Tms 13/8/90

Confusion over Soviet gem deal

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From JOHN CAVILL

LONDON. — Confusion surrounds the fate of De Beers Centenary's $5 billion (about R13bn) diamond marketing agreement with the Soviet Union, which has been declared void under a new law passed by the parliament of the Russian Federation.

The Decree on the Economic Basis of Russian Sovereignty — the latest move in the power struggle between Mr Boris Yeltsin, president of the Russian Federation, and Soviet president Mr Mikhail Gorbachev — was enacted just 17 days after the deal signed in London between Swiss-based Centenary and the Soviet precious metals and diamond administration, Glavalmazzoloto (Glava)

It could mean that the contract will have to be resubmitted for approval by the Russian — as opposed to Soviet — authorities.

Under the agreement Centenary has loaned $1bn to Glava to be repaid over five years Glava is to deposit $1bn worth of rough gem stones to be held as collateral by the Central Selling Organisation (CSO).

In return all Soviet exports of diamonds for the next five years will be exclusively marketed by the CSO

Ms Joan Braune, spokeswoman for Centenary in London, said "All we can say is that we have a valid and binding contract with the duly constituted Soviet authorities We have been told nothing officially about the Russian legislations "

According to the Soviet news agency Tass, the decree passed on Friday was a direct result of the Glava-Centenary agreement The Russian legislature was not consulted and learned about the deal through press reports

This was confirmed by Mr Sergei Shakhrai, chairman of the Russian parliament's legislative committee which drafted the decree which nullifies all contracts involving foreign sales of the federation's "strategic natural resources" unless these have been specifically approved by "organs of the Russian Federation"

Mr Shakhrai claimed this made the Glava-Centenary contract retroactively void But it could become effective if submitted for ratification to a special Committee for the Regulation of State Property which is to be created under the new law

A bridge too far for Tollgate

Stc 13/8/90

Bottom Line

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MICHAEL MENOF

Tollgate management went on a binge in the period to December 1989, buying companies engaged in food, textiles, tourism, sport and leisure, distribution and transport and Budget-Rent-a-Car — seven industries. But what a disaster!

Now parent Duros, controlling 60,6 percent, which itself underwent change of control in May 1990, plans major restructuring.

The lesson is simple — don't buy companies willy-nilly that you know little about, put them under an umbrella and hope to boost the share price with their earnings. Management should be experienced in the industries acquired.

I thought Duros had the merchant banking experience — obviously it didn't, judging by the 1989 Pandora's Box in the annual report.

The vanity was more than R1 billion in sales, the insanity the meagre bottom line after substantial interest and abnormal write-offs.

Worse were the massive extraordinary write-offs below the line. Then still, amazingly, dividends were paid.

To pay for acquisitions, the number of shares in issue rose from 24,2 million to 53,9 million at end-December and authorised capital further increased by 100 million shares in May 1990.

Acquisitions included Arwa (72 percent), Entercor (62 percent), Gants (54 percent), North Industries (72 percent) and Budget (100 percent).

By end-December 1989 debt had soared to R373,7 million, with management now hoping to reduce it via a rights issue of R44 million and by selling non-performing assets.

In the US, Tollgate would be in good company because such high debt is fashionable. But SA's high interest rates are the killer, so its hardly surprising restructuring is needed. I hope this is not just rearranging deck chairs in a soft economy.

I believe Duros has its eye on Tollgate's London listing as the restructuring is designed to support both local and overseas investors.

Forget about the worth of Tollgate and Duros after restructuring. Rather, how did management perform in the 18 months to December 1989?

Poorly, with many problems It was a most intensive and strenuous period, says chairman JL Claasen, with expansion causing difficulties.

Net profit was below expectation, with disappointing results from Arwa and Gants. High interest rates hurt.

Assets have been substantially written down, with losses made on disposal, goodwill and trade names written off. Non-performing assets need to be sold to improve gearing

I question whether paying for acquisitions so liberally in shares didn't mean that management, in fact, overpaid and only eyed future earnings.

The red ink is still flowing as certain subsidiaries continue to incur losses.

Also, consider the auditors completed their work on May 15 1990 and the annual meeting was held on July 30 — seven months after year-end. What an inordinate length of time. What did the JSE think of this?

Sales for the 18 months looked impressive at R1,14 billion (1988: R204,2 million — 12 months). So, too, did operating profit of R80,2 (1988.R17,8 million) But after crippling interest expense of R56,1 million (1988· R2,6million), abnormal items of R15,3 million (1988: nil) and tax of only R6,1 million (1988: R7,6 million), taxed profits were R11,68 million (1988: R7,63 million)

Income from associates, less outside shareholders' profit, was virtually the same, leaving earnings at R10,93 (1988. R7,63 million).

Below-the-line massive extraordinary write-offs took place — goodwill R22,6 million, loss on sale of assets and discontinued operations R32,5 million — a total of R56,28 million — and really made 1989 look sick.

Despite this, dividends totalling R11,92 million (1988. R4,9 million) were paid Earnings per share were 23,5c (1988: 31,7c) Dividends paid were 27,5c (1988: 18,3c).

Gants' results were miserable. With soft export markets, overstocking in the cosmetics market leading to price competition and declining margins, no clear improvement is expected in the short term

Hosiery and fabrics ran into trouble at Arwa, with cost overruns and delays and considerable production sold at a loss.

Only yarns, ties and leisurewear returned record profits.

Certain of transport's operations are not profitable. The balance sheet is weak.

While ordinary shareholders' funds total R167,37 million (1988. R108,14 million), this includes almost R100 million in increased share capital to pay for acquisitions.

There's also R94,94 million (1988. R10,89 million) in goodwill, trademarks and trade names not written off.

Working capital has remained negative, declining further to R25,71 million (1988. R9,15 million)

Debt of R373,7 million has risen 700 percent. Contingent liabilities — guarantees for loans and advances — total R34,8 million and the company has guaranteed liabilities for subsidiaries of R90 million.

Strangely, holding company Duros borrowed R30,23 million from a subsidiary and gave pledges of 446 000 Hosken shares, as per Note 20 I thought a holding company was prohibited from using a subsidiary's funds

Then there's an odd financial agreement (Note 19) consisting of preference shares of R30 million, a loan of R70 million and a deposit of R100 million offset to fund a subsidiary. What a web of indebtedness!

Tax losses have risen to R45,32 million (1988: R12,53 million) to be used later. Net asset value per share has tumbled to R3,10 (1988. R4,46).

Arwa is out of the group and the emphasis in 1990 will be rationalising investments, increasing profit margins, improving working capital, reducing costs and greater operating efficiency, says Mr Claasen.

It would be wise for management to be more single-minded, stick to the knitting and know its industries The numbers in the annual report reveal crisis management.

Safex to list new financial instrument

GRETA STEYN

A NEW financial instrument that has been trading informally — options on futures — is to be listed by the SA Futures Exchange, Safex, in the next few weeks B/Day 13/8/90

An options on futures contract gives the purchaser the right, but not the obligation, to purchase a futures contract

The regulation of the product is one of a host of new developments in the financial markets mentioned at the official opening of Safex in the JSE annexe on Friday

Safex CE Stuart Rees promised to improve the clearing system and said automated trading would be considered as well Before any of these steps were taken, however, consideration would be given to rationalising bureaucracy by merging Safex and the gilts exchange — the Bond Market Association (BMA)

Finance Minister Barend du Plessis, who was the guest speaker at the official opening, announced that the formalisation of the BMA had in the meantime been delayed until July next year.

The official opening of the BMA was to have taken place soon, but it had been decided to put this off until a new clearing system, Unexcor, was up and running

Du Plessis said "As far as rationalisation is concerned, I can say it especially concerns the clearing systems used by the different markets Clearing systems should be centralised rather than separate for each different market"

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As a first step towards central clearing, development had begun of a central scrip depository for the safekeeping of the ownership certificates of the different markets The depository would be ready by next year, Du Plessis said

Safex chairman G T Ferreira said Safex aimed to introduce futures contracts on foreign exchange and commodities and to offer participation in offshore contracts for South Africans and non-resident participation in the SA market.

Referring to the controversy over the new futures trading floor, which many in the market believe is an expensive white elephant forced on them, Ferreira said "I would urge you to give the floor a chance"

Building societies stay strongly independent

Cape Times 14/8/90 232

By ARI JACOBSON

UNATTACHED building societies are confident of maintaining their independence in spite of the attentions of the large predator banks — a prelude to the Deposit-Taking Act becoming law

Although smaller banks are also considered takeover material for the bigger banks, the real focus is on building societies with no deep allegiances and a decent home loan book. Saambou, Allied, Natal building Society (NBS) and the United Building Society (UBS) are all considered as potential targets in the otherwise closely connected banking system

Allied's Group Chairman Norman Alborough said highly publicised threats to independence, with the introduction of the new banking bill, failed to account for the opportunities arising from synergies

"The option to remain independent or regroup within the banking system will be based on shareholder support"

He said the ability to sway opinion within the group was reliant on marshalling majority support from Allied's 50,0000 shareholders

Adequate capital reserves and sound technological backing are strong ingredients for bypassing allegiances in the banking system

Interviewed in Cape Town yesterday Natal Building Society MD John Gafney said the in-house computer facilities which NBS possesses are "state of the art technology

"The ability to add to these facilities will keep future technology costs at manageable levels"

He said the NBS had avoided asset growth without the ensuing profits, so that capital reserve ratios along international guidelines had been maintained

"A 30% growth in assets in the past financial year translated into a 40% increase in bottomline profits"

Dividend cover policy is intended to be bolstered to three times, staving off a rights issue in the immediate future, said Gafney

A banking analyst said building society shares have generated a flurry of activity ahead of the changing banking laws Banks and building societies, under the new laws, will be governed by the same rules

The real impact of this is that the present rule that no one shareholder can have more than 10% of a building society will no longer apply A bank holding company will be able to grab a 100% stake in another

All these holdings are dependent on the approval of the Registrar of Banks and in certain circumstances the Minister of Finance Building societies fearing the threat of a hostile takeover would need to convince the authorities that the bid "was not in the public's interest", said a banking analyst.

JSE shares at R104m a day

ANDREW GILL

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THE average daily value of shares traded on the JSE in the first week of August increased to R104,6m from R98m the previous week, more than the R100m that JSE president Tony Norton has indicated would make him happy

Latest JSE statistics show the total value of shares traded in the week ended August 3 increased by 6,7% to R523,2m, after increasing by 31,9% to R490,3m the week before.

The number of shares traded increased by 10% to 56,6-million, bringing the average price per share down to 925c from 959c B/Day 14/8/90

Consolidation at higher levels was reflected in the gilts and semi-gilts markets which, at R4,41bn, held just below the previous week's 96% higher R4,5bn

Non-resident transactions saw a net outflow of R79m

BUSINESS DAY, Wednesday, August 15 1990

Private clients set Safex soaring

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ROBERT GENTLE

GOLD's giddy run on the back of continued uncertainty in the Gulf has spilled over into the futures market, where more than 7 000 contracts worth R184m were traded yesterday.

Preliminary statistics released by the SA Futures Exchange (Safex) at the close of trade showed that 66% of the total was in the September 1990 and December 1990 gold index futures

The overall volume figures of the past few days are running at twice the level of those prevailing before the Gulf crisis started two weeks ago.

A Greenwich Futures trader said most of the activity he had seen was by private clients, with institutional participation remaining small.

Safex senior manager Patrick Birley said the spread (the difference between bid and offer) on the gold futures had narrowed to $1 in morning trade, compared with $2 on the international gold price. Narrow spreads, the result of a rush of clients driving bid and offer prices together, are a key indication of an active, liquid market

Safex, which had been targeting a 30% increase in volumes over August last year, is now well on its way to at least 50%.

"We will exceed our budgeted revenue target this month," said Birley

☐ A Safex seat yesterday changed hands in the market at R55 000, a record.

Birley said that three weeks earlier, another seat traded at R50 000 and indicated renewed market interest in Safex.

Seats (nothing to do with sitting down) are essentially shares issued by the Exchange

They confer membership of Safex on the registered holder or lessee.

Restructured group to spend R23m

CAPE TIMES
16/8/90
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By AUDREY D'ANGELO
Business Editor

THE restructured Property Group of SA (PGSA) — renamed Abbey Holdings — has more than R23m to invest through its industrial arm, Retco, it was announced at special meetings in Cape Town yesterday

There was no opposition to the restructuring which, PGSA executive chairman Benny Rabinowitz explained, turns the complex group into "a simple triangle"

Abbey Holdings will be the top holding company All its industrial interests will be in Retco — renamed Fenix Industries — which will have fabric manufacturer Ivitex and about R23,5m in cash to invest in suitable acquisitions

All property interests will be in Premier Consolidated — renamed Property Corporation of SA It will have a 23% stake in Faircape Homes, 100% of property company Bellcanto (Pty) and 19,27% of property company Bristol Industrial Corporation

Abbey Holdings and Fenix Industries will be transferred to an appropriate sector of the JSE once new acquisitions have been made

Rabinowitz said Abbey would have 70% of both Propcor and Fenix "and approximately R10m in the bank from the sale of Retco properties".

Retco shares will be consolidated on a one for four basis from Monday, August 20 PGSA will make an offer to buy the entire shareholding of Retco shareholders with less than 100 consolidated shares for 300c each

Its offer to Premcon minorities will be to acquire all or part of their Premcon shares for 45c each, or one consolidated Retco share for five Premcon shares

Rabinowitz pointed out that this gave Premcon shareholders three choices — either to stay with the company, sell for cash or move to Retco.

Retco chairman Cedric Walton said it had been decided to change its name because Retco had "for so many years been synonymous with property"

It would now be looking for industrial investments and wanted to control any companies it invested in

After the meeting he explained "We shall not just be an industrial holding company We are an industrial company and we want to take an active part in the management of our companies.

"Owning less than 50% we would have no say in the direction they were taking"

The directors expected to find good buying opportunities in the industrial market in coming months But they would buy with care

They would avoid companies likely to be the target of industrial action in the next two or three years And they would be careful to avoid any company which would take a long time to turn around — "we shall have to consider how long we would have to finance it"

A company with the potential for success in the export market would be "marvellous", said Walton

Rabinowitz said that the Property Corporation would go into partnerships and joint ventures with reputable people in the property industry The company would invest cash while the partner also put in money and did the "hands on work"

In answer to questions from the chairman of the Shareholders' Association of SA, Issy Goldberg, Rabinowitz said Abbey Holdings would have R10m in cash — which would be kept as the reserve for the whole group — no overdraft and no gearing

Goldberg said it seemed likely that cash would be king in the times ahead

Restructured PGSA has R23m to invest

Own Correspondent 232

B/Day 16/8/90

CAPE TOWN — The restructured Property Group of SA (PGSA) — renamed Abbey Holdings — has more than R23m to invest through its industrial arm Retco, it was announced at special meetings in Cape Town yesterday

In terms of the restructuring, Abbey Holdings will be the top holding company with all its industrial interests in Retco — renamed Fenix Industries — which will have fabric manufacturer Ivitex and about R23,5m in cash.

All property interests will be in Premier Consolidated — renamed Property Corporation of SA.

Abbey Holdings and Fenix Industries will be transferred to an appropriate sector of the JSE once new acquisitions have been made.

PGSA executive chairman Benny Rabinowitz said Abbey would have 70% of both Propcor and Fenix "and approximately R10m" in the bank.

Broking firms feel the squeeze

RIAAN SMIT

STOCKBROKING firm Mathison & Hollidge (M & H) had cut costs "across the board" and Frankel Kruger Vinderine recently retrenched 10 staff members as tough trading conditions coupled with JSE charges squeezed profit margins, broking sources said yesterday

If low trading volumes persisted, actions at these two firms would be only a precursor to a major shake-out of stockbroking firms involving retrenchments of staff and mergers, they said. B Day 16/8/90

Trading volumes on the JSE have slumped from more than R450m a month in November last year to below R150m in April this year and to about R170m in July

Sources said yesterday M & H had cut salaries by 15%, but M & H spokesman Peter Redman declined to confirm or deny the scale of cuts at the firm. (232)

"A business decision has been taken by the firm to cut costs due to lower turnover coupled with higher JSE charges," he said

A source at Frankel Kruger said 10 people had been retrenched, but none of them had been "key" people

"In a boom period people are taken on willy-nilly and when the squeeze is on, the firm can do without them. But all is still basically intact here"

The source pointed out that if government increased marketable securities tax (MST) to circumvent the problem of defining capital gains for tax purposes, it would "knock a lot of firms on the JSE for a six"

JSE probes suspect broking practices

B/Day 16/8/90

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ROBERT GENTLE

THE JSE was investigating stockbrokers whose members were suspected of trading irregularities such as inter-broker collusion, share price fixing and profiting from client deals, JSE sources said yesterday.

These practices are either illegal or against the spirit of the Stock Exchange Control Act which governs the way in which brokers operate.

One of the sources, among them brokers from four stockbroking firms, said he had heard that the investigation started a few months ago and involved up to 19 broking companies.

Approached for comment, JSE chairman Peter Redman said: "The JSE is investigating certain irregularities among its members. Investigations of this type do take place from time to time."

He would not comment on the exact nature of the trading irregularities being investigated.

Members found guilty of the charges brought against them would be disciplined in accordance with JSE rules, Redman said.

This could take the form of a reprimand, suspension or expulsion.

The sources who disclosed the alleged irregularities said they were nothing new and had been happening for years.

The most common one was front-running, a form of insider dealing that works as follows:

A client asks a trader to buy, say, 10 000 De Beers shares The trader buys some De Beers for himself, then executes his client's order, which naturally moves the price. The trader then sells his own De Beers at a profit.

Another irregularity involved a trader executing deals not through his own stockbroking firm, as required by JSE regulations, but through traders in other stockbroking firms for a better profit on the deal.

Lastly, a ring or syndicate reportedly existed on the floor through which trade in a given share was always routed via

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JSE probe

B/Day 16/8/90

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☐ From Page 1

the same person A source likened that person to a "Mafia boss" who enjoyed a monopoly on that particular share

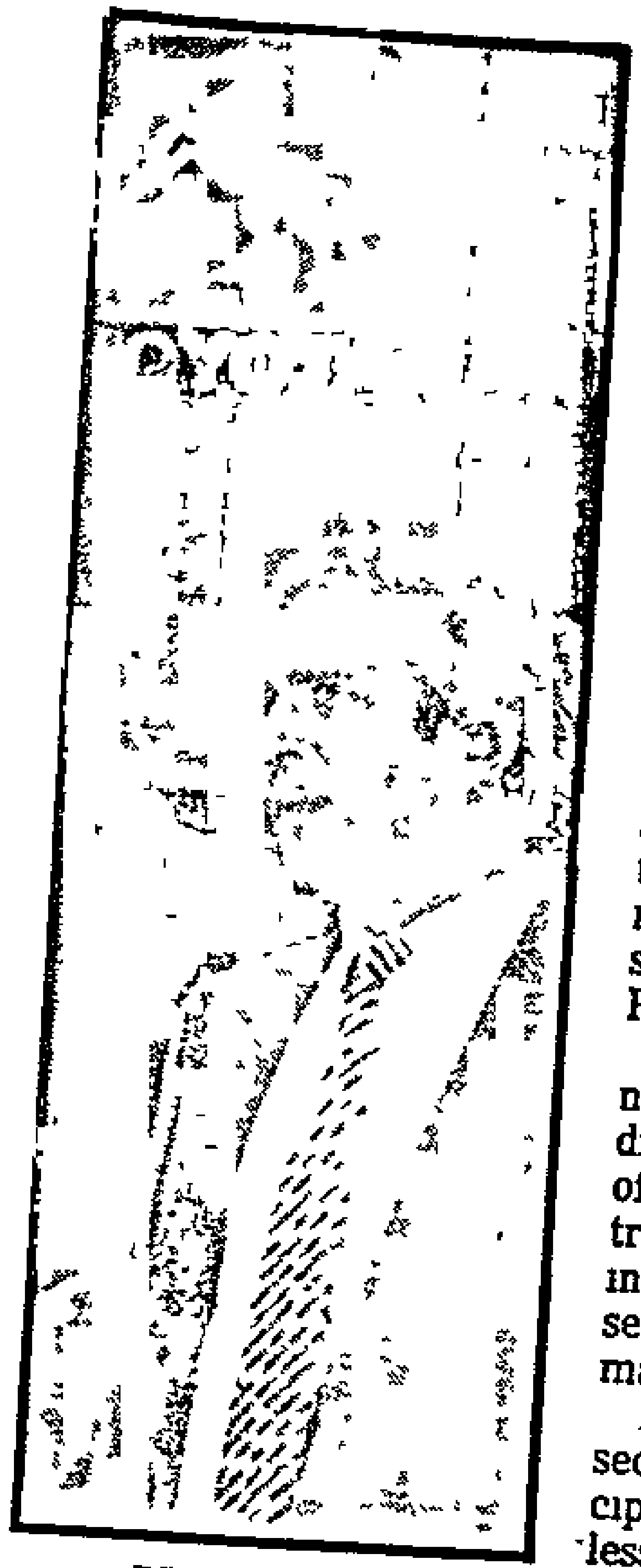
The source said "The bottom line is that the investing public at large are getting the lousy prices The JSE is not a transparent open outcry market as JSE president Tony Norton often says. It is a cartel "

The other unanimous view expressed was that most of the cases ended up being thrown out because the JSE was "judge and jury" and "looks after its own" Redman denied this, saying many of the cases proved to be groundless

He said all serious penalties, like expulsion, were made known to members of the JSE

B/Dg 16/8/90 232

New laws improve business


BERT WESSELS

CHANGES in SA legislation are making it possible for public sector bodies to conduct more direct business with truck dealers, specialist truck service operations and vehicle hire companies.

Deregulation, the new road transport quality system (RTQS), along with the privatisation and commercialisation of public sector and parastatal organisations, will mean more business for the motor trade, says Key Motor Group MD Paul Emanuel.

"We are beginning to witness municipalities going directly to dealers instead of manufacturers to buy trucks. They are also making greater use of private sector facilities for vehicle maintenance or repairs."

He says certain public sector bodies, such as municipalities, expect to make less use of or close down their workshops.

Delta Motor Corporation CE Keither Butler-Wheelhouse says more fleet operators will look to specialist truck service operations to take over responsibility for vehicle maintenance and repairs

"Delta plans to increase the number of these within its heavy truck dealer organisation," he says.

Boost

Another factor set to boost business is the removal of operating permit restrictions This should facilitate the growth of more smaller and privately operated haulier companies, says Emanuel

Proposed privatisation of test stations is also enabling dealers such as Key to establish and apply to operate new facilities in conformance with RTQS requirements

As registered test stations, they will be able to issue Certificates of Fitness (CoF) for vehicles hired out as well as roadworthy certificates for trucks

A factor that should impact positively on truck dealers and other repair centres is growth in the medium truck (3-ton to 9-ton) market, he says

The trend to mediums, which can be largely attributed to the greater flexibility in terms of having more smaller trucks available instead of tying up larger capacity trucks for small loads, is evident worldwide

Emanuel says there are about 500 000 medium trucks on SA roads, many of them ageing

Butler-Wheelhouse says an estimated 70 000 trucks are at least 10 years old

"Taking into account that engine longevity is a critical cost factor, the industry is presented with a rising national refurbishment, repair and maintenance market," say Emanuel

Meanwhile, parts availability has become a crucial factor in the competitive SA truck servicing business

Availability

Propower national marketing manager Peter Davies says the availability, distribution and service capability are key elements to success in the trucking industry

Competition in trucking tends to become severe when the market softens and service quality can, consequently, determine the economic viability and long-term survival of competing companies

90 days to make futures floor trading succeed

BDay 17/8/90

ROBERT GENTLE

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THE JSE and other futures market participants committed to backing trading on the new floor in the JSE Annexe have been given three months to make it work, Safex (SA Futures Exchange) CE Stuart Rees said yesterday.

The R3,3m floor, owned by the JSE and jointly managed by Safex and the Bond Market Association (BMA), has been shunned by futures market participants who continue to trade on screen.

Gilt trading is the only activity on the floor where JSE gilt traders now operate.

Rees said that if after three months the floor was still not being used for futures trading, a Safex executive committee meeting would convene to decide the fate of floor trading of futures

The main participant committed to using the floor is the JSE, whose strong advocacy of an open-outcry pit system in the initial stages of Safex resulted in the compromise solution of a dual floor/screen system.

However, Rees said, the JSE futures brokers had now discovered that they preferred screen trading

On the cost implications of an eventual pull-out, he said members he had been in touch with had indicated they would fulfil their financial obligations for the first year. After that the floor reverts to the JSE.

☐ Safex members may not yet have been informed about the latest decision because of administration problems linked to the nonavailability of staff following the township violence, Rees said.

JSE holds 'frank' crisis meeting

(232)

B/Day 17/8/90

ROBERT GENTLE

A JSE crisis meeting was held at the close of trade yesterday during which problems such as the over-budget Traded Options Market, the under-utilised floor in the JSE Annexe and alleged trading irregularities were discussed

A stockbroker present at the closed meeting — held on the main trading floor — said it had involved a frank exchange of views between the JSE executive and all its members. Senior figures present included JSE president Tony Norton, chairman Peter Redman, vice-chairman Humphrey Borkum and operations manager Mike Thompson

The stockbroker described the meeting as "constructive" and said it had enabled members to talk about all the issues affecting development of financial markets.

Another stockbroker said the meeting had been given added urgency by the spate of recent reports about problems at the JSE, the latest of which concerned investigations into alleged trading irregularities

There was no comment from the JSE after the meeting

Earlier in the day, however, Norton acknowledged that investigations were continuing but said the JSE would not divulge

☐ To Page 2

JSE meeting

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details to the public.

"We are a self-policing, membership body and we are judged by our peers We do publish information concerning censured members, but it is done internally "

Norton rebutted suggestions that the JSE was judge and jury and consequently never brought any of its members to book "We have expelled a member in the last few months However, he is appealing and the matter is subsequently sub judice "

Moreover, the Registrar of Financial Institutions, which oversees the JSE, was aware of "every single case".

Norton refused to give any breakdown of the number of investigations undertaken to date or their outcome, except to say that very few went the full distance

On allegations some brokers had been waiting for up to six months for their cases to be heard, Norton said "Justice always takes time It is not summary justice "

THE STOCK EXCHANGE FIM 17/8/90 (232)

Who is going to pay? ●

■ Rapid expansion — and the urge to meddle — are causing problems

The magnificent glass and concrete edifice of the Johannesburg Stock Exchange in Diagonal Street, downtown Johannesburg, is a permanent symbol of free enterprise It should, therefore, be a lean, mean and highly profitable undertaking But it patently is not seen like that by some of its 350 members

The main reason is that broking turnover has fallen dramatically just at a time when the institution is in the middle of a R65m-plus capital expansion programme involving information systems, trading devices and floors — the utility of some of which is being questioned

Theoretically, each of the 50 broking firms will have to meet this bill by chipping in R1,3m or R260 000 a year over five years, without taking into account any interest or financing charges or cost overruns

Nor are the finances of the institution itself in particularly sparkling nick Its borrowings are up 70% and its liquid investments down 70% It is still also paying off the capital costs of the building it occupies in addition to what has been added

All this has taken place under the management of executive president Tony Norton, hailed five years ago as the merchant banker most likely to pull the administration into sharp focus while the brokers themselves got on with their own businesses In that time he has become the personification of the institution But too rapid expansion and unexpectedly hard times may have caught up The inevitable question some brokers are asking now is whether they can still afford this style of administration.

Norton, who is by no means sanguine, makes the point that what disaffected brokers should be taking into account is not the cost now, but the value they will be getting in future.

But brokers, eyeing the resale value of their Daimlers and Porsches, are not to be pacified that easily. For when they shake the kitty these days, the jingle is not what it used to be Meanwhile, the rate of increase in charges and capital spending remains disturbingly high

Take for example the recent increase in equity clearing house charges, from R3,50 to R6,50 — an 87% increase in one whack

Norton rightly points out that every decision is passed by the JSE committee which consists of 12 stockbrokers No brokers who are vocal with their complaints will agree to be quoted Their business depends too much on the goodwill of the powerful officials who run the day-to-day affairs of the exchange — or so they claim

Norton denies trying to recover large sums spent on computer systems, trading floors and new buildings from those who do not use them, but the bills must be paid

Norton says "We charge legitimate costs on a cost-recovery basis We recover costs only once the system is brought into production " For example, Norton says brokers are already paying for the costs of computer systems which have been brought into production and which will be depreciated over the next seven years "And the annexe is paying for itself with rentals," he adds

Norton says that expenditure has been financed mostly through medium-term loans Brokers will have to pay these off. In the 1990 annual report, term borrowings rose 71% to R42,7m Interest on borrowings at prime would amount to about R9m a year. "We expect to repay call-debt over the next decade," Norton says Some of the capital expenditure has been financed by JSE gilts, semi-gilts and cash investments which were reduced by 71% to R6,2m in 1988

In addition to its high borrowings, the JSE has its debt of 12,125% stock which it secured by mortgage over its building redeemable at par at equal drawings of R200 000 on June 30 each year over the next nine years

The latest cost brokers are expecting to pay for is the R7,8m spent on the Traded Options Market Half the computer system has to be redone at an expected additional cost of about R2m More than R20m has been spent on developing a new mainframe and peripherals and rewriting software. The cost of the JSE annexe, which was built mainly for extra parking facilities and the new gilts floor which was feasible when volumes were high, was about R35m

There is no doubt computer systems have to be updated and the cost of new technology is considerable And the JSE has been working off a system which has been bastardised and added to since 1967 But brokers say the naive, autocratic and closed-minded way in which the JSE management executive approached the developments pushed costs unnecessarily high

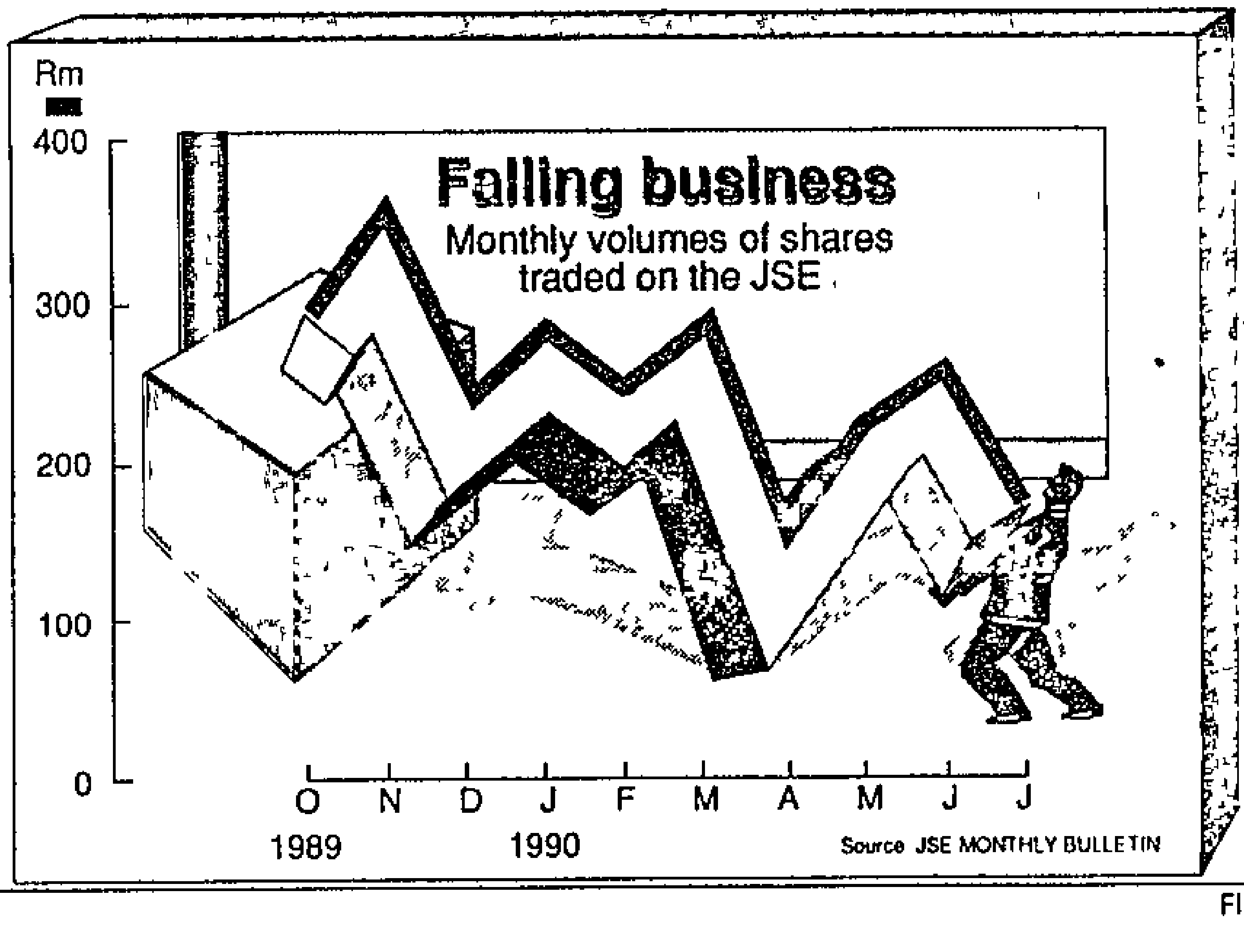
"The vast overheads of the JSE also make the system uneconomic," a broker says "The JSE shouldn't own buildings and should have approached outside consultants for a computer system "

Twelve broking firms have over the years elected to use the Management Accounting System for Stockbrokers (Mass) system developed by an outsider It is believed to be superior to the present Broker Client Accounting system and much cheaper Most get a tape from the JSE system each day to input the day's prices and volumes

Though Broker Client Accounting is now being rewritten, and will be replaced with the more sophisticated Broker Direct Accounting system, the new system is expected to cost brokers three to four times more than Broker Client Accounting which has pegged costs to the R2 per deal charged to users of Mass. "We expect to pay R6-R8 a deal once the new system comes on-stream," a broker says "Rumours are that this could be even more depending on what it costs to get the Broker Direct Accounting system to do what it is supposed to do."

Another broker adds "Management refused to consider the already functional and perfectly adequate Mass system " Norton says the JSE should have its own system to maintain its independence

One small broker is running a pilot of the new Broker Direct Accounting system in tandem with Broker Client Accounting. Asked whether it is able to calculate dividends or interest, he will not comment "because it would be to the detriment of the JSE as a



Source JSE MONTHLY BULLETIN

whole." But it is believed the Broker Direct Accounting system cannot yet operate on its own. One of those involved in development of the system says "It has taken much longer than expected. There have been many problems we could not foresee."

Brokers have also heard that the JSE management executive is considering not allowing those who now use the JSE system to opt for an alternative. "We are under the impression that we will be forced to use Broker Direct Accounting," a stockbroker fears. "Obviously, they have to recover costs." Norton says what has been decided is that if brokers don't use the new system they will still have to pay for it.

It is these costs that brokers are worried might put them under severe financial strain. They are especially worried as volumes are particularly low now. They have fallen to around 173m in July from well over 200m in previous months: 279m in January, 244m in February, 287m in March, 220m in May, and 257m in June. April was an exception with only 152m shares traded.

"We need about R100m and 4 000 deals a day to break even," Norton says. "With market liquidity at around only 4%, this is becoming less possible."

Norton reckons the average fixed cost of a deal is R50, though most brokers say their break-even is R25-R30. The recently gazetted minimum R30 per transaction (except where the value of the deal is under R200) has become necessary so brokers would find it feasible to do deals for smaller investors.

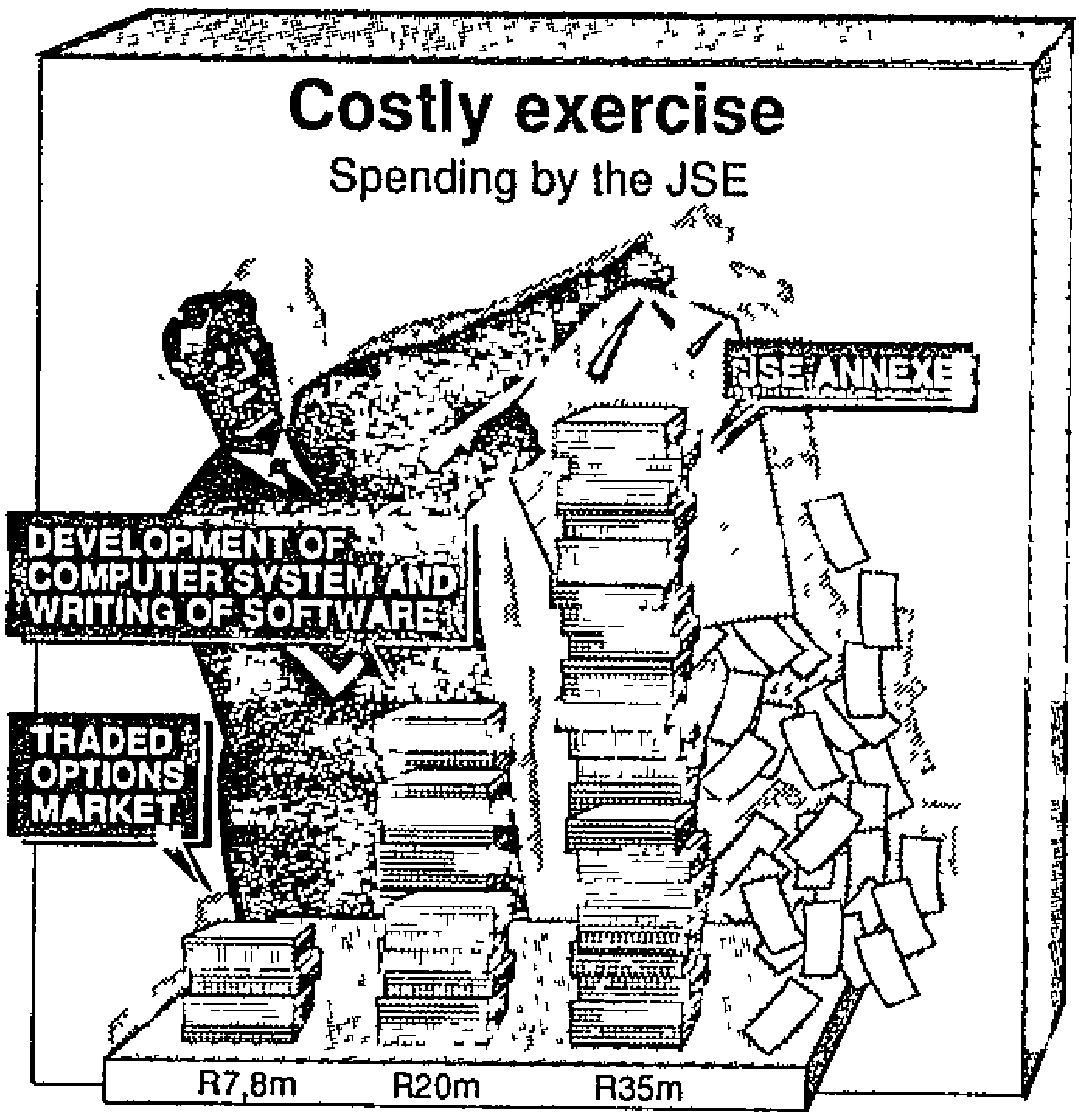
But with institutions now side-stepping the stock exchange because of real returns of around 6% on the money market, compared to average dividend yields of 4% and little hope of capital appreciation, brokers and their staff are becoming more vocal with complaints, especially as they forgo August bonuses. Salaries are said to have been cut and lay-offs are being discussed.

Nor is it only brokers who are complaining about the autocratic and unbusinesslike operations of the JSE management. Institutional participants in the gilts and derivatives markets have become concerned about the JSE's interference. Norton explains: "We understand the regulation necessary to support formal markets and want to vet cross-market risks. It is for this reason we have contributed to the formalisation of the futures and gilts market."

When the Bond Market Association committee was elected in June last year, much lobbying by the JSE resulted in three members being elected while clearing banks, which deal in more than half the gilts traded, were not represented. However, after some complaining, the JSE proposed that a clearing banker should be represented. Nedbank's Eben Smit was elected.

The association was due to be registered as a formal market along with the SA Futures Exchange (Safex) on Friday. The association was under the impression that it was necessary to have a clearing system if it was to be registered and was offered by the JSE its Gilts Clearing House as an interim measure. Though most association executive committee members initially rejected the idea, the recommendation was eventually adopted with the persuasive help of JSE GM in charge of non-equity markets, planning and market development, Darrell Till.

"The JSE proposed to offer this service at R20 a leg or R40 a deal which was clearly a rip-off," a gilts dealer at a merchant bank says. "After some investigation we found that Safcom, Safex's clearing house, could do the same thing for R6 a leg or R12 a deal." Another dealer says: "The JSE thought it had the only system we could use."



Costly exercise

Spending by the JSE

Norton says JSE costs were more because the dual computer system duplicates all systems as a disaster recovery. "We were just making a commercial offering," he says. "We have cut our offer to R15 a leg as we would prefer to make a small loss and have some form of regulation so the market is protected." He adds that the JSE system has been tried and tested.

"Only when we complained to the Registrar of Financial Institutions Piet Badenhorst was the decision reversed," a merchant banker says. The association has now been given time to develop its own system and the market will continue as an informal one until the new system, UNEX, is developed.

Empty floor

Another point of contention is the futures trading floor — built at a cost of R3,2m — and this does not include Reuters screens or other extras. Since it opened on July 1, few deals have been done and a visit showed an empty floor with no traders. Safex CE Stuart Rees says the floor may have to be closed.

None of these expenses would have been incurred but for the strong advocacy by the JSE of an open-outcry or pit trading system. Though futures dealers were in favour of screen trading it was decided to compromise and use both systems until it was proved one was superior.

Norton says he will not admit the floor was just a costly exercise until the 14-month lease (cut back from 18-months "to show belief in the floor") is up and no one renews his lease.

The JSE is said to have lobbied for the floor so it could have more control over the futures market, which provided added competition to equities, as well as recovering some of the money spent on its R35m building. Norton says it was after worldwide research showed an open-outcry system was better for liquidity.

Though Norton's five-year term as president is almost up, he says he is not planning to leave. During his term he has done a lot which former part-time presidents usually in office for two years mostly did not have the time nor inclination to initiate and follow through.

He says he has introduced strategic planning, proper cost accounting, personnel structures and new computer systems.

Nor can the blame for JSE mistakes be put solely on Norton's shoulders. Darrell Till is one of those responsible for many of the mistakes. "He was in charge of computers and is now in charge of non-equity markets," a broker says. "The record speaks for itself."

The question is whether Norton and his team (including the 12 broking members of the committee) are victims of government's unusually sustained efforts to curb excess demand in the economy. Once business activity revives and demand for capital increases, boosting share dealing activity, will brokers again be sufficiently flush to view the JSE's capital commitments and authoritarian administrative ways as insignificant irritations?

Or, at the least, whether the present situation has highlighted a deeper malaise that requires a more open-minded management executive and broking members of the committee with more chutzpah? Or maybe a more open and competitive system?

There is, of course, nothing wrong with the JSE that increased competition would not put right.

None of the extravagance outlined here would have occurred were it not for the Stock Exchanges Control Act, the charter behind which both the institution and its members, with the help of Pretoria, seek to preserve an archaic exclusivity under the spurious guise of keeping an orderly market. ■

Royal seeking acquisitions

Royal Corporation is looking forward to continuing growth in the current year, despite deteriorating trading conditions.

In the annual report for the year, executive chairman Vivian Imerman ascribes the deterioration in the second half of the year to high interest rates and unstable socio-political conditions.

Star 22/8/90

His confidence in the future is bolstered by the group's strong performance over the past year during which a number of major changes were made including the acquisition of Royal Beech-Nut and Manhattan Confectioners.

(232)

Mr Imerman stresses that the growth that the group is now seeking in both its food and pharmaceutical/chemical sectors will be attained locally and overseas.

In both sectors, considerable emphasis is being placed on further acquisitions, particularly the food and confectionery division.— Sapa.

KLIPTON (232)

Acquisition boost

Klipton's acquisition of Austin Safes and Access & Mobility Group stepped up the group's performance in its 1990 year. But a higher tax rate and increase in the issued share capital diluted the gains at the earnings level FM 24/8/90

In the year to end-June, operating profit rose 81% on a 56% turnover advance These figures include the acquisition of Austin Safes for the full year and ladder and castor maker AMG for the second six months

Chairman Nigel Matthews says Austin Safes, which makes security equipment, was the group's star performer Though divisional contributions are not revealed, the 1989 annual report states Austin Safes turnover at about R24m for the year. This indicates the performance of the group's other divisions was not that impressive.

Matthews says trading at the Gardwel (manufacturers and distributers of personal protective equipment and clothing) and Sapco (manufacturers and distributers of pneumatic tools, lifting and welding equipment) divisions was ahead of budget until about February, but deteriorated thereafter in line with general economic conditions. The decline in demand appears to have bottomed out though.

The sale of the under-performing Harvey & Russell division and contribution of high-margin Austin Safes and AMG helped to boost the operating margin to 10,9% (9,4%). Since listing in 1987, Klipton has consistently increased its operating margin.

The group remains conservatively financed: interest cover was 10 times and debt:equity 34% at year end A higher tax rate, rather than interest payments, detracted from the operating performance. Matthews says assessed tax losses have been depleted, pushing the effective tax rate up to 42% (34%) which he considers to be close to the norm

Attributable profit rose by 70% but a 35% increase in the number of shares in issue — a result of the acquisitions — limited EPS growth to a quarter.

Matthews is cautious about prospects for this year but the inclusion of AMG for a full year, continuing demand for Austin Safes' products and more stable conditions at Gardwel and Sapco, should bolster Klipton's earnings — though not to the extent seen this year.

Pam Baskind

CAPITAL MARKET FM 24/8/90

Making markets

(232)

The Department of Finance and the Reserve Bank have been taking a hard look at how to improve marketability of government stock, particularly the roughly R20bn R150s They hosted a discussion group this week for key private-sector players, including merchant banks, stockbrokers and institutions.

It seems perceptions will have to change for the stocks to become truly marketable This could take years.

Trading in options is one way of laying off risk for a dealer. Until now Eskom's active options book has helped give the E168 the edge over the R150s in marketability. Because the Bank has not actively quoted doubles, participants find big options positions on the R150s risky

Now the Bank's short-term objective is to increase liquidity by imitating Eskom's strategy of quoting doubles and writing options. It reckons this will eventually bring

FINANCIAL MAIL AUGUST 24 1990

FM 24/8/90 (232) FM 24/8/90

down the cost of funding

Appointing and establishing market makers in government bonds will be part of a long-term solution

The Bank started an R150s options book in February, which it says is becoming more active On August 13, JSE turnover included R150 options valued at R530m, surpassing Eskom's R495m worth for that day

Dealers reckon that, despite the appointment of official market makers, the Bank may have to become a market maker in its own stock and buyer of last resort "Eskom has done this and has built itself into a position of trust Though it cost initially," says a dealer, "Eskom is probably only buying back a small portion of its stock now "

In 1988, the Jacobs report on the bond market came out against assuming a market making function as "dealer of last resort "

A change in approach came after amendments to the Exchequer Act 66 of 1975 last year For the first time, Treasury was allowed to buy back stock before it matured, enabling it to consolidate stock with the same maturity period into new issues A number of gilts were consolidated into four new issues (R144, R147, R150 and R153) between August-December 1989

Dealers suggest the Bank should be allowed to sell short, in response to market demand. Also Treasury must be prepared to go long of stock when demand is low.

Another way of laying off risk is to take an opposite position in an alternative investment As such alternatives are lacking, the gap watched is between the R150s and E168s Dealers hope to profit by subtle shifts between the two

Government stock should trade at a lower rate than semi-gilts, primarily because of the quality of debt when government is the prime borrower But in SA, these instruments are less in demand than semi-gilts, which pushes rates above those on Eskoms About two months ago, the Bank tried to narrow the gap between the price of the bellwether Eskom E168s and the R150s — and closed it from 53 to 45 points

Some participants claim the Bank favours a select few and point to the R1bn deal, with call options, through a merchant bank in 1988 These over-the-counter deals affect rates, dealers say — to the detriment of other players But the authorities feel an organisation clever enough to structure an innovative deal should benefit from its efforts "In the Bank's experience, best results are obtained by dealing on a confidential basis through intermediaries," says the Jacobs report

The Bank says it is trying to push business through the floor, but even this it prefers to do anonymously A press release this week denies it is singling out specific merchant banks In future, all trades will go through the BMA and volume and prices recorded

A dealer says the authorities should do more to feed the market with information on deals The Bank has appointed a working group to investigate long-term strategies

Jacquie Bullard

	CLOSE	[illegible]	DY%	VOL
	1100		30	57
	65SUSP			
	85		9 4	
	35	5	5 7	654
	50		9 8	
CD	50		22 8	
CD	100		11 4	
	4500	13	2 9	30
	430		4 5	
CD	550		11 6	
ELOP. CAPITAL				
	28		5 1	
	24		5 0	
EF	38			
	14			
	10SUSP			
	22		14 7	0
C	14		21 4	
	68		8 8	
	7			2550
	15		20 0	
	40SUSP			
	60		0 8	
	600	4	3 5	50
	100		9 0	
	50		6 0	
	5			55
	100SUSP			
	20			
	15			
	18		5 6	3
	21			
	13		24 6	
H	11			
T	31		3 2	23
E	24			
P	70		4 3	
	60		16 7	
CD	100		10 5	
	10		24 0	
	15			
CD	13000		12 3	
	14SUSP			
D	8			20
M	10	9	42 0	623
O	6			
	40			
L	32		12 8	
AF	32		6 3	
M	25		4 0	
	20		10 0	
T	10	29		20
	5			227
	35SUSP			
D	18SUSP			
ENTURE CAPITAL				
	10	9		4672
	7	13		10
	15			

R MOVES UPWARD

PRICE	PREV	MOVE	%PM	SML
550	300	250	83 3	+++
4500	4000	500	12 5	+++
22	20	2	10 0	+++
60	55	5	9 1	+ -
120	110	10	9 1	++
200	185	15	8 1	+ -

JSE stocks plunge 5,3%

(232)

W/Mail 24/8-26/8/90

THE Johannesburg stock market plunged 5,3 percent yesterday as panic selling struck after lunch on jitters about falling international stock markets amid a worsening Middle East crisis and rising oil prices, dealers said.

The overall share index closed a massive 167 points, or 5,3 percent, lower at 2 962 versus Wednesday's 3 129 close, while the industrial index fell over 4,5 percent to 2 786 from 2 921

Gold shares, after a firm start, also succumbed despite support from firm world bullion prices. The index was down at 1 779 at the close from Wednesday's 1 894 close after rising to 1 923

"I think there's been a fair amount of panic," said an analyst, explaining that local investors see higher oil prices leading to recession among South Africa's major trading partners

"We need some significant (positive) event in the Middle East to pull us out of a bear market," he said

Among market leaders, De Beers lost R5,25 at R73,75, heavyweight gold share Vaal Reefs R17,50 at R330 and Impala Platinum R8 at R71,50, while mining financials had Anglos R9,50 lower at R109

Industrial Barlows fell to R31,25 from Wednesday's R33,75 close, Richemont to R21,75 from R23,90 and Safren to R39 from R42 — Sapa

US wealth concentrated

WASHINGTON Nearly 28 5

WoM may hear a sweeter note

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A WORLD OF MUSIC shareholder wants to know if and when the 13-month long JSE suspension on trade in the company's shares will be lifted. C\Times 26\8\90

The JSE says a meeting will be held tomorrow with WOM

WOM chairman Peter Cooke says an approach was made to the JSE, which asked for an audited three-month trading profit. He says the company has been restructured and its businesses will be the record arm and recording studio There will be net assets of R1,8-million

Mr Cooke says there is no association with Joe Caldeira, who was associated with Projec Holdings. Projec, formerly Canvacor, was delisted after failing to respond to the JSE's requests for information. The shares climbed from 7c to R11 on huge volume after a one-for-five consolidation Finrand dealing was prominent.

Mr Cooke says Mr Caldeira approached him with a view to buying WOM and holding company World of Leisure last October, but nothing came of it because certain conditions, such as the suspension being lifted, were not met

MINORITIES IN SHELL PICKLE

By JULIE WALKER

JUST when Manserv minority shareholders thought the long-awaited offer to them by the new controlling shareholder was safe, another obstacle has emerged.

The controlling stake in the R15,4-million Manserv cash shell was bought in February by Financial Ltd, a company registered in the Isle of Man. 232

The seller, Map consortium, received 105c a share for its 89% holding. Financial had ceded its rights to SA company Garditex, so the deal between Map and the buyer did not involve financial rands, Financial undertook to make an offer on the same terms to the Manserv minority.

Map insisted that Financial lodge the full amount as security with a bank. UAL has R1 546 205 on deposit as security.

Manserv cannot be traded on the JSE because cash shells are suspended until assets have been injected

It recently delisted the Sequel cash shell, leaving the minority in an unlisted company without having been made a cash offer by the new controller Manserv minorities fear they may suffer a similar fate.

S/Times 26/8/90

Action

The problem relates to finrand transactions When the Map-Financial deal was taking place, the Reserve Bank introduced a rule whereby the JSE was obliged to prevent companies from buying cash shells through the finrand without the bank's permission

Finrands can be used without the bank's permission to buy quoted companies.

The money on deposit at UAL came in without the Reserve Bank's permission Financial has still not made a formal application to the Reserve Bank UAL did not know the money came in through the finrand.

Therefore, Financial cannot physically make an offer to the Manserv minority until the Reserve Bank grants permission for the funds to come in through the finrand.

The first course of action is for the Reserve Bank to be persuaded to allow UAL to book that deal as a finrand transaction. Thereafter, the minority should be made an offer

The JSE will allow Financial to make an offer to the Manserv minority without having to disclose the assets it proposes to inject into the shell

Garditex has already sold Chamray Mining into the Manserv for R13,6-million without announcement

Map spokesman Jeff Wiggill says Financial is in breach of a contract signed by the two parties in February, as well as the JSE and Companies Act requirements.

Anothe
S/Times 26/8/90
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GUARDIAN NATIONAL repor
the half-year to June.

Its results are in line with tho
who are suffering from a plu
increase in crime.

Guardian's underwriting loss
turnaround from profit of R7,9
year. The board blames the po
increase in the incidence and
theft".

Other classes of insurance
burglary and domestic content

Premi

Guardian's investment incom
million Earnings a share dropp
cover fell to 2,4 times from 3,

Net premiums written totalle
the same time last year. But pr
R17,3-million.

The effective tax rate was
because of the "high proportion
pre-tax profits, together with t
contingency reserve".

An interim dividend of 55c ha
previous year's total, but up by

Broker DRC defaults on R1m exposure

ROBERT GENTLE 232

THE slump on world equity markets claimed its first SA fatality on Friday when futures broking firm Davis Ralph Sadleir (DRS), unable to meet its financial obligations, defaulted on an exposure of more than R1m B/Day 27/8/90

In accordance with SA Futures Exchange (Safex) rules, Cape-based Corporate Investment Bank Clearing Pty (CIBC), through which DRS routed its trades, assumed all known cleared proprietary contracts entered into by DRS and its clients.

CIBC is a part of CIB (Corporate Investment Bank), which used to be known as Cape Investment Bank until its merger in February with Corbank

Safex said that no Safex member or client had been prejudiced.

CIB director Sjoerd Lohle said that all the proprietary DRS open futures positions had been liquidated in the market by close of trade on Friday

Lohle said that, insofar as CIB's margin payments held by Safex had covered all positions on the contracts, the bank would suffer no loss

Following a Safex market alert, DRS was precluded from trading from 8am on Friday The arrangement by which DRS routed its trades through CIB has also been terminated

The demise of DRS, formed in March 1989 under its old name SA Futures &

☐ To Page 2

Broker defaults B/Day 27/8/90 232

☐ From Page 1

Options, started on Thursday when JSE share prices tumbled on fears of war in the Gulf.

DRS, which like a number of other participants had a bullish view of SA's gold-driven market, was wrong-footed by the sudden bearish swing It was asked by its clearer, CIB, to put up additional margin money to compensate for the falling value of its futures positions

However, the sheer size of the margin call — about R0,5m — exceeded DRS's immediate financial resources, and CIB declared the two-man broking house to be in default.

Despite negotiations at CIB, no solution to DRS's predicament was found

In an interview at the weekend, DRS's Mike Davis and Gerald Sadleir said they were very disappointed with CIB's refusal to grant them accommodation, as they believed the market had bottomed and would almost certainly have allowed them to trade back towards profitability

They conceded that CIB had done no more than comply with Safex rules, which require strict action in the case of a default

Sadleir said "The chances of DRS surviving are close to nil"

Cit-Tim
27/8/90

Protesters march on SABC, urge impartiality

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JOHANNESBURG — About 800 people marched to the South African Broadcasting Corporation's Auckland Park head office on Saturday morning to present the SABC with a memorandum protesting against planned restructuring and privatisation of the corporation

The march, organised by the Campaign for Open Media, was supported by members of various media associations, the Black Sash and the ANC.

At the SABC's Piet Meyer Building, former Rand Daily Mail editor Mr Raymond Louw presented the memorandum to SABC Corporate Communications manager Mr Theo Vorster He asked that the memorandum be conveyed to SABC chairman Professor Christo Viljoen and that an answer to demands be given within one week.

The memorandum deplored the appointment in March this year of a broadcasting task force chaired by Professor Viljoen and made up of "Broederbonders and securocrats who represent the interest of minority rule"

It called for the task force's disbandment and the establishment of an independent board of directors to ensure impartiality of the corporation

Mr Vorster told reporters the size of the protest indicated that the majority of the 17 million viewers and listeners "must be relatively satisfied" — Sapa, UPI

students and each of the five team
division CEO Clem Sunter, right, gave the main address at last
ship of the contest from ICL next year. Pictures CATHERINE ROSS

Court for her daughter to have access to her lawyers. — Sapa

Developer placed under provisional order

TIM COHEN

A RAND Supreme Court judge yesterday placed the developer of the Stellen-oord Retirement Village — Linden Developments Ltd — under provisional liquidation

The proposed retirement village was due to have been built on a 5,7 ha property in Stellenbosch

B Day 28/8/90

The proposed development consisted of 75 sectional title units and a variety of community services such as a clinic, a restaurant and a heated swiming pool

The application was brought before Mr Justice Goldstein by Stocks and Stocks Cape Ltd, which claimed it was owed more than R1,5m by Linden Developments and that the developer was commercially insolvent

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Mr Justice Goldstein ruled yesterday that the contention by the developer that the money was payable by Nedperm Bank Ltd and not by the developer could not be upheld

The return day of the provisional order is September 25.

Tomkor given go-ahead

Business Day Reporter 232

IN A meeting last week, Tomkor shareholders unanimously approved the restructuring of the property portfolio into two separate companies, Tomkor and October Investments (Octodec) B Day 28/8/90

Loan stock company Octodec will be listed on the JSE on September 20 through a renounceable rights offer to Tomkor shareholders The sale of Tomkor properties worth R148m into Octodec was approved.

Tomkor directors declared a dividend in specie of linked units in Octodec to shareholders registered on September 21 on the basis of 100 linked units for every ordinary share held. The rights offer opens on August 31.

IDC acquires 37,6% stake in ERF SA

ZILLA EFRAT

THE Industrial Development Corporation (IDC) has acquired a 37,6% stake in truck and bus supplier ERF SA, a subsidiary of UK-based ERF Holdings, for an undisclosed amount.

IDC senior GM Jan de Bruyn said the acquisition was made by the IDC's two listed investment subsidiaries — Industrial Selections and National Selections — on an equal basis.

B/Day 28/8/90 (232)

Both saw the deal as an attractive investment opportunity which would increase local industrial activity and which went hand in hand with ERF SA's proposed expansion plans.

Alrode-based ERF SA, which has been in SA for 25 years, assembles and manufactures trucks and bus chassis It was previously 100% owned by its UK parent

ERF SA MD Dai Davies said the deal emphasised ERF SA's intention to be more closely identified with its SA origins and was in line with its policy of controlling growth and increasing local content

ERF SA sales and marketing director John Barnett said the acquisition enabled ERF SA to take advantage of opportunities opening up in southern Africa

Bust futures firm in client cash row

BDay 28/8/90 (232)

ROBERT GENTLE

FORMER clients of DRS (Davis Ralph Sadleir), the futures broking firm which defaulted on an exposure of over R1m last week, disclosed yesterday they were attempting to recover about R900 000 owed to them.

They have contested public statements by the SA Futures Exchange (Safex) that no Safex member or client suffered any prejudice as a result of the default

Attorney Malcolm Douglas of Cape-based law firm Routledge-MacCallums, who obtained a provisional liquidation order against DRS on Friday, said yesterday former DRS clients he represented were owed around R800 000

They had had positive cash balances to this amount in their DRS accounts when the default occurred and had not had any futures contracts open in their name, Douglas said His clients should therefore have been given back the money by CIBC (Corporate Investment Bank Clearing), the Cape-based clearing company which assumed all known, open DRS proprietary positions after the default

"We have been told the money is not available," Douglas said

Another former DRS client, who did not wish to be identified, said he was owed about R120 000 on positive cash balances lodged in his DRS account He too said the money had not been invested in the market at the time of the default.

Jack Crook of Syfrets Group, who has been appointed liquidator for DRS, said: "Several people have told me that their positions were closed prior to the default on Thursday"

Investors or clients with claims on DRS should get in touch with him so he could establish the facts, he said

Safia (SA Futures Industry Association), the futures watchdog body, confirmed it had received calls from people claiming they were still owed money by DRS

Reacting to these disclosures, Safex CE Stuart Rees said· "At this stage, we are confident that CIBC has discharged its obligations towards clients and other parties in respect of open proprietary positions"

Anyone who does not have an open position in the futures market is not considered a client under Safex rules and consequently falls outside of the default protection.

Rees added, however, that Safex was associated with an investigation into the possibility of co-mingling of clients' and members' proprietary funds at DRS.

Co-mingling means client monies are not kept in segregated accounts with the broker, but are lumped together and used for activities clients may not be aware of This practice contravenes exchange rules and breaches the terms of the Financial Markets Control Act.

Neither of the two directors of the defunct DRS could be reached for comment

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8 BUSINESS DAY, Tuesday, August 28 1990

Rand hedge shares lose their appeal

BDay 28/8/90

232

LIZ ROUSE

RAND hedge shares have lost their sparkle in the past three months and appear to be even less attractive because of recent events.

The authorities' commitment to protecting the value of the domestic rand and its external value, plus tottering international equity markets and sagging economies, such as the mighty US, all put a question mark on investment in rand hedges

Rand hedge stocks such as De Beers, Richemont and Barlows, have been in a downtrend over the past three months.

Amic proved last week that it is sensitive to disastrous results in the present climate, losing as much as 15% after the release of results

Rand hedges are market leaders and as such are as vulnerable as international market leaders if, as some analysts expect, equity markets are in for a rough ride

The US is now seen as being closer to a recession than previously thought

This coincides with higher oil prices, which raises the spectre of inflation

The price of oil is even more important to the Japanese economy and the Tokyo equity market's plunges partly reflect Japanese apprehension about the direction of their economy

Europe appears to have better prospects of avoiding a recession if the Eastern Bloc is opened up economically

But there are serious problems involved in integrating the highly industrialised West Europe with the tottering, out-dated industries of Eastern Europe.

Some analysts foresee continued turmoil in international equity markets

This may add to gold's attraction as an investment, but a higher gold price is unlikely to flow through to gold shares

Given general uncertainty and giant shifts in world economies, manoeuvreable cash is preferred

Analysts are unwilling to haul out their crystal balls to foretell the future of rand hedge stocks against such a complicated background

The fact is that these stocks have plunged on the JSE over the past three months

De Beers has come off 24,7% over three months, Anglos is down 18,7%, Barlows down 15,1% and Liberty down 12%. Richemont has fallen 17,5% over the past month and SA Breweries shed 8,5% in one month

From a price earnings (PE) point of view, the JSE's average PE ratio is still. healthier than that of other major bourses

New York's PE ratio of 14 is well below the average levels reached before the 1987 crash, but it remains higher than at any time since December 1987.

With US corporate profits now expected to sag further, shares will soon look overvalued even when the Middle East panic subsides.

London's PE ratio has dipped to just over 11 and equity prices look reasonable

Frankfurt's PE ratio soared after the Berlin Wall came down at the end of last year. The Middle Eastern fall leaves the PE ratio still high at 16,3

The difficulties arising for attempted absorption of the Eastern German economy and fears of higher tax have caused nervousness in Frankfurt

Tokyo's PE ratio is now down to about 40 from its 1987 peak of 68

Although the Japanese accounting is different and Japanese investors pay less attention to PE ratios than elsewhere, the Tokyo stock market looked overvalued well before the Iraqi invasion of Kuwait because of a tighter monetary policy

Shift from gilts to equities — report

232

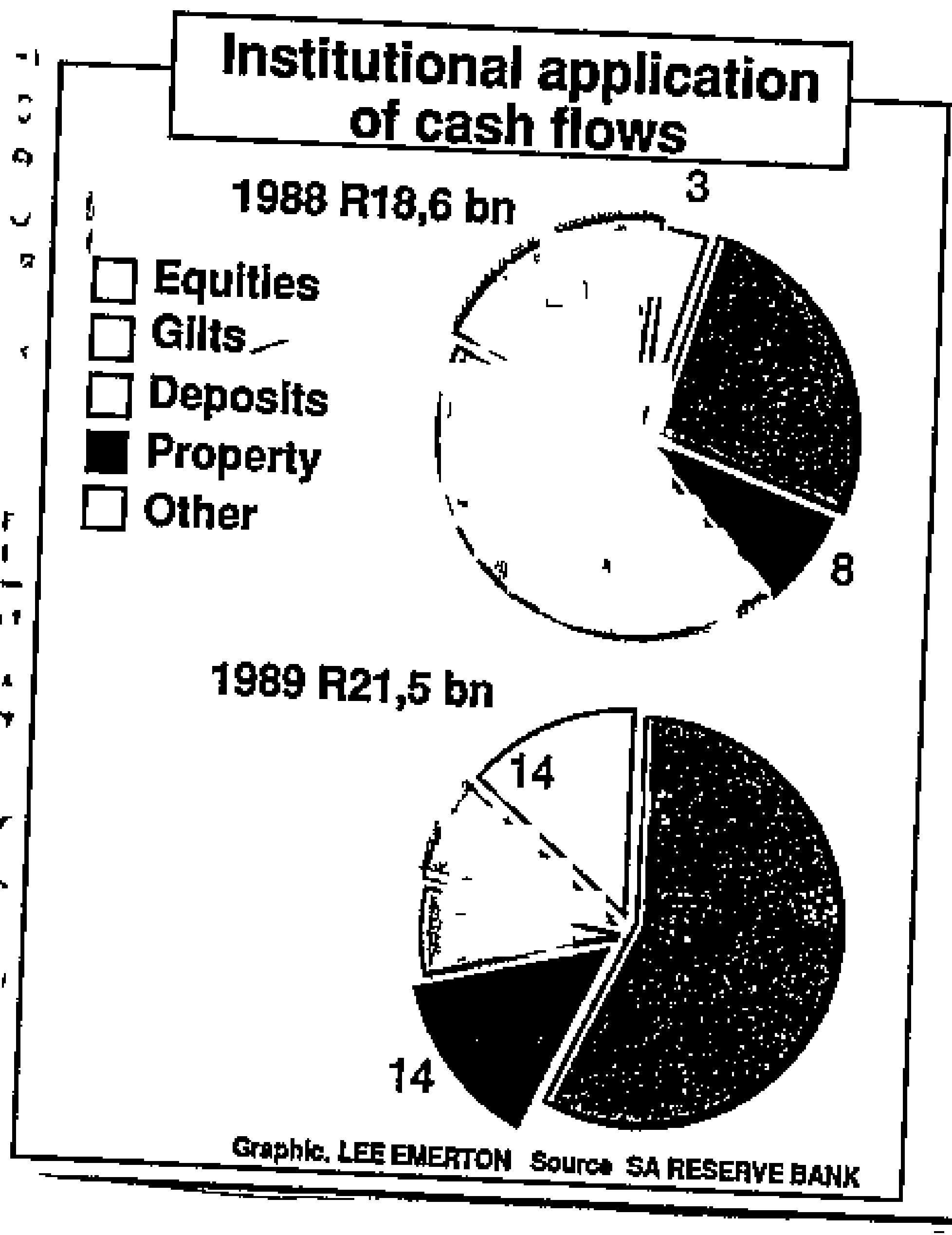
BDay 28/8/90

GRETA STEYN

INSTITUTIONAL investors put only 8% of cash flows into gilts in 1989 after the announcement that prescribed asset requirements would be scrapped — compared with 20% in 1988.

Figures in the Reserve Bank's Annual Economic Report show that once institutions were no longer forced to invest in public sector stock, they poured into equities — 57% of cash flows went into the JSE in 1989 as against 26% in 1988. Property, too, benefited from the move with the percentage of total funds invested more than doubling to 14% from 8%

Selling of gilts by institutions did not, however, have a negative effect on the capital market as foreign investors took up the slack



Institutional application of cash flows

Graphic. LEE EMERTON Source SA RESERVE BANK

The report ascribes high levels of trading activity in the capital market in 1989 and early 1990 to a significant extent to foreign investors buying public sector stock, as well as to institutions' shifts from gilts into equities.

"Non-residents' large-scale change-overs into interest-bearing securities were, in fact, credited with having caused a decline of more than one percentage point in the yields on long-term government and Eskom stock."

The report notes record turnover levels in public sector were notched up in the fourth quarter of last year and first quarter of this year (R77,3bn on the JSE). However, this was followed by a sharp decline to R49,4bn in the second quarter.

The abolition of prescribed assets did not create problems for public sector borrowers needing to raise new funds

Government sold R4,6bn in new stock on the open market between April and July this year, an amount that already exceeds the needs indicated at the time of the Budget This is higher than the R4,2bn sold at this point last year

Another facet of the capital market to emerge during this period of high interest rates has been that deposit-taking institutions are a bit more popular now with the investing public than they have been in the past The flow of longer term funds to deposit-takers, which had decreased by 25% in 1988, rose by 37% in 1989 The flow of funds to insurers, which had risen by 30% in 1988, rose by a slower 19% in the next year However, net personal saving in SA is still much lower than the contractual savings flowing to the institutions

Safex's reputation hinges on the handling of default

(232)

ROBERT GENTLE

THE SA Futures Exchange's reputation hinges on the manner in which the demise of futures broking firm Davis Ralph Sadleir (DRS) is handled.

DRS defaulted on an exposure of more than R1m on Friday, barely a month after Safex's formal opening.

If the default goes off with barely a murmur of discontent among clients of the now defunct DRS, Safex will emerge with its reputation considerably enhanced.

B Day 28/2/90

If, on the other hand, DRS clients are out of pocket as a result of the default, Safex will almost surely be the target of accusations over its much-vaunted concern for client protection

As far as clients who had open positions with DRS at the time of the default are concerned, Safex can point to a smooth, strictly monitored unwinding of their positions in accordance with exchange rules.

To all intents and purposes, it made little difference that DRS was no longer solvent because cleared open proprietary positions were automatically assumed by Corporate Investment Bank Clearing (CIBC).

This is because CIBC is a clearing member of Safex, and it is the clearing members which collectively ensure the financial integrity of the exchange. Safex rules require a clearing member to have a minimum net worth of R20m, put up a R10m minimum third party suretyship and be part of a R3,5m loan guarantee fund. There is also a R10m insurance policy.

It was clear that the DRS default scenario was a relatively minor one which did not trigger any of Safex's multiple guarantees.

"The default will be contained locally at CIBC," said Safex CE Stuart Rees.

If the good news was that open proprietary client positions were honoured, the bad news was that this might not have been all the DRS obligations out in the market. DRS was known to be a big writer of options on futures. Options are over-the-counter instruments — that is, with full counter-party risk and caveat emptor as the watchword.

Mike Davis — the D in DRS — confirmed the existence of outstanding options on futures, but could comment no further on how these would be honoured

Insofar as Safex guarantees only cover futures, DRS options clients cannot look to the exchange to guarantee contract performance

Other DRS clients in the same situation are those without open contract positions at the time of the default, but whose accounts at DRS showed positive cash balances.

These two categories of clients could give Safex a rough ride in the coming weeks as they seek redress for what they feel is inadequate protection from a market committed to client confidence.

Nedbank offers investment deal (26)

NEDBANK is offering its clients the chance to invest in a minimum of 10 combined units valued at R1 000 each in Johannesburg's old Stuttafords building on the corner of Rissik and Pritchard streets. B/Day 29/11/90

A bank statement said clients are being offered 6 120 combined units consisting of one ordinary share and one unsecured debenture.

If the investor sells his 10 combined units at the end of five years, the projected value of the units is R20 644 37, which represents a capital growth of more than double the original investment. The offer to buy units opened last week and information is at all Nedbank branches.

Stuttafords building was erected in 1912 and is protected under the National Monument Act of 1986. It has shops and offices and is 80% occupied by major tenants The OK Bazaars has the largest space. (232)

"The Stuttafords building is strategically located in relation to major developments within the CBD," Nedbank deputy MD and chairman of Nedbank's Secured Investments division Johan Westraat said

"It is situated within two minutes walk of the civic spine. Other new developments in the area include the new headquarters for Old Mutual and Bank City."

Anglovaal declares share split

B/Day 29/8/90

RIAAN SMIT

ANGLOVAAL Holdings (AV) will have a five-for-one ordinary share split and will issue participating preference shares in a one-to-one ratio for each subdivided preference share after implementation of the split.

The split would take effect on October 1, if ordinary shareholders approve the proposal, the company said in an announcement today.

The share split was decided upon to increase the marketability of AV Holdings shares, it said. The company's ordinary shares were recently traded above R50 a share.

After the split, AV Holdings would have 45 765 645 ordinary shares in issue and the same amount of participating preference shares.

It said by retaining the participating preference shares and the subdivided ordinary shares, a shareholder should be in at least the same position as if the subdivision and capitalisation issue had not been made.

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The capitalisation issue would achieve greater flexibility in the capital structure of AV Holdings.

JSE industrial index up 41 points

Gold's slide continues for a second day

232

B/Day 29/8/90

JOHN CAVILL and BRENT MELVILLE

LONDON — Precious metals markets remained under pressure yesterday as buyers withdrew and waited for the outcome of UN secretary general Perez de Cuellar's attempts to mediate with Iraq in the Jordanian capital of Amman tomorrow.

Gold was volatile, swinging over a $15/oz range after Monday's $26,70 slump in New York Gold closed in New York at $383,85 — a fall of $30,60 in two days.

In London, gold closed at $382,50, after not being traded on Monday due to the August bank holiday. The metal traded steadily, with the dollar's weakness against the yen — it fell from 145,90 yen to 143,15 yen — sustaining the market.

But on the JSE investors were reticent to let go of gold shares despite the weakening gold price and the firmer finrand

On the back of the demise of bullion to just above the $380 support level in London yesterday, JSE investors left the all gold index just 38 points down at 1 619 on expectations that the index could crumble by as much as 150 points on the day

The overall index finished a mere eight points down at 2 924 and the industrial index capitalised on some rare bullish sentiment on its blue chips to climb 41 points and close at 2 820

Platinum, palladium and silver tracked gold Platinum closed in London at $482,50 (after a low of $480) and palladium sagged to $109,50

However, crude oil prices steadied after dropping more than $4/barrel to $26 for North Sea Brent blend (October). It was quoted at $25,70/barrel having been down to $25,40 on expectations that Opec would formally sanction and join Saudi Arabia's planned increase in output to offset the loss of Iraq-Kuwait supplies.

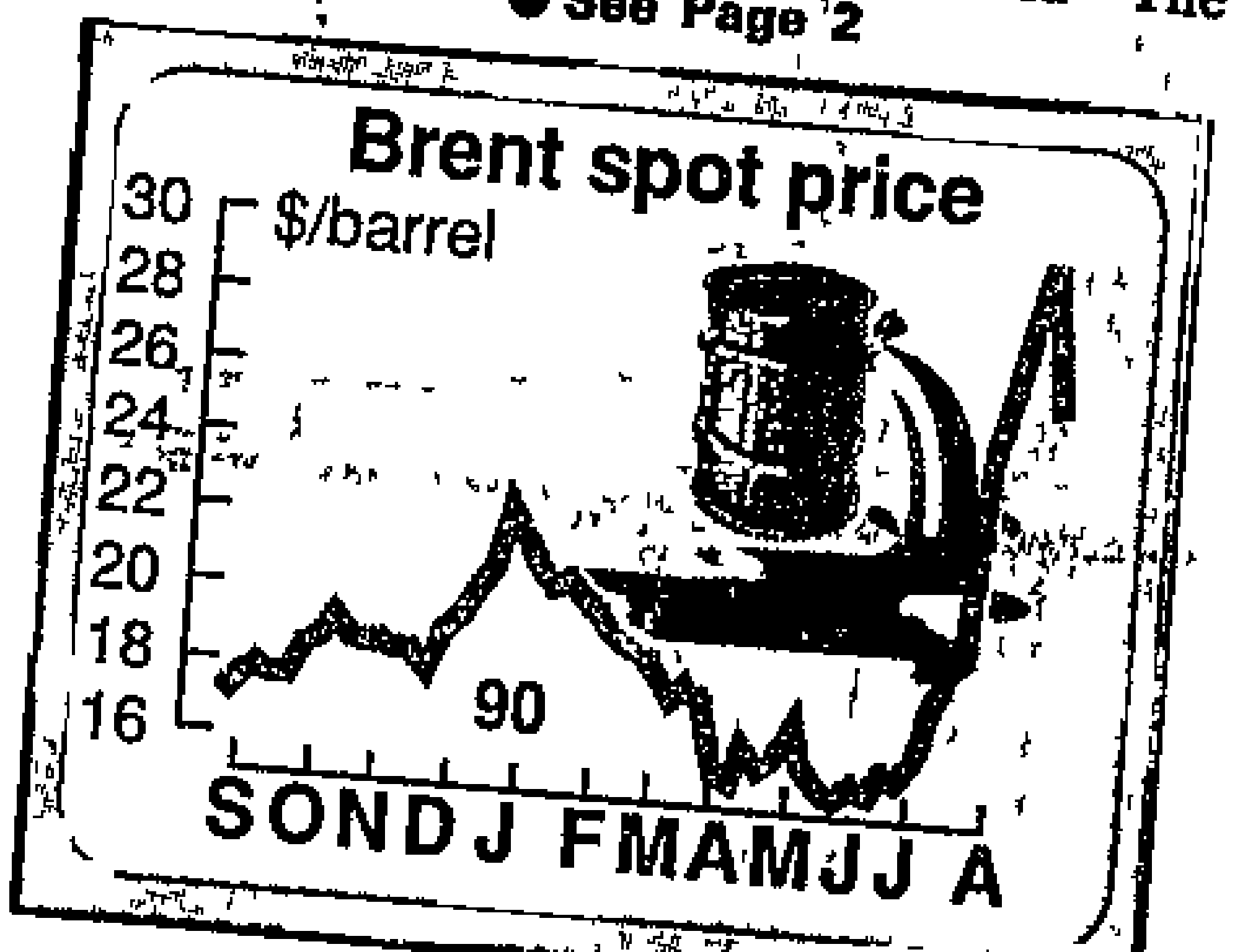
But Iran has demanded that consumers run down part of their stocks — equal to 100 days' demand in the industrialised countries — before Opec steps up production.

London traders and analysts, however, said the main factor was the cooling off of war tension in the Gulf.

Smith New Court's Albert Loveless said "Gold was headline driven, now it's chart driven It was overbought and a pull back to the 200-day moving average price is in line with chartist behaviour and that's what it has done"

Johnson Matthey's Mike Rose said "The

● See Page 2



Graphic LEE EMERTON Source SASOL OIL

Police made up a parcel
though it contained the mo

Bureau for Information initiates its news service

PETER DELMAR

AFTER ditching privatisation plans, the Bureau for Information this week launched its own national news service. (232)

The first hint of the Bureau's return to media liaison centre stage came on Monday when it issued more than 2 500 words on issues as diverse as black taxis, a national census and the negative effects of strike action.

Bureau spokesmen yesterday stressed that it was not competing with other news sources, particularly the SA Press Association (Sapa) which supplies news to all daily newspapers and broadcast media.

Sources expected that the Bureau's propagandist image would improve, with a shift in emphasis from conveying government information to facilitating communication between government and media.

They said the Bureau was experiencing an unprecedented degree of freedom from political interference.

Public relations executives said, however, they believed much of the Bureau's work should be contracted out to the private sector.

The Bureau's domestic media liaison head Chris van der Westhuizen said yesterday the news service would mostly put out researched reports involving a number of departments.

Ordinary media liaison would still be done by the departments concerned

Although spokesmen said the news service would be headed by a senior seven-man editorial committee, including Bureau head Dave Steward, none were able to say what its budget would be.

B Day 29/8/90

Unit trust yields 'misunderstood'

B/Day 29/8/90

232

LIZ ROUSE

COMPARING yields is not the way to determine which unit trusts are doing the best, as yields are not a gauge for the investor interested in capital growth.

Sanlam Managers, which administers the group's unit trusts, says that many investors are under the impression that the higher the yield, the better the unit trust's performance

This is not necessarily the case For example, the market value of 100 units in unit trusts A and B is R100 in both cases. Both declared a dividend of R7 in the past 12 months, which meant a yield of 7%

But, before the next dividend is declared, the value of A units grows to R150 and that of B units to R200. The dividend yields are then 4,6% and 3,5% respectively.

The yield of the unit trust with the most rapid growth is therefore lower than when both declared the same dividend and is lower, too, than that of the unit trust with the slower growth.

Yield is, therefore, not a gauge for the investor who is interested in capital growth. It is only an indication of how the income of a unit trust performs.

Looking at the daily quotations of unit trusts in the financial pages of daily newspapers, in columns 1 and 2 the unit's price is expressed in cents. For each trust there are two prices — the buying price (the higher price) for buyers, and the selling price (the lower price) for sellers.

The price in column 2, the lower price, is always the market value (selling value) of a particular unit at that stage The investor can calculate how much his investment is worth by multipying the number of shares held by the market value.

The price in column 1, the higher price, is the market value of the unit plus the relevant costs. It is the price at which an investor buys a unit.

If an investor does a transaction today, in most cases he will be able to see what price he bought or sold at only in tomorrow's newspapers.

If the investor reads the column daily, he will notice that the price rises and drops, changing yields all the time. Should the buying price rise and the year's income remain the same, the yield decreases, and vice versa.

If the buying price remains the same and the year's income changes, the yield will increase if the new year's income is higher, or drop if it is lower

Sanlam Managers says the column is even used incorrectly by investors to determine what sort of unit trust they want to invest in Because the non-share trusts, or rather income funds, often yield the highest returns, an investor could well invest in a non-share trust, while he should rather be in a share unit trust.

'Amend investment guidelines'

ROBERT GENTLE

(232)

BDay 30/8/90

INVESTMENT guidelines prescribing how insurers and pension funds prudently invest their assets should be amended because they prevent portfolio managers from using futures effectively, Old Mutual Risks Investment manager Dave Mitchell said yesterday.

Mitchell, elaborating on remarks made during an SA Futures Exchange (Safex) seminar for portfolio managers, said the present regulations did not reflect the existence of a licensed futures exchange

They came into effect on October 1 1989 and superseded the old prescribed asset requirements

While the present regulations stipulated maximum percentages to be invested in specific areas — for example, equities (65%) and property (30%) — they made no reference to derivatives These necessarily fell into the "other assets" category — a mere 2,5%.

"There is a conflict here because while prudent fund management may require exposure to futures and options to guard against market swings, current investment regulations effectively preclude this," he said.

Mitchell said that portfolio managers should be allowed to manage their funds as fiduciaries, but the regulations sometimes conflicted with their duties to their clients

The Registrar of Financial Institutions Piet Badenhorst needed to be "encouraged" in this respect.

Mitchell said Badenhorst had already indicated a willingness to amend the regulations.

The Registrar could not be reached for comment.

M & R boosts profits 36%

Cpt Times 31/8/90

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By AUDREY D'ANGELO
Business Editor

HIGHER contributions from its construction, building, engineering and property companies boosted profits by Murray & Roberts Holdings in the year to June 30

The huge conglomerate reported a 36% rise in operating profit to R300,9m (R221,2m), achieved on a 17% rise in turnover to R4 014m (R3 445m)

Earnings rose by 27% to 542c (426c) a share, with a rise in the number in issue to 28 328 000 (27 813 000) The final dividend is 92c (77c), making a total of 132c (110c)

The interest bill rose to R27m (R22,8m) and tax to R110,1m (R72,2m)

Earnings attributable to ordinary permanent capital holders were 29% higher at R158,5m (R123m) Earnings attributable to ordianry shareholders were 30% higher at R153,7m (R118,4m)

The contribution of the industrial division to consolidated operating profit before interest was slightly down at R96,5m (R100,6m) although it still remained the main contributor

But the contribution of the construction division was sharply up at R94,8m (R43,1m)

The suppliers and services division contributed R66,2m (R61,8m), M & R Engineering R23,4m (R15m) and M & R Properties R17,7m (R8,2m)

Director Jeremy Ractliffe pointed out "The construction industry normally lags any downturn or upturn in the economy, because of its long-term contracts, while industrial companies react quickly to changes in demand

"In fact our industrial division pretty well maintained its contribution before tax while our construction division virtually doubled its profits and has done exceptionally well

"One of the things about our group is its portfolio effect. One of the ideas about our conglomerate design is that one division can help to compensate for another during a downturn"

Ractliffe said the group expected "another 12 to 18 months of tough times"

The construction division still had "nice order books, which is good But they will not last forever"

However, Ractliffe said, he thought Reserve Governor Chris Stals was right to keep up the attack on inflation

"SA has got to go through a full course of this medicine, in spite of increasing unemployment and its effect on unrest, in order to build a sound platform for future growth"

He said M & R's international activities had made "a positive contribution last year"

"One has to look at exports Consani Engineering exports tank containers and some of our industrial companies are in the export market"

Chairman M Daling and CE Dave Brink say they expect to achieve "real growth in dividends" in the current year, in spite of the large increase in shares which will result from the compulsory conversion of 7 381 730 debentures

BUSINESS DAY, Friday, August 31 1990

Difficult times push up number of delistings

GILLIAN HAYNE

GROUP restructuring and rationalisation, more cash shells and disenchantment with being a listed company have all served to push up the number of delistings on the JSE

There have been about 32 delistings since March 1989, compared with 15 in the March 1988/1989 year, 11 in 1987/1988 and seven in 1986/1987

There were 23 terminations in the year ended March 1986

In an interview, JSE GM of listings Richard Connellan noted that although reasons for delistings varied with each case, the increase in number was related to the current difficult economic climate

Delistings were mainly the result of group restructuring and rationalisation, although the number of terminations relating to cash shells had also risen

"A fair number of the listing terminations relate to companies cleaning up messy structures so investors can clearly identify the best entry point into the group," Connellan said

Terminations reached their low during the boom preceding the October 1987 crash, and as such showed a cyclical tendency directly related to the state of the economy and the stock market

In Connellan's view companies were being forced to consolidate positions after the exceptionally high p e ratios and low yields that accompanied the boom in 1987

Cash shells had also contributed to the increase in terminations The economic boom saw a vast increase in the number of companies seeking a listing on the JSE The high cost of a listing, both in time and money, made buying a cash shell a desirable alternative

But cash shells were scarce and the premium on buying one rose as high as R600 000, one analyst said

Lower premium

With the present tough economic situation pushing struggling companies towards liquidation, many listed enterprises had become cash shells

The increase in supply had lowered the perceived premium to about R250 000

Despite the decreased cost, many cash shells were exceeding the six-month limit given them by the JSE to re-fulfil their listing requirements The result was automatic delisting

A small percentage of terminations could be attributed to disillusionment of management with their listing. Companies which had been managed autocratically did not like the exposure of a listing, Connellan added

A listing gave management extra responsibilities and exposed it to criticism by minority shareholders Management was answerable for its decisions

Abbey pays out special dividends

B/Day 31/8/90

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CHARLOTTE MATHEWS

ABBEY Holdings, formerly known as the Property Group of SA, has declared earnings of 14,38c a share for the year to June and a distribution for the year, including special dividends, of 180c a share

Abbey is now the holding company of the group with 70% of property group Property Corporation (Propcor) and 70% of Fenix Industries.

Abbey's attributable income fell to R2,5m from R6,9m in 1989 as a result of reduced earnings from Propcor and Fenix.

An extraordinary item of R6m represents the sale of Retprop Investments, Frasers, President Medical Investments (Presmed) and Research Surveys

Propcor has declared a total dividend of 3c (4c) a share on earnings of 6,20c (12,21c) a share Operating income fell to R944 000 from R3,1m in 1989 as a result of the sale of subsidiary interests.

Fenix Industries, formerly Retco, has posted attributable income of R2,2m (R8,9m) which translates into earnings of 5,09c (20,2c) a share A dividend of 70c (7,5c), which includes special and an interim but no final dividend, has been declared.

Pangbourne earnings up

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CHARLOTTE MATHEWS

PROPERTY loan stock company Pangbourne Properties has boosted payments by 18% to 67,83c a combined unit for the year to June compared to 57,53c a unit in 1989.

The interest entitlement on nine debentures is now 50 times the dividend on one ordinary share for the full year. B/Day 31/8/90

Earnings rose by 22% to 72,02c (59,07c) a unit.

An extraordinary item of R2,3m, which has been transferred to non-distributable reserves, represents the increase in net realisation of properties over holding cost

Kaplan and Stewart analyst Robin Pegler believes at the current yield of 12,3% on a price of 550c a unit, Panprop represents good value

Chemical companies set to merge

ZILLA EFRAT

CH CHEMICALS and Whitney Chemical are to merge to create a major new force in the chemical industry with an annual turnover close to R800m a year.

The merger into the new company, CHW Chemicals, effective from October, aims at taking advantage of the potential for synergy between the companies, says new group MD Peter Columbine.

CH Chemicals — formed through a management buy-out when US group Dow Chemical disinvested from SA — represents Dow in southern Africa, marketing its range of chemicals, polymers and urethane and agricultural products.

Whitney Chemical is the agent for the US-based Hoechst Celanese Chemical Group. Its range of products — which includes vinyl acetate, acrylate monomers and other chemical intermediates — is used in the manufacture of coatings, plastics and fibres.

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CHW Chemicals will retain these and other developing agencies, and market them through its expanded network of sales, services and technical offices.

Columbine says "combining our two product ranges produces a superb fit, and gives us a turnover of some 55 000 tons of ex-stock bulk and packaged chemicals."

B/Day 3/9/90

More small firms failing as recession takes toll

232 **GERALD REILLY**

PRETORIA — The recession is squeezing the life out of a growing number of companies and close corporations, says Information Trust Corporation (ITC) chairman Paul Edwards B/Day 3/9/90

At the weekend he said the number of companies and close corporations being liquidated had increased dramatically in the first half of the year compared with January to June last year

In the first six months of this year, 916 companies and close corporations were liquidated compared with 671 last year — an increase of 37%

June's figure of 195 liquidations was the highest monthly figure since July 1987 The economy, Edwards said, was unquestionably in recession This was borne out by the negative growth over the last three quarters.

Some industrial sectors were being hit harder than others but generally profits were under severe pressure and cash flow problems were crippling other areas

The rate of liquidations, Edwards said, was likely to continue to rise over the next 12 months He could not see an upturn in the economy before mid-1991

It was sad, he said, to see businesses with full order books fail However, unless money from sales found its way into the bank, businesses were at risk

JSE is ‘price-fixing monopoly’ but legal

(232)

B/Day 5/9/90

ROBERT GENTLE

THE JSE was a monopoly and its fixed commission structure as well as the proposed minimum fee on share dealing amounted to price fixing, Competition Board chairman Pierre Brooks said yesterday

However, the JSE was not operating illegally because the Stock Exchanges Control Act under which it operated excluded it from the ambit of enforceable legislation in these key areas

Brooks, in an interview, said "There is no doubt that the JSE falls into the accepted definition of a monopoly" This was a situation in which two or more persons with a substantial economic connection controlled the class of business they engaged in with respect to a given commodity "The JSE constitutes a person in the legal sense of the word, while the commodity in question is share dealing," he said

Similarly, the JSE's fixed pricing structure, as well as its proposed minimum fee for share dealing, amounted to price fixing or collusion in terms of Government Notice 801 of May 2 1986. However, paragraph 8 of the notice excluded any person whose business operated under existing legislation — in this case the Stock Exchanges Control Act and rules

"Monopolies are not always unlawful," Brooks said

On whether steps should be taken to investigate the JSE's monopoly, Brooks said the only grounds for such a move would be complaints that the JSE was abusing its position or acting against the public interest.

"We have never received any complaints of this nature," Brooks said.

Fedfood takes 83% stake in Patoma Foods

CAPE Times 5/9/90

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Financial Editor

FOOD investment holding company Fedfood has expanded its interests to the processing, marketing and exporting of sub-tropical fruit and vegetables

It bought an 83% interest in Patoma Foods for R9m The price is made up of R6m in cash and R3m in existing Patoma shares

Fedfood MD Jan du Toit said the cash will be used for essential extensions to present capacities and to finance operational assets

"Patoma Foods is presently the largest canner of sub-tropical fruits and citrus segments in SA of which a significant proportion is exported

"The range of products which are processed, positions the company to grow with both the burgeoning mass market as well as the sophisticated consumer market," said Du Toit

"Excellent growth opportunities exist in all these products and synergies with existing Fedfood companies are obvious, which further influenced this investment decision," he said

Patoma operates two factories at Kaapmuiden and Nkowankowa and has a packaging and distribution facility at Verwoerdburg

The total market in which Patoma operates is worth about R550m a year Patoma also controls 35% of the atchar market and 65% of the market for canned citrus segments

"An investment in Patoma will make a contribution to the improvement of Fedfood's portfolio strategy and contribute positively to Fedfood's share earnings," said Du Toit

The current top management structure and all the staff at Patoma will remain in place

Slowdown takes mounting toll

(232) Star 6/9/90

By Michael Chester

The number of businesses forced to close down because of cash problems has climbed by more than 36 percent, compared with last year, as the slowdown takes its toll

The latest count of business failures shows that 916 companies and close corporations were forced into liquidation in the first six months of the year, compared with 671 in the first half of 1989

Information Trust Corporation chairman Paul Edwards says the trend is worsening

The number of businesses forced into closure is moving higher as the recession drags on In June alone it reached 195 — the heaviest toll in a single month since 1987

There could be worse to come

Evidence that the slowdown had developed into a full-scale recession is underscored by official statistics showing that the economic growth rate was below zero for the third quarter in succession

Company profits in general are under growing pressure and severe cash-flow problems widespread

Business liquidations

Mr Edwards fears that the toll of business liquidations will increase over the next 12 months

He says there is little prospect of a reversal of the recession until the middle of 1991 at the earliest

"With the Reserve Bank relentlessly pursuing its tight monetary policies, businesses are faced with very high real interest rates coupled with declining demand

"They are being squeezed from both directions

"One would normally expect interest rates to drop at this stage of a recession, but Reserve Bank governor Dr Chris Stals is staring businessmen in the eye and refusing to allow rates to fall until money supply growth and inflation are under control"

There are now forecasts that the Reserve Bank will soften its stance over the next few months and allow prime interest rates to ease lower by perhaps two percentage points by November to relieve the worst of the pressure

However, the mild cut would mean little to smaller businesses, whose loans are normally pitched up to five percent above the prime rate

"For small business firms, the prognosis for the next six months is not good"

Often the root cause of severe financial strain is a weakness in the management of debt, leading to cash-flow problems

"It's a tragedy to see businesses fail, even when they have a full order book

"Unfortunately, it can happen, unless actual cash from sales finds its way into the bank

"Sound credit and debtor administration is more vital than ever if many small companies hope to survive the current economic conditions," says Mr Edwards

FUTURES & OPTIONS

SETTLING DRS

FM 7/9/90 (232)

Creditors will have to wait at least a fortnight to see what they salvage from the recent Davis Ralph Sadleir (DRS) default Provisional liquidator Syfrets says the appointed auditors will be reconstructing clients' accounts to determine the exact credit or debit position of each in relation to DRS

In addition, a separate legal investigation is going ahead with the assistance of the attorneys of record, but Syfrets is unwilling to comment on the likelihood of clients and other creditors receiving any repayment.

Syfrets has taken control of a bank account containing R245 000 and a credit balance which, according to a circular from Syfrets, "appears to be held to DRS's credit by the clearing bank " The circular indicates a formal inquiry might be needed in terms of the Companies Act to examine the possibility of instituting claims against unspecified third parties FM 7/9/90 (232)

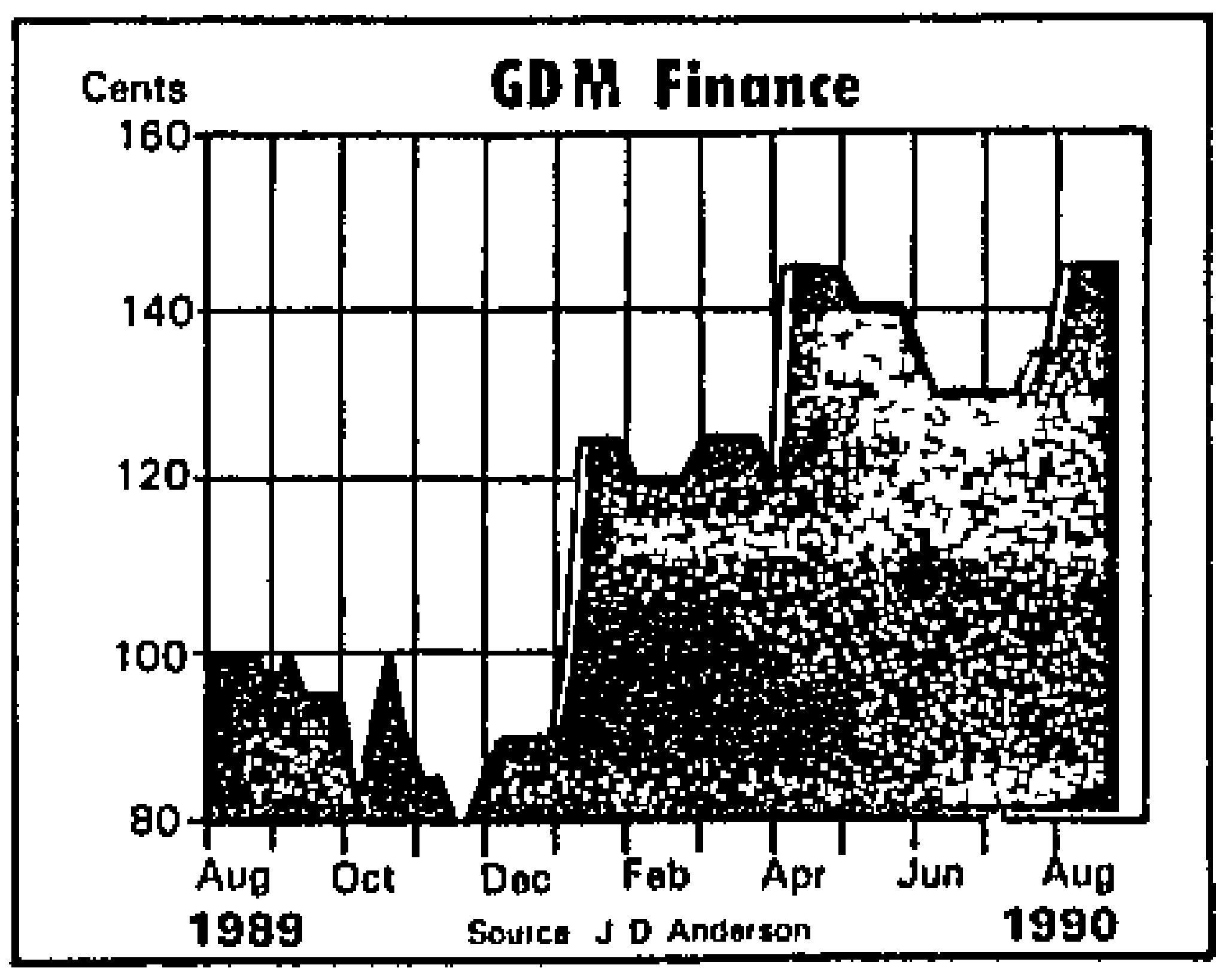
Safex points out that it cannot be held responsible for other trades DRS might have done in instruments, such as options, which do not fall under its jurisdiction ■

GDM FINANCE

FM 7/9/90 232

TRADE OPTIONS

Unlike its competitor Merhold, which has diversified into other areas of financial services, GDM Finance continues to concentrate on providing trade-related finance



Source J D Anderson

Activities: *Trade finance*
Control: *Goode Durant Plc 49%*
Chairman: *M -Waring, group MD J Cowper*
Capital structure: *25,6m ords Market capitalisation R37,4m*
Share market: *Price 145c Yields 8,3% on dividend, 20,2% on earnings, p e ratio, 5, cover, 2,4 12-month high, 145c, low, 80c Trading volume last quarter, 63 200 shares*

Year to Aug 30	**'87**	**'88**	**'89**	**'90**
Bills receivable (Rm)	33,8	60,7	91,9	102
Pre-tax profits (Rm)	2,4	5 0	8,1	9 8
Attrib profit (Rm)	1 4	2,7	5 6	7,5
Gross assets (Rm)	51	71	100	127,9
Earnings (c)	7 9	13 8	21,3	29 3
Dividends (c)	n/a	3 5	8 5	12
Net worth (c)	n/a	66 2	79,4	96,9

Its only diversification so far from straight trade finance is into clearing and forwarding, though this is still trade-related In July last year, the group acquired 64% of the R2m issued share capital of African Shipping (Afship), with the balance held by Nedperm, Finansbank and Afship MD John Krone. Afship was consolidated on February 1 and chairman Michael Waring says Afship contributed R74 000 to attributable profit in the three months to April 30 He expects it to make a "meaningful" contribution to future earnings

MD John Cowper says more businesses are using trade finance to fund expansion. Benefits include the ability to increase turnover, particularly when inflation and increasing tax are restricting growth Also, trade finance houses may put up letters of credit and forward exchange cover, rather than the client using its overdraft

Real growth was again achieved in the 1990 year, when pre-tax profit rose 21,8%, attributable profit by 37,7% and EPS by 37,6%

Cowper notes that even in bad times there is a need for trade finance Usually, it means trade finance is then required locally instead of internationally, as clients switch from imports to less expensive local purchases of raw materials and stock "Because of inflation, the monetary value of finance increases similarly," he says "So in monetary terms turnover can increase even in a recession"

Growth in business is confirmed by the increase in debtors, which rose to R128m

(232)
FM 7/9/90

from R100m Business is spread across a broad client base and a number of business sectors to alleviate risk Household and consumer goods represent the largest portion of turnover, at 27%. "No one client represents more than 5% of receivables," he says GDM does not define bad debts, but says in its annual report it "has not been unduly affected by client defaults"

Because trade finance houses are in the borrowing and lending business, gearing is normally high Cowper says GDM would like to keep gearing between 3,5 1 and 5 1 It increased to 4 1 last year, mainly because of the Afship acquisition Cowper expects gearing to remain around that level this year

He forecasts the group will again achieve real growth GDM is the best rated of the trade finance house on the banking board The 4,9 p e and 8,3% yield compares with 3,7 and 11,7% for Reichmans and 3,7 and 9,7% for Merhold

Heather Formby

FIM 7/9/90 (232)

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Safex points out that it cannot be held responsible for other trades DRS might have done in instruments, such as options, which do not fall under its jurisdiction ■

FUTURES

SAFEX RULES, OK? (232)

FIM 7/9/90

They were a long time coming, but the rules governing the SA Futures Exchange (Safex) have been published (*Government Gazette* August 24) in terms of the Financial Markets Control Act 1989. Submission of objections close today

Safex's Bob Power says amendments are likely as the futures market evolves Issues now being addressed are options on futures and syndicates

Thinking is that a syndicate which is a legal entity will be treated like any other client However, with an informal group there are two choices either all members can be jointly and severally liable; or a leader will be chosen to be liable for the group as a whole "The onus will be on members to approve the financial worth of the leader," says Power

By the end of the year the tax and accounting implications should be clarified Power reckons this will add liquidity to the market as investors would be better able to assess their financial situations

Safex intends next to streamline dealings between its members and portfolio managers By signing one blanket agreement a registered portfolio manager could act as agent for its clients with a Safex dealing member

The portfolio manager would have to operate on individually signed mandates from clients who agree that part of their money may be invested in futures Margin payments would be routed through the portfolio manager to Safex member Client accounts will be kept separate

"We hope to reduce paperwork and boost liquidity," says Power "However, our concern is to ensure both client and portfolio manager are aware of the risks of dealing in futures. Safex intends running seminars to educate potential investors "

What protection?

In the wake of the Davis, Ralph, Sadleir default, most new investors will want to be clear on how they are protected "There will probably be lessons to be learnt from that case," says Power

Largely owing to the Gulf crisis, futures volumes perked up during August and total contracts traded were 61% up on August last year Power says this is above the original budget Safex's clearing fees were expected to run at about R280 000 for 60 000 daily trades August's 108 000 trades generated about R450 000

Trading patterns have shifted since the market formalised In August, JSE brokers have shown the biggest jump in activity, moving from 7,5% to 27,4% (compared with average market share in the informal market to April) and futures brokers were up 2% to 30,5% The rest slowed down during the same period discount houses from 14,6% to 3,6%, merchant banks from 41,6% to 33,8%, clearing banks from 1% to 0,3%, and institutions from 6,8% to 4,4% ■

ECONOMIC EVOLUTION

NUTS AND BOLTS

FIM 7/9/90

The weakness in the present approach to economics, says British economist and former adviser to Margaret Thatcher, Sir Douglas Hague, is the tendency to look only at the big picture This focus on macro-economics has prevented economists from looking more closely at the micro-structures of economies and the links between them

"They aggregate too much instead of finding patterns within the aggregates So we have very little notion of the structure of things and how they are related and your average UK university undergraduate has little sense of nuts and bolts "

A CBE, Associate Fellow of Templeton

Royal looking for real growth rate

Star 7/9/90 (232)

Diagonal Street

Jabulani Sikhakhane

Following a 38 percent hike in attributable income last year, Royal Corporation is looking for growth above inflation this year from existing businesses.

It will also be pursuing local and off-shore acquisitions.

Royal, previously Lovasz Chemicals, was reconstituted in March 1989 to incorporate the Royal Beech-Nut acquisition after disinvestment by RJR Nabisco.

The group also bought Manhattan Confectioners, together with complementary brands from Kellog's.

Lovasz changed its name to Royal Corporation, and its listing transferred from chemicals and oils to industrial holdings.

Royal now has three major divisions — Royal Beech-Nut (food and confectionery), pharmaceuticals/chemicals (merged operations of Lovasz and Holpro) and Regency, the international division.

Group MD Doug Johnston says the group is looking at separate listings for wholly owned subsidiary Royal Beech-Nut (RBN) and the merged operations of Lovasz and Holpro.

Mr Johnston says RBN, which contributed 63 percent of group attributable profits in financial '90, will list when it makes an acquisition or when the market is right for a listing.

A listing of RBN in the food sector could give it a better market rating. Management believes a P/E ratio of 12 is possible in the short term.

RBN is looking for acquisitions, particularly in the UK confectionery business. With the strong brand names (trademarks are listed at R33 million in the balance sheet) it plans to take offshore, RBN would only need to acquire production capacity.

Exports from RBN's SA operations will form another growth leg. In financial '90 exports wer up 40 percent — from a fairly low base.

Financial director Jacques Fragis is looking for even faster growth in exports.

Reason for optimism on the export front is that after the break-up of the RJR Nabsco empire two years ago, RBN can now trade in previously restricted markets

RBN has established markets in the Middle East, the Far East and Europe where it is registering further trademarks to take advantage of new opportunities in Eastern Europe.

Africa represents a major growth area, says Mr Fragis, but lack of foreign currency for non-essential imports is curbing trade.

On the chemicals side, management believes the intergration of the Lovasz and Holpro businesses in March this year has led to improvements in operating efficiency and cost-savings.

Despite difficult conditions, Mr Johnston says the medium-to-long-term outlook is good.

However, the proposed listing of the merged operations has been delayed because of disputes with the sellers of Holpro.

The outcome of the disputes could lead to a material reduction in the purchase price.

Royal's international trading division started three years ago as a strategic purchase-type operation with offices in London, Hamburg and Atlanta, Georgia. But trading is fast becoming an important component of Regency.

Since Royal's first published results (1988), turnover (boosted by acquisitions) increased from R45 million in 1988 to R171 million in 1990 — a compound growth of 95 percent.

Operating income showed a compound growth rate of 113 percent over the same period from R3,9 million to R17,7 million.

Royal has a fairly low tax rate (11,5 percent in financial 1990), which is expected to apply in the foreseeable future because of assessed losses and the capital expenditure programme (R9 million this year)

JSE tightens rules for brokers in futures deals

BD 7/9/90

ROBERT GENTLE

THE JSE has tightened up on the way brokers may deal in futures and has reiterated earlier warnings on the need for all options on futures to be registered with the SA Futures Exchange (Safex).

The move comes just three weeks after the demise and subsequent provisional liquidation of non-JSE futures broking firm Davis Ralph Sadleir (DRS) after it defaulted on an exposure of more than R1m

Market sources, including two JSE brokers, said a circular was issued on Monday instructing JSE broking staff dealing in futures to pay margin — about 10% of contract value — on the day a contract was entered into

It is understood that previously payment could be settled within 24 hours

A second circular apparently reminded JSE brokers of the importance of registering all options on futures with Safex

The JSE would not comment on the measures, saying they were an "internal matter"

The result is that JSE broking staff wanting to take short-term speculative positions — for example, to enter a futures contract in the morning and close it out before close of trade — will now have to pay margin up front.

A futures trader said there were such "punters", inside and outside the JSE, who played the futures markets without ever putting up full margin.

He likened it to the common practice of buying and selling gilts or shares within the so-called account period — before the day settlement has to be made

The JSE reminder to register options on futures with Safex stems from options being over-the-counter instruments with full counter-party risk.

Registration affords some degree of protection, although this will be complete only in about July 1991 when such options should be fully regulated by Safex

Meanwhile buyers must beware, as illustrated in the DRS default, where DRS clients who had options on futures were unable to look to Safex to guarantee contract performance

The JSE was not immediately able to comment yesterday on whether its guarantee fund was sufficient to cover liabilities that might arise as a result of a default of one or more of its members

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Paid out

The fund stands at R46m, compared with about R40m last year when JSE brokers were virtually absent from futures Today, they account for about 25% to 30% of turnover JSE brokers accounted for 27,4 of the 107 00 contracts, worth R3,2bn, traded in August

Meanwhile, market talk suggests that the DRS default has had a dampening effect on futures trade

Former DRS clients, who had open futures positions, are still waiting to be paid out Some said DRS clearer CIB Clearing, had said they would be paid only the initial margin and not any additional margin they might have had at DRS.

Jack Crook of Syfrets, the DRS liquidator, said in a letter to all known creditors this week that it was not possible for him to comment on the likelihood of clients and other creditors receiving "any form of repayment" with regard to their claims

BUSINESS PERSONALITY OF THE WEEK

Building empire from scratch

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w/ CArgus 8/9/90

By JOHN VILJOEN
Staff Reporter

MULTI-millionaire founder of the Pepkor Group, Renier van Rooyen, believes a single-minded determination, coupled with family enterprise, is the key to business success

Renier, who now lives in Estoril, Portugal, returned to Upington, "where it all began" for recent celebrations marking the 25th anniversary of retail giant Pep Stores

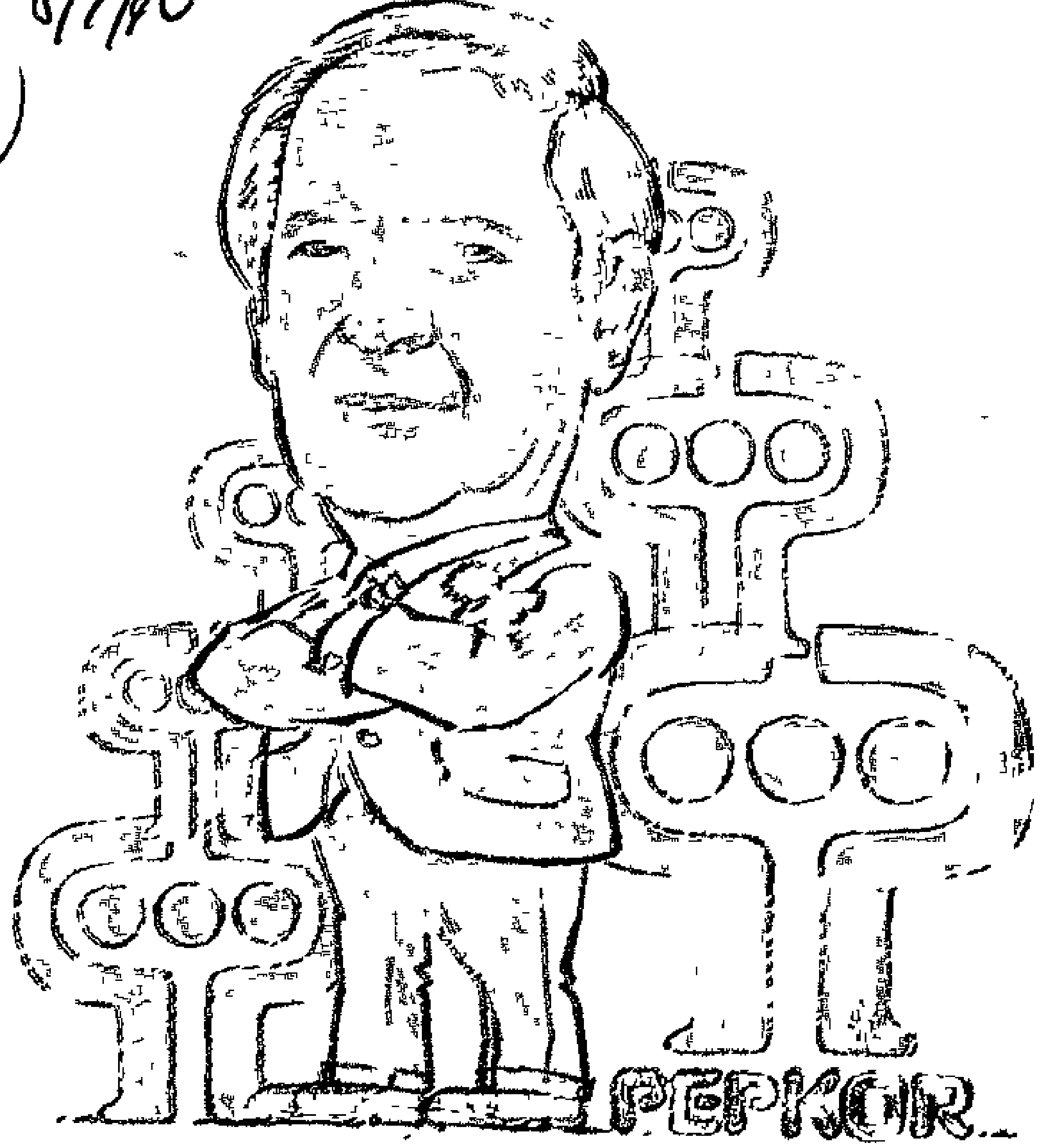
Starting with one tiny general store, he created an empire that today spans 1 000 outlets, before retiring as chairman in March 1981, handing the reigns to long-standing friend Christo Wiese

"My *wenresep* (recipe for success) is quite straight forward," said the amiable success-story "You must select a market, know the product you are selling and you must believe in what you are doing Then you must be prepared to be single-minded, and to work day and night

"You must eat, sleep and drink your business"

Renier was born on November 28 1931 in Kenhardt in the North West Cape

After matricuating in 1950, he joined the Upington office of the Receiver of Revenue



Renier van Rooyen . . .single-minded determination.

Dissapointed with the poor wages he left to join Associated Tungsten Mines also in Upington as a buyer and recruiting officer, beginning the development of his retailing acumen

Six months later he was appointed a messenger of the court, and simultaneously opened his first commercial venture — an accounting and agency services business — with R1 000 he borrowed

Through this business, Renier gained valuable experience in sales and auctioneering, while as a messenger of the court he came into daily contact with the hardships arising from hire purchase and other instalment payment methods

"It occurred to me that if I could sell essential goods for cash at lower prices, I could make a profit while saving consumers unnecessary debt," he said

In 1955 Renier bought a half-share of a small general dealer in Bridge Street, Upington The 100m² store stocked second-hand furniture, iron pots, donkey carts, bicycles, groceries, patent medicines and some low-priced clothing

When, in 1956, it became a paying proposition, Renier bought out his partner for R2 200 and decided to specialise in clothing

"I thought I saw a clothing opportunity in the *platteland* and changed my merchandise I experimented in clothing and that became the forerunner of what is now Pep Stores"

Renier established the Bargain Shop in February 1957, with the aim of selling clothing profitably, but at prices lower than those offered by any other store

In 1959, he formed a second company, Upington Volkslere, to deal exclusively in clothing at discount prices The two were merged in 1960 and renamed Bargain Store

This proved an immediate success, and at this time Renier's sister Baba and his brother Gert joined the venture, Progress was rapid and branches were opened in Kuruman, De Aar and Beaufort West

By the beginning of 1965, the business comprised a lively group of four stores trading as BG Bazaars

Renier was now ready to launch a chain store enterprise incorporating existing family businesses, but with expansion assisted by people prepared to invest capital and to work for the group

Pep Stores (Pty) was registered, based on the proven for-

See page 3

Reflecting on an empire

w/ CArgus 8/9/90

From page 1

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mula of the original shop, and backed by Renier's intensive personal experience of the ~~previous 10~~ years.

"Unfortunately, some of the men with the biggest mouths got cold feet, and some of the big money talkers were without substance My family's commitment to the idea was, however, complete"

During the six months to February 1966, the company lost R8 976 but from that day on profits have been made every year

On a single day in 1971, Pep opened a staggering nine shops By the end of that year the total number of stores increased to 115 and turnover to R12,6 million

Disaster struck when a Pep warehouse was razed by fire, resulting in financial loss of more than R1 million

On June 7 1972, Pep Stores became a public company through the listing of 350 000 shares on the JSE An intensive expansion drive and major acquisitions followed — first the Half Price chain of 88 shops; in May 1979 the Shoprite chain, in March 1984 the Ackermans chain, and in June 1990 Grand Supermarkets, adding a further 27 outlets to the Shoprite chain

Renier's decision to emigrate in 1981 made front-page news and was linked to prevailing economic pessimism "It was a totally personal decision — I love to travel and I had to legalise my position so that I could have an income overseas

Remove the pressure

"I also left to remove the pressure of people trying to draw me back into business It had nothing to do with economic circumstances here at the time, and I had no intention of doing business overseas

"I just wanted to be able to relax, to feel free and not bound by any restrictions

"I have set up home in Estoril — it has a perfect climate, and the Portuguese are nice responsive, warm people I plan to live there for six months of each year, and to travel. But I've not turned my back on this country I will always be South African — I'm at my happiest when I'm in the *platteland*"

Renier, who holds 11 directorships, is optimistic about the country's economic prospects "I like what I see I have no fear for a black government, as long as it is truly capitalistic I have confidence in the African people that we will find each other"

Solid ground for Concor

S/Times 9/9/90

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CONCOR was the pick of the bunch in this week's results. On an 18% climb in turnover, pre-tax income jumped by 166% to R15,3-million for the year to June.

Earnings a share almost doubled to 46,4c and the dividend was lifted by 6c to 10c. The directors say the second half was better than forecast because of the "favourable finalisation of certain large contracts and strong performance from all the divisions" They foresee a difficult trading year, but are confident of maintaining earnings

By JULIE WALKER

Fraser Alexander also shone In the year to June the mining and materials handling specialist made 24% more profit from a rise in turnover of 22% to R215-million Earnings a share rose to 165,5c and the dividend was lifted 21% to 46c.

Management regards the performance as satisfactory, given the tough conditions It reports a sharp drop in activity in some divisions and expects the current year to be more difficult than any of the past five

But the directors hope to weather the downturn without a large impact on earnings, services or commitment to staff The share price is steady at 1 225c

Squeezed

Suppliers' cost increases of well above the inflation rate squeezed margins at Gypsum in the year to June Sales growth of 13% to R166-million resulted in a 15% rise in earnings to 187c a share, and the dividend was raised 18% to 60c.

Crown Food suffered a large decline in profitability. Sold by Murray & Roberts in 1987 and billed a high-quality listing, Crown's performance has hardly been a royal one

In the year to June its earnings fell by 39% to 7,6c a share from a small reduction in turnover.

The directors say trading will continue to be difficult, but expect an improvement in earnings.

Companies reporting interim figures were a mixed bag Top of the pile was clothing retailer Bergers In the six months to June it boosted attributable income by 38% to R2-million from the same incremental climb in turnover to R42,6-million

Four months of trading by the Hilton Weiner company are included for the first time, and shoes have made a successful debut.

The group has opened a shop in Blantyre in partnership with a Malawian company.

Pennypinchers' pre-tax earnings climbed by 5% to R3,5-million in the six months to June It raised R10-million in a rights offer in June and aims to bring down gearing further The interest bill grew by more than 70% to R1,7-million — about a third of operating income.

Underpants were down at Meritex, which lost nearly R1-million to June. Domestic sales made modest money, but losses were incurred on exports and the interest bill of R1,6-million was almost double the operating profit

Amgold's interim earnings and dividends to August were predictably 39% lower because of reduced dividend income from its portfolio of gold shares

Postmaster-General sketches out plans

(232)

Star 10/9/90

South Africa's postal and telecommunications systems will not be privatised, according to Postmaster-General Johan de Villiers

Mr de Villiers made the announcement in a television broadcast yesterday in which he sketched out the plans for dividing SAPT into two State-owned companies

Telkom SA is the new name for South Africa's telecommunications system, and the postal system will be known as Sapos

Mr de Villiers said because of the diverse activities of telecommunications and postal operations it was necessary to separate the two undertakings

He said telecommunications were capital-intensive while postal services were labour-intensive

Dividing posts and telecommunications and managing each according to its needs and characteristics would result in greater efficiency, he said

Mr de Villiers said draft legislation had been presented to Parliament, to make provision for the department to be converted into two public companies.

"According to this proposed legislation, the State cannot sell shares in the companies. There is thus no question of privatisation"

Mr de Villiers said boards of directors for the two companies would be appointed before the forming of the companies

He said that before the companies were founded, regulations would be issued which made provision for the forming of a collective-bargaining forum for each of the companies.

The company and the recognised staff associations and trade unions would have equal representation on the bargaining forum, Mr de Villiers said.

He gave the assurance that all staff benefits were protected in the draft legislation

Service conditions would not be less favourable than the present ones, and no staff member would be retrenched as a direct result of restructuring. — Sapa

Giant new retailing group in the offing

Star 10/9/90 (232)

By Ann Crotty

Tradehold (the holding company of Tradegro) and Pepgro have issued separate cautionary announcements to shareholders warning that negotiations are in progress which may affect the value of the shares

Although neither cautionary makes reference to the other, their coincident publication seems to confirm speculation that the two retailing groups are currently investigating the possibility of a merger

Merger speculation is fuelled by the fact that Sanlam has an 18 percent stake in Pepgro, which no doubt would be used to boost the value of what Sankorp brings to the party

A tie-up between Pepgro and Tradehold would create a giant retailing operation with an annual turnover of around R9 billion and operating profit in the region of R300 million

The bulk of the turnover comes from Tradehold, but the contribution to profit is much more evenly split

For the 12 months to end-June, Tradehold, which has a 54,6 percent stake in Tradegro, reported turnover of R7,3 billion and operating profit of R155 million

Pepgro, which has a 58,2 percent holding in Pepkor, reported turnover of R1,5 billion and operating profit of R134 million for the 12 months to end-February

The acquisition of Grand Bazaars (via Shoprite) will lift turnover to around R2 billion

In the absence of comment from either Sankorp or Pepgro, speculation is that the plan may involve the merger of the two groups into one company, which would hold the operations of Tradegro and Pepkor

Given the general antipathy to pyramids, it is likely that instead of creating another company to hold Tradehold and Pepgro, the latter would be merged into the former, with Tradehold shares being issued in exchange for Pepgro shares

Pegro chairman Christo Wiese and the other controlling shareholders of Pepgro would presumably convert their shares in Pepgro to a stake in an enlarged Tradehold

And Sankorp, which currently holds 68 percent of Tradehold, would then have a smaller percentage of the larger company

A deal of this nature means that cash payments by one controlling party to another would not be involved

This means that minority shareholders in Pepgro would be offered shares in Tradehold, which may or may not be underpinned by a cash offer

Because of the disparity between the profit performance of the two groups, which is reflected in a much higher market valuation for Pepgro, it is likely that the deal would be done on the basis of net asset value and not share price

Tradehold is currently trading at 70c, which is a P/E rating of nine times and a dividend yield of 7,1 percent (for June figures)

Pepgro is trading at R23,50, which reflects a P/E of 7,5 times and a dividend yield of 3,7 percent (for February figures)

But Pepgro's share price represents a massive premium on its net asset value of around 500c a share

By contrast, Tradehold's share price is at a discount to its net asset value of around 185c - share

At this stage, establishing the size of the merged entity in terms of shareholders' funds (and the percentage the two main players would have) is complicated by the existence in both companies of debentures and convertible instruments.

The potential downside of the deal is the size of what is being created

It may turn out to be an unmanageable monster and if Mr Wiese gets actively involved in trying to manage it, Pepkor might suffer from an inevitable reduction in attention

This fear seems to be based chiefly on the damage that Checkers is believed capable of inflicting — with Metro and other trouble spots in Tradehold regarded as being manageable

Emphasis on decentralisation into viable units seems the only way of avoiding the danger

'SAPT will not be privatised'

232 CM Times 10/9/90

PRETORIA — SA's Postal and Telecommunications (SAPT) systems will not be privatised, according to the Postmaster General Johan de Villiers

De Villiers made the announcement in a SABC television broadcast yesterday in which he sketched the plans for dividing SAPT into two state-owned companies

Telkom SA is the new name for SA's telecommunications system, and the postal system will be known as Sapos

De Villiers said owing to the diverse activities of telecommunications and postal operations it was necessary to separate the two undertakings

He said telecommunications were capital-intensive while postal services were labour-intensive Dividing posts and telecommunications and by managing each according to its own particular needs and characteristics, would result in greater efficiency

De Villiers said draft legislation had been presented to Parliament to make provision for the department to be converted into two public companies The state would own the companies

"According to this proposed legislation the state cannot sell shares in the companies There is thus no question of privatisation"

De Villiers said boards of directors for the two companies would be appointed before the forming of the companies

One of the board members would be appointed MD of the company concerned and would act as chairman of that company's management board

He said before the companies were founded, regulations would be issued which made provision for the forming of a collective bargaining forum for each of the companies

The company and the recognised staff associations and trade unions would have equal representation on the bargaining forum, he said

The forum would have an independent chairman The management board of each company, with permission of the board of directors, could change conditions of service

Salaries and wages, fringe benefits, allowances, leave and pension, could not, however, be changed without a process of collective bargaining

De Villiers gave the assurance that all staff benefits were protected in the draft legislation Service conditions would not be less favourable than the present ones

No staff member would be retrenched as a direct result of restructuring, he said — Sapa

JSE, banks differ on gilts clearing

BDay 11/9/90

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GRETA STEYN

THE JSE is pushing hard to convince Registrar of Financial Institutions Piet Badenhorst that the entire gilts market should use the JSE's Gilts Clearing House (GCH) — in the face of strong resistance by the banks.

Bankers were shocked to learn Badenhorst could decide to go against the recommendation by the Financial Markets Advisory Board to ditch the JSE's system The market had initially assumed that the implementation of the board's decision was a mere formality

Regulation

But Badenhorst, who recently held two meetings with representatives of the banks and the JSE, said yesterday "It will be a tough decision based on what is in the best interests of the market " He could not indicate when finality would be reached.

At the centre of the issue is the formalisation of the gilts exchange — the Bond Market Association (BMA) — which cannot take place until a clearing system is in place The banks maintain the GCH is an inadequate system and the regulation of the exchange should wait until a proper system is in place

But JSE GM Darrell Till said "The JSE is not promoting the GCH as such What we want to see is a regulated market and that cannot occur until a clearing system is in place. The postponement of the formalisation of the BMA until a new system has been developed could mean another year or more of an informal gilts market "

As a gesture to the banks, the JSE has dropped the clearing price per transaction for non-JSE members to R12 from an initial R20. However, JSE members would continue to pay R25 if the GCH is used — a plan which has triggered unhappiness among some brokers

Till said. "We do not like keeping the playing fields unlevel but because we are keen to see a formal market, we are prepared to lower the cost of clearing to draw the other players "

He added that the JSE would not allow non-JSE members to deal on the gilts floor until the market was regulated

But the banks said the status quo had worked fine for years, and waiting a little longer until a more acceptable clearing system had been developed would do no harm The lowering of clearing costs had not convinced them to fall in with the JSE's plans as they believed the GCH was fundamentally inadequate. The feeling among dealers at banks, who did not want to be quoted, was that the JSE's main interest was revenue and not the market

Capital market rates drift higher as investors keep to the sidelines

ANDREW GILL

CAPITAL market rates have drifted higher recently with inflationary and political fears keeping big investors out of the market.

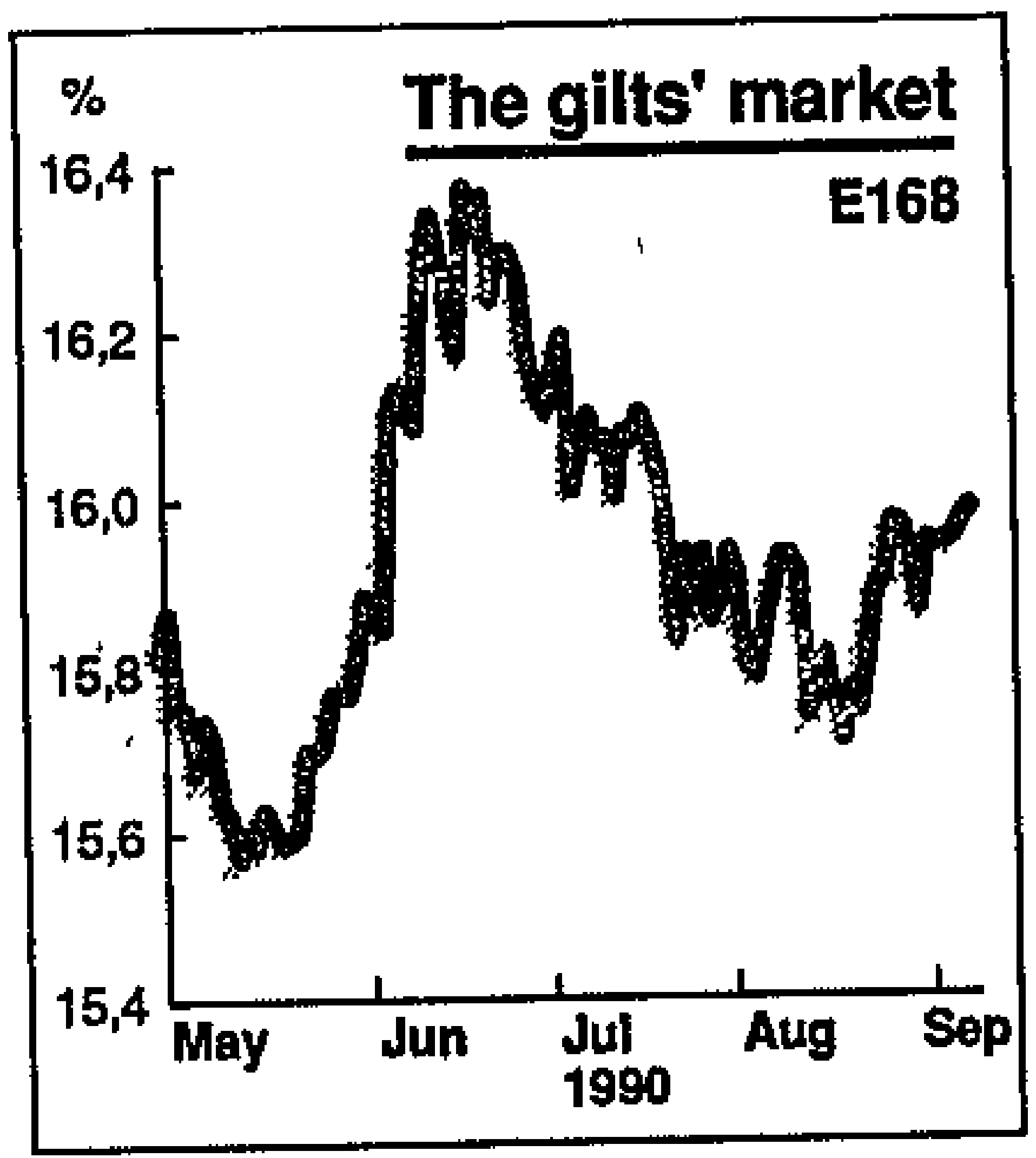
(232)

The key Eskom 168 rose above 16% for the first time since mid-July yesterday amid continued low volumes It has slipped 25 points since its August 22 level of 15,74% to yesterday's 15,99% close.

Volume last Friday totalled R324m, well down on volumes in excess of R1bn in early August

BDay 11/9/90

Analysts say one of the problems is a lack of clarity over inflation, which they say is set to lose its downward momentum as a result of the fuel price increase



Graphic: FIONA KRISCH

Market fears that another fuel price hike is on the cards is also depressing market fundamentals.

Gold's lacklustre performance over the past few weeks has been another factor stunting bullishness and dealers say little trust is put in a surging gold price because of the dramatic declines that have followed the jumps.

"The longer-term fundamentals are still good," a senior trader says, "but the market is caught between the possibility of a Bank rate cut and the inflationary implications of the petrol price rise"

The violence in the townships has also depressed sentiment as fears of a breakdown in the peace initiative and flagging foreign interest escalate.

Sentiment has been somewhat more bearish on government stock than on the E168. The differential between government's similar-dated long stock and the E168 widened to more than 51 points last week amid speculation that government would come to the market for an even larger amount than the R1,2bn indicated earlier this month.

However, a Finance spokesman said it was not yet certain the full R1,2bn increase in the financing requirement would be borrowed in the gilts market. Government was hoping for income from privatisation and its pension funds, the Public Investment Commissioner, could also provide additional finance

Desert warrior . . . a United States Army 24th Infantry M-1 tank drives past a herd of camels during a daily exercise in the Saudi desert last week The R3,75 million tank can cut through the sand at 50 km an hour, but proceeded slowly past the camels.
● Picture by Reuter.

Spareco has deals for R4-m, court told

Star 12/9/90

(232)

By Cathy Stagg

An urgent application launched by brake manufacturers Ferodo (Pty) Ltd for the provisional winding-up of Spareco Holdings Ltd was postponed until tomorrow after Mr Justice M M Joffe heard argument in the Rand Supreme Court

Yesterday the judge heard that Spareco was still supplying the Johannesburg City Council and Sasol, with whom it has contracts worth about R2 million each

The application for provisional liquidation follows three applications on September 4 by three banks, which each had notarial bonds Bankorp Ltd, (formely Trust Bank), First National Bank and Alpha Bank were allowed to send agents into Spareco's 24 outlets and hold all movable assets

Ferodo regional general manger M A Areington said Spareco owed Ferodo R37 469 for goods and that until the amount was paid, the goods belonged to Ferodo

Five other companies in a similar position supported Ferodo's application They are Payen Components, who are owed R97 743, Harpo Gaskets R79 119, A E Engine Parts R49 183, Auto Parts Marketing R40 264, and Vel-tol-Parks R137 397

I Zar, SC, for the applicants, said they had been told there was "only limited trading" at the branches which the banks had locked but it was not known how much of the R4 million contracts were being fulfilled

D Fine, SC, replied that if the applicants could prove from invoices that it was their goods which had raised the money being put in a special bank account, they could bring an action for damages

The judge postponed the matter until tomorrow Costs were reserved

Rules on mergers, takeovers gazetted

B Day 12/9/90

(232)

ROBERT GENTLE

SA yesterday moved a step closer to major financial markets abroad with the gazetting of draft rules which will eventually govern takeovers and mergers

The regulations were drafted in terms of the Securities Regulation Code on Takeovers and Mergers, which emanated from the Securities Regulation Panel chaired by Mr Justice Cecil Margo

The code is described in the Government Gazette as "based to a large extent" on the code on takeovers and mergers issued by the London panel on the subject

To date, the lack of such rules and the ambiguity about what constitutes control have resulted in predator companies being able to acquire sizeable share stakes in target companies without having to make an offer to minorities

In markets such as the UK, a predator company must, under established rules, launch a full bid for a target company once its share stake exceeds 29,9%

The draft rules will operate "principally to ensure fair and equal treatment" of all holders of relevant securities involved in a takeover or merger and lay down under what conditions a offer must be made

A level of 30% or more of the voting rights of a target company will constitute control as defined in the gazette.

Accordingly, when any person ends up with 30% or more of the company's voting rights — whether by a series of transactions or otherwise — he must, unless the panel rules otherwise, extend offers to "any class" of equity capital holder, voting or non-voting

Offers will be "for the same consideration or be accompanied by a cash alternative at not less than the highest price paid by the offerer or any person acting in concert with it for securities of that class within the preceding 12 months"

The board of the target company must not take any action that might frustrate holders of the securities or deny them the chance to judge the offer on its merits

Recently, Anglo associate Minorco accused the board of UK mining group Consolidated Gold Fields of doing just that during the failed 1989 takeover battle

On the key issue of secrecy — and by implication insider dealing — all persons concerned in an offer or contemplated offer shall "conduct themselves so as to minimise the chances of an accidental leak of information"

The rules are now open for comment and will be submitted to the Ministry of Trade and Industry for approval

Regulatory code for timeshare salesmen

(232) **MARIETTE DU PLESSIS**

THE SA Property Owners' Association (Sapoa) had adopted measures for better discipline and control within the industry, timeshare division chairman Brian Stocks said

Certain regulatory measures, such as the recent introduction of the diploma in timeshare sales principles, were deemed essential to upgrade the standard of expertise and professionalism of timeshare salesmen

In addition to the diploma — which would qualify salesmen to sell timeshare on behalf of any member of the timeshare division — salesmen employed by members of the division were required to register with the association. B Day 12/9/90

Salesmen operating as agents or brokers and employees of organisations who develop and sell their own timeshare must have passed either the Estate Agents Board examination, or the association's examination to qualify for registration

"In future, members of the public who are interested in buying timeshare will be able to insist on dealing only with salespeople who are specifically qualified to sell timeshare," Stocks said

The diploma, of which the first examination had already taken place, was developed by the association in conjunction with Wits University's Department of Building and the Human Sciences Research Council, he said

Commenting on the latest Sapoa rulings, Riviera project developer Rodney Epstein said "The stage has now been reached where, if an organisation is not affiliated to the association, buyers will want to know why"

The association's timesharing members were carefully vetted for both financial strength and standards — and if an organisation could not meet their demands it was likely to be suspect

The association would print brochures and run television and Press adverts stressing the advantages of a timeshare developer being an association member

These notices would also summarise the association's code of ethics and warn timeshare buyers of loopholes they should beware of before signing for a purchase, Epstein said

Application for Spareco liquidation

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BDay 27/12/90

TIM COHEN

AN URGENT application for the liquidation of Spareco Holdings Limited, brought in the Rand Supreme Court yesterday, will be heard tomorrow unless a solution to the company's financial crisis is found.

Ferodo Pty Ltd yesterday applied to have the company wound up immediately, but after hearing argument Mr Justice M Joffe decided that the application would be heard tomorrow.

Advocate Dennis Fine SC for Spareco asked for the postponement because he said company representatives were negotiating the injection of R10m in share capital into the company to satisfy creditors.

In an affidavit placed before the court yesterday, Ferodo's regional GM Milford Areington said that an amount of over R450 000, owed to his and other companies, was overdue for payment.

Alpha Bank Ltd, First National Bank of SA Ltd and Bankorp Ltd were authorised last week to hold all Spareco's moveable assets after alleging that Spareco owed the banks a total of over R40m.

Since this court order was granted, Spareco's 24 branches were to have remained locked and ~~not have~~ been open for trading.

But Areington said he had been advised that by special agreement the company had continued to supply goods to the Johannesburg City Council and Sasol

Advocate Manny Zar, acting for Ferodo, argued that the capital gained from the sale of Ferodo's products would form part of Spareco's assets on liquidation, and that Ferodo would only be a concurrent creditor in respect of this capital.

Police probe Arontex share transactions

232

ACHMED KARIEM

BDay 12/7/90

THE inquiry into certain share transactions in liquidated clothing company Arontex, before its suspension on the JSE in March has been referred to the police commercial branch, Registrar of Companies Mossie van Rensburg said yesterday

JSE equity market GM Richard Connellan refused to comment yesterday

More than 1,2-million Arontex shares changed hands during the last week of trade before its suspension on March 21, after its provisional liquidation in the Maritzburg Supreme Court the previous day This compared with a previous monthly volume of 140 000 shares

Meanwhile, an investigation into the affairs of Arontex in terms of the Companies' Act should be completed in November, Ernst & Young liquidator Lloyd Spendiff said yesterday

Although he declined to give details, he said all assets were sold in July by public auction Spendiff said Lara's, flagship of the group, was sold to a nominee company

A Business Day investigation of the share transactions showed that Jorin Ryckebusch, one of the company's directors, sold 800 000 shares, and Yvonne Roessel (not a director) sold 380 000 shares to Kayemess Nominees The Kaymess deal, which took place after March 15, resulted in it increasing its holding from 0,2% to more than 10% On March 15 the share price dropped from 13c to 4c, after a high of 40c last June

Arontex Holdings and subsidiaries Lara's, Supergear, Personality and Roots were liquidated The court put major operating company Lara's liabilities at R18,6m and realisable assets at R4m

FIM 14/9/90

term funds borrowed from other central banks and used to ease the burden of mid-year debt repayments ■

CONFIDENCE INDICES

HOLDING UP

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FIM 14/9/90

With the Middle East crisis, fears of slower world economic growth, increased township violence and a slowing economy, the business confidence index (BCI) is holding up remarkably well The index, compiled by the SA Chamber of Business, fell to 91,8 in August, down only slightly from 92 in July

Still, there were a number of strongly negative notes among the indicators, including an increase in number of unemployed of all races, fewer new companies registered and falls in manufacturing production, exports and new car sales

These were largely offset by a rise in the dollar gold price, a slightly stronger rand and

FIM 14/9/90 232

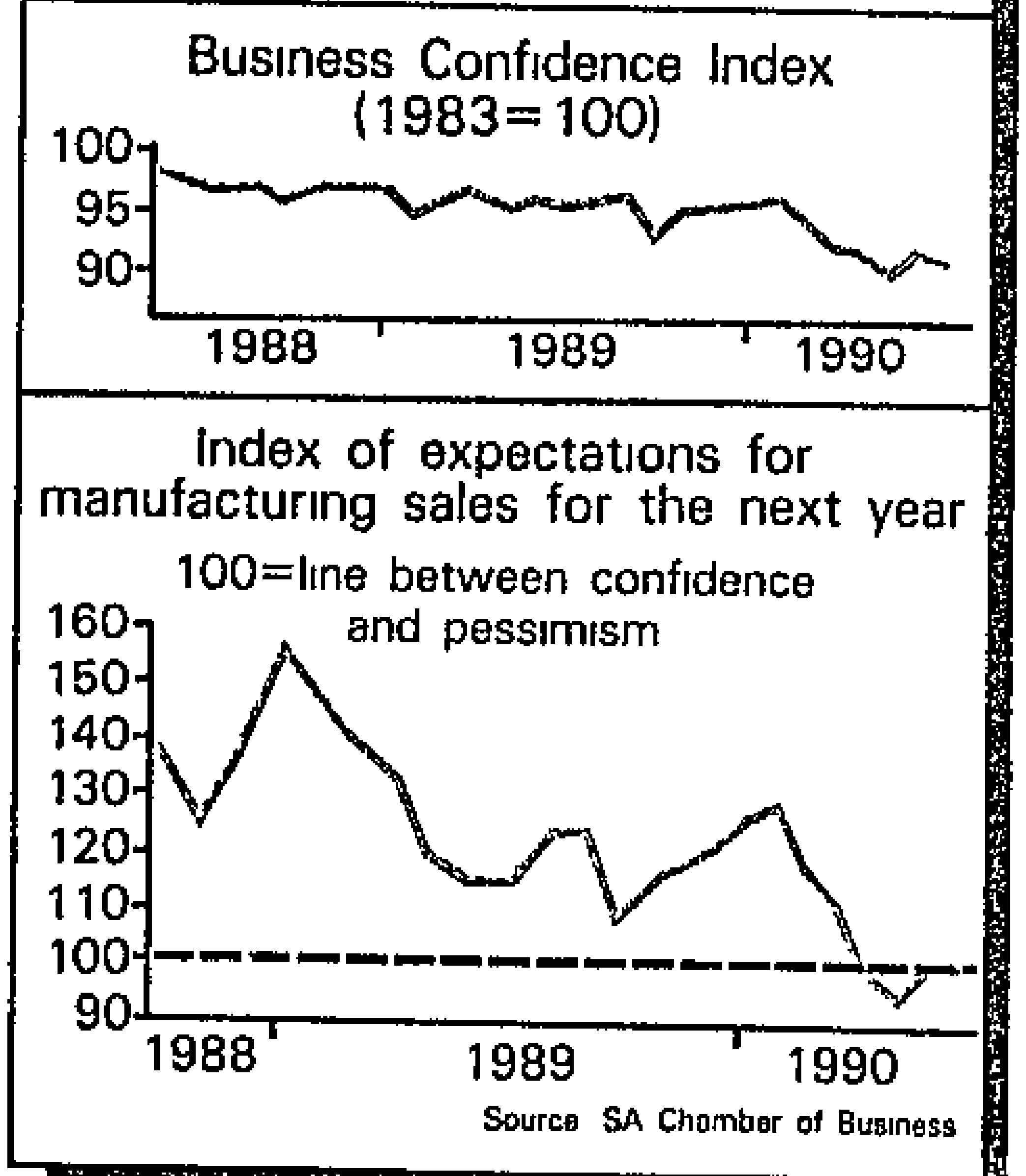
overall JSE index, a decline in consumer price inflation, and increases in retail sales, the real value of building plans passed and merchandise imports

Chamber economist Keith Lockwood says hopes are being buoyed by the continued easing in inflation, as well as the prospect of imminent cuts in interest rates, but adds that the unresolved Gulf crisis and continued SA political violence could lead to sharper declines in business confidence

Confidence in the manufacturing sector also remains uncertain According to the chamber's August survey, most manufacturers expect a decline in production volumes in the next 12 months, while sales are expected to remain static (see graph) Businessmen are taking a wait-and-see attitude

Sentiment varies among the regions Respondents in Durban and Cape Town were fairly optimistic, possibly because of a concentration of consumer goods industries in these areas Meanwhile, Port Elizabeth manufacturers were sharply more pessimistic, in part due to last month's riots, as well as prospects of lower sales and continued labour unrest in the motor industry ■

Undecided



Source SA Chamber of Business

232

FIM 14/9/90

Star 14/8/90

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Comments called for on draft takeover code

By Des Parker

The Securities Regulation Panel's draft code on company takeovers and mergers, published in the Government Gazette, is expected to attract a considerable response from the major share-owning institutions and stockbrokers in the month allowed for comments

The panel is chaired by Mr Justice Cecil Margo and has 12 members drawn from the ranks of merchant bankers, organised commerce and industry, insurers, brokers, accountants, lawyers and the public service.

It will consider proposals and submit them with the draft law to Deputy Trade and Industries Minister Theo Alant in the second week of October

Mossie van Rensburg, Registrar of Companies and member of the panel, said there was considerable urgency behind legislation of the code and rules, and he hoped the Government would be able to gazette them by December

The code, which has put players involved in securities deals on their guard in recent months, is based extensively on the City Code on Takeovers and Mergers used by the London Panel on Takeovers and Mergers

While it has been widely welcomed as being in the best interests of small and minority shareholders, there has been criticism.

University of Cape Twon School of Business Economics director Brian Kantor said at a recent seminar that outlawing insider trading interfered with the relationship between controlling and minority shareholders and was thus harmful to the economy.

The international trend towards greater protection for minorities was politically motivated.

However, he believed controlling shareholders were invaluable in disciplining managers and were, therefore, vital to the economy.

PLAY ROLE

"It is important that they play that role and that we don't interfere with the rewards for playing that role," he said "Insider trading may be one of those rewards

"If insiders are trading you can be quite sure the price is the right price. All information should be in the market"

An explanatory note with the draft code says "It is not the function of the panel to judge the commercial advantages and disadvantages of affected securities

"These are matters for the holders of the relevant securities in the offeree company."

While the panel will not concern itself with "competition policy", it will take note of relevant rulings of the Competition Board.

SPARECO F/M 14/9/90

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STILL TALKING

As the *FM* went to press, negotiations aimed at rescuing spares group Spareco from liquidators were still in progress

At least three parties were then involved in talks with banks which had earlier been granted authority by the Rand Supreme

F/M 14/9/90

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Court to hold the group's stocks for the purpose of "protecting its security in terms of a notarial bond "

Should these negotiations fail to reach fruition, Les Cohen of West Trust apparently was waiting to step in as liquidator of Spareco Another application for liquidation was brought by smaller creditors on Tuesday but judgment was postponed to Thursday, pending the outcome of negotiations

Spareco MD Graham Walker told the *FM* he was anxious for the banks' negotiations to succeed because he "wanted to open Spareco's doors for business on Wednesday morning " One concern is the banks have placed agents at the group's 24 retail branches, "so that possession of the company's movable assets could be handed over "

Market sources believe Midas, another spares group, was the most likely candidate to strike a deal with the banks Midas director Sarel de Vos indicated a Spareco takeover could make sense at the right price but he would not comment further.

Speculation on possible takeovers was rife earlier in the week and many potential candidates were cited Alan Schlesinger, MD of the FSI Corp subsidiary, Teamcor, says his group had told the banks of a price at which they would be willing to negotiate but he regarded the prospect of an agreement as "close to zero," as others had apparently pitched offers at far higher prices An unnamed foreign investor is also said to be involved

Murray & Roberts subsidiary TMS has also been mooted, but financial director Lionel Bird denies it is interested in acquiring Spareco Similarly, Sankorp MD Marinus Daling denies any interest on the part of Federale Volksbeleggings The response was the same from Imperial Group.

Analysts believe many of Spareco's problems stemmed from a clash between chairman Chris Sladden and former MD Errol Wucherpfennig, who was appointed MD in November 1988 and resigned on February 5 this year Wucherpfennig then got involved in S Silver, a spare-parts warehouse operation

The accounts for the six months to end-December — the last to be published — indicated Spareco was heading into difficulties Trading profit fell sharply, EPS was halved and dividend passed. *Gerhard Slabber*

Spareco solution imminent, judge told

(232)

TIM COHEN

B/Day 14/9/90

AN application for the liquidation of Spareco Holdings Ltd was postponed for the second time in the Rand Supreme Court yesterday, this time for 24 hours, to allow the company time to work out a solution to its financial crisis

Lawyers acting for Ferodo (Pty) Ltd and Spareco agreed to the postponement, which was granted by Mr Justice M Joffe

Advocate Manny Zar SC, acting for Ferodo, said yesterday a settlement that could satisfy creditors was imminent.

The application for the winding up of Spareco was brought by Ferodo on Tuesday but Mr Justice Joffe ordered the postponement of the action until yesterday.

The application follows a separate application brought on Tuesday last week by Alpha Bank Ltd, First National Bank of SA Ltd and Bankorp Ltd, which were then authorised to hold all Spareco's moveable assets

Representatives of the three banks presented affidavits in which the banks alleged Spareco owed them more than

☐ To Page 2

Spareco

B/Day 14/9/90

(232)

☐ From Page 1

R40m

Mr Justice Levy granted the three banks authority to hold the company's stock-in-trade for the purpose of perfecting its security established by notarial bond

Zar said this week Spareco ought to be liquidated because capital gained from the sale of Ferodo's goods would form part of the company's assets on liquidation.

In respect of this capital, Ferodo would only be a concurrent creditor, while if the goods were not sold, the company could reclaim them.

Advocate Dennis Fine SC said on Tuesday the postponement ought to be granted because the company was near settlement.

He said even if Ferodo was prejudiced by the sale of its goods, it would have an action for damages against the company.

AVI profits soar to break new records

B'Day 14|9|90 ([redacted]) (232) ([redacted])

BRENT MELVILLE

Anglovaal Industries (AVI), following four years of breathtaking growth, has managed to shrug off a R100m (R44,8m) interest bill to report sustained growth for the year to end-June.

All of the group's five business sectors contributed to the 26% rise in bottom-line earnings to R207,8m (R164,6m), although increased share capital of 28,35-million shares (25-million shares) diluted earnings to a 12% rise at 733c (657c) a share, from which a dividend of 135c (120c) was declared.

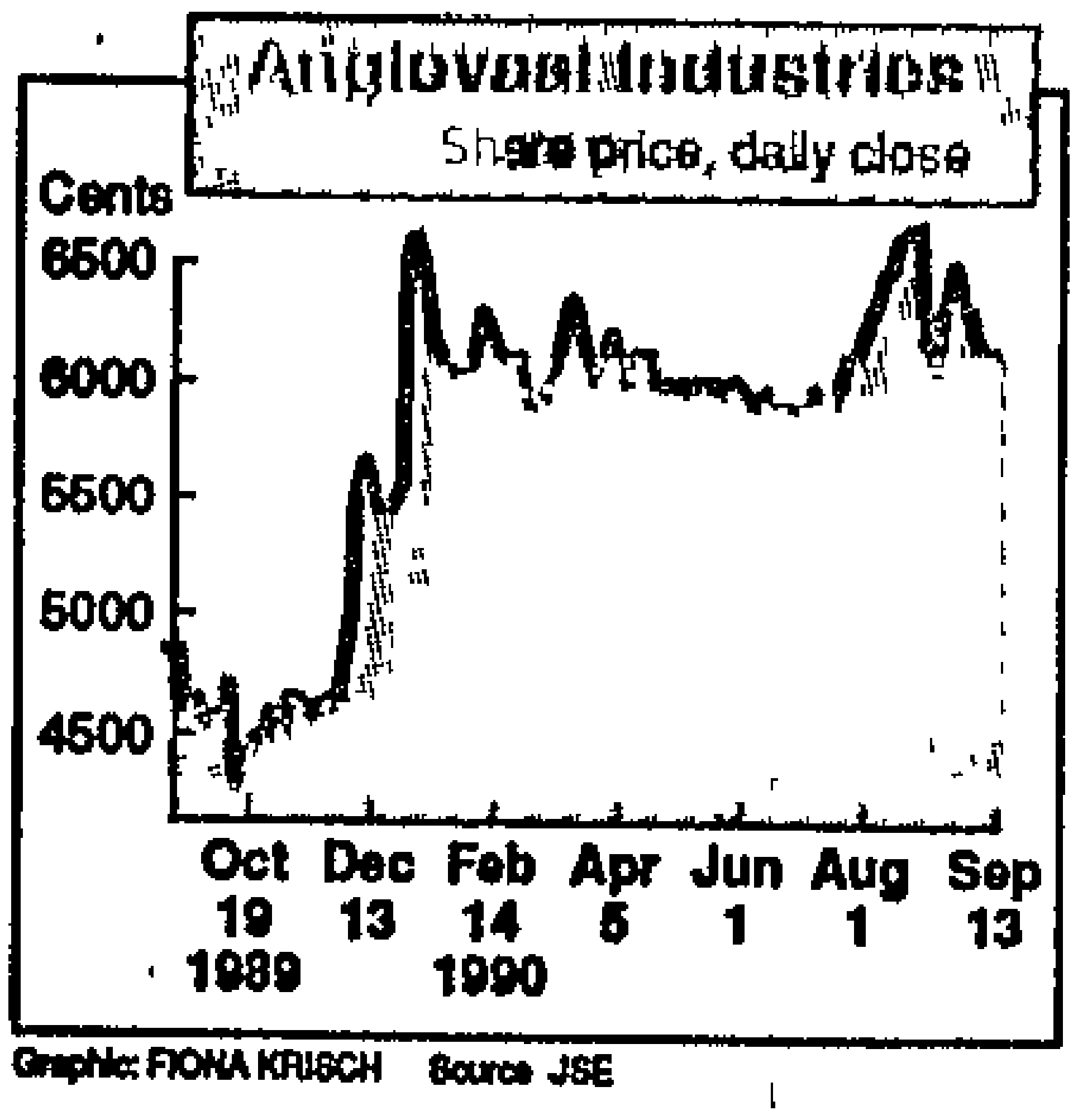
At its current share price of R61,50, off its August 12-month high of R66,50, the results put AVI on a price:earnings ratio of 8,4 times and a dividend yield of 2,2%.

The 42% turnover rise to R6,5bn (R4,6bn) places the group well within the top 10 companies in SA in terms of pure sales.

Pre-tax profit moved up 32% to R631m (R476,9m), with an additional R56,4m (R48,8m) being chipped in from investments.

Chairman Basil Hersov said the adverse business conditions, including high interest rates and reduced consumer spending, curtailed business performance, particularly over the last six months.

In the group's construction and electronics division, Grinaker Holdings put in a strong performance, following the restructuring of its electronics interests into Grintek last July. Hersov said Grintek had performed exceptionally, especially in export sales.



Graphic: FIONA KRISCH Source JSE

Diversified businesses showed growth ahead of the inflation rate, although Hersov said market demand for textile products had declined appreciably in the second half. A mediocre performance in AVI Diversified Holdings was attributed mainly to a poor performance by Claude Neon which lost experienced sales staff who set up an opposition company.

Following the reorganisation of its grocery operations in March, the Dry Food & Beverage division, under the auspices of

☐ To Page 2

AVI profits

14|9|90 (232 ([redacted])

B'Day 14|9|90

☑ From Page 1

National Brands, performed strongly towards year end, Hersov reported

The star performer was Becketts, the tea, coffee, breakfast cereals and soft drink marketer, although fast-food outlet Wimpy also showed good profit growth Pizza Hut sustained a substantial loss National Brand's 16,2% interest in Cadbury Schweppes rose R36,5m to R108,2m.

In the group's packaging and rubber division 55% controlled Consol achieved a 48% rise in earnings At the start of the year Consol combined Tycon (which it acquired last July for R176m) with Tredcor

Hersov described Tycon's first-half profits as "insignificant" because of the 11-week strike, linked to the former American parent's disinvestment He said production was near normal in the second half and performance had improved

Consol increased borrowings dramatically over the period as a result of the Tycon acquisition and the installation of a glass furnace at the Clayville factory, contributing to a group gearing of 31% (30%) on interest bearing debt of R211,6m Long-term borrowings were up to R300,2m (R226,4m).

Capital expenditure for the group to June was R232,2m (R282m), and capex amounting to a further R107,4m authorised During the year the group made a provision of R10m in its investment in associate Control Instruments against its carrying value

Safair request tests deregulation laws

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MANDY JEAN WOODS

SAFMARINE's aviation company Safair has applied to the National Transport Commission (NTC) for non-scheduled passenger and freight flights in competition with SAA on all its domestic and international routes.

Observers say this is the first real test of the new legislation allowing for a deregulated air transport industry.

SAA and Trek Air, both of which operate scheduled international flights, have indicated to the commission they intend opposing the application.

B/Day 14/9/90

Restricts

Safair MD Braam Loots said yesterday Safair held a licence to operate non-scheduled passenger and freight services worldwide except on routes already operated by SAA. The application requests the SAA clause be dropped.

The new Air Services Act allows only for the deregulation of domestic routes; international routes are still governed by the clause which restricts competition on economic grounds.

Meanwhile, Trek Airways has become the first airline formally to apply for a licence to fly scheduled domestic routes in direct competition with SAA.

According to the September 7 issue of the Government Gazette, it has requested a licence to fly scheduled passengers and cargo on four daily return flights between Johannesburg and Cape Town, and Johannesburg and Durban; one daily return flight between Johannesburg and Port Elizabeth, and Johannesburg and East London; two daily return flights between Durban and Cape Town; one daily return flight between Johannesburg and Bloemfontein, and Cape Town and Bloemfontein.

Trek Airways will use Luxembourg-registered 747-SPs on the routes, according to the gazette.

A commission spokesman said both applications were expected to be heard on October 8 at a scheduled meeting of the commission in Pretoria.

In another development, SAA has formally applied to the commission to fly a scheduled route between SA and Madagascar. Landing rights in the former French colony were recently granted to SAA following the signing of a trade agreement between the countries' presidents.

Market takes time out

Star 15/9/90

Inside Out 232

ANN CROTTY

GOLD put up a reasonably good showing, but nothing seemed to be able to stir up market activity.

It looks as though the attention of investors is currently concentrated on local events and not too many people can afford the luxury of keeping a close eye the Middle East.

Fortunately there were a few deals on the go and this seemed to stop Myles from applying for early retirement.

Talk of the Tradehold/Pepgro deal has generated mixed response, but it seems investors reckon any tie-up between the two will do more for Tradehold than for Pepgro.

Myles hears that at this stage it looks as though a merger between the two would leave Christo Wiese's camp with the major stake — and presumably management control.

Mid-week there was a flurry of speculation that a deal had already been done — independent of the Pepgro negotiations — which would take Checkers out of Tradegro.

Myles is adamant that this sort of talk is completely unfounded — there is no separate deal for Checkers. If a deal is done with Pepgro, Checkers will be part of it.

Seems from the initial discussions that the two management teams should get on quite well as the Pepgro team are quite supportive of the actions being taken by Checkers management to turn the monstrosity into a money-spinner.

Checkers' Serge Martinengo says he would be more than happy with a deal with Pepgro.

It's likely to be a couple of weeks before something firm develops. Meanwhile speculation mounts about Mr Wiese chickening out before a deal is finalised. Myles thinks not.

Picbel's Union Wine has moved ahead on speculation that there are negotiations to take over the company.

It seems the other party involved in negotiations is Graham Beck (of coal and racehorse fame).

Myles thinks this may be a first step towards trying to extract wine from coal.

Alternatively, Mr Beck may just be planning an asset strip — selling off the wine farm, Picardi bottle stores and Union Wine facilities.

If a deal is done, it's likely to be struck somewhere between net asset value of 250c and the market price of 80c.

But Myles warns that anyone tempted to buy any of the 10 percent shareholding that's on the market, should be reminded that negotiations could go either way.

Then there's the FSI restructuring Amazingly, Myles could get no gen on this front except that the major institutions seem to be quite happy with the latest scheme. Final details are expected to be announced next week.

The Bankorp share was reasonably heavily traded, closing at a weaker 270c.

Divergence of opinion continues on this front, with almost half the punters indignant about the massive write-offs, the cost to Sanlam policyholders and the lay-off of staff. The other half believes it's a great recovery stock.

While some believe the write-offs should have been closer to R1 billion, others argue that Mr Liebenberg has been so cautious that write-backs are sure to provide good profits over the next few years.

Myles reckons that if the latter is the case, Mr Liebenberg will be sure to highlight it — in line with his more open disclosure policy.

If Bankorp is going to call up all these bad/doubtful debts, it might do more to slow down the economy that even Chris Stals and the Reserve Bank could achieve.

Still no news of the white knight who is going to rescue Spareco... but any day now.

Institutional investors are apparently very disenchanted with Marlin; understandably, as this share was seriously punted a year or so ago.

Frantic bid to save ailing Spareco

(232)

MARCIA KLEIN

FRANTIC negotiations took place over the weekend in an attempt to save ailing motor spares distributor Spareco before tomorrow's hearing in the Rand Supreme Court.

An urgent application for Spareco's liquidation was postponed for the third time — until tomorrow — at a hearing in the Rand Supreme Court on Friday.

Ferodo — which brought an application for the winding up of Spareco last Tuesday — was supported in attached affidavits by two other creditors, owed R510 000 between them.

This followed a successful application last week in which three banks were authorised to hold Spareco's movable assets, and the company's subsequent suspension from the JSE

An undertaking for postponement was noted by Mr Justice Joffe after Advocate Dennis Fine SC argued for the banks that protracted negotiations were under way.

An offer had been acceptable to three of the banks However, a counter offer was made by Bankorp.

Advocate Manny Zar SC, acting for Ferodo, argued creditors were trying to postpone to gain advantage, and were unwilling to divulge the details of the compromise under negotiation The offer is believed to have been made by a "German businessman" in Singapore, but the terms of the offer were not disclosed.

Zar argued the banks had perfected their security, and the offer was aimed at the concurrent creditors. He added the offer of compromise could be made during liquidation

B Day 14/9/92

Clearing house ultimatum

GREETA STEYN

B/Day 17/9/90

PROMINENT players in the gilts market have told the Bond Market Association (BMA) they will pay the full R3 000 a month membership fee on condition that the JSE's gilts clearing house is ditched.

The BMA, which will become the gilts exchange once the market is formalised, recently sent members a letter telling them that non-JSE members of the association would have to contribute R3 000 a month from September until June next year Some market players, notably merchant banks, are using the fee issue to push their case against the JSE's gilts clearing house (GCH).

Others regard the membership fee as too high and want to resign, rejoining when the BMA has become an official exchange. Membership is compulsory for all participants in the bond market

There have been accusations of "unlevel playing fields", as JSE members are excluded from paying the fee (232)

The BMA acknowledged that some members had indicated that they might withdraw their membership, but warned that they would face "a considerable penalty" on withdrawal and re-entry

☐ To Page 2

Ultimatum

B/Day 17/9/90

(232)

☐ From Page 1

Merchant bankers said at the weekend that the original decision had been to levy a R2 000 contribution The extra R1 000 was added in the belief that the plan to use the GCH would be scrapped and that the JSE deserved some reimbursement for the unnecessary cost incurred in working on the system

However, it has emerged that Financial Institutions Registrar Piet Badenhorst could recommend use of the GCH to speed up the formalisation of the gilts exchange

Bankers are fighting to avoid this as they believe the system is inadequate

JSE members who are also members of the BMA do not have to pay the membership fees as they already pay the JSE more than R3 000 a month for JSE regulation

BMA CE Graham Lund said in the letter: "It should be noted that this differentiation of costs is under exceptional circumstances, and the committee will not differentiate in future between membership commitment in any form"

Broker outlines possible benefits of current affairs

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LIZ ROUSE

A GRADUAL lifting of sanctions and an oil crisis can benefit a number of shares.

Broking firm H A B Herbst Inc, in its first investment bulletin, presents a selection of shares that can benefit from these two factors in the short to long term

Analyst Johan Marais says SA investors should accept that the lifting of sanctions will not necessarily be announced with much fanfare However, local companies that are geared to the export market might quietly go ahead and enjoy the benefits

Amcoal and Witbank Colliery stand to gain in the short term, while these two coal counters will be joined in the medium and long term by Palamin, Samancor, Keeley, Vansa, Plate Glass, Sunbop, Sappi, Highveld Steel, Iscor and Usko

B Day 17/9/90

The current oil crisis can benefit Amcoal, Witbank Colliery, Engen, Sasol and gold in the short term In the medium to long term Gencor should be added to the list

Although Marais advises investors to continue taking a cautious view of a fluctuating equity market, he says he has a positive attitude towards the long-term prospects of the gold price

He says investors should maintain a healthy balance between quality gold shares and marginals.

Recommended quality golds are Western Deep Levels, Southvaal, Driefontein, Hartebeestfontein, Kloof, Deelkraal and Beatrix. Marginals recommended are Randfontein, Loraine, Elsburg and Western Areas

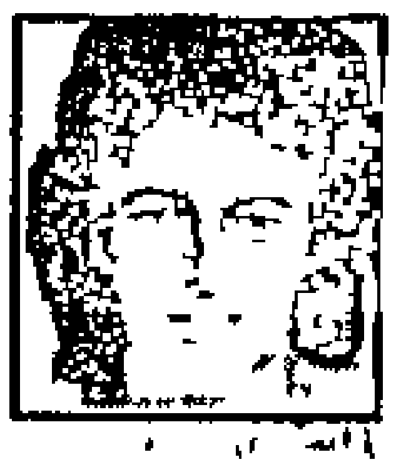
In the mining finance sector, in the short term Anglo American should be considered, in the medium to long term add Gencor, JCI, Minorco and Mid Wits

Minorities get a raw deal

232 Star 18/9/90

Diagonal Street

ANN CROTTY



Despite sustained efforts by both Colfin management and the JSE Committee and, despite the fact that only R1,5 million cash is involved, it could still be some time before the Manserv minorities see any sign of an offer from the company that acquired control of Manserv back in February.

The new, much more stringent takeover regulations that are due to come in to force in October should protect minority shareholders from the fate being suffered by the Manserv minorities

At this stage the JSE is considering legal action to force Financial Ltd to make the offer to minorities that it undertook to make at the time that the 89 percent stake was bought from the majority shareholder

The February deal involved Naas Ferreira (acting on behalf of Financial Ltd) acquiring the Manserv cash shell from the Map Consortium. (The Manserv assets had been sold into what is now know as Colfin, leaving Manserv with cash of R15 million)

The majority shareholder, received 105c a share for its 12,8 million shares but the holders of the remaining 1,6 million shares have so far received nothing.

Colfin MD Jeff Wiggill says that the deal included an undertaking from Financial Ltd to make the same offer to the minorities

As additional security Colfin arranged for Mr Ferreira to pledge the 89 percent stake he had acquired with a firm of attorneys — this was to act as security for the offer to minorities and would be held until such time as a suitable bank guarantee was lodged with the JSE (Colfin management was acting as coporate consulant to Manserv which was then under the control of Mr Ferreira)

Not delisted

Months passed and no offer was made to minorities Manserv remained suspended and although the JSE threatened to delist the share if no offer was made, it was not delisted.

In normal circumstances if assets are not injected into a cash shell within six months, the shell is delisted This has not happened in the Manserv case

The JSE's Richard Connellan explains that a decision to delist Manserv would have been to the detriment of the minorities.

Meanwhile there is confusion as to exactly what, if any, assets have been purchased with the Manserv cash Speculation includes a 20 percent of Osprey, 25 percent of Lanchem, 80 percent of a cash shell which was to be used to acquire an engineering operation and, 100 percent of Chamrey Mining.

Colfin had insisted that any assets sold into Manserv should be subject to a "fair and reasonable" valuation by a specified firm of accountants That firm has not been consulted and no "fair and reasonable" statements have been issued to shareholders.

(In this instance the value of assets acquired would not been relevant if an offer had been made to the minorities.)

Towards the end of April, UAL Merchant Bank wrote a letter to the JSE on behalf of Financial Ltd stating that R1,5 million had been deposited as security for the offer to the Manserv minorities On the basis of this letter the JSE agreed to release the shares that had been pledged to the attorneys.

Financial rands

It subsequently transpired that the money on deposit was financial rands.

In terms of Reserve Bank regulations these could not be used to fund the offer to minority shareholders and the Manserv shares were suspended.

(Financial rands can be used only to buy listed equities).

Mr Connellan says that because the minorities were being prejudiced, permission was sought to use finrands to make the offer. Permission was not granted.

The Manserv minorities have still received no offer. The funds cannot be used for the transaction and they cannot be withdrawn from UAL until the JSE authorises withdrawal

UAL's Tim Sewell describes the letter to the JSE as a "banking letter".

But according to Mr Connellan, who is determined that an offer will be made to the minorities "What UAL gave us was certainly a clear statement that it held funds for a specific purpose with regard to a specific situation."

Bank approval

Meanwhile an associate of Mr Ferreira explains that the delay in making an offer is due to the need to get Reserve Bank approval for the restructuring at Manserv.

"Hopefully everything will be in place by the end of the week."

The weakness of the protection afforded to minorities by the existing JSE takeover regulations is highlighted by the fact that if the JSE does have to institute legal action to force Financial Ltd to make the offer, the case may drag on through the courts for a few years.

This is little comfort to the minorities.

The proposed panel system has the force of law behind it. If any party contravenes a panel decision, immediate action can be taken without reference to the courts

Economists explain index performance

B|Day 18|9|90 232

GILLIAN HAYNE

THE change in requirements stipulating the prescribed buying by financial institutions of government gilts is one of the reasons for the reasonably good performance of the JSE's industrial index, say economists.

Contrary to the popular theory that recessionary times lead to a poor industrial performance, the index is not easing as traditionally experienced

Factors economists expected to negatively affect the index included large interest bills and a drop in demand for industrial products, and a possible move away from equities to the short-term money market to capitalise on high interest rates.

An analyst said yesterday that while institutions were not overly keen to buy industrial equities at present, they were also not selling as they wanted to keep their exposure to equities high

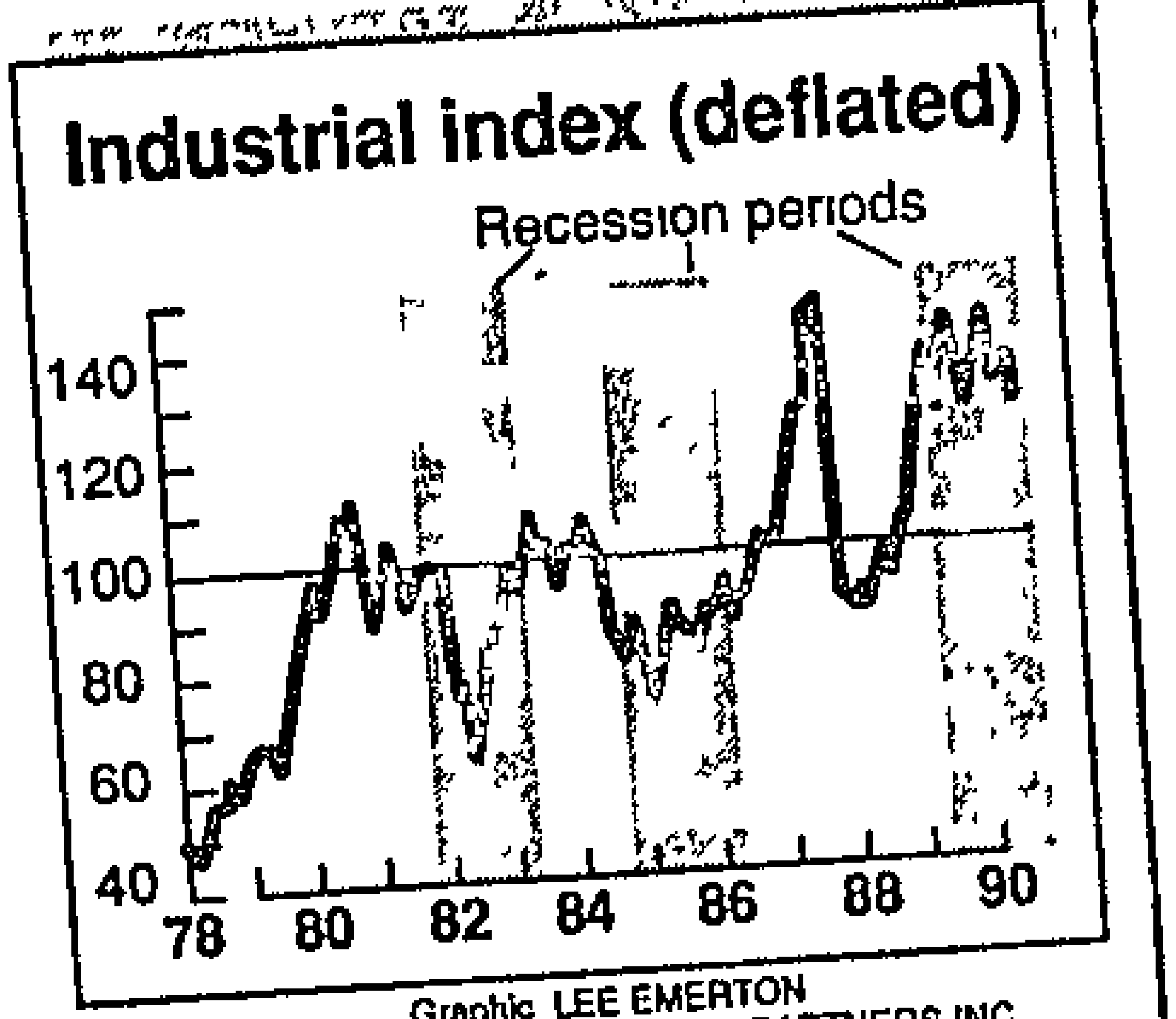
A fund manager said government's move to drop the compulsory prescribed holding level of government stock had had a major influence in steadying the index.

It led to companies increasing their equity exposure at a mature time in the business cycle, and with the shortage of good quality scrip in SA they would prefer to hold their stock through rough times rather than sell and risk not being able to buy in at a later stage, he said

Discount House of SA manager Chris Greyling said "On average, among institutions, equity holdings rose 10% to 58% after the change in the government ruling"

Another reason given for the unexpected behaviour of the industrial index concerned the share constituents of the index, many of which, for example Richemont, operated outside the recessionary circumstances in SA

Industrial index (deflated)



Graphic LEE EMERTON
Source GEORGE HUYSAMER & PARTNERS INC

George Huysamer & Partners' Louis Geldenhuys explained that the industrial index came off a different base as it had to be read against the background of the exogenous shock to the market in 1987 and the subsequent recovery

"Following the 1985/1986 recession, companies approached the current slowdown in a much stronger position — gearing ratios were stronger, inventories were better managed, and balance sheets were stronger — resulting in earnings growth remaining firm," he said

Geldenhuys said the expectations of industry, following the changes in the political arena, had had a positive impact on the economy.

"But expectations are now turning sour with the increase in violence and the weakening of the world economy The political situation with its physical disruptions to the economy and the influence of the world economy on SA could see the recession lasting longer than the average 27 months"

Industrials take a pounding

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JSE tumbles as oil squeeze hits markets

BDay 19/9/90

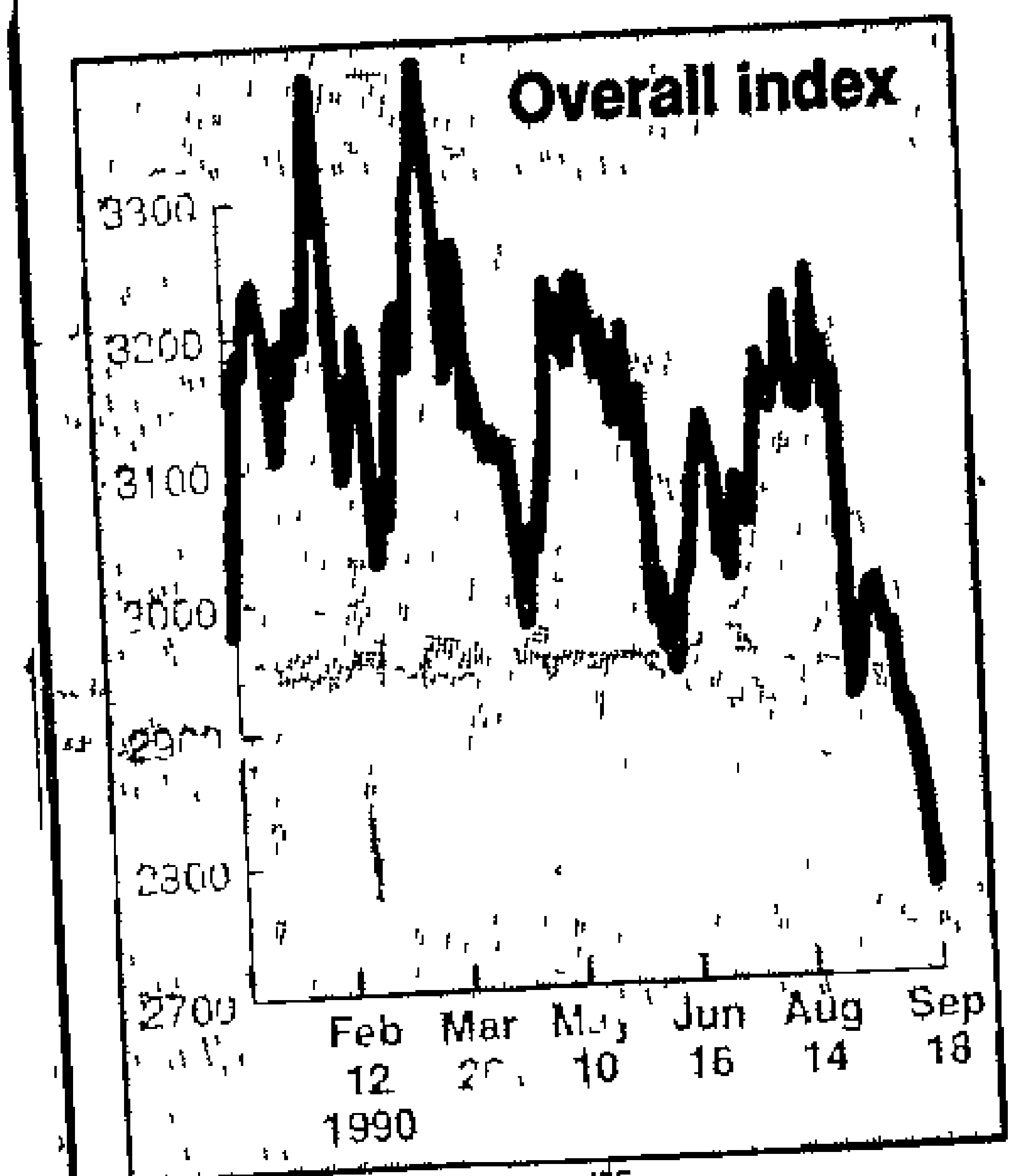
MERVYN HARRIS and JOHN CAVILL

SPURRED by aggressive selling on the part of nervous private investors, share prices tumbled on Diagonal Street yesterday to sweep the JSE overall index down nearly 3% (77 points) to 2 767.

The fall came in the wake of a nine-year high in world oil prices as the first serious effects of lost Kuwaiti and Iraqi supplies hit world markets, an easing of the gold price in London and New York, and general falls in world markets.

"There was a bloodbath," a dealer said as industrials took a pounding, with the index closing 68 points (2,4%) off at 2 731.

Market leader De Beers and associate Anglos each fell 4,5%



Graphic FIONA KRISCH Source JSE

Analysts said after a slow downward drift in the market, more aggressive selling came on perceptions that the bear trend was in full force and that prices could go lower as reflected in futures trading. A day after the close-out of September futures contracts, the December all-share and industrial futures traded at substantial discounts to the cash market — much to the surprise of traders

Greenwich Futures trader Stewart Penn said the 100-point discount between the December all-share index and spot index highlighted the inefficiency of the futures market.

He ascribed yesterday's sharp plunge in futures to bearish sentiment and the absence of large players, such as institutions, who would have arbitraged the spot and futures markets.

The rand closed firmer against the dollar at R2,5542 from R2,5632, after disappointing US trade and consumer price data for July. But the finrand firmed to R3,86 from R3,8891 on steady demand for the investment unit and little supply, adding to the woes of the market

Oil prices surged to their highest levels in nearly nine years as the first physical supply problems began hitting the market Spot prices for the benchmark North Sea Brent blend for immediate delivery soared to $36,50 — its highest level since December 1981

"The realisation that world oil production is running at full steam shocked prices upward," an analyst said

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☐ From Page 1

JSE

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Another problem is the quality of oil being received since high quality Iraqi and Kuwaiti oil is being replaced by heavier and dirtier Saudi Arabian and Venezuelen crude

Gold closed $1 down at $389 in London, after a strong rally was crushed by reports of renewed selling by the National Commercial Bank of Saudi Arabia Gold fell despite a soaring US trade deficit and further falls in world stock markets In New York gold closed at $388,25 ($390)

World equity markets took a knock with the Nikkei average closing 2% down

Higher interest rates and oil prices and perceptions that the US was heading for an early recession depressed the Japanese market

European markets continued the bearish Asian sentiment with the London FTSE 100 losing 1,4% to 2 065 points, the Frankfurt Dax closing 2,2% down, and the CAC-40 in Paris finishing 1,5% off at 1 580

'Govt acted on inquiry into DET'

TANIA LEVY

MAJOR changes had been made in the organisational structure of the Department of Education and Training's (DET) head office to correct management deficiences, Education and Development Aid Minister Stoffel van der Merwe said yesterday

Other steps taken included the introduction of budgeting objectives to control financial management The changes were made since April in response to previous findings of the Van den Heever Commission of Inquiry B/Day 20/9/90

Commenting on the commission's third report — into irregularities in the running of youth camps — he said government regarded inconsistencies and irregularities in a serious light

Charges of misconduct were being investigated, but departmental action would only be taken after the Attorney-General had decided whether to institute criminal proceedings

All privately donated funds had been deposited with Revenue Some of this money had previously been handled by regional directors in savings accounts, but these accounts had been frozen

Van der Merwe said the Justice Department was considering appointing an ombudsman as requested earlier by the commission.

Spareco must meet creditors — judge

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B/Day 20/9/90

TIM COHEN

A RAND Supreme Court judge yesterday ordered that meetings take place between Spareco Ltd and its creditors to consider a compromise arrangement which proposed a solution to the company's financial crisis.

Mr Justice Joffe also ordered that the liquidation application brought against Spareco by Ferodo Pty Ltd be postponed to October 5, the date on which the court will hear the result of the meetings

The judge ordered that the meetings take place in terms of Section 311 (1) of the Companies Act, which empowers the court to order meetings to take place where a compromise arrangement is proposed

He ordered that the parties should consider a "scheme or arrangement" proposed by the Lakewood Corporation, which is registered in the Cayman Islands

Loan

In terms of the scheme, Lakewood has proposed that it will make available to the company R10m by subscribing for the company's ordinary share capital

It also proposes to procure a loan of R5m to be utilised for working capital

The scheme also proposes that Spareco's major creditors — Bankorp Ltd, First National Bank of Southern Africa Ltd, Alpha Bank Ltd and the International Bank of Johannesburg Ltd — convert their claims into capital and debentures while other creditors be paid from this capital sum

The banks would be required to capitalise 56% of their claims against the company by converting these claims into 12,65% preference shares in Lakewood

They would also be required to convert 25% of their claims against Spareco into redeemable debentures, while the remaining 19% of the claims would remain payable by the company as overdraft

The capital sum of R15m would be distributed towards the claims and costs of the concurrent, secured and preference creditors

The concurrent creditors would be paid 30c in the rand on the amount of their claims against the company, to the maximum amount of R3,6m, in full and final settlement of their claims

The secured and preference creditors would receive amounts equal to those which they would have received in terms of the Insolvency Act, subject to a ceiling of R262 000 in the case of secured creditors and a ceiling of R2,412m in the case of preference creditors

The balance of the capital sum would go to the costs incurred in administering the company and in securing its assets since September 5, when the banks obtained a court order to hold Spareco's stock

The scheme also proposes that anyone who has reserved ownership of trading stock not be affected by the terms of the arrangement

MARCIA KLEIN reports that a statement from major creditors said negotiations were taking place in an attempt to reopen Spareco outlets as soon as possible

International Bank of Johannesburg MD Peter Gray said yesterday an agreement would be reached shortly on what was to become of Spareco until court proceedings or offers had been finalised.

He said there was still a possibility of a takeover with a firm offer on the table, but "there are differences of opinion at the moment with regard to offers"

It was important to open Spareco's doors again, he said

Major FSI reshuffle leads to large share price gains on JSE

(232)

BDay 20/9/95

SYLVIA DU PLESSIS

SHARES of FSI companies Teamcor, Hunts and Homemakers — relisted yesterday — registered some of the largest price gains on the JSE on news of a group restructuring involving generous offers to their minorities

Teamcor shares, second in terms of price boosts, rocketed 40c or 18,1% to 260c, Hunts grew 60c (8,9%) to 730c and Homemakers firmed 30c to 440c

The strong gains followed an FSI announcement detailing interlinked proposals in terms of which W & A Investment Corporation is to become the principal holding company for FSI's global and local interests

The clean-up includes W & A's acquisition of the minority interests in the three firms, with minorities offered one-third in W & A shares and two-thirds in pyramid Waicor, or cash of 600c and 241c a share respectively.

But while it has generally been welcomed on the market, at least one analyst — Ed Hern, Rudolph's Sid Vianello — believes FSI's huge post-restructuring debt, with its possible ramifications, is cause for concern.

He said minorities would be offered fair value, and he was "particularly delighted" to see an underpinning cash offer extended to them

However, a simpler structure would not guarantee an immediate re-rating for the shares a "major issue" to be addressed was that FSI would remain extremely highly-geared with interest-bearing liabilities of just under R300m

Pattern

"It's in their interests this gearing be cut and if FSI wants to see W & A's share price appreciate, management will have to give some form of reassurance they're not going to sell W & A or Waicor paper into the market in the future to liquidate their liabilities," he said

"Further, based on W & A's financial structure on completion of the transactions and given its normal growth pattern in the past, we think it could under normal circumstances require a rights issue in two to three years time"

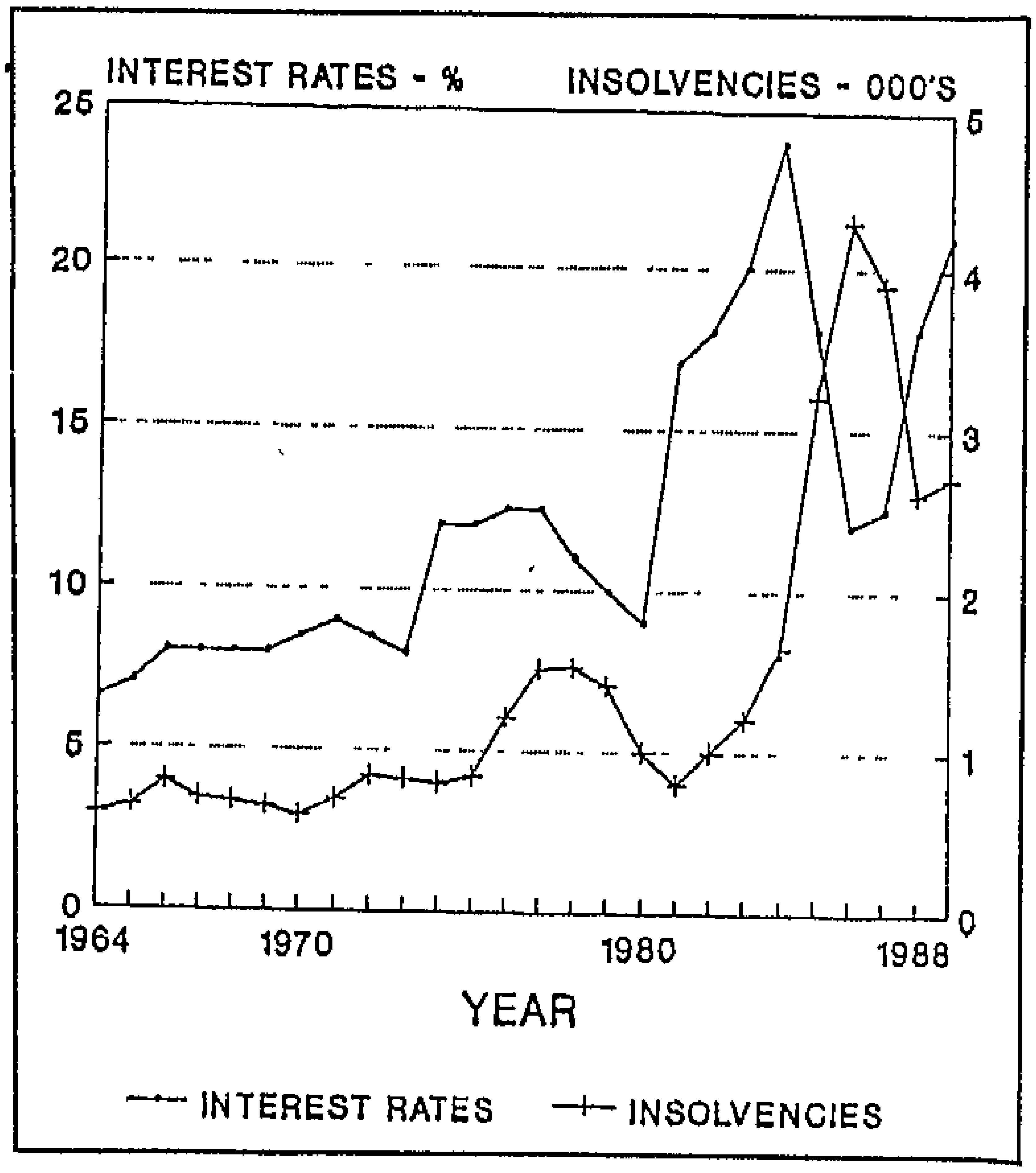
But this could be avoided if the group kept to its consolidation policy in the first half of the decade, rather than continue pursuing its former acquisitive strategy, he said

Vianello said W & A's current share price represented "more than fair value", given that SA conglomerates tend to trade at a discount to net asset value, the values now placed on various assets being transferred into W & A and that the share price now recognises those in full

He saw no reason for a re-rating now which could come later when the group had proved its investment profile could give results in favourable and difficult economic scenarios

FSI shares closed untraded, Waicor's were unchanged and W & A's retreated 30c to 620c, more closely reflecting the value of the firm's underlying assets as determined by merchant bankers and level with the trend on the market, analysts said.

THE RECESSION: *Political unrest, the Gulf c*



More individuals go to the wall this time around

232

By ROBERT LAING

INDIVIDUALS are being hit harder than companies in this recession The value of consumer judgments is three times higher than in corresponding months in 1988 and twice as high as in 1989 The value was more than R150-million in May

The number of business insolvencies has not increased dramatically, but the size of those businesses which are going under has

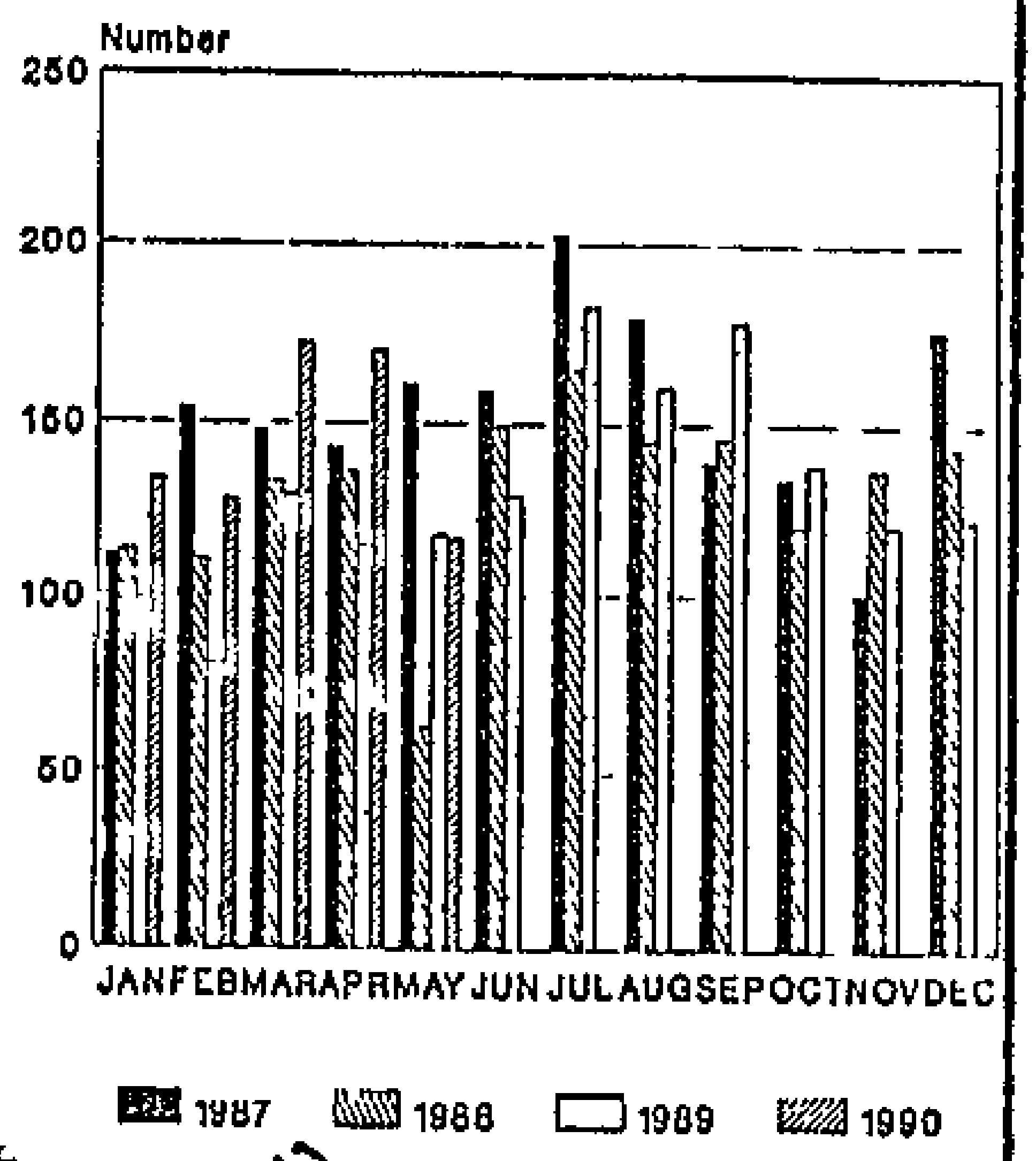
Ernst & Young liquidator Philip Reynolds says "Having one big company hit the wall is more damaging to the economy than having 12 little one-man businesses going bust

"The number of insolvencies is not a true reflection of how serious the situation is because the size of companies is not given Examining the value of judgments gives a clearer picture "

Kreditinform calculates that the value of business judgments has been averaging about R15-million since March, double as high as in 1988 or 1989

LIQUIDATIONS

COMPANIES AND CLOSE CORPORATIONS



KREDITINFORM

W/Mail 21/9 - 27/9/90

A relationship appears to exist between the number of insolvencies and interest rates A graph compiled by Kreditinform clearly shows that the prime rate level leads the number of insolvencies by about 20 months For instance, in 1985 prime reached its peak of 25 percent and liquidators were hard pressed to cope

The slaughterhouse months which followed peaked about two years later By then prime had eased to 12 percent — and the trend in liquidations lagged consistently However, 1989 saw the pendulum swing back to prime at 21 percent and liquidators predict another wave of liquidations

DEVELOPMENT (232) FM 21/9/90.

FACING DOWN THE LIQUIDATORS

New moves have been initiated to bolster the ailing Pretoria-based Debruynplan retail and office development group and prevent it from being forced into liquidation

This comes after a liquidation application against the company owning one of Debruynplan's newest and most ambitious developments, the virtually complete R150m Golden Walk regional shopping centre in Germiston, was postponed last week

Following a meeting last month (*Property* August 31) between Debruynplan and its major creditors, financial managers of the creditors were called in to resolve the difficulties of the cash-strapped company In addition to Golden Walk, the group's developments include Randburg's Cresta Centre (subsequently sold on), and Die Meent in Pretoria

In terms of the agreement reached, a financial manager, appointed by the creditors, has been installed in the group's offices to monitor the running of the business while its debt and cash-flow problems are resolved

However, as a result of rumours relating to the financial position of the group, the main creditors formed a moratorium committee which, last week, (September 12) signed a moratorium deed effectively giving Debruynplan until the end of November to get its house in order or, alternatively, face possible liquidation proceedings

While the larger creditors are party to the agreement, a clear warning has been sounded that the rescue package could be torpedoed by smaller firms not bound by the agreement A landscape firm, Garden Developments, lodged a liquidation application against Astra Holdings, Golden Walk's holding company, over the R260 000 they are owed for work done on the project. Debruynplan is implicated because of certain cross guarantees signed by the group.

However, a postponement of the case until September 25 has given the moratorium committee an opportunity to persuade the landscaper to withdraw his application

Furthermore, rather than fighting fires, the committee is circularising all the other non-signatories in a bid to explain to them the benefit of complying with the moratorium

Other measures taken to try to resolve the problems include

☐ The main contractor, Shoredits, is expediting completion of Golden Walk centre so that more tenants can take occupation in accordance with their lease arrangements,

☐ The committee is investigating the possibility of Shoredits completing the extensions to Die Meent in Pretoria,

☐ Rationalising Debruynplan's overheads and costs at its Pretoria head office,

☐ Controlling the group's income and expenditure by opening new bank accounts on which the creditors' committee has joint signing powers, and

☐ Establishing a true picture of Debruynplan's financial position

Golden Walk *a central issue*

This, the committee believes, is preferable to a forced liquidation because, while costs are being trimmed, the property values are being significantly enhanced, which would be beneficial should the developments finally be sold to pay creditors.

A spokesman for the committee points out that one of the companies in the group, Moskeeplein (Pty) Ltd has had to be liquidated because of a question mark over the impeachability of a covering bond registered over one of its properties

Says the spokesman "This is a legal question The major creditors of Moskeeplein, who are all represented on the committee, will ask the liquidator appointed to co-operate in terms of the moratorium "

He denies suggestions that other bonds in favour of some members of the creditors' committee are similarly impeachable and that the moratorium was arranged to allow the time period to reduce or eliminate the threat of claims being lodged

Signators believe they have a far better chance of recovering their debts through the moratorium than through a forced liquidation

As one creditor put it "Forcing the liquidation could mean creditors only achieving 10c in the rand rather than a chance of getting most, if not all, of their money back through the moratorium arrangement " ■

TAKEOVER CODE (232)

REGULATION LOOMS

FM 21/9/90

Those who have lobbied over a number of years for a takeover code are going to get one — and perhaps in a more thorough form than many expected

Draft legislation on the securities regulation code and rules for the Securities Regulation Panel — under the chairmanship of Judge Cecil Margo — was published for comment last week Comment should be submitted by October 7 This follows amendments to the Companies Act in mid-1989, when it was established that there was to be a securities regulation panel

The draft regulations are comprehensive, far-reaching and specific In general, they apply to all public companies and statutory corporations, (whether listed or unlisted), deemed to be resident in SA Included are private companies whose shareholders' interest and shareholders' loan capital, in terms of an offer, exceed R500 000

The code has been based to a large extent on the City Code on Takeovers and Mergers issued by the London Panel on Takeovers and Mergers There is no intention to judge commercial advantages or disadvantages of affected transactions, nor to be concerned about competition policy — that will remain a matter for the Competition Board, though the board's references and rulings would be taken into account.

The code would, however, effectively relieve the JSE of its present responsibilities in regard to takeovers and mergers — which will come as a relief to many in Diagonal Street Detailed procedures to be followed in any takeover situation are laid down

Certainly, should these regulations be accepted, they will provide clarity that has often been lacking in the past From that standpoint they will make matters easier both for participants in actual or potential deals and for those required to enforce the regulations That in itself should be a step forward

It should no longer be neccesary to see protracted disputes about whether control has in fact changed and whether an offer should, therefore, be made to minorities Essentially, a stake of 30% has been set as a trigger level, once that is attained, a full offer will have to be made, according to the procedure laid down.

Claire Herbst of Ernst & Young notes that shareholders owning between 30% and 50% of a company will also be affected if they seek to increase their shareholding by more than 5% a year, this, too, will require a mandatory offer to minorities

Aiken & Peat's Richard Carreira feels this rule may be a little harsh, as it might discourage these shareholders from increasing their stakes and it is questionable whether a 5% increase will always affect minorities adversely A requirement to publicly announce such increases would be less stringent, he says

However, though these trigger levels are arbitrary figures, they are clear to all Tony Norton, commenting as JSE president and not as a representative of the panel, says this should be a far more workable approach than that applied by the JSE in the past, which has been to consider whether effective control has changed

There have been many cases where judgments were not straightforward and the JSE's ruling was stoutly resisted by the parties involved — or where the JSE was criticised for not standing up firmly for the rights of minorities That has applied particularly in situations argued to be a change of control within a control consortium

One of the more memorable cases was Sanlam's takeover of Kirsh Trading, now called Tradegro Sanlam first took a major stake in the group in mid-1984 This happened through an unusual and complex agreement, but the JSE felt there had been a change of effective control, Sanlam and Kirsh did not Both parties considered legal action, a dispute dragged on and, in March 1985, both simply agreed to disagree The control structure established recently for GFSA is another case in point

Though there may well be disagreement about the shareholdings stipulated by the code, it should not be possible for uncertainties to arise under these regulations And if that does occur, the panel will be able to make a legally enforceable ruling

There are extensive definitions Among these, "acquisition" means acquisition of shares or securities in a company by any means whatsoever, including purchase or subscription "Acting in concert" refers to an agreement, arrangement, or understanding (whether formal or informal) between two or more persons, to co-operate for the purposes of entering into or proposing an affected transaction

"Control" refers to a holding or aggregate holdings of shares or other securities in a company entitling the holder to exercise or cause to be exercised, the specified percentage or more of the voting rights of that company, irrespective of whether such holding or holdings confers de facto control

Securities Regulation Panel's Margo
more clarity

The code says the spirit as well as the precise wording of general principles and rules are to be observed Among general principles, all holders of the same class of security shall be treated similarly by an offerer Rights of control shall be exercised in good faith and the oppression of a minority is unacceptable

Surely, few would argue with principles of this sort What the investment community is now trying to consider is how the regulations will work in practice Some are wondering whether the highly regulated approach is appropriate for SA

Herbst notes that aggrieved minorities will now have recourse to the panel in cases of oppression Though they will still be subject to the decision of a majority vote, they will have recourse in instances where they are not given a fair opportunity, as in the recent controversial Metal Closures case

Investec MD Stephen Koseff feels the R500 000 limit for affected private companies could be on the low side and it needs to be considered whether the panel has not "gone a bit overboard " He says that while a 30% trigger level may make sense in the UK, where shareholders are far more widely spread, it may not be logical in SA, where there is already a high concentration of ownership "Many companies already have a 50% shareholder and another with 30%," he says

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But he feels there are many positive aspects, as well as some areas of uncertainty Koseff says the position of an underwriter which finds itself holding 30% of a company needs to be clarified, for example

As Herbst says, though, the extent of the panel's intended jurisdiction is significant Though the panel does have some discretion in the case of private company transactions, she says, this represents a fundamental shift in the regulatory environment in the unlisted market, where offers to minorities and takeover statements will now be required

"Schemes of arrangement in terms of Section 311 of the Companies Act, reductions in share capital, and various other methods commonly used to effect a change in control, have all effectively been brought within the ambit of this legislation," says Herbst "We are about to experience a major change in the merger and acquisition environment, for which companies need to rapidly prepare " ■

Financial markets: a case for 're-regulation'

B Day 21/9/90

(232)

ROBERT GENTLE

THE need for change in SA's financial markets — characterised by the 103-year-old JSE — was brought home during a top-level conference last week on the regulation of financial markets

Among the delegates were Reserve Bank Governor Chris Stals, Registrar of Financial Institutions Piet Badenhorst and his deputy Chris Mostert

Some uncomfortable facts were delivered by visiting lecturer David Llewellyn, professor of money and banking at Loughbourough University in the UK and adviser to Western central banks

"If the 1980s were the decade of structural change in world financial markets, then one can say of the 1990s that you ain't seen nothing yet," said Llewellyn.

Comparatively isolated financial markets like those of Scandinavia and SA would probably experience these pressures more powerfully in the 1990s, if only because of the excess capacity in world securities trading and banking, he said

A worldwide trend in regulation had emerged in the key areas of ethos (emphasis on competition, enhanced role for market mechanisms, priority to efficiency and competitive neutrality) and deregulation (wider business opportunities, more price flexibility, self-imposed restricted practices competed away)

Equally visible had been a change in structure (more regulatory agencies, a wider range of services subject to regulation) and methodology (more interventionist regulation, more explicit business conduct rules, more emphasis on capital requirements and rules on information and disclosure).

It hardly escaped delegates' attention that virtually none of these features characterises the SA market The JSE remains a closed monopoly dispensing its services under restrictive pricing onto a captive market, sheltered from competition by exchange control and the Stock Exchanges Control Act, and ultimately accountable only to its peers

The more open, less restrictive, dual-capacity SA Futures Exchange (Safex) — which Llewellyn was surprised existed in a relatively small market like SA's — underscored this

In a paper subsequently presented to delegates, Llewellyn says that self-imposed restrictive practices and cartels are "anti-competitive in effect, if not by intent, and frequently exchange control has the implicit effect of conferring a subsidy on domestic suppliers of financial services".

He goes on to make some pertinent remarks on JSE-style self-regulation, when an industry is given formal authority or legal duty to regulate its business

"There are many instances where self-regulation in general has served the interest of the regulated rather than the consumer, even though it may be rationalised in terms of the interest in the latter Self-regulation also has the potential danger of being anti-competitive and there is ample historical precedent for this," he says

"Above all must be the question whether it is possible to rely on self-regulatory bodies always serving the public interest as the public defines it, rather than as the industry perceives it"

Llewellyn's observations suggest that both the JSE and its regulators in Pretoria have a vested interest in maintaining the status quo — the former gets its way while the latter gets an easy ride

He says "The easiest framework for regulation is when simple objectives are set, when competition is weak, when the financial system is based on specialist financial institutions (like stockbrokers) and markets, when only domestic considerations need to be considered and when the moral suasion authority of regulatory agencies is universally accepted"

The opposite of self-regulation is official regulation by a public authority, as in London where a multitude of expensive regulatory bodies operate Llewellyn thinks London may actually have gone too far in the other direction after it deregulated in what has come to be known — erroneously, it turns out — as Big Bang

It is erroneous, Llewylln explains, because contrary to popular opinion, Big Bang was never part of a grand design When Sir Gordon Borrie, head of the Office of Fair Trading, threatened to take the London Stock Exchange (LSE) to court under the Restrictive Practices Act in the early '80s, it was with one aim in mind — to remove fixed commissions.

However, due to what Llewellyn calls "the escalation principle", the scrapping of fixed commissions meant the end of guaranteed profits, which meant fluctuating income, which meant risk, which meant more capital was needed This resulted in outside shareholders, which led to huge financial conglomerates and the merging of domestic and international securities industries

The lesson to be learned, Llewellyn says, is that deregulation cannot be compartmentalised without creating competitive distortions Once begun, it is likely to involve more changes than originally intended, it must be viewed as a whole so that adverse consequences in one area are alleviated by counter-measures.

It is for this reason that he calls "deregulation" a misnomer He prefers "re-regulation"

Either way, regulating a more open market will be difficult because many of its aims are in conflict with one another More competition adds to the risk of failure, running counter to prudential considerations, however, attempts to avoid risk of failure through prudential controls often blunt the edge of competition.

Regulators have to aim for a middle way, says Llewellyn, because there is no point in trying to protect participants from risk to the extent that one regulates away the very function of financial markets, which is precisely the taking of risk

Clearly, both Pretoria and the financial markets have some hard work — and some hard choices — ahead of them Deregulation, hitherto taboo, is now firmly on the agenda.

LETTERS

SPARECO FM 21/9/90 (232)

SPARES BANK

As the *FM* went to press, an affidavit was being prepared to put an offer, believed to be from Hans Schreiber, before the Rand Supreme Court on Wednesday to rescue ailing motor spares group Spareco from the liquidators

Schreiber, who runs his own financing operation from Singapore and is a director of a major German bank, was in the news some five years ago when he bought Cape wine farm Neethlingshof for R8m

Spareco MD Graham Walker is adamant that his company won't be wound up Two deals were on the table on Tuesday, though one is seen just as a backup According to Walker only a minor hitch prevented the i's from being dotted and the t's crossed

Why would a German banker be so interested in an ailing SA spares company, believed to be in need of a capital injection of at least R20m-R25m to save it?

If Spareco is wound up the smaller creditor banks will be dealt a severe blow By gaining control of Spareco, Schreiber will save these banks and perhaps get a foothold in SA banking

After an urgent application two weeks ago, Alpha Bank, First National and Bankorp were authorised to hold all movable assets at 24 Transvaal Spareco branches They alleged that Spareco owes them R40m-plus A week later trade creditor Ferodo brought an application for immediate winding up, postponed twice in the past week

The Spareco fiasco has focused attention on another problem — banks whose exposures to individual clients are large relative to their capital bases, including Alpha Bank, to whom Spareco allegedly owes R6m The Reserve Bank is monitoring large exposures in preparation for legislative changes next year that will force banks to keep the Bank informed

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Gerhard Slabber

F/M 21/9/90 (232)

AVI (232) FM 21/9/90

STILL MOMENTUM

Anglovaal Industries (AVI)'s results for the year to end-June vindicate its premier JSE rating Earnings grew strongly despite deteriorating economic conditions, a hefty interest burden and a fall in associates' income Last year's earnings growth will be difficult to match this year

Operating profit rose 32% on a 42% hike in turnover, partially the result of acquisitions But high interest rates and lower consumption expenditure caused trading conditions to deteriorate and margins came under pressure The operating margin fell to 9,7% (10,4%) and higher borrowings — largely due to capex and money raised to finance the Tycon acquisition — caused interest charges to more than double

All the divisions, except Irvin & Johnson, performed well Buoyant building activity boosted Grinaker Construction's profits and a substantial increase in exports helped lift the performace of the restructured electrical division, Grintek

AVI's Hersov *expects exacting challenges*

Chairman Basil Hersov says results of the textile operations for the full year were disappointing, despite strong profit growth in the first half This, and the poor performance of Claude Neon, detracted from the diversified holding division's profitability

The dry food and beverage division reflected a substantial improvement but profit from Pakco, Pleasure Foods and Pizza Hut declined Beckers and Bakers traded very well

During the year the packaging and rubber division was expanded Tycon, formerly Goodyear, was acquired for R176m and combined with Tredco (retreader and retail distributor of tyres) to give AVI a strategic stake in the industrial belting sector The packaging operation, Consol, was negatively affected by lower packaging sales volumes and only reported a moderate increase in turnover Higher financing costs, resulting from Tycon's acquisition and the installation of a glass furnace at Consol, detracted from this division's performance

Income from associate Control Instruments (CI) was only R6,1m, half that of the previous year Hersov says CI remains a disappointment and a R10m provision has been made against its carrying value This provision constitutes the major share of a R17m extraordinary item, reflected below the line

Attributable earnings grew 18% but dilution occurred at the per share level because of shares issued at the time of the group's restructuring last year

Hersov is planning for improved earnings this year but says "the group expects to meet exacting challenges "

Pam Baskind

FSI 'will not shed holdings'

Business Day Reporter

THERE was no likelihood of FSI disposing of part of its holdings in W & A Investment Corporation, Ed Hern, Rudolph analyst Sid Vianello said yesterday

And FSI chairman Jeff Liebesman said the clarification by Vianello of the statement carried in yesterday's Business Day ("Major FSI reshuffle leads to large share price gains on JSE") was consistent with the group's policy.

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Vianello was elaborating on his comment that FSI needed to give the assurance that it did not plan to sell W & A or Waicor paper into the market to liquidate its liabilities B/Day 21\9\90

"We have no doubt FSI's cash flow from the enlarged W & A is secure, so there would be no need to sell any of its holdings," he said

"Indeed, FSI's position will be more than comfortable once the proposals announced this week have been implemented"

Vianello said the probability of lower interest rates and positive commentary from management must "surely nullify" any suggestions that such sales were imminent or contemplated They also nullified any suggestions that any group company was contemplating any rights issue in the foreseeable future

Banks win on gilts trading decision

ROBERT GENTLE

BANKS won a decisive victory over the JSE at the weekend after Registrar of Financial Institutions Piet Badenhorst ruled that gilt trading would continue in its present form until agreement was reached on outstanding differences

Until last week, the JSE seemed set to win its battle to have the market route its trades through the JSE's in-house clearing system — the Gilt Clearing House (GCH)

The banks, which do about 67% of all gilts trades and operate outside the GCH, had objected to GCH on grounds of cost and efficiency On a general level, there had also been dissatisfaction about aspects of settlement and risk management

Badenhorst acknowledged in a statement that there had been "serious differences" between members of the Bond Market Association (BMA) — the gilts exchange scheduled to start operating by July 1991

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Following the failure to find common ground between the parties, Badenhorst said, the possibility of an interim unified market with acceptable clearing, settlement and risk management "will therefore not be pursued further"

The financial implications for the JSE and the BMA which flowed from this decision were being discussed, he added

New GFSA company will be worth R475-m

By Derek Tommey

Star 25/9/90

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The merger of the three Gold Fields companies, New Wits, Selected Mining Holdings and Witwatersrand Deep, will create a company with assets amounting to about R475 million

MR Fuller-Good, a director of the companies, told shareholders yesterday the enlarged New Wits would benefit from its strengthened asset base and the combined mineral rights portfolio

New Wits is offering 120 of its shares for every 100 Selected Mining Holdings and 90 of its shares for every 100 Wit Deep

With New Wits shares standing at 1 125c, this puts a value of 1 350c on each Selected Mining share and 1 012c on each Wit Deep share

Selected Mining shares were trading before the weekend at 1 200c and Wit Deep shares at 1 000c

moots ANC policy shift

B/Day 25/9/90

PETER DELMAR

THE ANC's latest — and still secret — economic policy document contains a marked shift away from the ideology of a central statist approach, and emphasises the importance of creating growth through investment

ANC economics and planning department deputy head Tito Mboweni said yesterday the latest "draft discussion document" had been discussed at a meeting of 50 ANC economists and members in Harare at the weekend

The document, which he described as "very perceptive", still has to be submitted to the ANC's national executive committee (NEC) before being made public and will be further debated by all ANC regions and branches

Mboweni said the word nationalisation was mentioned only once, in relation to public utilities which had been or might be privatised by the state. These, he said, would be subject to "immediate re-nationalisation" by an ANC government.

Although unwilling to discuss specifics of the draft, Mboweni said the latest document attempted to steer clear of economic jargon.

He indicated the Harare meeting felt the ANC's previous economics position paper over-emphasised the state's role in the economy, and that a balance had to be found between the roles of the public and private sectors

The recognition that growth should be encouraged through investment and not just through redistribution represented a "new direction in our thinking", Mboweni said, adding that the state would retain an important role in influencing private sector investment

He said the document recognised the important role the private sector would play in a post-apartheid economy.

The Harare meeting also proposed the establishment of an ANC institute of economic policy

The unit would co-ordinate "an evolving programme of economic policy research as well as conducting research and publicising it".

Mboweni acknowledged it was "highly unusual for a liberation movement to establish such an institute", but said this was needed because of the organisation's exclusion from most economic and political research in SA.

He said he envisaged the institute — which still had to be approved by the NEC — being staffed by a director and at least eight research fellows Salaries would be comparable with those offered at universities, he said

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The ANC's Thabo Mbeki chats to Frankel Kruger Vinderine chairman Leslie Frankel during a visit to the JSE by ANC representatives yesterday.

Picture: CATHERINE ROSS

JSE 'paper-chase' fails to impress politicos

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CHARLOTTE MATHEWS and ZILLA EFRAT

AN ANC delegation ventured into the heart of SA capitalism yesterday but was not taken with "the paper chase" on the Johannesburg Stock Exchange

ANC international affairs director Thabo Mbeki, his deputy Stanley Mabizela, deputy economics head Tito Mboweni and Cosatu assistant general secretary Sydney Mafumadi visited the JSE at the invitation of stockbrokers Frankel Kruger Vinderine (FKV)

FKV MD Sidney Frankel said there had been a strong and sometimes heated exchange of views. After lunch with representatives of institutions and FKV clients, the delegation wandered down to the trading floor

A whirl in the gold price came at an opportune moment, boosting share prices and providing some action on what had been a deadly dull floor

Mboweni said the ANC saw the JSE as a place where paper money chased paper money instead of being used for productive activity such as manufacturing

"The JSE plays a useful role in showing the level of productivity of the large corporations But the final emphasis must be on putting money into actual production," Mboweni said.

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Frankel said the invitation was aimed at a cross-pollination of thoughts. FKV would invite anyone who would play an important role in the new SA to meet its clients. In June FKV invited National Union of Mineworkers general secretary Cyril Ramaphosa

While Ramaphosa found the JSE visit "mind-boggling", it did not convert him to capitalism.

SA firms join European drive

(232)

NEIL YORKE SMITH

SA COMPANIES were joining the mergers and acquisition (M&A) drive into Europe where attractive opportunities existed in a unified Europe and a more market-oriented Eastern bloc, Ernst & Young Corporate Advisory Services director Claire Herbst said yesterday. BDay 25/9/90

She said SA companies were also aware of the potential offered by a market of more than 300-million people There was "increasing scope" for international transactions involving SA

"We expect increasing international M&A activity by local companies, as sanctions get lifted and SA businessmen are able to look abroad for markets and investment opportunities"

This trend had already started with some firms having formed European operations "Recently we have advised SA companies looking to invest in Europe and, happily, a European company investing in SA for the first time."

But she said it would take time for the international community to accept SA as a sound investment arena. "To a large extent they are still waiting on political and economic factors"

SA companies needed to think more globally, Herbst said. "We have to make our businesses more international by encouraging SA companies to invest overseas and allowing foreigners to invest in SA"

She said SA companies wanting to invest abroad were hampered by foreign exchange requirements.

Financial rands had to be used for deals of a capital nature, making overseas purchases very expensive

"As a result, deals must be carefully structured — great emphasis is placed on cost effectiveness and tax structures"

SA investment in Europe made sense as, aside from opportunities created by social and economic restructuring, Europe was also SA's biggest trading partner, she added

Curator appointed to supervise Alphabank

B Day 25/9/90

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GRETA STEYN

THE Reserve Bank has appointed a "curator" to supervise the affairs of small merchant bank Alphabank, which was in the news recently when it emerged that its exposure to troubled Spareco, at R6m, exceeded its capital base of about R4m.

In a statement yesterday the Reserve Bank said. "The appointment of a curator was necessitated by the uncertainty of the position of Alphabank Ltd in view of the fact that the auditors of the institution were unable to express an opinion on the financial statements of the institution for the period ended on June 30 1990."

But the Bank noted that Alphabank had requested the curator's appointment.

Sapa reports Alpha MD Charles van der Walt said the exposure to Spareco had put pressure on the bank's liquidity position. The auditors had been unable to finalise the accounts as it was impossible to determine the settlement from Spareco.

"All depositors will get their money back although this could be later than the maturity date of the loans," he said.

Another small bank with a substantial exposure to Spareco is the International Bank of Johannesburg (IBJ). Spareco owes R12m to IBJ, which has a capital base of about R24m IBJ MD Peter Gray said the bank had enough security against the exposure and emphasised it was backed by Bankorp and an unnamed foreign investor.

But rumour is rife in the market that major shareholder Bankorp is about to sell its stake as part of its effort to rationalise. A Bankorp spokesman said yesterday no decision had been taken yet.

PDC Holdings to be listed on JSE today

B/day 26/11/90

MARCIA KLEIN

PDC Holdings, a wholesale distributor of about 16 000 pharmaceutical and allied products, will be listed on the pharmaceutical and medical sector of the JSE today.

The listing of 20,9-million ordinary shares of 1c each follows group restructuring and an agreement between Gresham and PDC's pharmacist shareholders

In a pre-listing statement, PDC said the agreement would make PDC shares more tradeable and the company will have increased flexibility

Frankel Kruger Vinderine analyst Teigue Payne said the expected initial trading price would be 60c and no new shares would be issued.

He said PDC, whose earnings declined 9% in the year to March 1990, expected earnings to decline a further 66% in 1991. (232)

Year-end

This should result in PDC trading initially at well below net asset value and on high earnings and dividend yields, said Payne

PDC reported a net asset value of 274c a share at the March 1990 year-end

However Payne says PDC has been re-organised and is now part of the Premier group (via Gresham) He said the company would be listed with little debt and the long term outlook was good

PDC is 80,5% held by pharmaceutical-listed Gresham and operates from 10 warehouses in the Transvaal The balance of 19,5% of PDC is held by about 300 retail pharmacists PDC also holds 50% of the Plus retail pharmacy franchise.

The board of directors is confident of an improvement in performance and profitability with a new management team and the introduction of improved computer technology

Money shrinking on JSE

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Oil price increase depressing economy and gold markets

Sowetan 27/9/90

By GILLIAN COUNIHAN

WATCHING your money grow, as anyone knows, is a great experience. Seeing it shrink is depressing. And that is how most people feel about the Johannesburg Stock Exchange right now.

Since the beginning of August, the overall index which measures the performance of the whole market has dropped from 3 160 to 2 759

The all-important gold price, which affects SA's largest income earner, has traded nervously around the $370 - $390 range, only this week managing to top the $400 level

And resulting from the crisis in the Middle East, the price of crude oil has rocketed to trade at over $40, compared with $15 as recently as July this year

The implications of the oil price rise are depressing for our economy, because of the resultant sharp increases in petrol

Price

The effects of a higher petrol price filter through to everyone, in the form of a higher inflation rate The latest figure for SA is 13,6 percent, which is high compared to other countries, for example UK 10,6 percent and US 4,8 percent

Translating inflation into easy terms, SA's inflation rate of 13,6 percent means that anything you bought last year at R100 would now cost R113 60

With the background of a depressed gold price, dismal stock market and rising gold price, the only cheerful investors are those sitting on fat savings earning high real interest rates, or stokvel members partying while they save

Investors in the JSE have had little reason for good cheer

Of the five September competition shares only one has shown an increase since the end of August Utico, listed under Tobacco and Match, has risen from 2 400c to 2 550c And according to the prices pages in the latest *Finance Week* (September 27) the other four have either only managed to stay level or record declines

Dropped

Frame, in Clothing and Textiles, stayed put at 790c, Amic in Industrial Holding dropped from 800c to 7 000c, Kersaf in Beverages, Hotels and Leisure lost 200c from 1 975c to 1 725c and Genbel, listed in Mining Holding, fell from 650c to 540c

Our September competition closes on Friday 28, so keep an eye on the shares prices of the above five shares

This week we will publish a coupon (elsewhere on the page)which readers can fill in and submit their entries for the September draw, so keep watching the JSE, and you could be winner of 100 Genbel shares worth R540

Companies differ on dividends

MARCIA KLEIN

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COMPANIES should be strengthening their balance sheets and reinvesting surplus capital in view of the present economic climate, rather than paying out extraordinary dividends, some market analysts say

The analysts were commenting on companies which had declared special dividends in recent months following the announcement in the March Budget that dividends were no longer taxable This enabled directors to distribute surplus capital to shareholders.

Groups which have done this include Liberty Life, which paid a special dividend of 50c ahead of Liberty Holdings (120c) and Liberty Investors (6c) on strong liquidity and a new dividend distribution policy

Centrecity issued an 8,56c special dividend ahead of a rights issue, and Putco announced a special dividend of 310c a share as part of a reduction in operations

S M Goldstein declared a 33c special dividend after a reorganisation with Group 5, while Samancor issued a special dividend of 30c following good results

In a group restructuring, Abbey Holdings declared special dividends of 180c a share

Commenting on special dividends, Price Waterhouse director Chris Frame says the situation differs from company to company, and as dividends are no longer taxable companies may see no further reason to hold cash

Optimism

A change in the investment climate could lead a company to abandon its investment plans and could lead to a decision to strip out cash

Deloitte Pim Goldby investment manager Mark Ingham says SA investors are income driven rather than capital growth driven with a short term mindset

A way to retain shareholders is to issue a generous dividend, indicating optimism about the future

In contrast, he says, companies such as Sasol — anticipating a lengthy recession — are raising the cover to keep cash reserves strong

Ingham says there is an argument for companies not paying special dividends, and reinvesting in retention and ploughing the capital back into the company instead — which may save the possibility of a costly rights issue

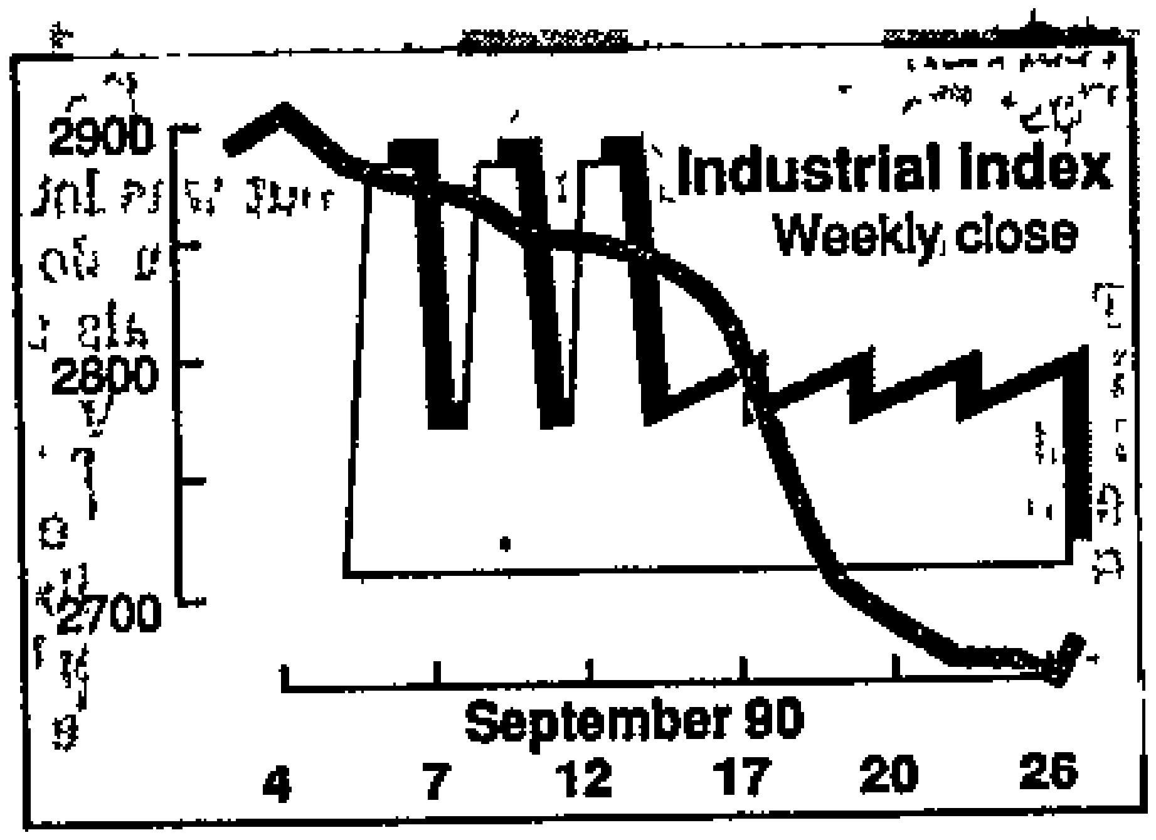
Payment of a special dividend does not necessarily indicate economic health, he says, and might mean a reduction of business or a short term stalling mechanism of a company on the way out

A rule of thumb is "the lower the yield the higher the rating", but the declaration of a dividend is dependent on the style of management and its view of the future

Where a company has substantial reserves, payment of a special dividend is quite acceptable

Kaplan & Stewart investment analyst Robin Pegler says if a company has surplus cash, shareholders should have it in the form of a dividend rather than the company earning interest and paying tax on it

Mathison & Hollidge analyst Aloma Jonker says special dividends arise out of excess cash, and if a company has a low return on capital, it makes sense to pay out a special dividend



Graphic LEE EMERTON Source JSE

US reaction to FW boosts the JSE

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MERVYN HARRIS

THE industrial index registered its first gain in three weeks yesterday as the JSE's industrial sector reacted positively to the reception accorded President F W de Klerk in the US BDay 27/9/90

The index rose 23 points to 2 686 as institutional investors nibbled at leading shares. Prices were also supported by a weaker finrand investment unit which declined to R3,9350 from R3,88 to the dollar.

Improved sentiment and the weaker finrand also gave an upward shove to market leaders De Beers and Anglos, lifting the JSE overall index 20 points to 2 779.

The uptrend came in the face of the Tokyo market plunging nearly 5% and a weak opening on Wall Street, but the JSE was encouraged by gold's performance.

Gold rallied towards the close of trading in London to end $1,13 higher on the day at $405,38 after briefly falling to a low of $399,10. Dealers linked gold's volatility to fluctuations in crude oil prices.

Gold shares veered in line with the metal's movements and the JSE all gold index gave up early gains but recovered its losses to end one point up at 1 583 in choppy trading.

Trading was quiet after the activity on the gold board over the past two days, ascribed mainly to dealings by professionals.

In New York last night, the metal rose $5 to close at $407,25.

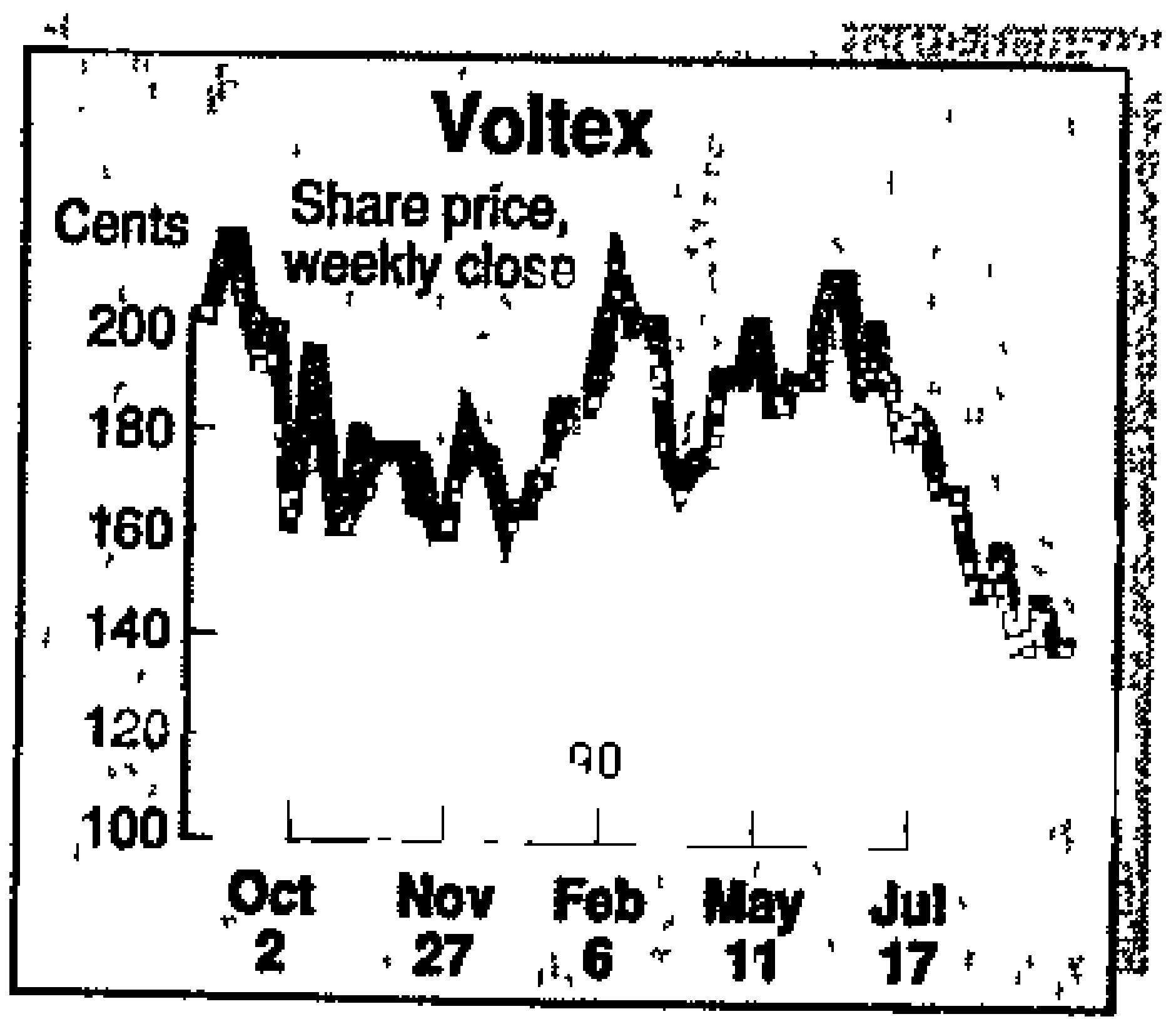
Platinum was under renewed pressure yesterday on perceptions that higher oil prices would dampen demand by car makers for catalystic converters. The metal, which is now seen as an industrial commodity rather than a precious metal, slumped from the previous London afternoon fix of $461,60 to $446,75 and was trading as low as $440 in New York.

Voltex beats share forecast

ZILLA EFRAT

VOLTEX lifted its earnings to 33,8c a share in the 16 months to June — comfortably beating its 32c a share forecast in spite of increasingly difficult trading conditions. BDay 27/9/90

The budding electrical and electronics group has declared a final dividend of 2c a share. This brings the total for the 16-month period to 11c, equivalent to an annualised 8,25c a share 232



Voltex, formerly H & J Supreme Cables, was acquired last September by the Elcentre and Berzack groups

They reversed their respective electrical and electronic supply and manufacturing businesses into it A major restructuring followed, with the renamed Voltex Holdings being recapitalised.

As a result, a comparison of Voltex's latest result with those of H & J's for the financial year to February 1989 are meaningless.

However, an H & J shareholder, with attributable earnings of 16,2c a share in the February 1989 year, now qualifies for a

☐ To Page 2

Voltex

BDay 27/9/90

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☐ From Page 1

56% higher annualised equivalent of 25,3c

Turnover for the 16 months topped R1bn and, with the operating margin at 13%, operating profit was R140m In the 12 months to February 1990, turnover reached R795m and operating income was R98m on a margin of 12,4%

The tax bill amounts to R257 000 The group benefits from various tax allowances and expects that no material tax will be payable, or provided for, in the next two years

Voltex's gearing is at 0%, compared with 22% at end-February 1990

Directors expect the recent acquisition of a 52% stake in UK-based Bennett and Fountain to benefit the group through foreign earnings flow and enhanced export activities

The R142m cost of this acquisition has been met from existing resources

Voltex shares have fallen from a June high of 210c to a current low of 140c a share

At the present level, they yield 18,1% and 5,9% respectively on the annualised equivalent of the latest earnings and dividend Comparable figures for the JSE actuaries index of the electronic sector are 14,3% and 5,2%

SPARECO FM 28/9/90

STILL WAITING

232

The meeting set for October 4, to determine the future of ailing spares group Spareco, could again be postponed Market sources believe some of Spareco's creditor banks may be playing for time so that they can exercise rights in terms of a notorial bond granted by the Rand Supreme Court on September 4 That would not benefit trade creditors who would receive little or nothing if Spareco is to be wound-up

Alpha Bank, First National Bank and Bankorp were authorised to hold all Spareco's moveable assets at 24 of the company's Transvaal branches, after making an urgent application to the Supreme Court It is alleged that Spareco owes R31m to Bankorp, R12,6m to the International Bank of Johannesburg (IBJ), R7m to First National Bank and R6m to Alpha Bank (**see** ***Economy***).

The purpose of the October 4 meeting is to consider an arrangement proposed by Lakewood Corp of the Cayman Islands Lakewood has proposed to make R10m available to Spareco by subscribing for the company's ordinary share capital, plus a loan of R5m to be used as working capital Lakewood's proposal was brought by IBJ

IBJ MD Peter Gray declines to divulge the identity of Lakewood's owners because, he believes, it could jeopardise the Spareco deal He says Lakewood's R15m is already in the country

It is believed that two other parties are still interested in acquiring control of Spareco and their proposals will also be considered

Gerhard Slabber

Widely restructured Tollgate reports losses

B\Day 28|9|90.

(232)

LESLEY LAMBERT

CAPE TOWN — Tollgate Holdings, the industrial holding company which has done extensive restructuring, has turned in attributable losses of R10,4m for the six months ending June, or earnings of 18,3c (26c) a share.

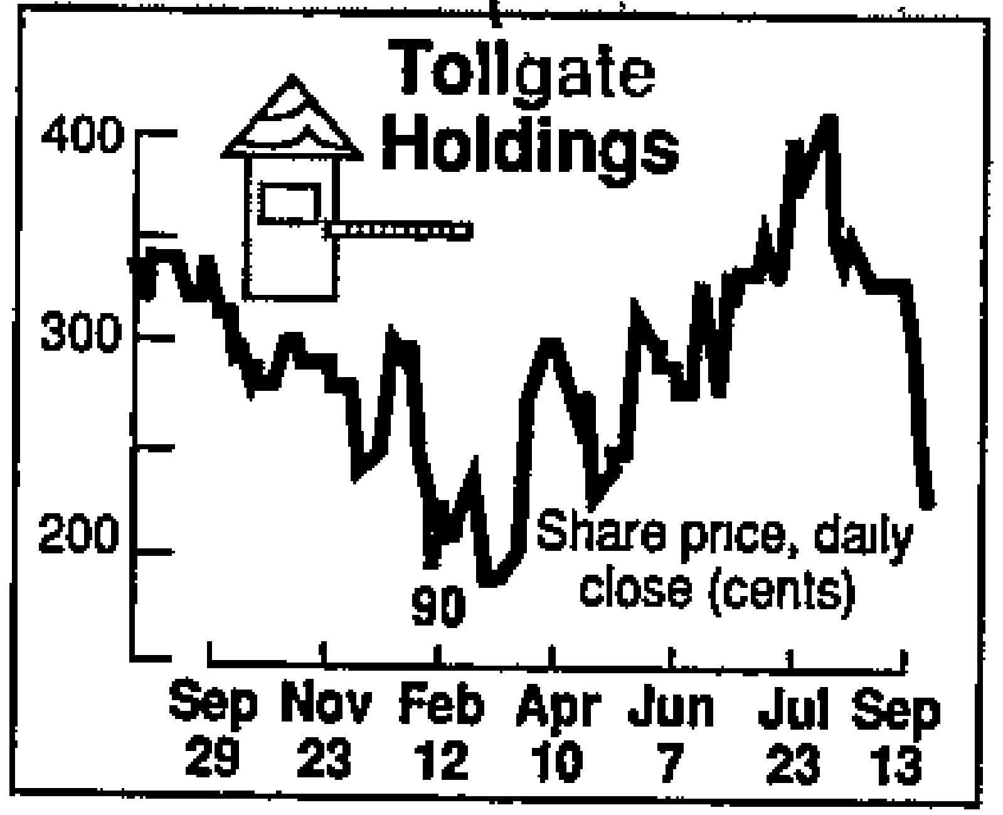
However, the results include the disposal of Arwa, Norths and other operations within the group and, as such, are not comparable with the previous year's performance

They reflect the performance of the group before international entrepreneurs Julian Askin and Hugo Biermann took control in June this year, and suggest little of the dramatic changes which are under way

A reduction in TGH's turnover from R387,3m to R279,1m during the six-month period reflects the disposal of the operating businesses of Arwa and Norths, and the Transvaal operations of Tramway Holdings

It also reflects the disposal of the cycling, public relations and advertising divisions of Entercor, the termination of the Eastern Cape and Natal commuter bus operations and large staff cutbacks

After abnormal items of R15,8m, related to non-recurring losses from discontinued operations and the termination of long-term contracts, attributable losses amounted to R10,4m



Graphic LEE EMERTON Source JSE

A dividend of 6,5c (11c) a share was declared The group would have reported EPS of 15c a share had the R42m proceeds of the sale of Arwa's business and the R45m proceeds of the rights issue been received in January instead of at the end of June

Entercor, which was to become a wholly owned subsidiary of TGH, reported an extraordinary loss of R6,2m related to the disposal of the non-performing cycling, public relations and advertising divisions

Although the company's turnover was reduced by the disposals, profits increased and earnings a share grew from 14,6c to 15,6c during the six month period No interim dividend was declared

The interim results of Gants Holdings included the agricultural machinery division which was subsequently sold to Norths Industries and excluded certain foreign subsidiaries.

An attributable loss of R3,4m was reported (R5,5m profit), translating into a loss of 5,7c a share (9,2c) No interim dividend was declared

The directors said unfavourable local trading conditions had affected Gants' results

Chairman Julian Askin said the directors were assessing strategies to improve Gants' value and performance

The business of Norths Industries was sold for R12m with effect from January 1 1990, but the consideration will only be received after the warranties associated with the sale have been met

Askin said TGH directors were embarked on the restructuring of group activities, disposal of non-performing assets and debt reduction

The disposal of certain assets and termination of some operations in the commuter business of Tramway Holdings, together with a R45m rights issue, had already reduced group debt by 53% from R374m to R176m

Multi-million rand losses from Duros

Cml Tims 28/9/90

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'A very different creature' emerges

By AUDREY D'ANGELO
Business Editor

MULTI-MILLION rand losses reported by the Duros Group — now in the process of being renamed the Tollgate Holdings Group — for the six months to June 30 stem from decisions taken before the change of control in midyear, new joint chairman Julian Askin said yesterday

"We have stopped all losses and now have a very positive cash flow The company has been turned around and is a very different creature "

Holding company the Duros Group reported a pre-tax loss of R17,8m compared with a profit of R22,7m in the first half of last year The after-tax loss was R15,3m compared with a profit of R16m Losses to ordinary shareholders were R10,1m compared with losses of R7,5m

Non-recurring losses on discontinued operations and the termination of long term contracts were R15,8m Nett losses from the disposal of assets and shares in subsidiaries, discontinued operations, retrenchment costs and assets written down totalled R38,8m

Turnover was R285,1m (R388,6m) and operating income R16,1m (R44,1m) The interest bill was R18,1m (R21,4m) The loss before abnormal items — the disposal of nonperforming assets — was R1,9m

● **Tollgate Holdings** (TGH), holding company for the operating companies, reported an after-tax loss of R14,8m compared with a profit of R23,4m, and a loss to ordinary shareholders of R10,3m compared with earnings of R13,5m in the first half of last year

● **Entercor Holdings** which, under a scheme of arrangement, will be de-listed and become a wholly owned subsidiary of TGH, reported earnings per share of 15,6c (14,6c)

Operating income rose to R4,4m (R3,9m) on a turnover of R44,2m (R59,9m) But an interest bill of R1,3m (R69 000) reduced income to R3,1m (R3,9m)

Chairman Mervyn Key and director G C O'Leary say that although the operating results are "pleasing and in line with expectations" the disposal of "the nonperforming cycling, public relations and advertising divisions" has resulted in an extraordinary loss of R6,1m

● **Gants Holdings** report an operating profit of R738 000 (R14,8m) on a turnover of R67, (R129,2m) The interest bill was R4,1m (R9,2m)

The loss to ordinary shareholders was R3,4m compared with attributable earnings of R5,5m This translates to a loss of 5,7c a share compared with a profit of 9,2c

However, comparisons are misleading because results for the first half of last year included those of the agricultural machinery division, subsequently sold to North's Industries

The directors say that unfavourable local trading conditions affected results. The effect was exacerbated by aggressive discounting and dumping of excess stock by competitors, and industrial action against major retail customers

They expect the market "and, in particular, price levels" to improve in the last quarter

"Management has now addressed the area of operating efficiency, which will also give rise to improved financial performance in the future, and greater emphasis will be directed to those products which are able to be exported

"In addition, certain other strategies are being considered to increase performance "

● **Crendell Investment Corporation** — formerly Arwa — is now a cash shell with R42m It is about to acquire Duros' insurance interests

● The assets of **North's Industries** have been sold to Chmarnic (Pty) in a management buy-out for R12m Under a scheme of arrangement the cash shell will become a wholly owned subsidiary of TGH

Ruthless disposal of of company 'dogs'

Business Editor

THE new controlling shareholders of the Tollgate Group (TGH) have had to be "absolutely ruthless" in disposing of non-performing assets and reducing debt, joint chairman Julian Askin said in an interview yesterday

He said that by Christmas they would have had six months in which to "tidy up the mess At the beginning of the year we hope to have a company that is extremely profitable."

The "tidying up" has included the disposal of all the bus companies except that in Cape Town, which is profitable

Askin said this could result in improvements in the local transport services since management would now be free to give all their attention to these "instead of having to deal with all the 'dogs' they had in the company "

Some of the buses from the companies which had been disposed of had been kept for use in Cape Town

The loss-making bus-building company had been closed down The group's employees had been reduced from 19 000 people to 12 000

Other companies disposed of, including Entercor's cycle division, had been sold to their managements

Askin, who is based in London, said he intended to spend a large part of the year in Cape Town attending to the group The results for the first half of the year "do not present a happy picture, but those days are gone "

He said he intended to build up a strong base in SA before expanding operations in the UK

He hoped to make an acquisition in the UK within the next six months "But I don't want to start on overseas activities until we have straightened things out here

"I do not want people to regard this as a rand hedge share to be bought for speculative reasons. The group is a very good base I don't intend to sit on our SA assets and not make them work."

He was optimistic about the future for SA. This was why he had bought his stake in the group

"You have to buy at the right time If I had waited for things in this country to improve it would have been too late "

Askin said the disposals and a R45m rights issue had reduced group debt by 53% from R374m to R176m "Of these borrowings, some R120m reflects the group's investment in, and the consolidated borrowings of, Gant's "

Star 29/9/90

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Police evict irate clients from bank

Row as cheques dishonoured

BRENDAN TEMPLETON

ABOUT 70 disgruntled Trust Bank customers were evicted by police from the company's head office branch yesterday

The Bank refused to honour the pay cheques of the customers who are employees of motor spares company Spareco Ltd which is faced with liquidation

But the indignant customers, ranging from middle-aged women working as clerks to young drivers, were adamant Trust Bank should honour the cheques because they had assisted in stock taking at Spareco this month under directions from the bank's auditors

Escorted

"If we are losing millions, why can't the bank also lose millions," a grey-haired woman yelled as she was firmly escorted from the bank by a burly policeman

The employees obtained a court order on Thursday instructing Spareco to pay their money They went to the company yesterday to receive their cheques

Although the atmosphere outside the Spareco office in central Johannesburg was genial while they waited for their cheques, the faces turned grim when they faced the prospect of cashing them

When they came out of the office, an employee said he had heard the cheques would not be honoured "What do you mean, 'how do I feel' We want our money and we are going to get it," he said when approached by The Star

At the bank, about 70 employees were allowed in before the manager realised the extent of the problem The rest were kept waiting outside while a security guard armed with a shotgun kept a watchful eye from inside the bank

Apprehension turned to anger when they were told the cheques would not be accepted

"At no time this whole month were we told we had been fired or retrenched or should start looking for other jobs

"Instead Trust Bank send its people in and we assist them in stock-taking and all of a sudden they say they are not going to honour these cheques," employee Tommy Passmore said

A number of employees entered into shouting matches with the manager, demanding he accept their cheques

As the crowd outside grew, it became clear the customers inside would not leave and police were called in They were asked to leave in no uncertain terms "People, you can go outside now, or we will arrest you and you can spend the day in jail," a policeman, who identified himself as Captain Nortje, shouted

Outside, the crowd which was about 200-strong, was forced 10 metres back by the police to allow other customers to enter

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Overseas flights up 8 pc Monday

SOUTH African Airways' international airfares will increase by 8 percent from Monday, October 1, according to the information given to travellers and travel agents by SAA in Johannesburg

However, no official comment has yet been given by SAA

Travel agents in Johannesburg confirmed that the fare increase goes into effect from October 1 — and are advising overseas travellers to book their reservations on Friday at the old prices — Sapa

Unit trusts offer an entry to the JSE casino

W/E Mail 31/8 - 2/9/90

(232)

Unit trusts provide the small investor with a means of sharing in the sometimes spectacular profits of the Johannesburg Stock Exchange. They should form part of any balanced investment plan, reports

REG RUMNEY

FOR most South Africans the Johannesburg Stock Exchange might still seem a rich man's casino — not a place for a sensible person to put away money

(However, through pension funds and life policies many participate in the institution)

There are a number of compelling reasons for investing in shares, stocks or equities, as they otherwise are sometimes called

One is inflation. In an economy where inflation is constant, investment in companies is the only way an investor can be sure of getting a reasonable return

Tax and inflation together are sure to erode the value of money put into interest-bearing accounts in banks or building societies Companies, on the other hand, can pass on cost increases to consumers by putting up their prices in line with inflation. The end result is that they can show profits above inflation.

The other reason is tax Investment in shares can — depending, among other things, on the length of time the shares are held — enable investors to get a tax-free capital gain.

Few have the wherewithal or the inclination to buy individual shares Especially the "blue-chip" shares, which have risen to levels where it is difficult for an individual to spread his risk. For example, 100 SA Breweries shares alone would cost more than R3 700

On the other hand, few brokers are willing to get involved in taking orders for 100 shares or so

Unit trusts, or mutual funds, offer the ordinary man an avenue to invest in the JSE

A unit trust makes it possible for a large number of investors to pool their capital for investment on the stock exchange, so getting a spread of investment they could not otherwise achieve. For as little as R20 a month one can invest in unit trusts and have one's investment professionally managed by unit trust managers

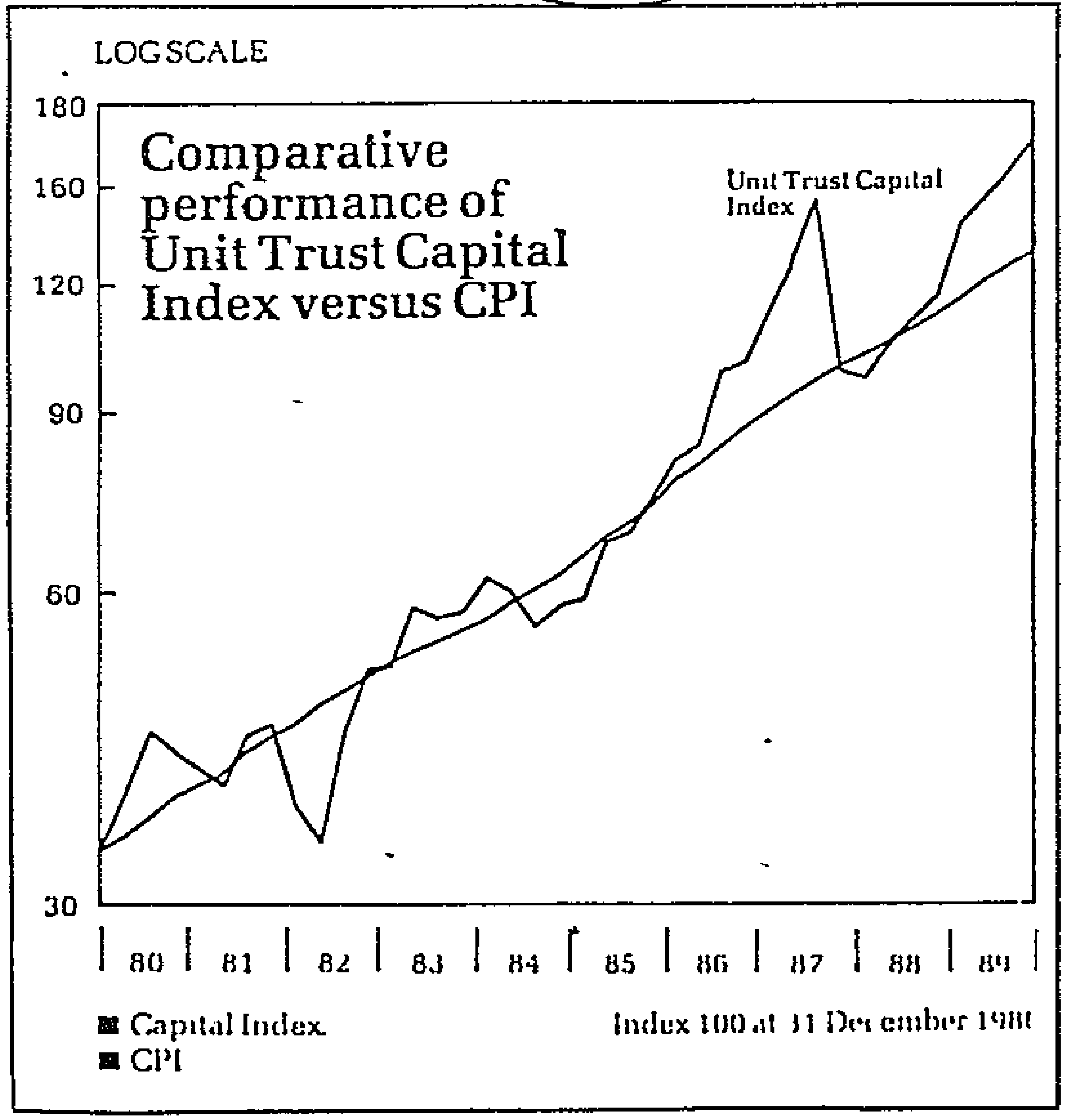
What also differentiates unit trusts from other stock market investments is the regulation of unit trusts by a set of laws For instance, under the regulations the company managing the unit trust must have a minimum capital of R2-million and must itself maintain an investment of at least 10 percent of the trust's units, up to a maximum of R1-million, at the discretion of the Registrar of Unit Trust Companies

There are other safeguards as well, one of which is that a unit trust cannot hold more than 5 percent of its assets in any one company's shares. This means unit trusts are forced to have a spread of investments and don't put all their unitholders' eggs in one basket.

There are two ways of investing in unit trusts One is by way of a lump-sum investment, the other by regular payments This second method has the advantage of "rand cost averaging" If you invest fixed amounts regularly, you accumulate more units when prices are lower and fewer when prices are higher Statistically over a period of time it has been proved this brings down the average cost of buying a unit.

Having a unit trust pays off in two ways One is the income the fund generates, and which is paid out to the unit holders

Income is paid either quarterly or half-yearly, depending on the particular fund It is made up of both dividends and interest. The money you receive is the income generated by the trust, minus the service fee, audit fees and any relevant taxes.



Returns on unit trusts have kept pace with the inflation rate, as measured by the Consumer Price Index in the past decade. Since mid-1988 the Unit Trust Capital Index has consistently out-performed the CPI, giving investors a real return on their money.

The other pay-off is the capital appreciation — the difference between the price you paid for your units originally and the price for which you can resell them to the unit trust fund managers

If you don't need immediate income you can select an investment plan which allows the income to be reinvested in units, and many unit holders opt for this

For many years unit trusts have paid off handsomely, giving returns well above the inflation rate

There is a tax angle as well These high returns have mainly, though not entirely, been the result of capital appreciation. Now, since dividend payments from share investment are no longer subject to tax the income payments from unit trusts are also to a large extent tax free.

Not all of the income is tax free Some of the income generated by a unit trust comes from investing cash, and so is subject to tax This happens when a unit trust becomes liquid, that is it sells shares At times like the present when the stock market seems shaky and interest rates are high, the fund managers would like to keep a fair amount of cash for interest-bearing investment

For instance, Old Mutual assistant GM (unit trusts) Bastiaan van der Merwe says liquidity now varies from fund to fund, with some holding as much as 10 percent in cash, some going as high as 30 percent. Unit trusts are compelled by law to hold at least 5 percent of their assets as "liquid assets", basically cash investments

There are some points for potential investors to note.

Firstly, unit trusts are a long-term investment. Bank on holding on to them for five years or more

Secondly, a basic tenet of investment is that there is no risk without reward, and the unit trust industry offers no guarantees about future returns. It merely points to the returns achieved in the past.

On the face of it unit trusts are hard to beat The general equity trusts, the most popular investment vehicles achieved an average annual compound growth — capital growth plus income payments — of over 25 percent over the past five years

The question a potential investor has to ask is What is likely to change? Will the government really succeed in bringing down inflation drastically? Will the stock market continue to achieve the kind of returns for investors that it has?

It is likely that a withholding tax of something like 12 percent is likely to be introduced This will reduce the amount of tax investors pay on interest-bearing investments, and make them more attractive than they have been But even if one were to decide that, say, participation mortgage bonds, which have a reasonably high rate of interest, were the main place to put one's money, unit trusts should form part of any balanced investment plan.

Unit trusts offer an entry to the JSE casino

W/C Mail 31/8 - 2/9/90

232

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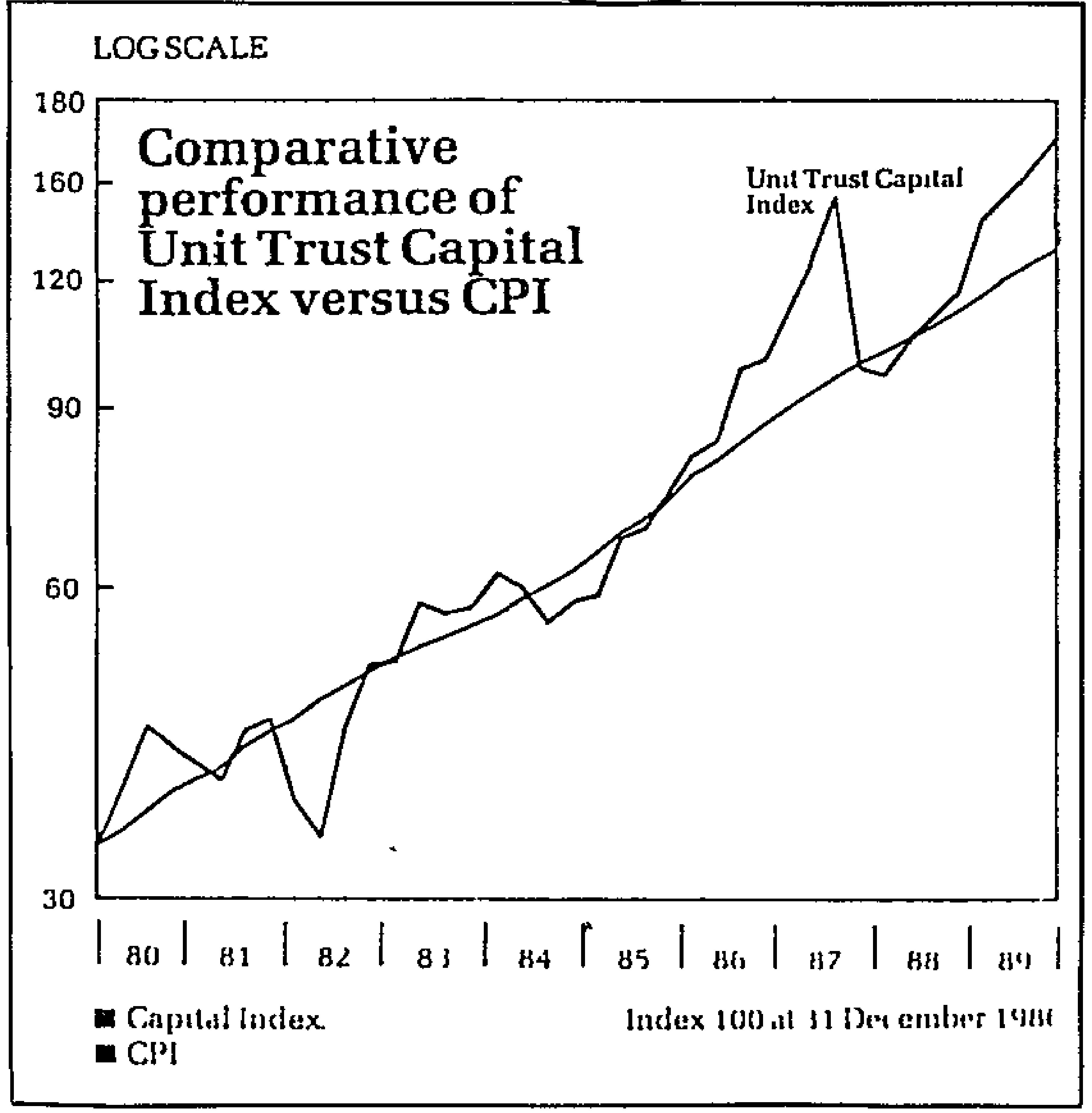

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JCI keeps growing

(232)

■ Johannesburg Consolidated Investments (JCI) posted an 18,2 percent increase in attributable earnings for the year ended June. W/Mail 31/8 - 2/9/90

Financial statements released on Wednesday show earnings were higher at R429,6-million which translates into earnings a share of 291c (246c).

A final dividend of 90c was declared to make a total of 132c for the year.

The contribution to equity earnings by the group's mining interests increased marginally by R9,1-million, an increase of 2,8 percent on the previous year.

Platinum and gold's contribution declined by R18,9-million and R5,6-million respectively, mainly as a result of a significant drop in the prices of the metals as well as the impact of inflationary pressures on working costs.

The improved trading conditions ecxprienced by the group's diamond interests resulted in an increase of 8,5 percent to R81,4-million from this source. The increase in coal earnings of 67,3 percent to R33,8-million is largely attributable to the acquisition of a 40 percent interest in the Middelburg coal mine.

Earnings from industrial and property interests increased by 8,8 percent to R226,7-million.

IN BRIEF

THE NEWS LAST NIGHT

WMail 31/8 – 2/9/90 232

Suregro earnings plunge 54 percent

■ Attributable income of industrial vehicle and materials handling group Sure Group Holdings (Suregro) fell 54 percent to R1,5-million (R3,2-million) in the year ended March.

Suregro said setbacks in its truck and parts division had caused earnings a share to drop to 6,0c from 13,1c.

There will be no final dividend for the year. An interim of 2,2c was paid after the half year.

Turnover rose 26 percent to R51,4-million (R40,7-million) and operating income by 29 percent to R7,6-million (R5,9-million). A 161 percent rise in the interest bill to R5-million (R1,9-million) reduced taxed profit by 25 percent to R2,57-million (R3,4-million).

Suregro wrote off non-recurring costs of R1,7-million (R400 000) as extraordinary items in the year.

Group MD Keith Blair said all indications at the half-year were that the truck and parts division would continue to trade profitably, but anticipated demand did not materialise.The group's overseas division performed well, contributing R2-million to taxed profit. The directors forecast meaningful growth in this division in the year ahead.

Imphold profits up

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■ Investment holding company Imphold raised bottom-line profit 21 percent to R16,9-million in the year to June 25.

Imphold, a motor trading, car rental, truck systems and financial services group reported earning a share at 30,2c (25c). The final dividend of 6,3c (5,5c) brings the total dividend for the year to 12,05c (10c). W/Mail 31/8 - 2/9/90

Turnover climbed 22 percent from R446,5-million to R544,5-million. Operating profit rose by 29 percent to R50,1-million (R38,8-million). Finance charges increased from R5-million to R7,6-million, leaving pre-tax income 25 percent ahead at R42,5-million.

Imphold's motor division continues to be the largest contributor to turnover at 43,7 percent (43,5 percent) but the truck systems division made the largest contribution to pre-tax profits, earning 33,8 percent or R14,4-million of the group's pre-tax profit.

Imperial Car Rental continued its expansion and pre-tax profit rose by an acceptable 13,3 percent tor R12,3-million.

Recently launched Regent Insurance contributed R3,8-million or 9 percent of the group's pre-tax profit.

Reports from Weekly Mail staff, Sapa

Provisional liquidation for Spareco

Star 2/10/90.

232

By Ann Crotty

Spareco has been placed in provisional liquidation after Bankorp's decision to support an earlier application by Ferodo. The order was granted by the Rand Supreme Court last night.

The court ordered that the application be granted, but refused another request that a creditors' meeting be stopped

The meeting, set for October 4, is to discuss efforts by the Cayman Islands-registered Lakewood Corporation to take over Spareco for 30c in the rand.

Bankorp (which has a claim of R31,4 million, compared with IBJ's, Alpha's and First National's aggregate claim of R28 million) said it opposed the scheme of arrangement and would not support it.

Without Bankorp's support the Lakewood deal cannot be implemented as it will not receive the necessary 75 percent support of creditors entitled to vote

Bankorp said it had received far more beneficial offers for Spareco, but that the prospective buyers would formalise the offers only if Spareco was placed in liquidation because of the uncertainty and chaotic state of its affairs.

Court order against Spareco

MARCIA KLEIN

MOTOR spares distributor Spareco has been placed in provisional liquidation.

An order for the provisional winding up of Spareco was granted by Mr Justice Joffe in the Rand Supreme Court yesterday after an urgent application brought by one of Spareco's creditors, Ferodo.

An affidavit supporting Ferodo's application was submitted by Bankorp — Spareco's largest creditor — which stated Bankorp did not accept or support a proposed scheme of arrangement with Lakewood Corporation aimed at satisfying creditors.

It was stated in the affidavit that Bankorp would vote against the sanctioning of the arrangement at a meeting scheduled for October 4, and as Bankorp was the major creditor a majority would not be obtained.

2/10/90

BDay

Bankorp was not prepared to await the outcome of the meetings of creditors on October 4 and supported the application for the liquidation of Spareco, said the affidavit

232

An attorney acting for Ferodo said last night that the October 4 meeting with creditors was still scheduled to take place

On September 11 Ferodo applied for the liquidation of Spareco, and the application was postponed to October 9.

However, the creditor brought an urgent application yesterday following the resignation of three Spareco executives and the refusal by TrustBank to honour cheques for the payment of Spareco staff wages on Friday.

Capex of R1,1bn on the cards for AVI

CHARLOTTE MATHEWS

BDay 2/10/90

(232)

ANGLOVAAL Industries (AVI) had budgeted R1,1bn for capital expenditure over the next three years, chairman Basil Hersov said in the group's 1990 annual report.

This compares with R232m spent in the year to end-June 1990 and R282m in 1989.

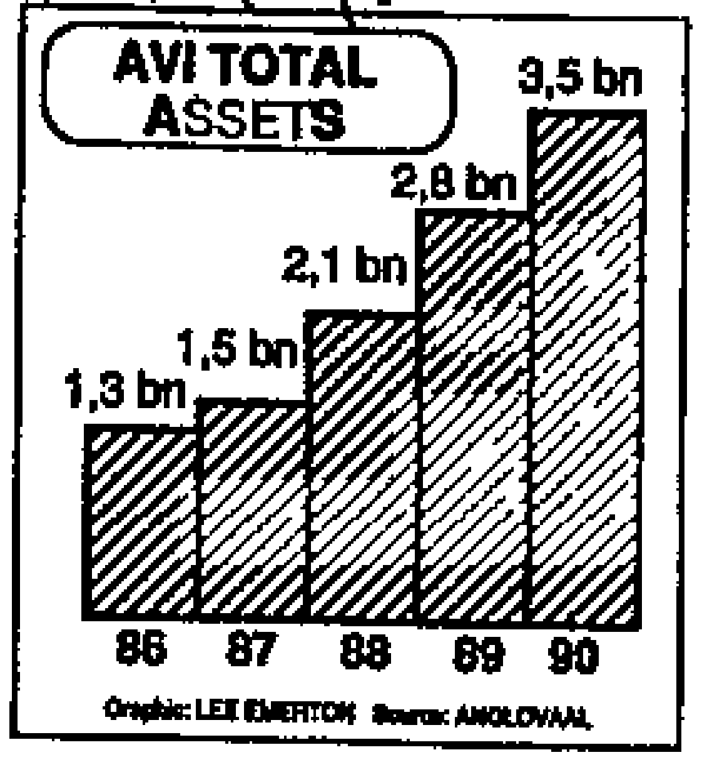
In the year under review, AVI raised attributable profits by 26% to R207,8m from R164,6m and a dividend of 135c (120c) was declared.

Hersov said each of AVI's five business sectors contributed towards this improvement. Grinaker Holdings performed well despite pressure on civil engineering margins in Grinaker Construction.

Earnings from AVI Diversified Holdings grew ahead of the inflation rate. Market demand for textiles was strong in the first half of the year but was disappointing for the full year, partly as a result of labour unrest, he said.

Engineering related investments performed considerably better than in 1989 with the exception of Claude Neon.

National Brands earnings improved significantly. Some of the best performers included Becketts — tea and coffee and breakfast cereals marketer — and Bakers.



Graphic: LEX EMERTON Source: ANGLOVAAL

In the frozen food division, Irvin & Johnson did not manage to maintain its record of sustained earnings growth because of soft markets, a decline in the Namibian fish resources, reduction in SA's hake quota and a poor catch mix in SA waters.

Consol's earnings grew 48%.

AVI's investment in Control Instruments Group has been disappointing and a R10m provision against its carrying value at June 30 1990 has been made.

Spareco liquidator to be named today

BDM 3/10/90 232

Business Day Reporters

A LIQUIDATOR for Spareco will be appointed in Johannesburg today, attorneys for Spareco creditor Ferodo said yesterday

Attorney Michael Young also said that creditors requiring information on their dividends should attend tomorrow's meeting at the Carlton Hotel in Johannesburg at 9am to consider an offer of compromise.

It was Ferodo's successful urgent application that put Spareco into provisional liquidation on Monday.

Spareco's major creditor Bankorp has already rejected a rescue package proposed by Lakewood Corporation and said on Monday it would vote against the agreement. A majority would therefore not be obtained as Bankorp has a weighted vote.

Bankorp senior credit manager Adriaan Burger would yesterday not confirm or deny whether the bank planned to take steps to halt the meeting with creditors tomorrow.

He said he did not know whether Bankorp had already written off the R31,4m Spareco owed it

A Spareco employee said he believed Bankorp was against the offer as it was made by foreign investors Lakewood Corporation is registered in the Cayman Islands, and sources confirmed it is linked to German businessman Hans Schreiber who has a number of interests in SA.

An employee of Spareco confirmed that a meeting had been held yesterday between regional managers of Spareco and Valtrucar (Valcar). However, neither party would comment on the content of the meeting

Investors' Spareco rescue operation gets under way

BDay 4/9/90

MARCIA KLEIN

A RESCUE operation to save motor spares distributor Spareco from final liquidation got under way yesterday with meetings between motor group Vaaltrucar (Valcar) and Spareco management and staff.

Spareco company secretary Mark Chasey said last night there would be a meeting today of a consortium of investors — Valcar, IGI (which is backing the deal), and "another party" — and Spareco's liquidators and creditor banks.

Valcar and Vaalauto have issued a cautionary announcement to shareholders that negotiations are taking place.

Directors of Valcar — the company operates sales parts and service outlets in the Transvaal — could not be reached for comment yesterday.

Mike de Villiers of Deloitte Pim Goldby and Les Cohen of Westrust have been appointed provisional liquidators of Spareco.

Chasey said the consortium of investors had already been in contact with Spareco's major creditors

At a meeting yesterday, all Spareco's remaining executives and managers supported the deal.

"All staff members of Spareco were completely behind the deal, and Spareco can be saved," Chasey said.

The investors were looking for a complete takeover, with Spareco being delisted, as they "want to take over a clean company"

Chasey said the deal seemed promising. (232) ([illegible])

He thought Spareco subsidiary Eddies, which is being held as security by the International Bank of Johannesburg, would come in as part of the deal with the consortium.

Meanwhile, Lakewood Corporation's offer to bale out Spareco has lapsed.

It was confirmed yesterday that the offer by the Cayman Island-registered group was subject to certain conditions, one of which was that the company should not be placed in liquidation.

However, the meeting which the court ordered today would go ahead.

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SPARECO (232)

COUNTING ASSETS

FM 5/10/90

With Spareco placed in provisional liquidation on October 1, creditors and shareholders have moved a step closer towards obtaining clarity on several issues

Among these is the value of the group's assets and liabilities. One of the puzzling aspects of the last set of accounts is a R11,5m liability that stems from an investment in an "aircraft partnership"

The provisional liquidation also creates the opportunity for a compromise offer in terms of Section 311 of the Companies Act An in-depth inquiry into Spareco's matters by the liquidators is now possible, which will greatly assist any parties interested in taking over the group. Creditors can submit their claims until November 13

After the protracted struggle to save the group, this week's court order came as no surprise. Three Spareco executives quit last Friday, including MD Graham Walker, who had been particularly active in rescue efforts. Shortly before he quit, the Industrial Court ruled that Spareco must pay September salaries to its employees, this, however, was no straightforward matter in view of the lack of funds Another development was the involvement of the listed motor group Vaaltrucar as one of the parties interested in saving the spares group Vaaltrucar executive chairman Sarel Germishuizen declined to comment

Les Cohen of Westrust has been nominated by certain major creditors to act as liquidator The Master of the Supreme Court was to appoint him and certain others as liquidators this week

Latest available accounts for Spareco are for the year to end-June 1989, which were published in February 1990 These accounts indicate a sombre outlook for shareholders and creditors It's understood that net current assets dropped substantially in recent months and this situation helped persuade the Rand Supreme Court to grant three banks authority to hold Spareco's stocks for the purpose of "protecting its security in terms of a notarial bond"

Nor do the fixed assets offer much encouragement· the accounts show book value of fixed assets stood at R23,4m, of which R8,4m (36%) represented trademarks and R5,2m (22%) computer software

The investments listed on the balance sheet include a R750 000 interest in an aircraft partnership This, we understand, refers to a Beechjet seven-passenger business jet, registration number N3127R, now grounded at Lanseria and in the safekeeping of National Airways One of the creditor banks obtained a court order in this regard some three weeks ago

The business jet is financed through an HP agreement with Southern Aviation Finance Sources at Lanseria told the *FM* the other party in the aircraft partnership is Sladden International and that Spareco chairman Chris Sladden frequently piloted the jet According to the accounts, the company is committed to an injection of R943 504 into the aircraft partnership each June and December until December 1993 and a final injection of R5,9m in February 1994 — totalling more than R11,5m

Meanwhile, it is believed that Bankorp is considering selling its interest in International Bank of Johannesburg (IBJ) to a French consortium Peter Gray, MD of IBJ and a Spareco director, could not be contacted this week

Gerhard Slabber

PRIVATISATION

SAVING THE DINOSAURS

FM 5/10/90

(232)

MORE IMAGINATIVE MOVES COULD ANSWER THE RADICALS' OBJECTIONS

Demands for nationalisation have been toned down by the ANC and their supporters But they have achieved at least one of their aims — they have persuaded government to put plans to privatise large State undertakings on the back-burner

Apologetically, government, which had sensibly adopted privatisation as official policy, is now using terms like "commercialisation," previously seen as a halfway stage to privatisation, to describe a final policy objective in itself Commercialisation is the laudable process of turning State corporations into mock private companies

Sats (now Transnet), the Post Office and numerous other State entities were, in terms of this policy, being groomed as profit centres so that they could eventually be sold to the private sector at the highest price

Now Postmaster-General Johan de Villiers tells us the Post Office won't necessarily be privatised if commercialisation alone does the trick of making it more efficient

The initial motivation for privatisation wasn't government's ideological commitment to free enterprise or to broaden democracy but a scramble to top up State coffers It is a legacy that helped to create the hostile attitudes towards a privatisation process which has been successful in improving economic performance wherever it has been applied

The Johannesburg Stock Exchange (JSE) has been only too glad to let government take its time Says JSE president Tony Norton "We expect a company to have an audited four-year profit history before it can qualify for a listing on the main boards and, for instance, SA Airways' profits as a monopoly aren't relevant to its future in a deregulated environment "

But a stock exchange flotation is only one of at least 27 recognised methods of privatisation In some cases, assets have been sold or given away to the work force, in others, corporations have been split into smaller business units, or shares have been distributed through more ordinary channels such as post offices, which don't have the elitist connotations of the stock market

The flotation, however, is probably the least easy to sell to political radicals who see the stock exchange as a rich white man's club Moreover, the political objections of the ANC have come at a mightily convenient time for many public servants who fear loss of tenure through privatisation And there are even some businessmen who have begun to raise objections For instance, many in mining and industry, including Chamber of Business president Les Boyd, oppose the privatisation of Eskom, as they believe it would lead to huge tariff increases

Two significant privatisation sales were planned for this year, the Abattoir Corp and the Phosphate Development Corp But Abakor's Frans van der Vyver says the corporation won't be privatised until the deregulation of meat sales, which is being addressed by a committee which has yet to report The Foskor listing has been delayed because the fertiliser industry lobbied on the fear that it could push fertiliser input or raw material costs sky-high

But privatised businesses are regulated by the most efficient regulator of all — the market It would be vital to make sure that fertiliser companies had full access to imports And the deregulation of meat prices should accompany Abakor's privatisation

Opponents of privatisation even point at Iscor, which is now trading at a discount to the issue price, to say that privatisation isn't such a boon to the public Those same critics argued, when it looked as though Iscor might provide a neat capital gain to consumers, that privatisation would create a casino mentality in the people and make them greedy for short-term profit

While nominally socialist countries like New Zealand and Czechoslovakia are privatising at high speed, SA, which our own government has been holding out in recent years as a bastion of capitalism on the tip of Africa, is taking its time

Cosatu's Mashele *what about a living wage?*

A stock argument is put by Jasper Nieuwoudt, the CE in the Office for Privatisation "In the UK, certain companies were once in the private sector and developed a business record and then were nationalised. It was, therefore, relatively easy to return them to the private sector

"In SA, however, businesses were never nationalised but were born in the public sector, so an entirely new business culture has to be created The widening of share ownership is a desirable goal when it's appropriate but it is only one part of the process. Turning corporations into efficient businesses is an important development in its own right "

The argument glosses over the fact that in the UK water and telecommunications were also born in the State sector but have nonetheless become part of the private sector Or that privatisation plans in eastern Europe have been devised to take into account the previous absence of the profit motive

The value of the remaining State corporations is immense (see graph) Eskom alone, with an estimated asset base of more than R39bn, is second only to Old Mutual Transnet has an asset base almost equal to De Beers

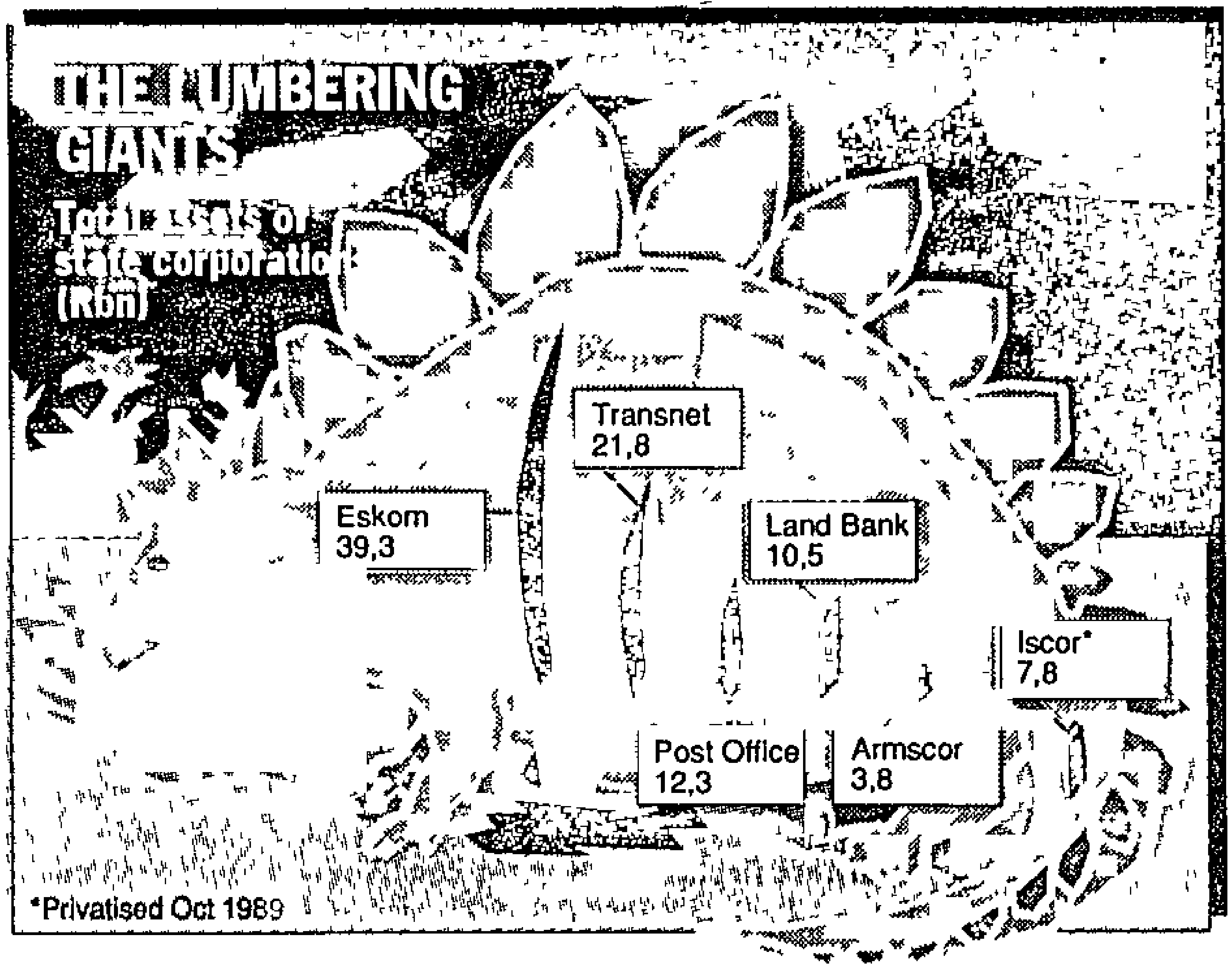
But, apart from the corporations themselves, almost all public-sector buildings and services are candidates for privatisation The total value of privatisable assets is estimated at between R200bn and R500bn, or between six and 15 times the asset base of Anglo American

One reason for the delay is probably the understandable desire of the present public sector bosses to build and retain empires Sats MD Anton Moolman has proved to be an energetic and (by State standards) entrepreneurial manager, but in spite of new names and expensive corporate image campaigns, a magnifying glass would be needed to find any discernible difference between the old Sats and the new Transnet

Free Market Foundation director Leon Louw says governments have tried to make State corporations more efficient all over the world, but failed "These companies are still socialised and aren't responsible to shareholders in the ordinary way But it's estimated that talk about privatising a unit increases its efficiency by 10% and actual privatisation by 30% "

Louw says government is under the false impression that only profitable enterprises can be privatised He says one of the best methods, which could be popular with workers and unions, has been practised in Czechoslovakia, where an equal number of vouchers has been distributed among the population.

FIM 5/10/90 (232)



"These vouchers can be used either to buy shares in a State utility or buy a small business or commercial vehicle They have no monetary value, so it hasn't led to an inflationary cash injection into the economy Rather than sell off the whole of Transnet, trains could be sold coach by coach to individual entrepreneurs, who could then book siding time "

In the case of undertakings which commercial logic suggests should be sold as a single unit, in Louw's view the best method is to allow workers to take one-third of a company, first-time shareholders, preferably blacks, another third; and the remaining third to the general public

The nearest thing to a populist privatisation in this country is happening at National Sorghum Breweries (NSB) Early in 1991 NSB, which is part of the Industrial Development Corp, will send a prospectus to potential investors, primarily from its staff and distributors, who are 95% black No non-black enterprise will be able to exercise more than a minority interest.

Reason suggests that this example could be a workable model for making privatisation popular with blacks NSB chairman Mohale Mahanyele, however, is reluctant to draw such a conclusion "Sorghum beer isn't really comparable to Sats or the Post Office because sorghum was historically part of the black heritage which was taken away from them and is now going to be given back "

Mahanyele says NSB will be by far the biggest black-controlled enterprise in the country and he says blacks who really understand the sorghum market will be able to grow with the market by providing more sorghum beer in line with consumer tastes The company could prove a major boost to black business confidence and may give them a stronger desire to buy into State corporations


Free Market's Louw *serious talk boosts efficiency*

The ANC and its Cosatu allies remain sceptical about plans to share wealth among the whole population

Floyd Mashele, who co-ordinates Cosatu's anti-privatisation committee, says the ANC has made it quite clear that any industry that is privatised during the negotiation process will be renationalised by the "new democratic government" even if the workers in the enterprise make up a large proportion of the shareholders

"Share ownership is a method of dividing the work force Those workers who have shares in a company will be less willing to fight for a living wage if it means that the company will suffer as a result At the end of the day, large private corporations will buy out workers and then exercise their clout to control the privatised industries "

But labour harmony has been the outcome in countries where workers are properly rewarded and made to feel that they have a real stake in their companies Higher growth rates were the result In one sense, unions have been most successful in Austria and Sweden, where they have won high wages for their members But they have been least successful in these countries in radicalising the work force, because people with mortgages and colour TVs don't put their jobs at risk

Mashele led a series of marches against privatisation, which contributed to government's change of tone Nieuwoudt now admits that to name the bodies which are primarily concerned with commercialisation "The Privatisation Unit" and "The Office of Privatisation" is misleading and it's quite possible that their names could be changed

But even this climbdown isn't quite enough for the ubiquitous Mashele State corporations which have at any time been identified as candidates for privatisation will be picketed on Friday October 19 and there will be further mass marches on Saturday October 20

Mashele adds that businesses which have expressed an interest in buying privatised assets will also be picketed

"We aren't against commercialisation which leads to greater efficiency and productivity If it isn't detrimental to the industry to separate Transnet into business units then we wouldn't go back to the status quo But we fear that the privatisation process has just gone underground Tariffs have been increased and work forces cut back just as they would be in a private corporation "

Unfortunately, these are part of the greater efficiency and productivity which Mashele claims to support

The central argument used by Mashele is that whatever the merits of privatisation it should be left to a "legitimate" government to carry out

And instead of trusting the market system to allocate resources to the greatest economic benefit, which is what is happening everywhere else in the world, Mashele is hopeful that economic growth can result from an end to sanctions, a decline in labour unrest and a stable political climate, regardless of whether the lion's share of the economy is in State or private hands

That logic has already been put to the test and has failed in eastern Europe, the USSR, Red China, Central Africa and in many South American countries

By adhering to trade and financial sanctions and opposing privatisation, the ANC and its surrogates are upholding a political stance that is tantamount to the violent disruption of society That is an attitude of mind also characteristic of those who perpetrate apartheid ■

PINNACLE HOLDINGS (232)

INVESTORS REVOLT

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Shareholders of Pinnacle Holdings, which owns 10% of troubled Alpha Bank, are preparing to sue the directors Chairman Attie Botha has already resigned.

A shareholders' committee has written to all shareholders, stating that Pinnacle's prospectus "promised an incredible return on our investment" These promises persuaded investors to put in R5m

Committee chairman Tony Lewis-Williams alleges the prospectus contained statements which may provide grounds for legal action The letter also alleges Pinnacle has squandered its capital and its liabilities are far in excess of assets "The shares are probably worthless"

The problem investors face is the cost of litigation, so the letter encourages the 800 shareholders to contribute to the cause The committee estimates if 200 shareholders

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contribute, legal fees (and Pinnacle's court costs if the case is lost) will not exceed 7% of any individual's initial investment ■

FM 5/10/90 (232) **FOX**

DUROS/TOLLGATE (232)

LONG WAY TO GO

FM 5/10/90

With the impending restructuring of the Tollgate group — involving, *inter alia*, absorption and the delisting of Duros, Norths and Entercor — interim results for the six months to June 30 are mainly of historical interest Except, perhaps, to the extent that they serve to underscore the dire necessity of the restructuring and the task that has confronted the new controlling consortium

The group's overall record for the period was "spoilt" by Entercor, which not only failed to make a loss, but actually managed to improve earnings marginally over the year-ago period For the rest, the best that can be said is that the results were probably no worse than expected after the equally depressing performance up to December 1989 For the record, the only dividend declared by these companies was a 6,5c interim from Tollgate

The Tollgate board is at pains to point out that the results reflect the performance of the group before the effective change of control which took place as from July 1 Nor do the figures reflect, to any material degree, the restructuring that has been accomplished to date The only company materially affected was Norths whose results reflect the sale of its operating assets — to a management consortium led by Michael Rose-Innes — as from January 1, and since payment has not yet been received it has been left virtually in a state of limbo

The point is also made that had the R87m raised through the recent rights issue and the sale of the Arwa operating assets been received in January instead of at the end of the review period, Tollgate would have shown positive earnings of 15c a share This looks quite an impressive turnaround from the 18,3c loss actually achieved The catch is that the calculation excludes abnormal charges amounting to R15,8m, arising on discontinued operations and the cancellation of long-term contracts Similarly calculated, actual EPS for the half-year work out at 9,6c

Still, the *pro forma* 15c is a clear indication that the group is at last moving in the right direction But with the restructuring proposals having been based on a price of 335c for Tollgate, it is also clear that much needs to be done before that price can be justified Taking the average industrial market p e ratio of 8,4 as a benchmark, the 335c price would suggest a minimum annual earnings target of 40c a share for the restructured group, still quite a far cry from 15c for six months

The market, however, seems reasonably confident the necessary turnaround will be achieved While Tollgate itself has slipped to 250c, prices of Duros, Entercor and Norths uniformly value Tollgate at 300c in terms of the share-swap proposals, which is about as high as it should be even with the alternative cash underpins

Brian Thompson

BLEAK INTERIM

Earnings per share (c)

Six months to June 30	1989	1990
Tollgate	25,0	(18,3)
Duros	47,1	(55,6)
Gants	9,2	(5,7)
Norths	n/a	(4,3)
Entercor	14,6	15,6

FSI/W&A 232

PATCHY SHOWING

The FSI group's major holding companies have turned in a patchy set of interim trading results, while attributable performances ranged from slightly improved to sharply down FM 5/10/90

W&A's operating result for the six months to end-June was surprisingly good, with a 27% advance — somewhat better than the improvement of 23%-odd for FSI itself In contrast to these increases, were rises of only 3,8% for both Hunts and Teamcor

Reassuring though the trading results from W&A and FSI may seem, the accounts underscore several points of concern Firstly, the weak trading results from Hunts and Teamcor reflect sharp deterioration of some of the major domestic operations W&A's operating profit was boosted partly by the 58%-held UK company, AAF, whose operating profit was up by 56% at £2,5m

Secondly, interest costs hit the attributable earnings of both W&A and FSI FSI Corp's finance charges ballooned from R54,9m to R92,2m, reducing the interest cover to only 2,1 times This resulted in a R2m drop in pre-tax profit — it was only because of a sharp drop in the tax rate that attributable earnings increased

Similarly, W&A's finance charges more than doubled This was partly offset by the lower effective tax rate and a larger contribution from associated companies Chairman Jeff Liebesman blames the rise in finance charges on both higher interest rates and borrowings associated with recent acquisitions However, the Hunts subsidiary, Teamcor, and W&A subsidiary Homemakers received an aggregate R11m on disposal of certain interests

These results again emphasise the group's need for a more efficient structure (*Fox* September 21) The share has fallen more than 35% in 12 months despite last month's announcement

Andrew McNulty

Broking firms face harsh recession as turnover dips

232 BDay 5/10/90

SYLVIA DU PLESSIS

SOME broking firms are facing their worst recession since the bear market of the early '70s as turnover on the market slides to abysmally low levels

The result has been staff cutbacks across the board, mainly by "natural attrition" but also by retrenchments as the firms struggle to trim costs.

Senior staff are among those believed to have taken salary cuts of up to 20%. And many are not expecting Christmas bonuses

Cutbacks in the industry follow steadily declining volumes and values on the JSE Volumes have sunk to around 5-million shares daily from 7-million a month ago, affecting turnover which has been halved to a daily R35m this week from September 1.

This compares with the R75m to R85m a day with which most firms are "comfortable" in order to cover costs, and trade of more than R100m a day during the 1987 boom.

Max Pollak & Freemantle senior partner Dave Shapiro, whose firm "retired" 10 backroom people last week, estimates there has been a cut of 10% to 15% in staff levels in the broking community this year

"But it's been more a case of natural attrition at the clerical, admin and junior levels than at the broker level. This is because greater efficiencies on the admin side have reduced the strain there," he says.

Frankel Kruger Vinderine (FKV) senior partner Leslie Frankel denies his firm has retrenched staff. He says only three employees have left in the past month — of their own accord — and that this is normal in the circumstances. In fact, FKV will be announcing an "extension of its base" within the next two weeks, he adds.

"There's a lot of movement and rationalisation in the industry now because, with inflation, salaries and expenses are up tremendously and there are no volumes to support expenses that have arisen," he says

A spokesman for a medium-sized firm, who did not want to be named, says those with a sharp institutional focus are generally remaining in the black

"But the industry could do with a movement on gilt rates and a higher gold price — something to spark things off on the JSE"

☐ The latest move among investment analysts is that of Frankel, Kruger Vinderine mining analyst Keith Bright, who says he is leaving the firm "for greener pastures" Talk is that he will be joining Edey, Rogers & Co on November 1. And Ed Hern Rudolph mining analyst and head of research Tom Dale is reported to be leaving the firm to join Genmin

Picture ROBYN RYAN

Letters of dismissal sent to Spareco's 683 staff members

BDay 8/10/90

ZILLA EFRAT

SPARECO staff were told in a letter at the weekend that their services had been summarily terminated, former Spareco GM Oscar Taub said at the weekend.

Many of the dimissed workers protested outside TrustBank last Friday against the non-payment by the bank of their salary cheques (232)

Taub estimated that provisionally liquidated Spareco had lost R500 000 a day in September However, Spareco's staff managed to collect R1,5m in outstanding debt during the period.

But while Spareco's 683 staff members had conducted themselves loyally and honestly under extremely difficult circumstances in September, none had been paid for that month, he said.

Meanwhile, offers for Spareco's business as a going concern, its individual branches or its investment in Eddies Motor Spares have been called for by the joint provisional liquidators.

Offers for Spareco's business have to be submitted to the liquidators by Friday and should be based on an offer for the stock in trade of respective branches. Fixed assets are to be negotiated separately at a later stage, say the liquidators

An announcement published today details the estimated stock at cost of 25 branches of Spareco. The total cost of this stock is about R25m and the liquidators warn that some of it may be subject to Reservation of Ownership.

Last week Spareco staff had meetings with motor group Vaaltrucar (Valcar) in an attemptto save the group. The rescue package proposed by Lakewood Corporation has reportedly lapsed in terms of the scheme of arrangement.

Bank's R2m not written off

ROBERT GENTLE

THE Reserve Bank has said it does not intend writing off the R2m it contributed to the failed futures trading floor, and that its intended users will have to meet their financial obligations in respect of this sum.

The futures floor was scrapped by the SA Futures Exchange (Safex) last week after a ballot failed to garner the necessary support.

Deputy Governor Chris de Swardt said on Friday that the R2m had been in the form of an investment in preference shares issued by Floor Trading Company (Floorco).

Floorco is jointly owned by Safex and the Bond Market Association (BMA). It runs the R3,3m floor, designed for trade in both futures and bonds.

"It is not the Bank's intention to write off the amount invested in the preference shares," De Swardt said.

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However, he pointed out that the Bank's understanding of the matter was that Safex's executive committee still had to take the ultimate decision on whether or not to close the floor for good

(232)

This was confirmed by Safex, though sources close to the exchange said that a sudden burst of enthusiasm for the project was unlikely and that final closure was a formality.

"The Reserve Bank will accept the decision of the executive committee because it does not want to prescribe to the market how trading should be structured," De

☐ To Page 2

Futures floor

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(232)

☐ From Page 1

Swardt said.

The Bank's only concern was that a formalised market should operate within the framework of principles laid down in the Financial Markets Control Act — which governs futures trading — or by the Registrar of Financial Markets.

Asked whether, with the benefit of hindsight, the Reserve Bank had erred in throwing its weight behind the floor when the idea was first mooted in 1988, De Swardt said

"At the time ... the majority opinion was in favour of the floor and the Reserve Bank merely supported this initiative financially The Bank did not force the idea of a futures and bond floor onto market participants."

Market participants, who declined to be named, said the initial Safex survey on the issue was overwhelmingly against a floor trading system. Out of 26 respondents, 21 were in favour of a screen system

The JSE's floor that never was

BDay 9/10/90

ROBERT GENTLE

(232)

THE JSE last week notched up yet another entry to its list of less than satisfactory projects after the futures floor in the JSE Annexe was scrapped because no one — not even the stockbrokers it was designed for — wanted to use it

Despite the presence of a dual floor and screen trading system, market participants voted with their fingers and stayed on their keyboards

The floor is owned by the JSE and is part of a R3,3m complex designed for trade in futures and bonds It was to have been jointly leased by the SA Futures Exchange (Safex) and the Bond Market Association (BMA)

Although the decision to pull the plug on the futures floor — which does not affect bond trading — has yet to be formally approved by the executive committee of Safex, futures sources say it is a formality

Reaction in the market was predictable — and tinged with a sense of weary resignation

Holcom Futures "We're quite pleased, although a little disappointed it took this long." A JSE broker who declined to be named "It was stillborn" First Financial Futures "The future lies in automated screen trading"

Unexpectedly, a number of traditionally pro-screen players, including Rand Merchant Bank and Prima Bank, say the decision to scrap the floor might have been taken too hastily because the whole market is rather flat right now

Nevertheless, the real issue for many participants is how the JSE, after such questionably successful projects as Futap (its futures clearing system), TOM (its overbudget, overdue Traded Options Market) and its underperforming and overbudget computer system, could come up with more of the same

Says Dave Bullard, MD of independent broking firm Johannesburg Options Market "How do people who can justly lay claim to a certain amount of business acumen fail to see the obvious?"

Critics say the signs were there all along, the most obvious being successive polls back in 1988 which decisively showed that the JSE was the only entity in favour of a floor

The informal market comprising banks, discount houses, institutions and futures brokers had already been trading on screen since 1987 and manifestly were happy with it

The debate was a heated one. The JSE cited the suitability of floor trading to a small market like SA's and said it would boost liquidity Pro-screeners cited cost, efficiency, speed of execution and minimised chances of crookery

Then the Reserve Bank intervened and contributed R2m to the floor Pro-screeners maintain that if the Bank had really wanted to help, it should have given the money to the industry as a whole instead of siding with the JSE and bankrolling the floor

"It is obvious the Reserve Bank took sides," says the futures division head of a large JSE stockbroker While he supports the floor, he admits that the extra cost is a valid reason for preferring screen technology "We're living in the 20th century"

But by far the key issue is that the JSE, for all its "exhaustive research", failed to spot the main reason why its brokers would never use the floor — trading futures on screen in front of the main equity board is where they are best integrated with the equity market.

This raises some embarrassing questions on communications between the JSE committee and the brokers it represents

JSE president Tony Norton advances another reason — people got used to using the screen and were loath to change He still defends the concept of floor trading, saying it works well in the gilt market next to a screen system

Norton firmly dismisses suggestions that this is a financial catastrophe for the JSE and says that the building which houses the floor has appreciated by at least R10m since it was built "The surplus on the initial investment can carry the cost of any modification"

Among the uses market cynics have suggested for the extra space are a tennis court, a restaurant, botanical gardens or a statue of the unknown trader

But there is the more serious question of how the bond market will carry the costs of the floor complex once Safex members formally withdraw and no longer share the bill

A gilts trader rests her feet on the unused futures floor of the JSE soon after the July opening of the floor, which saw the transaction of only a handful of deals before its closure this week.

Falling share volumes sink below futures

B/Day 9/10/90

ROBERT GENTLE

THE value of share index futures traded on the SA Futures Exchange (Safex) exceeded the value of the underlying shares traded on the JSE for five consecutive days last week — the first time this is believed to have happened

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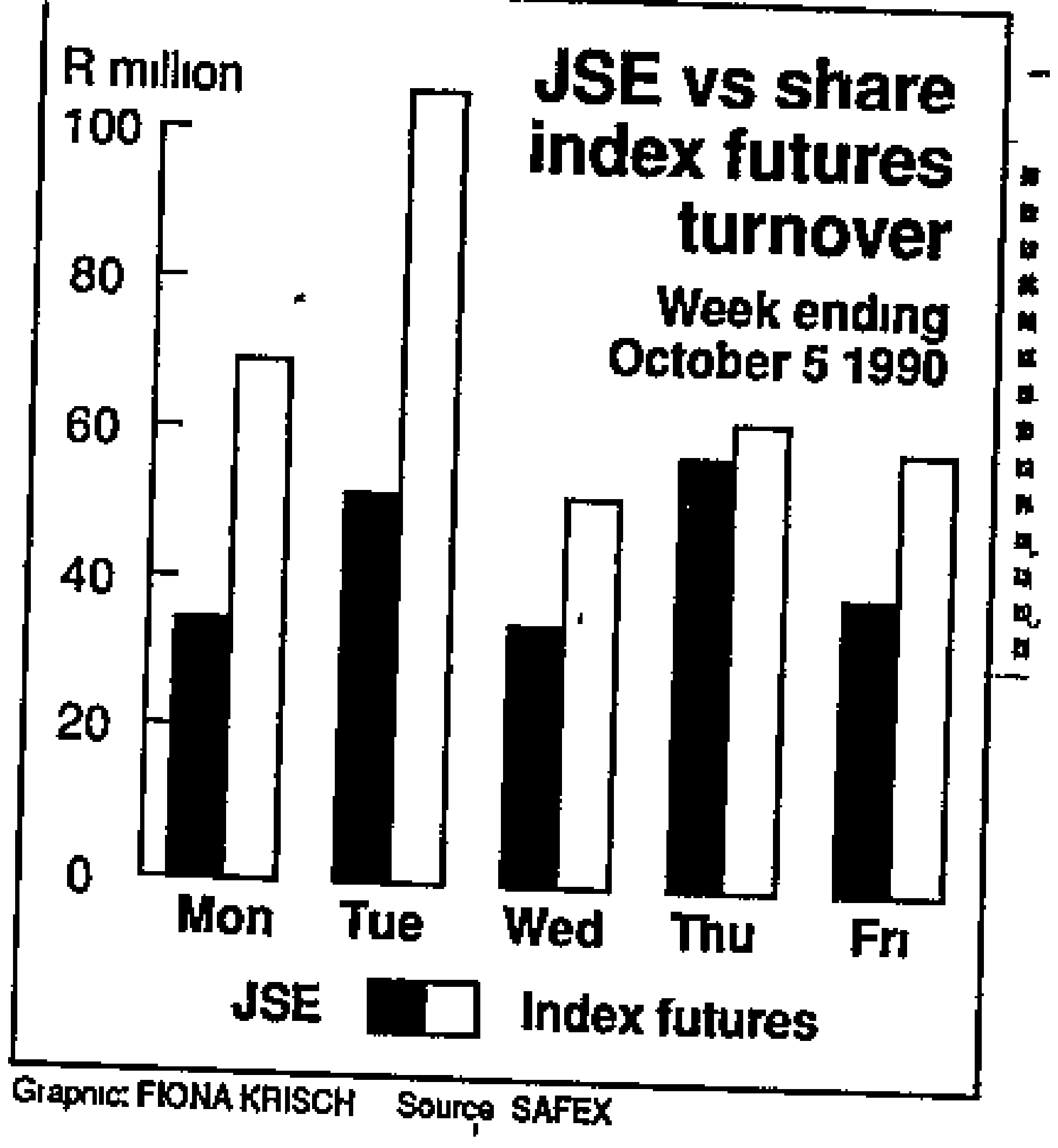
However, futures market participants were quick to point out that this was almost exclusively attributable to the pitifully low volumes on the JSE and not any inherent strength in the futures

"It is not that we are doing well, but that the JSE is doing badly," said a trader

JSE volumes traditionally lead share index futures volumes Ironically, last week's rogue pattern put Safex more in line with overseas markets, where the opposite situation exists — a phenomenon known as "the tail wagging the dog"



Graphic: FIONA KRISCH Source SAFEX

BoE unit trust raises R10m in first quarter

232

LESLEY LAMBERT

THE Board of Executors' first unit trust, the BoE Growth Fund, has raised R10m from 1 000 unitholders during the first quarter since its launch in July, says senior GM John Winship B/Day 8/10/90

"The public support has been beyond our expectations and the trust has grown much more quickly than other recently launched trusts," he says

BoE's fund managers have used the current stock market weakness to establish core holdings in blue chip shares, but still retain high liquidity with cash and fixed interest securities at nearly 30% of the portfolio

The key to BoE's strategy is a large holding in Elfi bull stock which gives the investor exposure to the share market, and a high level of income which is sure to outperform the share market over next 18 months, says Winship

The fund's top 10 holdings are diamonds (7,1%), Anglo (4,3%), Richemont (4,2%), Rembrandt (3,6%) and Sasol (3,9%) The banking sector is represented by UBS (2,9%) and Nedbank (1,4%) and recovery stocks are Powertech (2,1%), Iscor (1,3%), and Sunbop (1,0%).

For the quarter to end-December, BoE expects further market weakness, with consolidation at best "This is the best time to buy units The purchaser gets more units for the same rand amount and when the share market recovers into 1991, will enjoy the gains," Winship says

Brokers lay off staff as trading depression bites

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ROBERT GENTLE

STOCKBROKING firm Kaplan & Stewart had laid off about 25 people countrywide as a result of the present trading depression and would soon close its Durban office, sources from rival stockbroking firms said yesterday. BDay 9/10/90

The head of the Durban office would be moving over to head up the Durban office of stockbroking giant Frankel Kruger Vinderine (FKV), one of the sources said.

Malcolm Stewart, senior partner at Kaplan & Stewart, confirmed that layoffs had taken place in Johannesburg and Durban, but would not give any numbers or comment on the nature of the moves.

"It is a private matter and disclosing these details would be detrimental to the interests of the people being laid off," he said Stewart denied persistent market talk that FKV was about to take over the whole of his firm.

"It is not even on the horizon We have no merger aspirations."

Other firms rumoured to be part of the expansionary designs of FKV, acknowledged to be one of the three biggest brokers in SA, were Max Pollak & Freemantle (which last week announced 10 layoffs) and Mathison & Hollidge.

Senior spokesmen from these companies have denied any merger plans with FKV.

FKV financial director Geoff Rothschild declined to comment on the blitz of merger talk concerning his firm.

FKV senior partner Leslie Frankel was quoted last week as saying that the firm would be announcing "an expansion of our base" within a fortnight

Market sources said it was clear a lot of thinking was being done about mergers in the wake of pitifully low trading volumes, and that merger talk would continue.

Drop-Inn selling its property

1232

CHARLOTTE MATHEWS

LIQUOR retailer Drop-Inn is selling all its property interests for R12,7m and consolidating its shares on a five to one basis, the company has announced today.

The proceeds from the sale of the property will be paid to shareholders as a special dividend of 24c a share. This will be paid in addition to the interim dividend for the six months to August, which has still to be announced.

B/Day 11/10/90

The directors say Drop-Inn is disposing of its property to become a more focused retail operation with all its assets employed in liquor retailing.

The directors also feel the share is undervalued against its net asset value because the property holdings are yielding a lower return.

If the properties had been sold on March 1 and the proceeds invested in the money market, earnings a share would have been 6,67c instead of 6,16c. Net asset value would have increased to 59,01c from 53,26c.

The disposal of the properties and consolidation of shares is conditional on shareholder approval. A general meeting will be called to approve the transactions.

Rise in liquid asset levels of Sage funds

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B Day 11/10/90

LIZ ROUSE

SAGE Fund's total assets increased marginally to R658,43m in the September quarter from the previous quarter's R645,63m, as liquidity rose sharply.

Liquid asset levels increased in both the Sage Fund (24,6%) and Sage Resources Fund (30,7%)

The portfolios were modified to reflect the economic environment. Sage Fund sold its holdings in Harties and Vaal Reefs, and upped those in Southvaal, Implats, Nedcor, Lonrho, Gencor, Engen, Tiger Oats and Tongaat.

Its holdings in Lebowa Platinum, GFSA, Amic, Barlows, Plate Glass, Richemont and Nampak were reduced. In the foreign portfolio, Reuters and FMC Gold were reduced, while the holding in Eastman Kodak was increased.

The 10 largest holdings at the end of September were Richemont, Anglo, De Beers, JCI, Rembrandt Beherende, Rembrandt, Allied, Gencor, Tiger Oats and SA Breweries.

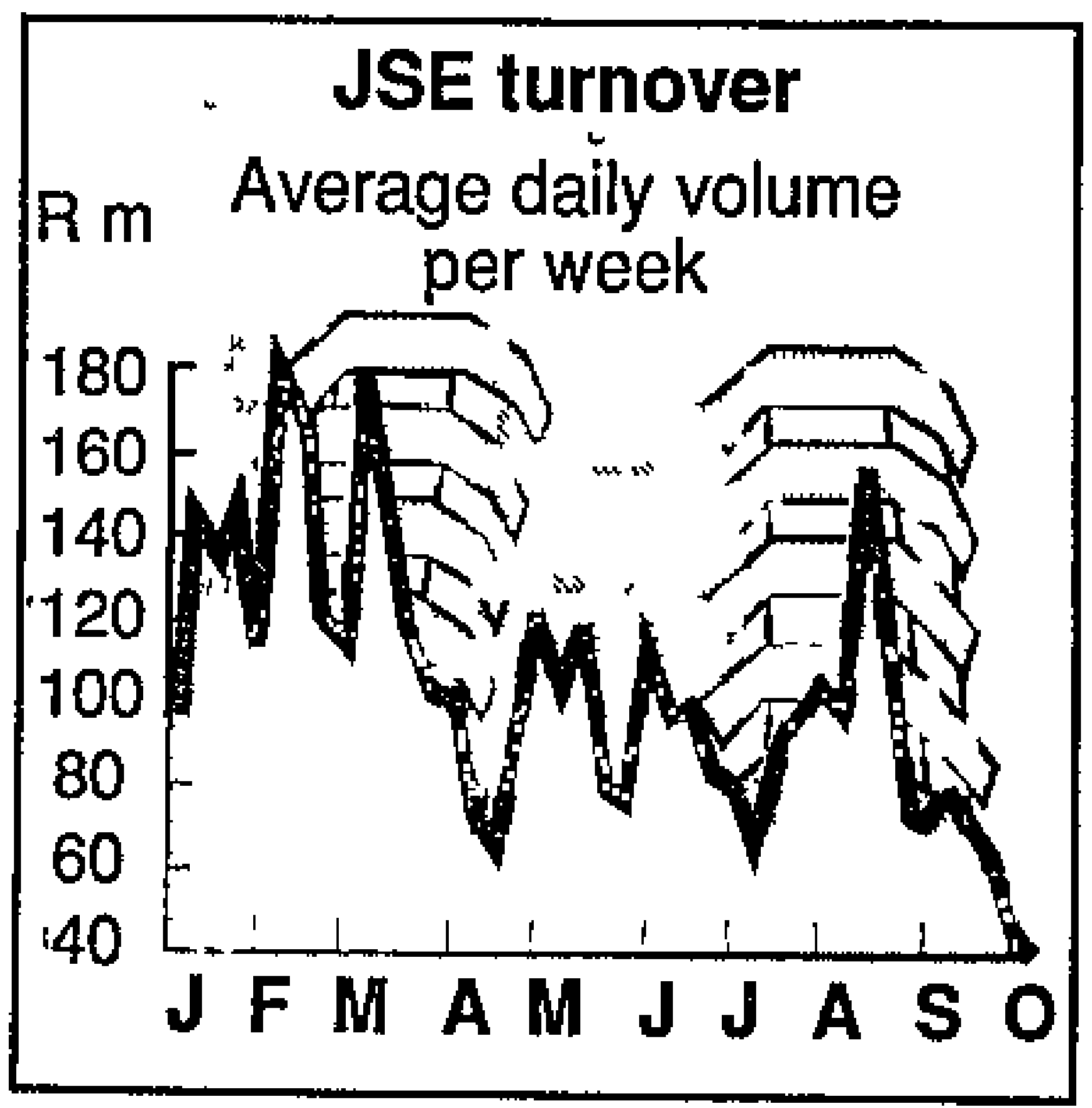
Sage Resources sold its holdings in New Wits and Lebowa Platinum, while additions were made to Anamint, Keeley, Gencor Beheerend, Tongaat and Lydenburg Platinum. Holdings were reduced in Beatrix, Elsburg and Samancor

Total assets were reduced slightly to R50,6m from the June quarter's R53m Top 10 holdings were Engen, De Beers, Gencor, Anglo, JCI, Kinross, Mid Wits, Gencor Beheerend, Impala Platinum and Driefontein.

Sage Fund managers say the recession and high interest rates do not augur well for corporate profits

Global growth prospects have been revised downwards, leading to a decline in major stock markets

'Abysmal levels' rattle JSE



Graphic LEE EMERTON

ANDREW GILL

B Day 11/10/90

JSE turnover has plunged to R40m a day from levels exceeding R200m at the beginning of the year, forcing brokers and the exchange to rationalise and cut costs wherever possible, JSE president Tony Norton said this week

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The "abysmally low" levels, not seen since the mid-1970s, had led to the exchange "revising budgets, deferring projects, stripping costs and not replacing departing staff", he said

Liquidity (turnover as a percentage of market equity) on the market, already the lowest in the world, was set to drop to about 4,5% this year from 1989's 5%

Various stockbroking firms, under ex-

☐ To Page 2

JSE levels

B Day 11/10/90

treme pressure, have rationalised by entering into takeover talks, retrenching staff and dropping salaries

Market sources believe Frankel Kruger Vinderine, hard hit by poor volumes, has been involved in acquisition-related talks with at least two rival firms in a bid to provide an additional workload for its "underutilised" infrastructure However, this could not be confirmed

An aggravating factor in the present bear market, said one broker, was the high overheads incurred now compared with the mid-'70s low-cost market

Norton said the market needed turnover of R100m and 4 000 deals a day before it could relax, so with only R40m changing hands in about 1 500 deals, things were stressful

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☐ From Page 1

Much of the JSE's income was transaction-based and therefore any drop in turnover would have a direct effect on its finances The problem was that many of the JSE's costs were fixed and a large proportion, therefore, could not be rationalised "But we are trimming wherever we can," he said.

The low volumes were a result of such factors as high interest rates, falling overseas markets, gold's poor performance and political uncertainty.

ROBERT GENTLE reports a spokesman from Martin & Co said stockbroking firms which had a strong institutional client base and fairly solid managed accounts base should weather the recession better than those firms heavily exposed to private client business.

FM 12/10/90 (232)

PICARDI GROUP

LIQUIDITY SQUEEZE

The fortunes of Pichold's three listed subsidiaries turned sour in financial 1990 and no dividends were declared. This year, rationalisation of Picapli, the sale of Union Wine and possible reorganisation of Picprop and unlisted Sagin — which owns 30% of Cape Investment Bank, which apparently turned in positive earnings — will change the nature of the group, but performance still hinges on Picapli selling white goods profitably

Pichold's operating profit was halved, as turnover slid and the operating margin collapsed from 9,8% in financial 1989 to 4,8% The main problem is Picapli, whose rand turnover is not revealed, but fell 14% Operating profit plunged 61% Chairman Jan Pickard says the company stopped making cheaper portable audio and TV equipment this led to the fall in sales and margins

Union Wine managed a meagre 10% improvement in sales but operating profit fell by a third The margin reduction is blamed on cost pressures and competition, particularly in the market for spirits

Picprop's profit improved, but it sold all its operating subsidiaries and at year-end held only one property and R16m cash

Operating problems were aggravated by crippling interest costs. A group interest bill of R40m transformed R25m operating profits into a R15m loss, but Pickard says that by year-end interest-bearing debt had been cut by R90m to R120m (mostly at Picapli) and cash of R40m was available

Lower interest costs

Picapli's 1989 balance sheet reflected interest-bearing debt of R163m, this fell to R114m Stocks and debtors were also reduced, which may indicate a fall in interest costs this year

The sale of 60%-held Union Wine to Kangra Holdings for R21,5m effective on July 1 will also reduce debt and the interest burden But the sale of Sagin to Picprop, moving another R13,15m to Pichold and shifting Picprop's listing to the banks and financial services sector, has not been completed In early July Picprop said it would hold an EGM to approve the deal "as soon as possible," a three-month delay suggests there may have been a hitch, though the company is mum

Pickard says Pichold's balance sheet has been substantially improved Despite difficult economic conditions he expects a return to "acceptable profitability" this year Refocusing Picapli on its traditional area of white goods should improve margins and boost profits But speculation is again rife that Picapli is up for sale or that a merger in the overtraded industry is on the cards A rights issue cannot be excluded

Remarkably, while the rest of the group is shuffling assets and moving cash where it can best be used to cut debt, the top company of all, Picbel, paid a dividend, if of only 15c,

FM 12/10/90 (232)

against 50c in 1989 Picbel's sole assets are 68,7% of Pichold and R7,5m cash; it reported an attributable loss of R8,3m, euphemistically described in the prelim as "reduced earnings" The dividend will absorb R667 000

Was there nothing in the group that Picbel could buy? Or are its shareholders for some reason more worthy of a dividend than the others?

Pam Baskind

SAFEX FM 12/10/90 (232)

WHERE'S THE FLAW?

SA Futures Exchange (Safex) says a decision on whether to close the trading floor has still to be made at the executive committee meeting on November 20 The futures market, however, sees it as inevitable

Even natural floor traders, JSE brokers, are trading futures on-screen from the equity floor while other futures traders have hardly used it

Safex polled members last Monday to determine who would have a trader on the floor by November 1

Only 38% (29 members) responded and eight said they would have a trader on the floor by then

FM 12/10/90 (232)

Safex will still have to meet its 50% commitment The other half is the concern of the Bond Market Association, which is not likely to be formalised before June 30 now that it has rejected the proposal to trade formally through the JSE's Gilts Clearing House as an interim measure

This raises another problem association members who are not also JSE members will not be allowed to trade on the JSE gilts floor

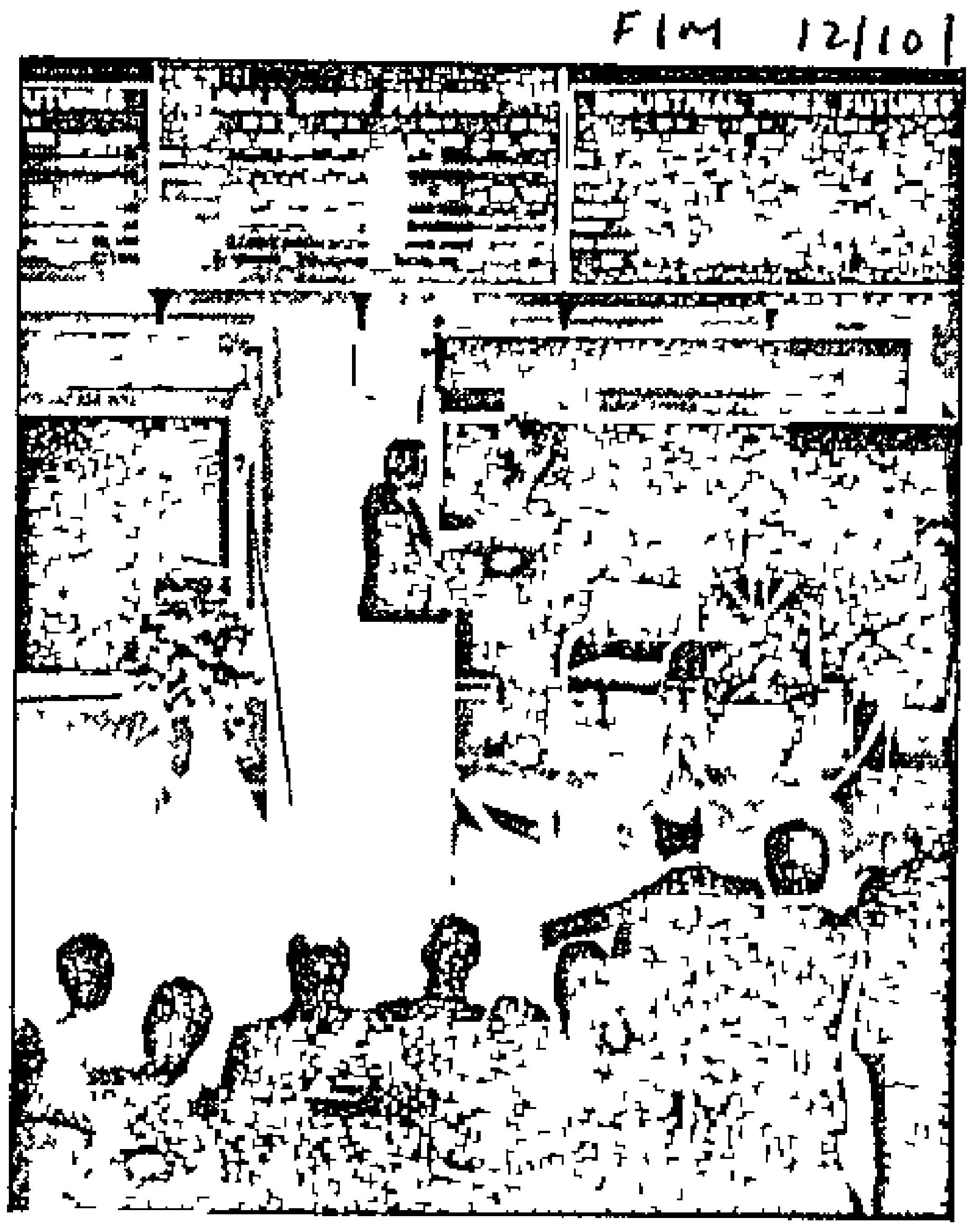
JSE president Tony Norton says "The JSE is reluctant to allow outsiders unregulated by us to trade gilts there It is not a dog-in-the manger attitude, but I can't allow members to deal on a committed basis with someone we don't regulate."

However, though not permitted to trade on the floor, association members who opted for floor trading have to pay for floor services

In addition, they will pay R3 000 a month, over and above an initial fee of R10 000, to the association until June

FM 12/10/90 (232)

JSE members, on the other hand, who pay R3 000 monthly to the JSE Gilts Clearing House, have been absolved from the additional fee to the association The floor lease with the JSE runs out at the end of May "The association will have to address the viability of the floor then," says CEO Graham Lund



The trading floor *does it have a future?*

☐ A Safex seat was sold for R45 000 last week, 20% down on the previous price The highest price has been R55 000 They were issued at R25 000

Jacquie Bullard

SPARECO FM 12/10/90

A LONG TIME DYING (232)

Minorities and creditors will have to wait until next week, at the earliest, for the liquidators to clarify their position The motor spares group was provisionally liquidated on October 1, which in terms of Section 311 of the Companies Act creates the opportunity for a compromise offer

Liquidators Les Cohen of Westrust and Mike de Villiers of Deloitte Pim Goldby have given interested parties until October 12 to bid for Spareco's assets one or more of the retail outlets and the warehouse in Wadeville with their stocks (totalling R26m) and the investment in Eddies Motor Spares

The final deadline is November 13 If by then nobody has shown interest in acquiring Spareco it will be put in final liquidation Ordinary shareholders will share the surplus (if any, which is unlikely) after the claims of creditors and preference shareholders.

Last Thursday's meeting to discuss the offer from Lakewood of the Cayman Islands

FM 12/10/90 (232)

was an anti-climax Lakewood withdrew because its offer was conditional on Spareco not being provisionally liquidated

Gerhard Slabber

62 000 more investors put faith in unit trusts

B Day 12/10/90

(232)

LIZ ROUSE

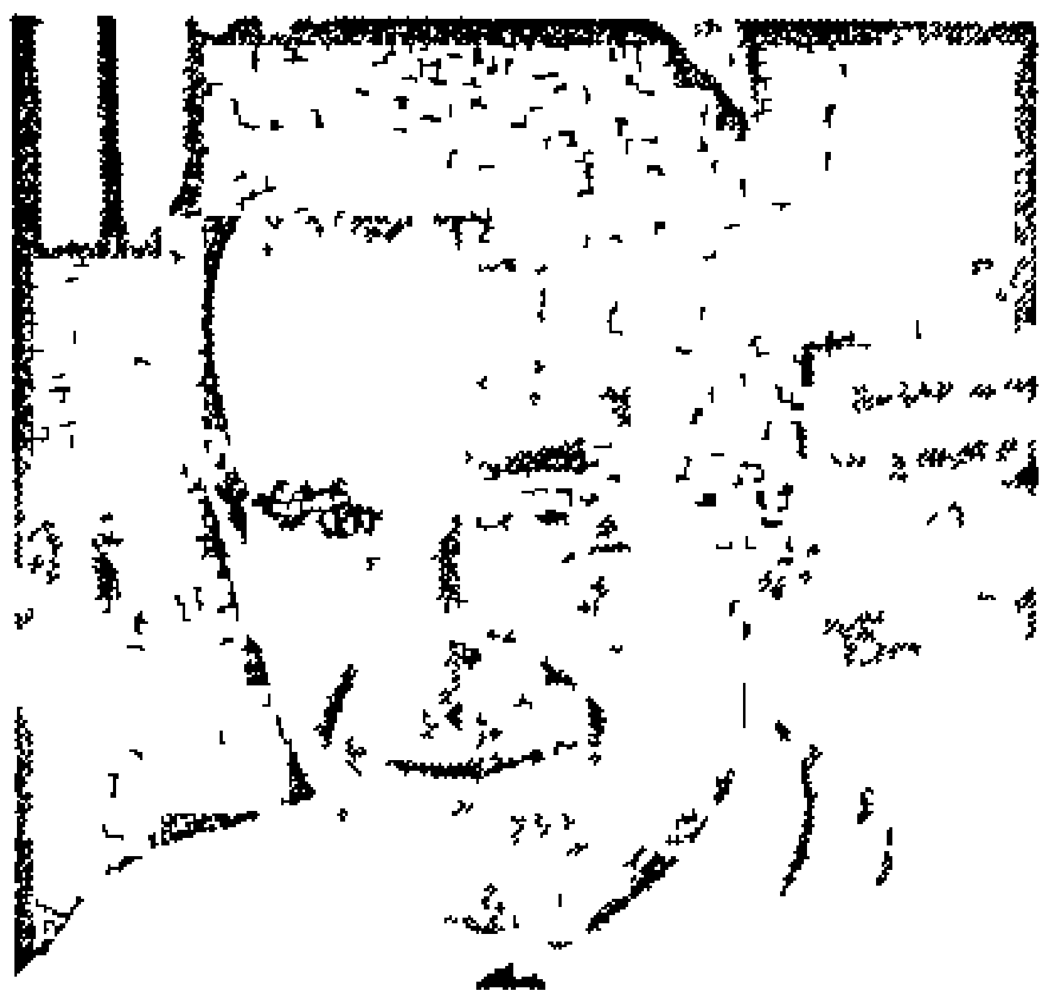
DESPITE the uncertain and gloomy mood of the equities market, SA's 36 unit trusts performed satisfactorily and again attracted a substantial number of new investors in the September quarter.

Gross sales at R543,3m were the third highest, and while repurchases at R260,8m were the second highest, the net inflow of R282,5m into the industry has only been surpassed twice before — by the all-time-high inflow of R453,8m in the share market boom quarter of June 1987, and the R364,7m achieved in March this year

Statistics released yesterday by the Association of Unit Trusts show that almost 62 000 new unit trust accounts were opened in the past three months, bringing the total number of accounts held at September 30 to over 700 000

In the past year the industry has gained more than 150 000 new accounts

With JSE share prices declining, the market value of the 36 trusts declined to R7,2bn from the peak of R7,62bn at March 31 this year



● McALPINE

Of that total, general equity trusts at the quarter-end held assets totalling R5,63bn (June· R5,97bn)

The specialist equity trusts had assets valued at R1,19bn (June R1,27bn), while the assets of the high income funds amounted to R385,1m (June R337,2m)

The general funds with their balanced blue chip portfolios remained most popular with investors and attracted R224,2m of the quarter's R282,5m inflow

With interest rates remaining high, the high income funds, which offer investors a hedge and a safe haven in times of troubled equity markets, pulled in a net R39,5m

The more volatile specialist equity trusts had a net inflow of R18,8m

Association chairman Roy McAlpine said it was gratifying to see the general public's funds being invested steadily in unit trusts in spite of the adverse short-term factors which had prevailed during the quarter

"Unit trusts have proved themselves over a period of time and investors can, in the face of short-term vagaries of the world's share markets, benefit from the experience of unit trust managers in a difficult market"

The seven general equity trusts that could show a five-year performance had achieved an average return of 22,3% a year — an excellent performance by any standard, McAlpine said The specialist equity trusts' five-year average was also good at 17,3%

On a shorter, 12-month view, a period during which the share market declined sharply, the general funds achieved an average return of 8,6% and the specialist trusts an average of 3,7%.

22 SUNDAY TIMES, Business Times, October 14, 1990

Takeover code protects minoritie

But new rules complex and full of pitfalls for the unwary

S/Times 14/10/90

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NEW rules governing takeovers and mergers, which are expected to come into effect next month, are already winning high praise — for the wide protection they give to the small investor.

If the takeover code finally emerges in a form close to its draft — and few changes are expected — it will avoid many of the worst grievances of minority shareholders which have bedevilled big deals in recent years.

CLAIRE HERBST
Equal information

By IAN SMITH

It will also remove the JSE from a position it has often found to be invidious.

Restrictions on actions by the board of a target company designed to frustrate an unwelcome offer and stringent requirements to ensure that all parties have equal access to information could see an increase in the number of hostile takeovers in the South African market

The code has been largely based on London's City Code on Takeovers and Mergers It will have the force of law and the 12-man panel under chairman Judge Cecil Margo may enforce the regulations by applying to a court for an order or an interdict

The Securities Regulation Panel says it is not part of its function to judge the commercial advantages and disadvantages of affected transactions

Fairness

"The code represents the collective opinion of those professionally involved in the field of takeovers and mergers as to acceptable business standards and as to how fairness to holders of the relevant securities may be achieved," says the panel

All parties to a bid, including minority shareholders, will have the right to appeal to the executive committee, which has a quorum of three, or the panel, which has a quorum of five members

So far the JSE has only insisted on an offer to minorities where there has been effective change of control. But the JSE's judgment on whether control has changed has not always been accepted by the major parties Disputes have dragged on, and the JSE had limited powers

The new code calls for a mandatory offer to minorities whenever 30% or more of the voting rights of any company, whether it is listed on the JSE or not, are acquired

Merits

More controversially, it also applies to private companies with more than one shareholder where the offer price exceeds R500 000

"Although the panel has some discretion in respect of private company transactions, this does represent a fundamental shift in regulation in the unlisted market," says Claire Herbst, managing director Ernst & Young Corporate Advisory Services

Shareholders, owning between 30% and 50% of a company, increasing their shareholding by more than 5% a year may also have to make an offer to minorities

Restrictions on the target board's actions are designed to ensure that shareholders are not denied the opportunity to judge an offer on its commercial merits, even if a bid is not welcomed by the board or management, says Ms Herbst

Competing bidders must also be given equal access to information, within certain limits

The code also introduces regulations covering management buyouts. Independent directors of the target company and their advisors must be given all the information that has been supplied to the providers of finance for the buyout

"This is presumably designed to ensure that management contemplating the transaction does not withhold material information, from those protecting the interests of minority shareholders," says Ms Herbst

In a "highly leveraged offer" finanancing arrangements must be disclosed, probably to ensure that shareholders appreciate the risks

Dealing

Moves to create a false market in shares of either the bidding or target companies are prohibited, and there are strict regulations controlling dealing in the shares before and during an offer

Ms Herbst says the legislation is complex and there are pitfalls for the unwary

"For example, a company which has been steadily buying shares in a target company for cash on the JSE and within three months launches a major bid based on an exchange of shares could find itself forced to make a cash offer to minorities

"Similiarly, recent purchases at a higher price than a new offer could mean that the bidder is forced to revise its whole offer upwards"

Ignore Ellerines at your peril

S|Times 14|10|90

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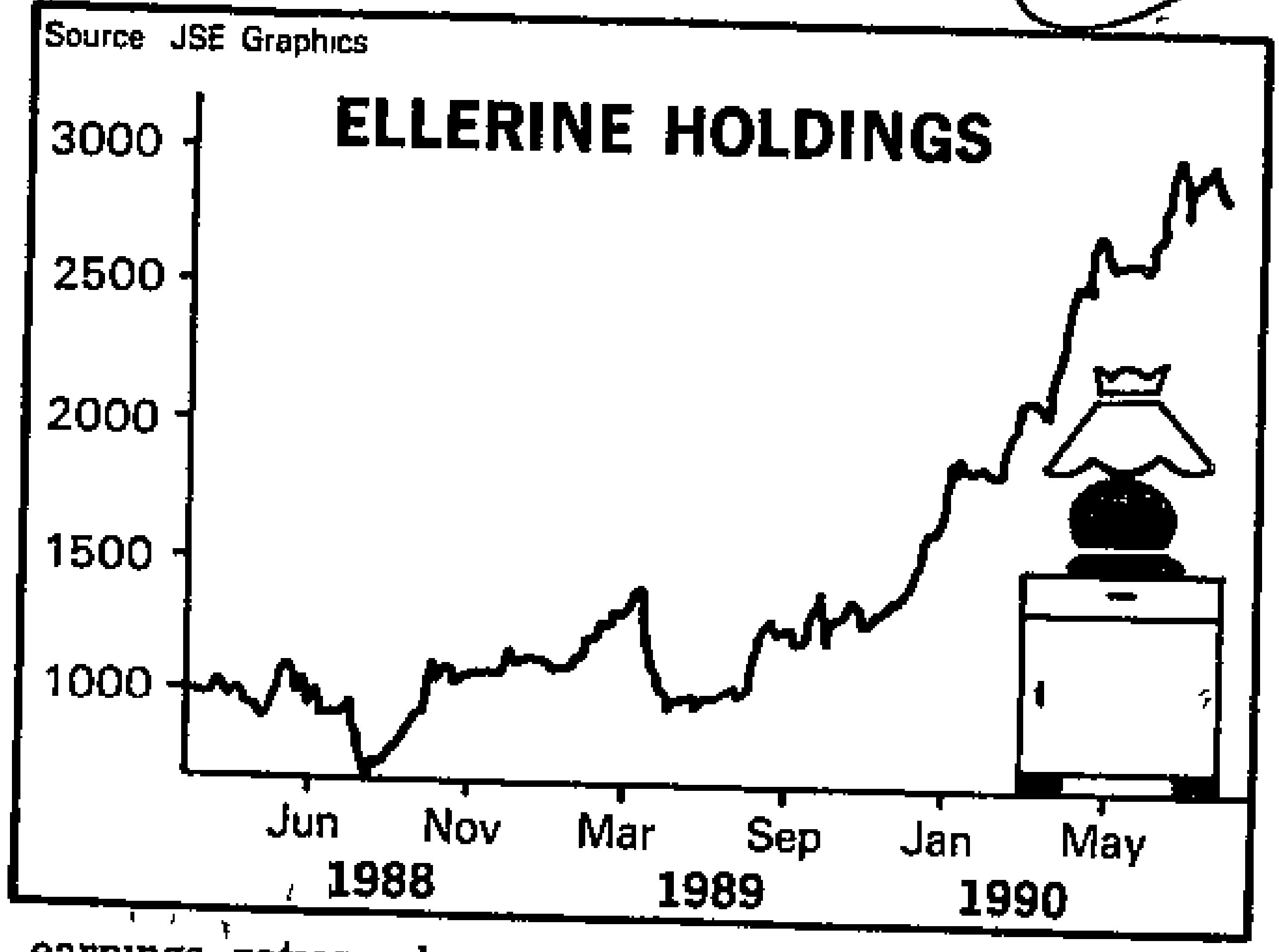
SOME might have an uncle in the business, but the father of furniture retailing is undoubtedly Eric Ellerine

The Sanlam-controlled furniture chain that bears the family name was founded by the Ellerines 40 years ago It is one of only a few shares to buck the present hammering of equities A year ago it was R12 a share, now it is R31

Earnings growth has been outstanding in spite of the perceived susceptibility of furniture to economic cycles In the year to August 1990 it earned 669c a share — half as much again as in the previous year

Yet there remains a major riddle about the furniture shares in general why are the leading lights of the JSE sector on such low price-earnings ratios when compared with the blue chips in other retailing?



Ellerine is on 4,5 times earnings, Rusfurn on half that Both Amrel and JD Group trade at about 3,7 times historic profit Smallest of the big boys Morkels' PE is almost 5

In the all-encompassing big-brother retail and wholesale sector things look a little different Pick 'n Pay's price is 17 times earnings, Edgars 14 and Wooltru 13 Even the OK's is nearly nine times historic earnings, and the unreliable Tradegro is on 5,5

It is not a news item — the lopsidedness has always been there Mr Ellerine believes that the management of SA's leading furniture retailers has improved immeasurably over the last five years, but that little credit has been accorded to those managers

Launch

Management at both Rusfurn and Morkels were sufficiently confident and competent to buy out their companies from institutional shareholders

The JD Group has undergone changes too, from its launch as Joshua Doore to its merger with Homemakers

That Ellerines should trade on such a low PE when compared with its peers in the sector is doubly insulting because it is the only company to provide totally for deferred tax

Provision for deferred tax is a thorny issue One school of thought is that making a total provision for deferred tax (tax that will become payable in the future) penalises current shareholders

Because furniture sales are largely on credit the book debt is not physically collected, therefore not taxable in the year in which it is incurred

The auditing profession has supported moves by many companies who wish to make a partial provision for the tax that will fall due in the future

The key word is foreseeable — if the tax will become payable in the foreseeable future full provision is made, but if it does not fall due during the chosen period of three years, a partial provision may be made

The nature of business entails a roll-over of the debtors book so that in theory tax never becomes payable

Often, no provision for tax is made The net effect is that the earnings a share declared by the retailers are much higher than for a company which provides a full 50%

Mr Ellerine questions the wisdom of this "The temptation is great, but the day of reckoning will come," he says

He adds his voice to the call from businessmen for a cut in interest rates

"The damper has been on long enough and we will have thousands more jobless people if companies continue to struggle to service debt"

Ellerines is cash flush, so the plea does not come from a subjective voice

It is hard to see a company in as good shape as this coming off the rails Investors who shun the best company in the furniture sector will live to regret it

Apology

IN last week's report on Potgietersrust Platinum's Platreef mine, I attributed a quote to JCI's Barry Davison which was neither verbatim nor correct It concerned the plight other platinum producers could face a year from now, relating to the cheap operating costs expected at the new mine I apologise to Mr Davison for any embarrassment I may have caused him

22 rights offers have raised R2,6bn in the past six months

CHARLOTTE MATHEWS

TWENTY-two rights offers, raising about R2,64bn, took place on the JSE in the six months to end-August.

JSE figures show there were 42 offers, which raised R7,5bn, in the year to end-February

The figures indicate the flat stock market has not so far affected the number of rights issues undertaken — only their size

The biggest offer this year was the R600m offer from Northam Platinum, followed by R500m offers from Amgold and Bankorp.

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15/10/90

Shareholders

There were some memorable offers in 1989

Goldfields (GFSA) raised R1bn, the second largest rights offer recorded on the JSE, Anglovaal R822m, Rand Mines and Genbel R300m each and Premier R280m

A rights issue is a company's offer of extra shares to its shareholders based on the proportion of shares they hold, for example, 50 new shares for 100 held.

Shareholders are allocated nil paid letters which represent their rights and can be freely traded for a certain period if shareholders prefer not to lay out the capital to take up their rights themselves.

JSE listings general manager Richard Conellan said companies usually embarked on rights offers in good times to recapitalise for future growth

"In bad times many rights offers are held to bail companies out of their problems."

Other reasons put forward for offers were restructuring — in the case of Bidvest's R105m and Afcom's R14,3m offer this year — or to raise money for a particular venture, such as Stanprop raising R45m to develop land in Randburg or Amgold's intention to develop Moab and other undisclosed projects.

Merchant bankers said the best time to launch a rights offer was when a company was making good profits or in a buoyant market.

Additional shares in a company are often pitched at a 10% to 20% discount to market price to make them an attractive buy.

Conellan said the JSE paid particular attention to rights offers that were pitched above market price as these could be a way of changing the control of a company.

But these offers could also represent a genuine attempt at a rescue operation.

BUSINESS DAY, Monday, October 15 1990

Loss-making Gants in offer to shareholders

BDay 15/10/90

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Business Day Reporter

LOSS-making food-processing group Gants has announced a drastic rationalisation of operations to get itself back into the black, and is offering shareholders a way of realising their investments

Shareholders are to be given the chance to exchange their shares for shares in parent company Tollgate Holdings or, alternatively, to take a cash payment for their shares

The reason for the offer, directors say, is that no dividend will be paid in the near future because of planned cutbacks in operations and the continuing adverse conditions in the industry.

Minorities will be offered 20 Tollgate ordinary shares or R60 in cash for every 100 Gants shares held The Gants share is currently trading at 50c and the Tollgate share at R2,50

The announcement follows takeover talk — dismissed by the company — which has been rife ever since the acquisition of Tollgate's holding company Duros by a consortium led by Julian Askin and Hugo Biermann in March The speculation sent the Gants share price up to a high of 135c in early April

Gants' directors believe it will be necessary to stop processing deciduous fruit in the western Cape, to relocate a major part of the Strand factory to its factories in the Transvaal and Swaziland, and to embark on a campaign to promote its meat, vegetable and other products and increase their market share

In the six months to end-June Gants suffered a loss of 5,7c a share from the previous earnings of 9,2c and waived payment of a dividend. Turnover just about halved to R67m (R129,3m) This was attributed to unfavourable trading conditions which resulted in low prices, high levels of stock and consequent high finance charges

Directors said there had been aggressive discounting of prices by competitors, dumping of excess stocks by rivals and manufacturers of substitute products, and industrial action at major retailers.

The forecast made in the interim statement that market conditions would improve in the final quarter had failed to materialise, hence the restructuring

Liquidations soar by 69% in August

(232)

B/Day 17/10/90

ZILLA EFRAT

COMPANY liquidations soared by more than two-thirds in August and are likely to go even higher in the near future, says Credit Guarantee Insurance Corporation (CGIC)

The organisation says credit risks have deteriorated internationally over the past year and it does not expect this to change markedly in the current year to June In these circumstances, CGIC warns businessmen to tread cautiously in granting credit locally and abroad

Liquidations rose to 130 nationwide in August compared with 77 in July — a 69% increase This brings the total for January to August to 1 123, up 11% on the same period last year

CGIC MD Chris Leisewitz says liquidations rose 18,9% during CGIC's financial year to end-June, with the rate for the first six months of 1990 being 36,5% higher than the same period last year

The sectors most affected by the recession in this period were wholesale and retail trade, catering and accommodation, where insolvencies jumped by 44% to 620 (431), and transport, which recorded an 83% rise to 33 (18)

In the CGIC annual report, released yesterday, Leisewitz says in spite of satisfactory economic growth rates, liquidations have increased in Europe, SA's largest trading partner

He believes this is because of the changes taking place in the European economic structure Competition is increasing and businesses not able or ready to adjust are paying the price

UK liquidations have risen substantially because of the unsatisfactory state of the British economy and the Italian market is producing credit problems as buyers default because of falling prices of wool, hides and skins

Leisewitz says the US market continues to be difficult US law heavily favours the debtor, which gives rise to a high proportion of bad debts with slim recovery possibilites

In addition, the debt position of the less developed countries (LDCs) has not improved Most African and South American countries are burdened with a foreign debt load which will be quite impossible to repay Granting credit to the LDCs will continue to be a difficult business and the Eastern European markets will require most careful assessment, he says

The Middle East crisis, with resulting high oil prices, will put further pressure on international inflation and interest rates, which does not augur well for the credit crisis

In the year to end-June CGIC made an underwriting profit of R3,4m (R2,7m), together with investment income of R10m (R7m), enabling it to produce an after-tax profit of R7,7m, up 33% on the previous year's R5,8m After the transfer of R6m to reserves, a dividend of 68c (53c) will be paid to shareholders, who consist of insurers, banks and financial institutions

Privatisation seen as way to steer upliftment funds

(232)

CHARLOTTE MATHEWS

18/10/90 [illegible]

DURBAN — Privatisation rather than nationalisation was the most efficient way to direct funds held by institutions into programmes for social upliftment, Econometrix director and chief economist Azar Jammine told delegates to the Building Industries Federation of SA (Bifsa) annual conference yesterday.

Jammine cited figures showing the backlog in housing demanded that 1 000 houses be built a day or R5bn be spent a year.

"Four out of five households in SA have no electricity. We are desperately in need of hospitals and the 11 500 unoccupied beds do not come near to solving the problem.

"There are two million children suffering from malnutrition. We need to build 33 000 classrooms by the end of the decade to achieve educational equality between the racial groups."

The options open to SA were to finance social upliftment through higher taxes or through public debt, which were already high.

Servicing interest on high public debt could lead to the government printing more money and eventually to hyperinflation.

Increased government spending in the last 20 years had been financed by higher taxes on the individual. Savings had been channelled into equity-linked investments rather than discretionary forms of saving.

As a result the institutions held huge financial resources which could be forcibly channelled into social upliftment by introducing prescribed asset requirements.

"But instead of forcing the institutions to channel their money in this direction they should be encouraged to do so voluntarily," Jammine said.

"Government should sell off its assets to the private sector and direct the proceeds towards social upliftment programmes.

"The problem with the ANC's proposal to nationalise the assets of the institutions is that these have to be paid for and, more fundamentally, nationalisation leads itself to the creation of a bureaucracy.

PETROL DEREGULATION FM 19/10/90 (232)

JOCKEYING OVER THE PUMP PRICE

With the petrol price heading towards R1,50/*l* — and beyond — the urgency of deregulating its sale and allowing discounts has never been more pressing

Government is thinking of doing just that despite opposition from petrol station owners and some oil companies

The price is set by government and all petrol stations are obliged to stick to it Early this week it was R1,28/*l* in the PWV and R1,23/*l* at the coast. The law prohibits companies from charging more or less

Four years ago Pick 'n Pay tried to discount petrol but it was stopped in court

Fortunately, that ridiculous situation, in which companies can be prosecuted for saving motorists money, may not persist much longer

Since the Pick 'n Pay episode, deregulation has entered government's vocabulary After April 1, government will no longer set the bread price This will leave petrol as the only significant commodity under price control

The National Energy Council has sent questionnaires to oil companies and interested parties for their views on deregulation The Competition Board will finish its investigation in the next few weeks and will recommend to government whether or not petrol price control is in the public interest

Pick 'n Pay chairman Raymond Ackerman says he believed deregulation was coming until the Gulf crisis erupted This might be causing government to have second thoughts "The arguments about the strategic nature of petrol were beginning to disappear, but they have started surfacing again "

Garage owners argue that deregulation of the petrol price and relaxation of laws that restrict self-service petrol stations would lead to 40 000 lost jobs They also say a deregulated price will concentrate ownership in the hands of supermarket chains and other discounters The Motor Industries Federation, which represents car dealers and petrol station owners, declines to comment because the matter is before the minister of mineral and energy affairs

Ackerman doesn't believe the short-term job losses outweigh the potential savings for consumers. "It could have been argued that supermarkets lead to the closure of small shops and, therefore, job losses, but such arguments can't be used to stand in the way of progress "

Oil companies are divided. One internationally controlled company opposes deregulation by claiming "the inevitable loss of jobs, failures of small service station businesses (many of these black-owned), concentration of ownership and complexities of synfuel arrangements outweigh any advantages."

Engen MD Rob Angel, however, is unconvinced by this doomsday scenario "The SA oil industry is already very efficient so there aren't many further efficiency gains that might come from deregulation. I'm relaxed about deregulation, if it comes Our company, at least, is strong enough to withstand it "

He adds "I do believe, however, that with the heavy supply of petroleum products from the synfuel industry — and given the need for a viable synfuel industry — it will make deregulation difficult to implement "

Angel says claims of massive job losses are exaggerated "It will take time to introduce self-service and there will always be a demand for full-service "

Angel adds, though, that deregulation won't necessarily be perceived as good news "It will lead to more frequent price adjustments, up and down, and therefore greater confusion for the motorist "

BP and Sasol would not comment

The Automobile Association isn't commenting on deregulation but it supported Ackerman during his dispute and it favours the introduction of self-service stations

The Consumer Council wants the fixed price changed to a maximum price to allow retailers to charge less "There shouldn't be an absolutely free price because it would be able to escalate in areas where there was no competition," the council's Jan Cronje claims "Any deregulation should be implemented in an orderly fashion to prevent economic disruption "

It may be wishful thinking to expect deregulation without disruption but, then again, we already have lots of disruption — the kind caused by a doubling of oil prices

Stephen Cranston

CORDLESS TELEPHONES

TYING UP THE MARKET

The Post Office has for years been trying to stamp out the use of what it terms illegal cordless telephones but demand for the devices continues to grow More than 400 000 of them are in use in SA, according to one distributor.

Several attempts by cordless phone distributors to have their products approved by the Post Office for use on the telephone network, and therefore made legal, have been turned down for what the Post Office describes as technical reasons In fact, legislation regarding these products has been tightened

In April the Radio Act was amended to outlaw the possession of unapproved cordless phones and to introduce stiff penalties for those who didn't observe the regulations. Users face fines of up to R2 000 while companies that buy, sell, hire, exchange or even repair them are liable to be fined up to R10 000

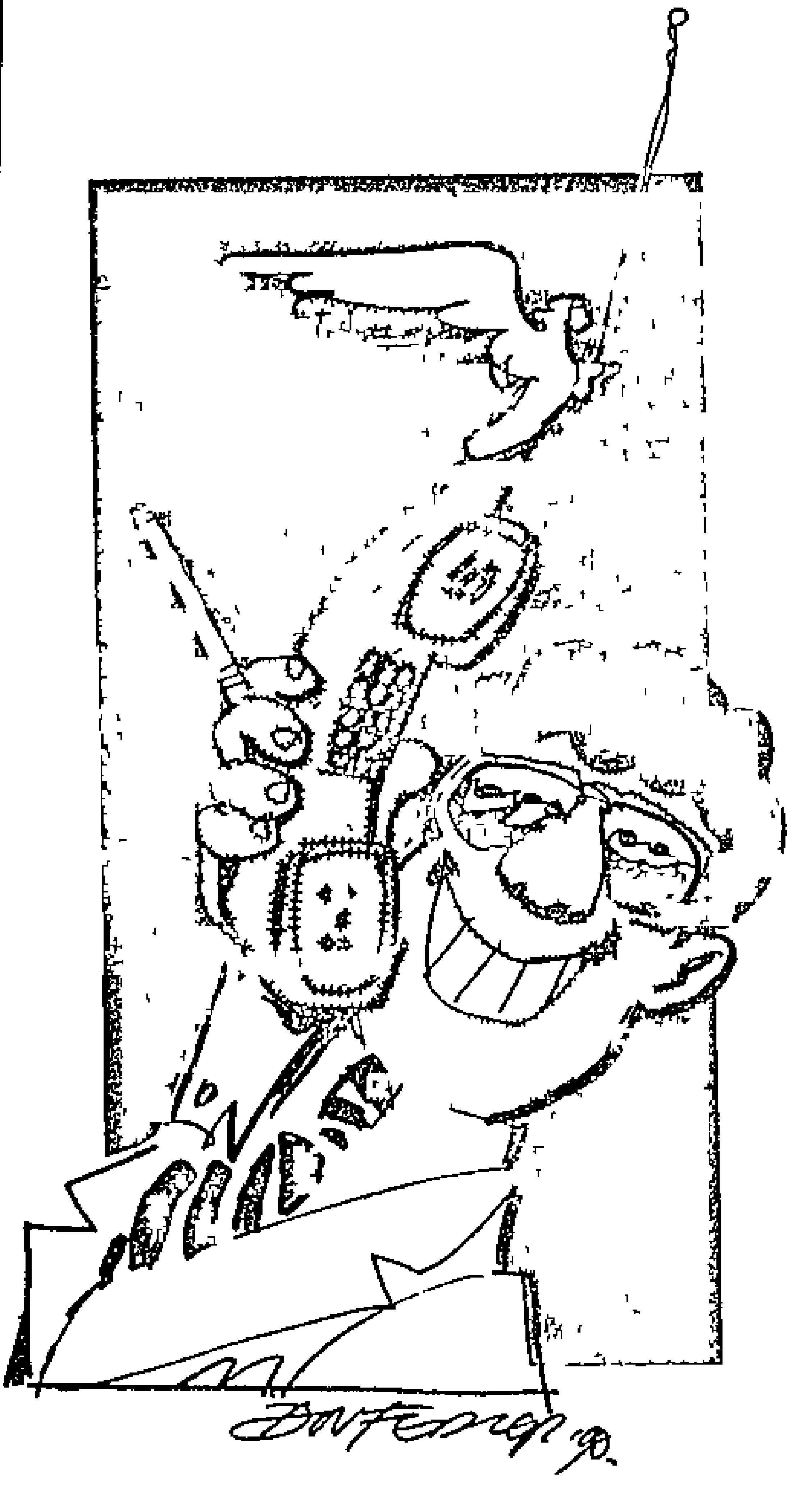
Now the Post Office has, for the first time, approved the sale of a cordless phone Last month it gave the all clear for Telephone Manufacturers — the sole supplier of standard telephones to the Post Office — to sell its high frequency Uniden UD 970 cordless phone

The Taiwan-made Uniden, which operates on the 914/915 MHz and 959/960 MHz radio frequencies, will be launched by the company next week

With a retail price of about R3 000, the units are considerably more expensive than the illegal phones still being sold in most major cities These devices, which usually operate at a lower frequency of 46/49 MHz, cost as little as R300

Telephone Manufacturers' marketing consultant Garth Brook says the high frequency of the Uniden ensures greater clarity of transmission and better security than illegal low frequency units

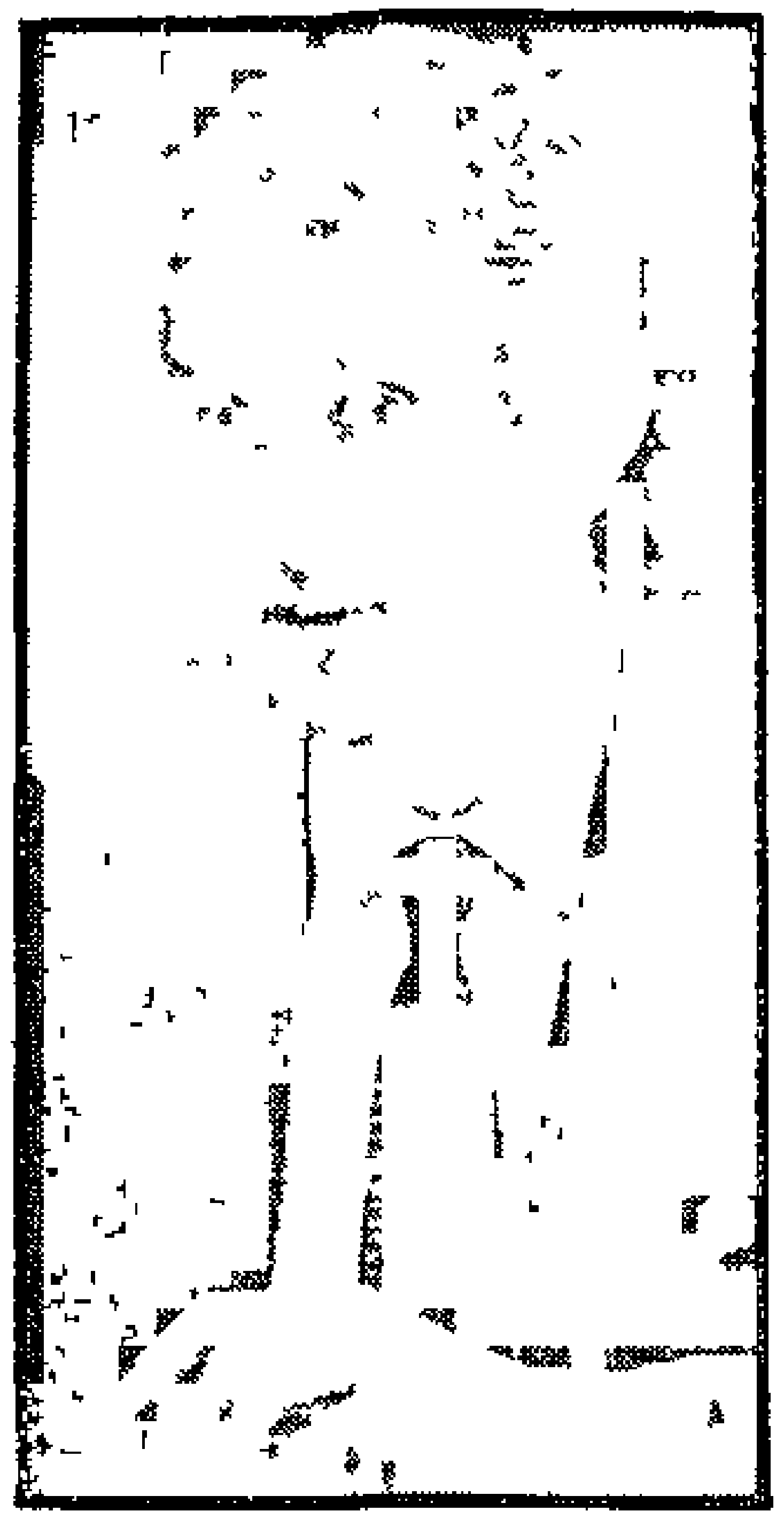
"The international trend is to higher frequency phones because this provides a great-



Don't malign the paper chase on JSE

(232)

BDay 19/10/90



TONY NORTON

MR JUSTICE Margo once posed the rhetorical question as to whether the JSE is a marketplace or a temple This reflects the perennial problem which stock exchanges experience correcting the popular image — the temple — by explaining the reality — a marketplace

The image comes probably from the mystique attaching to high finance and the jargon with which participants in markets confuse onlookers into thinking that what is really a marketplace is in fact a more complex phenomenon

Given the increased dangers of incorrect perceptions of the JSE as our society moves towards a wider social democracy, it is opportune to describe simply where the JSE comes from, where it is now, and where it could be in the future SA

Stock Exchanges have one basic purpose — to marry the savings of the nation with the needs of productive enterprise While they are not perfect agencies, they are certainly demonstrably better at allocating scarce capital resources through a competitive pricing mechanism than bureaucrats in a command economy The evidence is worldwide with active stock markets coinciding with active economies, and vice versa

Stock Exchanges do not create wealth directly They are like the gearbox in a vehicle transmitting capital efficiently, thus enabling the whole vehicle to function more effectively

To understand the nature of a stock exchange we have to look to history This shows that stock exchanges are not called into being by some dictatorial fiat or theoretical imperative They have arisen naturally throughout the free world to fulfil a genuine need, the day a stock exchange does not fulfil a genuine need, it will die

The earliest exchanges arose when the emergent merchant class after the Middle Ages was looking at bold new ventures such as a sea route to the East, but where the risk/reward ratios of such expensive ventures took them beyond the purse of any one man Syndicates were formed and in due course the waiters in the coffee houses where the merchants congregated became aware of who wanted to get out of a syndicate, and who might be interested in substituting for that person

These waiters were the predecessors of the modern stockbroker whose job remains substantially that of swapping participants in ventures, though the latter are now in the more formalised framework of the limited liability joint stock company

It soon became apparent that participants would pay more to participate in a venture if they could easily and at a fair price dispose of that participation if their priorities changed Thus the premium for marketability was established, and in due course the realisation that the more active or liquid a market was, the cheaper it would be to float off new participations

Thus the simple equation that the more active a secondary market (i.e. in existing participations or shares), the cheaper capital can be raised in the primary market (i e the market for new participations or shares).

Accordingly, the higher the relative level of activity, or liquidity as it is technically called, in a share market, the lower the cost of capital for new issuers This is the so-called "paper chase", which is not an undesirable thing but precisely the opposite as an active secondary market promotes a keenly priced primary market

This reduces the cost of capital for the nation, enabling it to price goods and services more competitively in the domestic and export markets, and to stretch scarce capital sources further in the creation of economic activity, jobs and social stability.

The JSE is one year younger than Johannesburg. It arose naturally and simultaneously with the city to meet the need for a market in shares in the capital-intensive, high-risk, high-reward deep-level mines of the Witwatersrand and has continued with its basic function as an equity risk capital market for 103 years.

Given a relatively market-oriented economy into the future, it will continue to function substantially as at present because it will be fulfilling a continuing economic need.

The JSE we have today is one South Africans can be proud of. I certainly am proud to be associated with it as it meets many of the functional criteria of a good marketplace for shares, and I find that it meets with favour when I explain it in Tokyo, London, New York, Toronto, Paris and other major centres

It is designed to be relevant to the society it serves We insist on the simple, proven architecture of agency trading — brokers cannot deal as principals with clients, unlimited liability — brokers run their affairs carefully, and noninstitutional membership — given the concentrations of economic power in SA it is felt better to restrict membership to individuals, thus giving all South Africans easy access to membership

The upshot is a market where participants get value despite one serious weakness This is the poor liquidity of our market, which is the worst in the developed free world Our turnover to market capitalisation ratio after all appropriate adjustments is approximately one-sixth of the more developed markets

This problem is largely caused by macro-economic factors like low personal savings, and micro economic factors like penal transaction taxes and other tax factors The good news is that the authorities are moving strongly on these fronts so that relief is in sight Liquidity is the lifeblood of the market and the authorities clearly understand the role that capital mobility plays in capital formation and efficiency

Is this optimistic note misplaced? We think not, as we believe that the agencies of wealth creation and transfer will have a greater role in the new SA Whoever our rulers are, they will surely know that perfect political dispensations in an economic wasteland are nugatory

Sound economic policy is so demonstrably a sine qua non of continued social and political stability that no government can ignore this reality of the 1990s

The JSE has taken a view that it should invest in the future of SA. We have ploughed tens of millions into buildings, new computer programs and hardware, and into people, to be ready to service an economy we expect to be more vibrant than in the past 20 years Political reform is being coupled with dynamic economic reform under an inspired and talented team

As the new economic order shows true performance it will establish its own right to live in the future Though there will inevitably be differences of style and emphasis, fundamentals are likely to remain.

We have been criticised for being too positive and too ready to invest heavily in an uncertain future Given the huge opportunities facing us in the new SA, we feel we must soldier on

We have much to offer SA, including a market where the barriers to entry are surprisingly low so that black stockbrokers will be able to join us in significant numbers and service the broadening base of national capital ownership

We can offer a secure, cost-effective and independent market operating with high levels of investor protection so that share ownership can be encouraged

What we need — and what the nation needs — is an active stock exchange This is almost universally a sign of economic growth We need more of a paper chase, not less. While the future is seen as being positive for us in our continuing national role, the present uncertainty — the bane of any marketplace — is highly unpleasant.

The JSE can truly be said to be looking to the future with optimism as we have a function to fulfil in the economic future of SA Our problem is not the future but surviving the stagnant present while we wait for that future

☐ **Norton is president of the JSE.**

Liquidated Spareco sold for R15m

B/Day 19/10/90

MARCIA KLEIN

(232)

LIQUIDATED motor spares distributor Spareco was bought at an auction yesterday for R15,3m.

A consortium comprising Vaal Auto (the recently listed operating arm of Vaaltrucar), Broshure Investments (which owns Fleishmans) and IGI outbid Midas to acquire Spareco's stock, fixed assets, trading name, trademark and goodwill.

Members of the consortium say Spareco shareholders are likely to get nothing, while creditors will be paid out a liquidation dividend. Spareco will be delisted.

The consortium will become a "powerful new motor spares group", with an estimated turnover of R200m from spare parts alone, consortium members say.

The new group will enter the market with a reconstituted balance sheet "which won't support high gearing", and with "enormous financial muscle". Operating costs will be completely reduced, they say.

Vaal Auto will control Spareco with its CE and chairman Sarel Germishuizen as Spareco CE, and other consortium members will be on the board.

Spareco management will be reconsti-

☐ To Page 2

Spareco sold

B/Day 19/10/90

(232)

☐ From Page 1

tuted and its "key players are already in place" Stores should be in operation on November 1

Germishuizen says he is "delighted with the purchase" and his company is committed to the staff of Spareco, many of whom will get their jobs back

Only two stores will be closed as their leases cannot be renewed and "others will be reviewed as we go along"

Broshure will contribute in terms of motor industry contacts and financial expertise, and with its interest in Fleishmans, the "expected synergies should have enormous cross benefits to the new group"

A R5,5m bid for Spareco subsidiary Eddies by FSI subsidiary Vektra has been refused by the International Bank of Johannesburg (IBJ), which holds Eddies as security

The consortium is entering negotiations with IBJ, and says there is a good chance it will acquire Eddies Results of the negotiations will be known in a few days

A few of Spareco's senior managers said yesterday they were pleased with the outcome However, one said he believed there would be an investigation under section 417 of the Companies Act — an examination during the winding up of a company of the behaviour of its officials

More brokers to merge

STimes 21/10/90

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By IAN SMITH

THE closest thing to a certainty on the lagging JSE is that the merger of two of the biggest broking firms this week will not be the last.

Senior partners of two of SA's oldest broking firms, Frankel Kruger Vinderine Inc and Max Pollak & Freemantle, confirmed that they will merge as soon as possible A likely date is December 1

Dismal market conditions made a merger look more attractive, says FKV managing director Sidney Frankel "But we have been flirting with each other for a long time. After all, we are both third generation firms "

Both companies are run by father-and-son teams Leslie and Sidney Frankel at FKV and Archie and David Shapiro at MPF

Rumours are rife about other broking firms getting together to boost turnover and share the rising costs of computer services and general overheads

With 51 firms represented on the floor there are now more member companies than there were at the peak of the boom just before the October 1987 crash

Costs

But average turnover for the first 12 trading days of this month was R55-million — barely half the figure needed for good health

The JSE's dive has steepened dramatically in recent months. Average daily turnover was R133-million in August and down to R71-million in September A number of firms have retrenched staff in recent weeks

JSE president Tony Norton says members are not obliged to tell him of merger proposals But they do tend to inform him once agreement has been reached

"In the short-term, current turnover means that more people are battling to cover costs But there is no problem that a modest increase in turnover won't fix."

Partners in the merged broking firm, which will be renamed to incorporate both titles, are enthusiastic about prospects for the new company "The improved income flow means we can support additional services for our clients," said Dr Leslie Frankel, who will be chairman of the new company

It is envisaged that partners of MPF will be appointed to the board of FKV Sidney Frankel will be chief executive officer and David Shapiro will be managing director Geoff Rothschild will be financial director

Divisions within the new firm will handle private clients, institutional business, corporate business, gilts, arbitrage, futures, research and administration

Overseas

"The new firm will be a very strong corporate broker and will maintain a strong research department," says Mr Rothschild It will have eight branches covering the country

"In today's economic climate you must either be very big or a niche broker," said Sidney Frankel "The merger will give us the economies of scale to see us through the difficult times "

Both partners have strong overseas links, FKV particularly in institutional business and MPF in arbitrage

BUSINESS DAY, Monday, October 22 1990

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The Governor has the last word

HAROLD FRIDJHON

MONEY market rates hardened last week, which was to be expected as offshore key indicators — the prices for gold, oil and platinum — reflected unwelcome volatility and recession talk overseas appeared to gain momentum.

To add to the grey mood overhanging the market, authoritative voices have made it abundantly clear that Bank rate will stay where it is when the new year bells chime.

The Treasury bill (TB) rate gained 38 points in a three-and-a-half times oversubscribed tender for R120m bills, R20m more than the maturities. The rate for liquid 90-day bankers' acceptances hardened over the week to 17,80% from 17,35% This is a clear indication of the bearish sentiment which has also affected rates for negotiable certificates of deposit (NCDs) of all maturities up to one year which have been marked 30 points higher than they were a week ago

The prevailing rates pattern appears to negate reports that the switching by institutions from stock exchange investment into money market assets has brought a flood of new money into the money market which, sooner or later must bring down interest rates. Bankers, however, say these institutional funds are not "new" money as such. It is largely a change in the direction of cash which is in the national "kitty"

To oversimplify the movement of funds: when institution "A" buys shares from institution "B", funds move from "A" to "B" which probably places some of the proceeds in the market. Consequently when "A" does not buy shares, "A" invests in money market assets the cashflow funds which would not have gone to "B"

If there had been a material increase in the flow of money into the market, the market shortage — the banks' debt to the Reserve Bank — would have declined materially But it hasn't. Although the shortage dropped to R2,4bn on Thursday from the previous week's R2,6bn, this is a typical mid-month dip In all probability the shortage will move up to around R3,5bn by the end of the month.

The Reserve Bank is keeping the market short of liquidity in order to hold interest rates at current levels. Minor fluctuations in rates are tolerated but if the Bank considers that speculative market trading appears to be challenging official monetary policy, it soaks up excess liquidity by various means.

Currency swaps with the banks siphon out rands for dollars. Government bonds are tapped into the market. Issues of TBs are increased and in special instances, short-dated TBs are sold.

Reserve Bank Governor Chris Stals has the final say as to where interest rates are going, not the market.

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[redacted] [redacted]

B/Day 22/10/90

Corporate giants trade at low levels

NEIL YORKE SMITH

SOME of SA's corporate giants are trading at or near their lowest levels on the JSE this year — but fund managers and analysts expect prices to fall further as the threat of world recession looms.

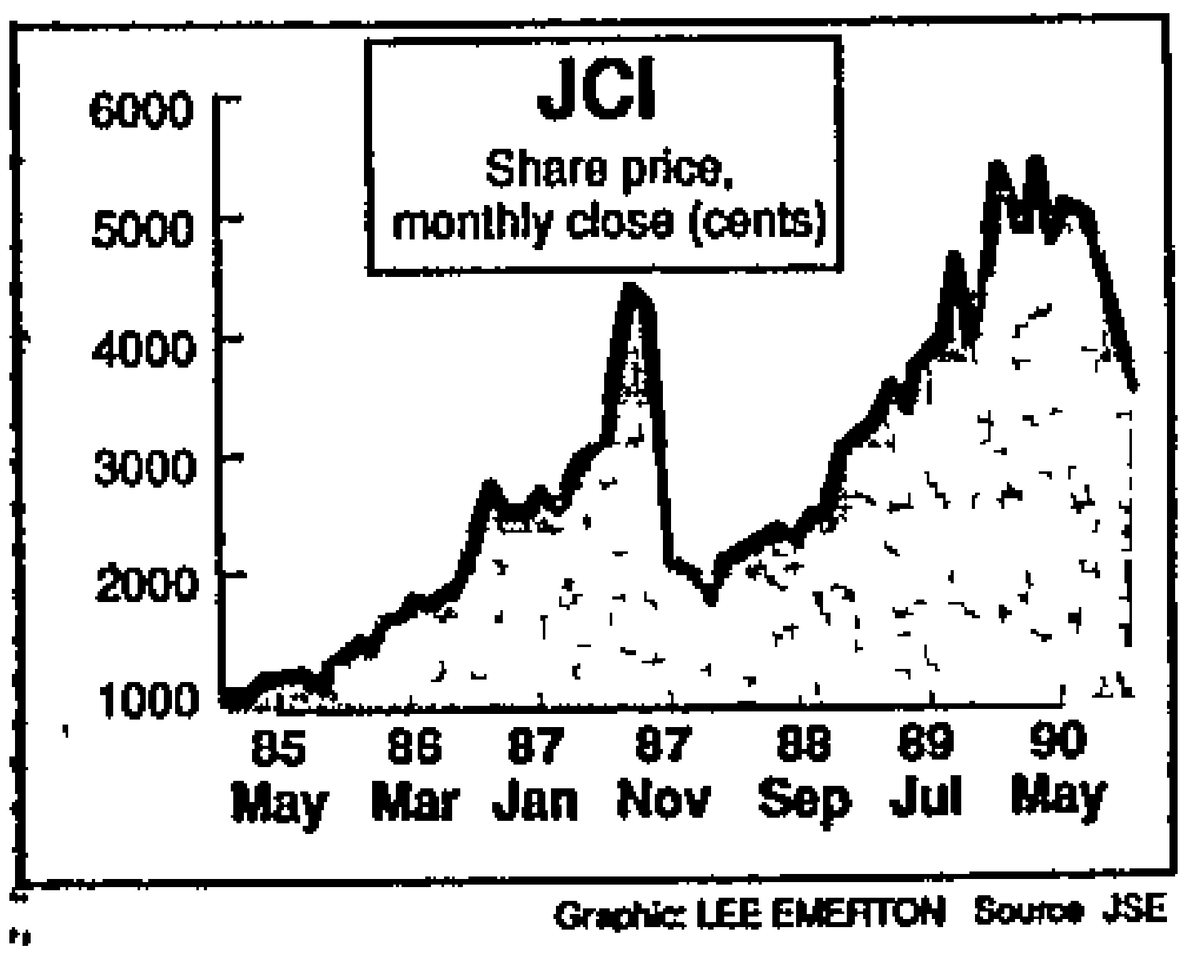
"Yields are still nowhere near levels reached in previous bear markets so shares could well fall further," a J D Anderson analyst said

Mining based conglomerates dominate the list of "blue chips" trading at dismal share prices

They include industry leaders like Barplats (at 500c, a fraction of the 1 800c 12-month high), Rusplats (5 875c off 9 250c), De Beers (6 150c off 11 000c), Anglo American (9 100c off 14 900c), Johnies (3 350c off 6 100c) and Gencor (840c off 1 375c)

"The outlook for precious metals is bad — the heavyweights are being sold down in favour of cash instruments which are safe and offer real returns," a Davis Borkum Hare analyst said

But non-mining leaders have also been battered Companies like electronics group Reunert, industrial holding company F S Group and chemicals business Sentrachem all touched annual lows recently



Graphic: LEE EMERTON Source JSE

"Heavyweights are more liquid — they are being sold as investors hope to buy them cheaply when the market bottoms"

"Shares in smaller companies are less tradeable and some investors are riding out the storm as they may be unable to repurchase the shares they sell when the market turns," the J D Anderson analyst said

Another broker said clients were advised to sell holdings in diversified conglomerates and buy into more focused businesses

"At best the conglomerates will match the indices, but some of their subsidiaries should outperform the market," he said

Are bargains to be found at current prices was the question put to AA Life GM (investments) Stephen Meintjies He said "Some shares look oversold but institutions are holding back in case they move even lower."

This was confirmed by Sanlam's GM (investments) Ronnie Masson "We are not selling equities but are withholding funds as share prices may drop further"

As usual, institutions were acting on the herd instinct, an analyst added

"Selected shares look attractive at these prices but at current interest rates cash is still king," he said

"The moment one institution starts buying they'll all rush in and chase the same stocks."

Privatisation still on govt's agenda

GRETA STEYN

GOVERNMENT had not discarded its privatisation policies, although Eskom was no longer a candidate, Administration and Economic Co-Ordination Minister Wim de Villiers said on Friday

"We are investigating certain aspects of certain institutions that could be privatised," he said in response to a question on why he had omitted to mention privatisation as part of government's policy to strengthen the working of the market and price mechanism

He had mentioned de-regulation and commercialisation, the promotion of effective competition by the Competition Board and the elimination of factors that inhibited labour market flexibility.

He noted that a second report on the Foskor privatisation had just been completed after the initial report had revealed "certain problems".

He denied that the ANC anti-privatisation stance had caused government to rethink the policy The decision not to privatise Eskom was based-on the belief that it was a "consumer friendly utility" rather than consumer neutral, as it would be if privatised It was a natural monopoly and government had a duty to intervene in monopoly price setting

Bus Day 2/10/90

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UNIT K
PRICE A
STOCK K
VALUE A

- 2 -

Property stocks begin to look better investment

B/Day. 23/10/90

CHARLOTTE MATHEWS

PROPERTY stocks on the JSE are starting to look a better investment because of potentially greater institutional demand, the low gearing of property companies at a time of high interest rates, and the marketability of property stock in comparison to fixed property

Board of Executors Properties (Boardprop) Transvaal director Nikki Vontas has released a survey on property loan stock companies in 1990 which projects that the property sectors will be re-rated in 1992, although they will remain underrated in 1991

The new prudential investment guidelines introduced on October 1 1989 allowed institutions to invest up to 30% of the market value of their assets in property.

Property loan stocks and property unit trusts are now considered as alternative investments to physical property.

Unlinked

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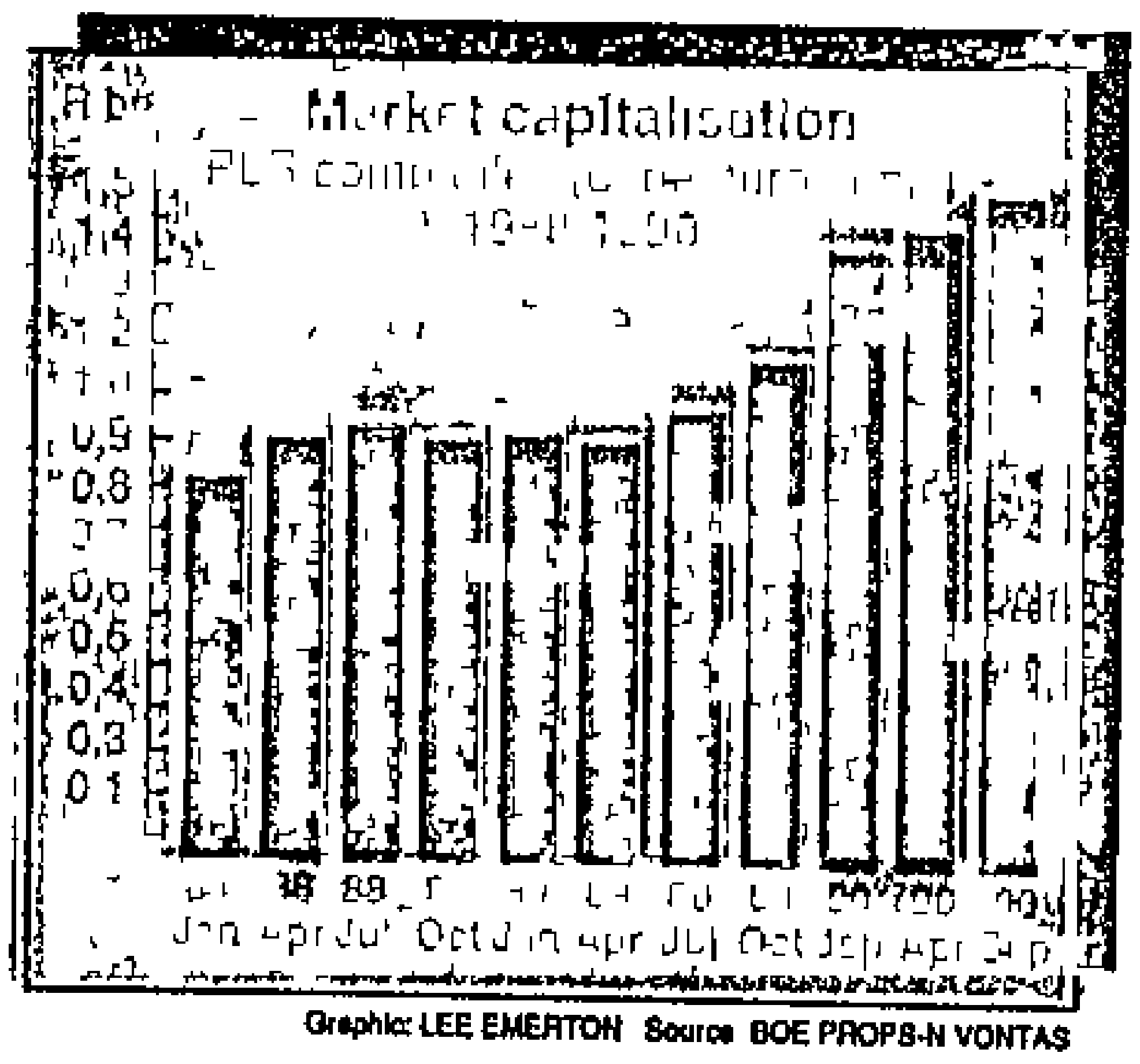
A property loan stock company can have unlinked units consisting of separately listed shares and debentures with the debenture interest being linked by a formula to dividend growth Or it can have linked units consisting of a debenture linked to a share.

Anglo American Properties, Barlow Rand Properties and Retprop have unlinked units, while Boardprop, Growthpoint, Hyprop Investments, Pangbourne Properties and RMS Properties have combined units.

The purpose of combined units is to offer a pre-tax income distribution to those institutions such as pension funds which are not liable for normal tax.

The debenture portion is a loan from the institution to the property company.

The reason for having a debenture linked to an equity portion is to give the loan stock holder proportional voting rights in the loan stock company.



Graphic: LEE EMERTON Source BOE PROPS-N VONTAS

"The industrial shares tend to outperform property stocks in times of economic growth characterised by low interest rates (industrials are very heavily geared) as in 1979-1982 and 1987-1988," Vontas says.

"The economic growth translated into growth in rental income generally affects the property industry and property share earnings with a certain delay of at least 18 to 24 months

"This should mean that 1990 earnings of most property loan stock companies will show steady growth."

In the short term, Vontas believes, property loan stock companies will perform well because prevailing rental levels are still high and vacancies still relatively low, although there is increasing oversupply in some areas

"At present, forward investment yields on property loan stock companies are higher (if we take into account the diversification of risk through a property portfolio) than similar quality fixed property initial yields," Vontas says.

He adds that property loan stock units are more attractive than fixed property because they are more marketable.

The opportunity cost incurred during the sale and transfer of fixed property can cost up to 1% of the value of the asset.

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Bank shareholding limit 'may go'

GRETA STEYN

B/Day 23/10/90

REGISTRAR of Banks Hennie van Greuning yesterday hinted the 49% limit on shareholding in a bank by an individual shareholder would be scrapped in future.

In the meantime, the Reserve Bank intended to be "very lenient" about it, he said in response to a question from the floor at a Mercantile Bank seminar in Johannesburg on the new Deposit-Taking Institutions Act The Act replaces the Banks Act and becomes effective next year

Van Greuning said his office did not support the limit as it did not believe manipulation of a bank took place through shareholding.

"We lost round one on the issue but the politicians are listening to us. The issue of shareholding in a bank has always been an emotional one, but we believe that any manipulation of a bank will take place through the board of directors and not through the shareholders We would prefer to focus our attention on the composition of the board rather than on the majority shareholding," he said.

He acknowledged the Finance Minister had the final say

The issue of limits on shareholding has been the focus of attention since the Sanlam bail-out of Bankorp left Sanlam with about 90% of the bank's shares. Old Mutual, too, holds more than 50% of Nedcor after giving it a shot in the arm in 1985

● Picture, Page 3

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Ruling expected soon on opening futures market

ROBERT GENTLE

23/10/90 B/Day

NON-residents would soon be allowed to participate in the local futures market, market sources said yesterday, and an announcement by the authorities to this effect could be made by the end of the month.

This would be a great boost for the SA Futures Exchange (Safex), which would then enjoy the benefits of increased volumes due to foreign participation in much the same way as the JSE does.

A Reserve Bank spokesman confirmed one of a series of meetings took place on Friday with representatives of the futures industry, but would not speculate on the outcome.

He said the issues discussed were the participation by non-residents in the local futures market and the exact mechanism — financial rand or commercial rand — for such participation.

He did not elaborate, but it is known the choice of currency would affect such key issues as how futures contracts would be paid for (margin payments), at what intervals, how interest would accrue on open positions, how profits and losses would be accounted for and who would be authorised to handle such transactions.

The futures market is known to prefer the finrand option because the leverage effect — the result of the cheaper finrand and the low margin payments on futures contracts — would provide a great incentive for foreign participation.

The value of share index futures traded on Safex is traditionally within about 25% of the value of the corresponding underlying shares on the JSE.

The contracts thought most likely to interest foreign participants are share index futures and long-term interest rate futures, which could be used to hedge positions on SA shares and gilts respectively.

Key to struggle is ecomonic education - JSE expert

Sowetan 25/10/90

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By JOSHUA RABOROKO

MR JOSHUA Tshifhumulo Mafolo (27), of Soweto, the first black investment researcher employed by a stockbroking company, says one of the least known financial institutions in the black community is the Johannesburg Stock Exchange

As a researcher for Kaplan and Stewart stockbroking company in Johannesburg, his major vision is the African economic struggle which he says must begin with economic education

Black business, especially small entrepreneurs, such as the rapidly growing black taxi industry, view the JSE with suspicion because they have been kept ignorant and have remained drawers of water and hewers of wood for a long time

The kind of job he is doing is usually dominated by whites in South Africa. It involves talking and interviewing representatives of big companies to analyse their equities on the JSE and to encourage and solve problems of others with the view to get listing

The vast majority of his clients are whites, who have learnt to accept his courageous job, despite all racial conflicts in the country, while some express surprise that a black man can do the kind of work effectively. Enthusiasm is the key to his success

Joshua, who holds a Bachelor of Commerce degree with honours in financing management business from the University of South Africa, was born in Louis Trichardt, where he also taught at various institutions earning as little as R199 a month

Growing up in the rural areas and facing educational problems as a young man was a great challenge for him His schooling career was a pleasant experience After passing matric in 1981 at the age of 19, he was forced to teach for a year to accummulate money

He studied for a Bachelor of Science degree at the University of Fort Hare with the view to do medicine in 1983, but switched to B Com the following year because he lost interest His initial aim was to be an architect

Expelled from varsity

As a leader of the Students Representative Council he was expelled from the university because he and other students staged a demonstration against the then Chief Minister of Ciskei, Mr Lennox Sebe, who was due to address a graduation ceremony in 1985

He was detained for four days under the territory's Security Laws

Joshua's quest for education never stopped in the aftermath of the university debacle. He continued his education with Unisa where he passed his B Com degree in 1986 and obtained honours in 1987 while teaching in Venda.

As he was unqualified to teach and because of boredom, he decided to venture in stockbroking because he was interested in investments. He had read books and newspaper articles on black economic empowerment and was inspired to advance business

Gain experience

He left his home town because he wanted to gain experience in Johannesburg. He was employed as the first black researcher by Kaplan and Stewart Broking company. His office in the seventh floor of the JSE is a beehive of business activities Telephones jever stop ringing

He says there is no need for small investor to be frightened away by brokergae charges imposed by the JSE, which has played an important role in the South African economy

The winds of change are blowing everywhere, even in South Africa, and black businessmen have to come to the JSE if they do not want to be caught with their pants down

COMPANIES

Investors must select their shares with greatest care

BDay 25/10/90 (232)

LIZ ROUSE

THE equities market has some pockets of value but potential investors will have to be extremely selective in their choice, say market analysts

Most say the bottom line should be liquidity with the recommended cash holding for an investor varying from 20% to 40%, depending on the analysts' measure of confidence in the market

Some analysts say stay with blue chips, with a speculative exposure to gold, but others disagree about the attractiveness of blue chips at current prices, particularly industrials.

Shares such as Amic and Barlows are not considered buys at current levels because it will take some time for these giant concerns to regain their growth rates of recent years.

Little value

These shares have, perhaps, not fallen as much as others because they are firmly in the hands of institutions, but earnings and dividend prospects for the next year or so are poor.

The industrial holding sector therefore offers little value to the smaller investor at present, some analysts say. The exception could be Safren, which was not highly valued previously An analyst sees a forward yield of 7%, with the counter trading on a price-earnings ratio of 6,3.

In the beverages and hotels sector Interleisure, which has always been neglected, offers superb value with an estimated forward yield of 8,5% and a price-earnings ratio of 6,2.

Kersaf and Sunbop both have a forward yield of 7%, but some investors might be wary of political risks attached to some of their holdings, one analyst said. Transun is on an attractive forward yield of 12,8%.

Sasol is the best bet in the oil sector, but the forward yield is about 5% and the coming rights issue might put off investors At best the share offers reasonable value.

Analysts gave the thumbs-down to the engineering sector, which offers no value at present. Afrox remains expensive, as does Hudaco.

In the furniture sector Amrel has proved it can weather recession and has an estimated forward yield of 9,6% and p e of 3,5.

In the retail sector Foschini and Pepkor are possible buys, as prospects should improve as interest rates ease

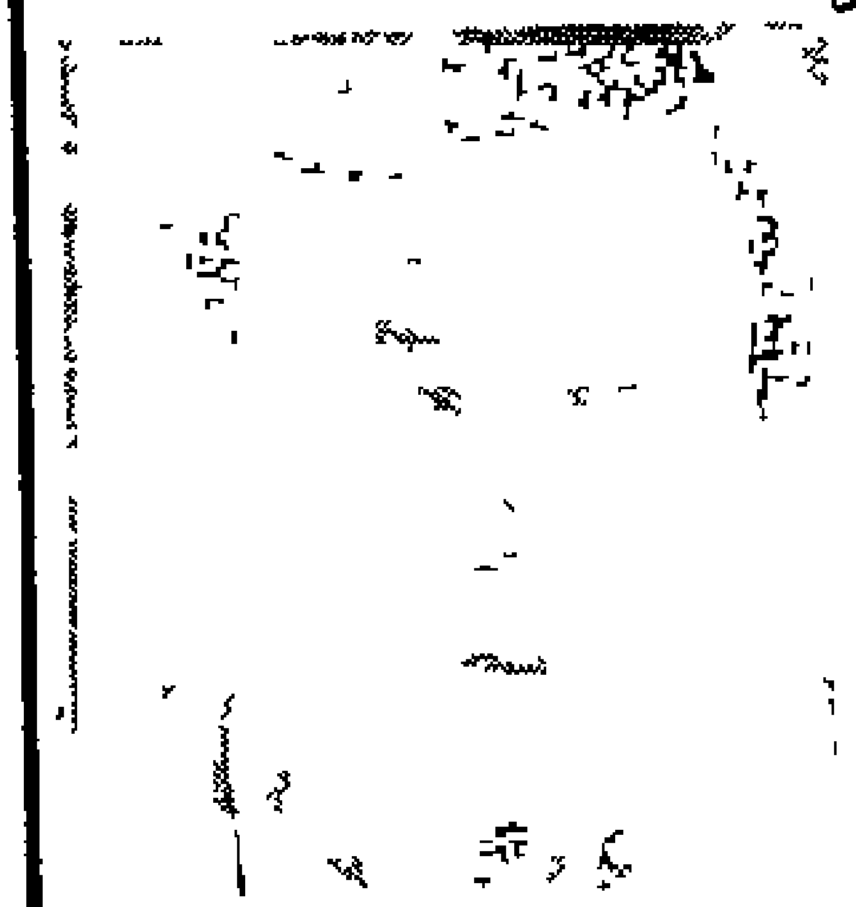
Share offers are likely to be a bit tricky in the current market mood, but analysts recommend taking up the African Life preferential offer at 130c.

A leading broking house recommends that blue chip counters, to be retained, should have a clear focus in the following areas of interest: strong external asset situations, financial services, energy and some gold.

Companies involved in black consumerism, social upliftment (education and housing) and shipping and tourism are likely, as sanctions are relaxed, to be the major beneficiaries of the first stage of an economic recovery.

Privatisation would be short-sighted — De Beer

Bday 25/10/90



● DE BEER

DURBAN — The privatisation of natural monopolies would be short-sighted and make future political negotiations more difficult, retiring Afrikaanse Handelsinstituut (AHI) president and Gencor director Tom de Beer said yesterday.

SABC radio news reported that he told the annual congress of the institute that even institute members disagreed about privatisation (232)

He had asked government to state officially that privatisation would be stopped until a new constitutional dispensation had been introduced and all political groups had a part in decision-taking

De Beer said it was time for those calling for sanctions against SA to reconsider seriously whether this approach was still justified.

Economic growth and the creation of jobs came only after purposeful planning and effective management Risk investment, particularly from abroad, was not encouraged by irresponsible demands, nationalisation and boycotts — Sapa.

After R4,5m rights issue . . .

Fenix takes 60% stake in Debonair

Cape Times 25/10/90

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By AUDREY D'ANGELO
Business Editor

FENIX INDUSTRIES (formerly Retco) has taken over the Epping-based Debonair Group, which found itself in trouble with high gearing and a loss-making Johannesburg operation

Fenix has bought Unidev's 25% stake in Debonair for 15c a share, making a total of R780 000 — and issue 6m new shares at 75c each on a consolidated basis of one-for-five

After the rights issue Fenix will own at least 60% of Debonair A Fenix director, Justin Schaffer, who has extensive experience in the textile industry, will become non-executive chairman of Debonair

Fenix already owns a knitted fabric company, Ivitex But both Fenix chairman Cedric Walton and Schaffer emphasised that it was not planning to increase its holdings in textiles

"We are looking at other industries," said Walton

"We want to become a general industrial holding company, and our main thrust will not necessarily be in textiles "

Schaffer said the chance to buy control of Debonair was "a very good opportunity"

Debonair was a leader in its field of household textiles "and our coming in brings experience and capital

"But our next investment will not be in textiles We are looking at some very interesting possible acquisitions now.

"We intend to move Fenix from the property board of the JSE to the industrial holdings board "

Fenix Industries MD David Chapman said Debonair was a well managed company with an excellent track record save for its recent hiccup

"Debonair fits our acquisition criteria well It is one of the main players in a growth industry It has good management who has a substantial interest in the company "

Debonair CE Ian Foster and technical director Carl Schwinges, who founded the company together, will hold 24% of it after the rights issue

Explaining that their troubles had been caused by acquiring a Johannesburg firm, Quiltex, Foster said part of this division had been closed down and the rest of the operation relocated to Cape Town This, with stock and debtor provisions, had resulted in a non-recurring expense of R3,6m

Foster said he and Schwinges were "very happy and motivated" in spite of the fact that their stake in Debonair would be watered down from 40% "We would rather have 24% of a healthy, revitalised company than 40% of one that was limping along with high gearing in today's tough conditions

"The day-to-day management will remain the same But Schaffer has enormous experience, particularly on the raw materials side, and we are looking forward to his input "

FIM 26/10/90 THE NEW ECONOMIC POLICY (232)

BACK TO THE BAD OLD WAYS

One had hoped this government had by now learnt the self-defeating folly of subsidising specific sectors with a view to forcing economic development to move in a way other than would be determined by the market mechanism. Indeed, many of Railways' own financial problems were caused by its use for decades as a provider of sheltered employment to otherwise unemployable urban whites and otherwise uneconomic rural farmers (both groups, be it remembered, being important political backers of the NP)

Now Sats, having struggled throughout the Eighties to turn itself into a commercially orientated undertaking, is again to become a vehicle for outmoded concepts of social engineering even Moscow is now trying to move away from.

John Maree, too, having been lured from the private sector to turn Eskom into a lean, profit-geared, privatised undertaking, has been stabbed in the back by neo-interventionism with electricity pricing.

It may be argued that the objectives of our new economic policy — to develop an export culture and thereby jack up employment and the growth rate — are intrinsically beneficial, whereas protecting poor whites was just a concealed charity. Alas, that's a red herring, for many reasons.

First — and most cynically — who's to say that developing an export culture will always remain the flavour of the month? As it is, and not forgetting the high import component of many of our export industries, there are economists who believe that a better way of stimulating economic activity is to address basic inequalities in areas like housing and health

Less emotively but more fatal to the argument, it seems to have been forgotten that there is no such thing as a free lunch Subsidies (and that's what artificially keeping transport and electricity tariffs down amounts to, especially if there are to be concessions on a selective basis) are only transfer payments, they cannot in themselves create wealth, though unfortunately they can destroy it

The linkage may not be immediately apparent, but if rail and electricity tariffs are kept below market-related rates, that is an effective cost on the rest of the economy. It is not Sats and Eskom that will subsidise exports: it is the rest of us, who will thereby be impoverished as our incomes are eroded

Even that might be tolerable if it were spread evenly or indiscriminately across the population. However, in recent years the transport sector has been going through a painful and tortuous process of deregulation and increased competition. There is no evidence that in this latest interference with the market the authorities have given any consideration to the likely damage to the private-sector transport industry they have in theory been encouraging to develop, either conceptually or in blunt bottom-line terms

Indeed, there is no evidence of any broad conceptual thinking in this disastrous hodgepodge of measures — other than that, whether admittedly or not, it is a serious defeat for market orientation and a retreat into the view that government (that is, a bloated bureaucracy whose main concerns are self-preservation and self-enhancement) can somehow outguess the market

Of course, the *FM* is in favour of the cheapest possible electricity and transport. But as we pointed out two weeks ago, the road to cheap, user-friendly utilities is not some ill-defined "commercialisation" (which can only be an uncomfortable limbo) but deregulation, privatisation and the encouragement of competition (in that order).

The argument that there are "natural monopolies" is fallacious Almost every service you can think of is provided in the US by private enterprise at an efficiency light years ahead of anything our utilities can manage. In the UK, privatisation turned British Airways from a lumbering loss-maker into one of the world's most popular *and profitable* airlines; privatisation of other utilities has been accompanied by keeping tariff hikes *lower* than they were during public-sector ownership

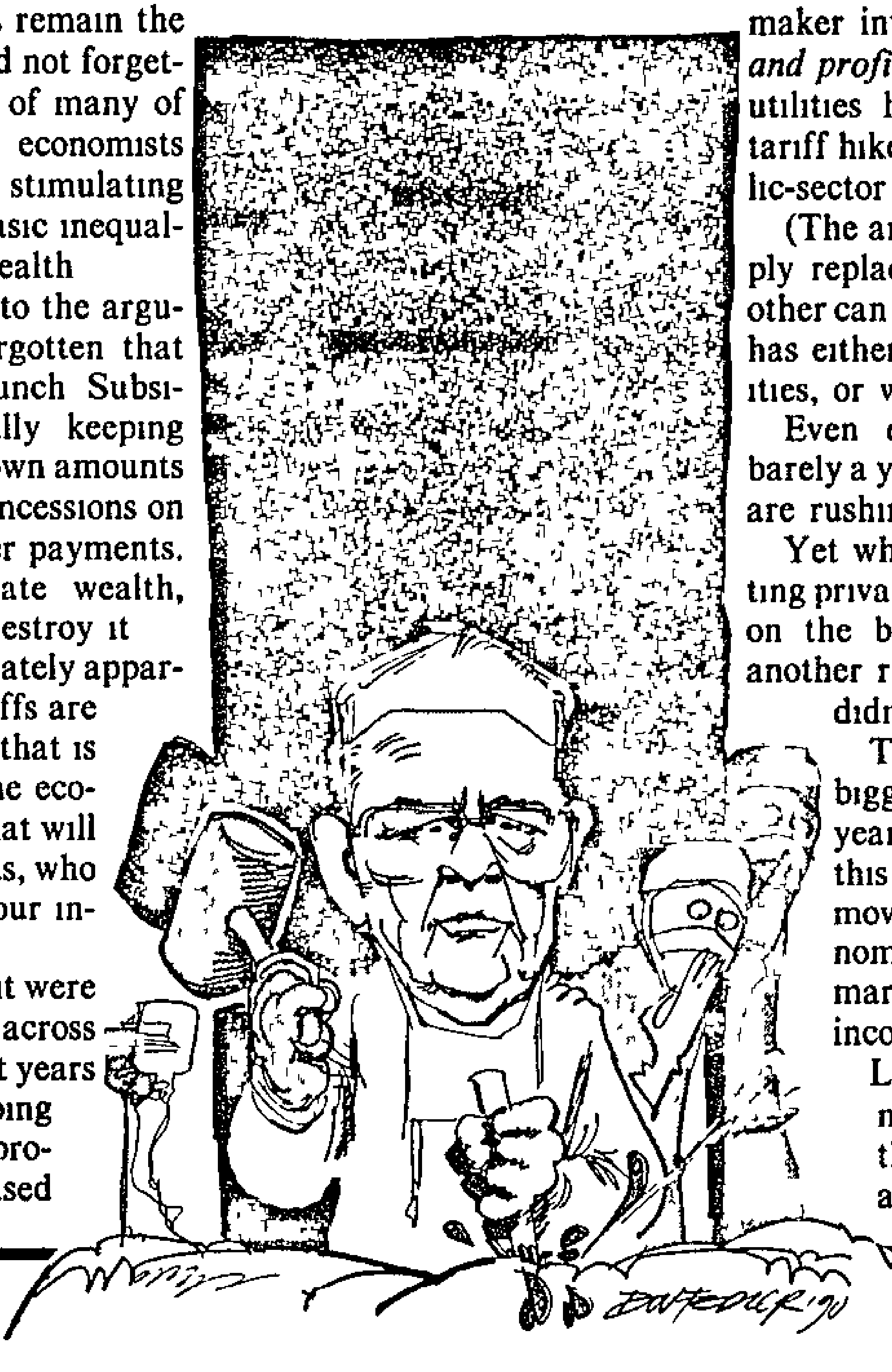
(The argument that regulatory bodies simply replace one set of bureaucrats with another can only be put forward by someone who has either not addressed himself to the realities, or who does not want to)

Even eastern European countries, with barely a year of semi-democracy behind them, are rushing to privatise.

Yet what are we doing? Deliberately putting privatisation of Transnet and Eskom back on the backburner and commissioning yet another report on Foskor because somebody didn't like the first one

The events of the past week are the biggest setback to economic sanity in years. We have warned repeatedly that this government cannot be trusted with moving to a genuine market-based economy, because it doesn't really accept a market-based philosophy. That is now incontrovertible

Let's hope the DP, whose liberal, free-market voice is now needed more than ever before, will have the courage to stand up and say so ■



FM 26/10/90 (232)

COMMERCIALISATION

BOON FOR BANKS

Now that government has put the brake on privatisation some business expected by banks has dried up.

But all is not lost Commercialisation — getting semi-State businesses to run on private-sector lines — continues and banks and other financial institutions are reaping the benefits

One of the first steps is the transfer of financial services from the Reserve Bank to commercial banks Sasol, Iscor and Eskom have used commercial banks for years Now Transnet (formerly Sats) is taking its business to major banks Standard Bank has taken over banking services for the railways, Nedbank for SAA, First National for road transport and Volkskas for harbours, medical, housing and SAR travel

The CSIR has moved to Volkskas

These accounts are big business It is estimated that the Transnet accounts, for instance, will earn the banking sector more than R3m a year in charges.

Volkskas's Johan Coetzee says services now provided by commercial banks include cheque deposits and fund management, as well as extras such as staff car and housing schemes "We also offer financial advice Until now, public corporations have known little about the financial services available in the private sector "

First National's Johan Meiring says "We are aiming to change the culture of State-owned enterprises, to ensure they resemble commercial enterprises in terms of management, information systems, finance, accounting methods and corporate strategy "

Merchant banks, though losing potential revenue from new listings, have also become involved in commercialisation UAL concentrates on managing portfolios for State and semi-State organisations and handles pension and other pool funds

Assistant GM Ben Kruger says Standard Merchant Bank has taken steps to attract business as commercialisation gathers momentum "We have organised feasibility studies on privatising Autonet and SAA "

Merchant banks are meeting increasing competition from the big accounting firms. Though these do not manage funds, they advise on management, financial restructuring (including accounting policies), budgeting, costing and information systems. Top firms have specialists in tax, treasury operations and use of human resources André Clow, in charge of commercialisation at Deloitte Pim Goldby, says. "There is little the major accounting firms cannot do to assist in the commercialisation process "

There is no shortage of companies in need of advice Transnet uses Deloitte Pim Goldby and, to a lesser degree, Aiken & Peat to make its components more efficient. Deloitte is also involved in the difficult task of restructuring Posts & Telecommunications

Commercialisation has been given further impetus by the Browne Inquiry into the accountability of public corporations It was recently published for comment in the *Government Gazette* as draft legisation ■

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SPARECO FIM 26/10/90

WINDING UP

232 [redacted]

Prospects are bleak that shareholders will receive anything out of the winding-up of the Spareco spares group, contends liquidator Les Cohen of Westrust Assets were sold on October 18 for a bargain R15,3m to a consortium headed by Vaaltrucar executive chairman Sarel Germishuizen

The consortium, of Vaal Auto (the recently listed operating arm of Vaaltrucar), Brosure Investments (which has a stake in competitor Fleishmans) and insurance group IGI, is negotiating to acquire the business and assets of Eddies Motor Spares

Vaaltrucar emerges as the real winner The R15,3m covers goodwill, business and assets, excluding book debts and certain encumbered assets Retail value of the trading stock alone is estimated to be between R35m and R40m The effective price for stock-in-trade was approximately 50c in the rand, which the creditors and liquidators consider reasonable in the circumstances Germishuizen estimates fixed assets involved in starting a spares shop could run to R500 000

FIM 26/10/90 [redacted] [redacted]

Germishuizen reckons the transaction has increased Vaaltrucar's net asset value by 35c Its spares turnover will probably rise to R130m He is not yet sure how the bottom line will be affected this year but expects Spareco to boost pre-tax profit by R5,7m.

The losers are shareholders and trade creditors. Spareco was listed through a reverse takeover of cash shell Eurefin in November 1988 The public was not invited to subscribe for shares, but Eurefin minorities were offered 482c cash per share in March 1989. Latest available accounts for Spareco are for the year to June 1989, published in February These showed that Spareco directors held 65% of the issued shares

Spareco's 683 workers lost one month's salary in September when TrustBank refused to honour pay cheques due to a lack of funds Some workers may now face retrenchment as it is understood that Vaaltrucar intends reducing staff to some 300. The liquidators are going to court to obtain direction regarding workers' legal rights

In terms of Sections 99-102 of the Insolvency Act the three banks (Bankorp, First National and Alpha Bank) protecting their security by a notarial bond rank first in the liquidation dividend Then follow the Receiver of Revenue, salaries and wages, ordinary creditors, preference shareholders and lastly ordinary shareholders Spareco owed the banks some R40m and it seems unlikely that they will get full settlement The liquidators have reserved their rights and will seek legal opinion on the validity of security claimed by the banks If this goes to court it could be protracted, says Cohen

The Spareco saga again puts the spotlight on the high risk involved for equity investors When the going is good, they are rewarded for risk taking, but when things turn sour, they rank last when a company is wound up

Gerhard Slabber

F/M 26/10/90

ANGLOVAAL INDUSTRIES (232)

GOOD RERATING

Activities: *Holding company of Anglovaal's industrial interests*
Control: *Anglovaal 60%.*
Chairman: *B E Hersov, MD J C Robbertze.*
Capital structure: *28,3m ords. Market capitalisation R1,7bn.*
Share market: *Price. R60 Yields 2,3% on dividend, 12,2% on earnings, p e ratio, 8,2; cover, 5,4 12-month high, R66,50, low, R43. Trading volume last quarter, 268 000 shares*

Year to June 30	**'87**	**'88**	**'89**	**'90**
ST debt (Rm)	80,4	116,4	258,8	211,6
LT debt (Rm)	73,9	99,1	226,4	300,2
Debt equity ratio	0,02	—	0,12	0,22
Shareholders' interest	0,50	0,47	0,44	0,43
Int & leasing cover	8,7	42,9	70,7	12,3
Return on cap (%)	19,1	18,9	17,9	19,1
Turnover (Rm)	2 832	3 712	4 575	6 486
Pre-int profit (Rm)	273,6	395,6	487,8	634,8
Pre-int margin (%)	9,3	10,6	10,4	9,7
Earnings (c)	415	563	657	733
Dividends (c)	75	100	120	135
Net worth (c)	1 931	2 412	2 938	2 953

If the share price is anything to go by, investors are pretty confident that Anglovaal Industries (AVI) will be able to maintain — and perhaps even improve — its earnings growth rate despite the steady deterioration in the business climate

Over the past year, the shares have gained almost 32%, in marked contrast to the industrial market, more important, the rating vis-à-vis the likes of Amic, Barlow, FSI and Malbak has soared Whereas a year ago — as the *FM* noted — AVI was trading at a substantial discount to these companies based on p e ratios, this situation has been completely reversed Now, AVI's p e of 8,2 compares with Amic's next-best of under 6, and is more than double Malbak's 3,8.

AVI's Hersov *enjoying the improved rating*

F/M 26/10/90 (232)

DIVISIONAL CONTRIBUTIONS (%)

	1989	1990	1989	1990
Construction & electronics	27	30	7	11
Diversified businesses	18	15	~~27~~	27
Dry food & beverage	15	12	21	21
Frozen food	24	19	21	19
Packaging & rubber	16	24	22	22
Holding company/other	—	—	2	—
Total	100	100	100	100

Similarly with dividends, AVI's 2,3% yield is less than half that of any of the other four While it can be argued that AVI has traditionally been a low-yielder (partly because of its equally traditional high cover) the premium is unusually high

The question is whether market expectations are likely to be translated into reality Objectively, the answer must be a cautious "yes," based on two factors First, the bottom line has yet to feel the full impact of the major expansion into the rubber industry through acquisition of Goodyear (now Tycon) and that company's subsequent merger with Tredcor Secondly, restructuring of the group towards the end of the 1989 financial year, involving *inter alia* the elimination of intermediate holding companies such as South Atlantic, should have improved internal cash flow and could, in time, lead to a lower dividend cover — which remains abnormally high by JSE standards

Dealing with these in order, one of the most remarkable aspects of the 1990 results was that entry into the rubber industry at a net cost of R156m had virtually no effect on the earnings profile (see table)

What is now the packaging and rubber division continued to chip in 22% of attributable earnings, unchanged from the contribution of packaging alone in 1989, despite the substantial increase in assets employed and, hence, in the earnings base Partly, this was owing to the prolonged strike at Tycon following Goodyear's disinvestment, affecting in particular first-half performance

This, in turn, contributed to group EPS growing by only 8% at the interim stage In the second half, with production back to normal, EPS growth almost doubled to 15% despite a further significant weakening of the general business climate

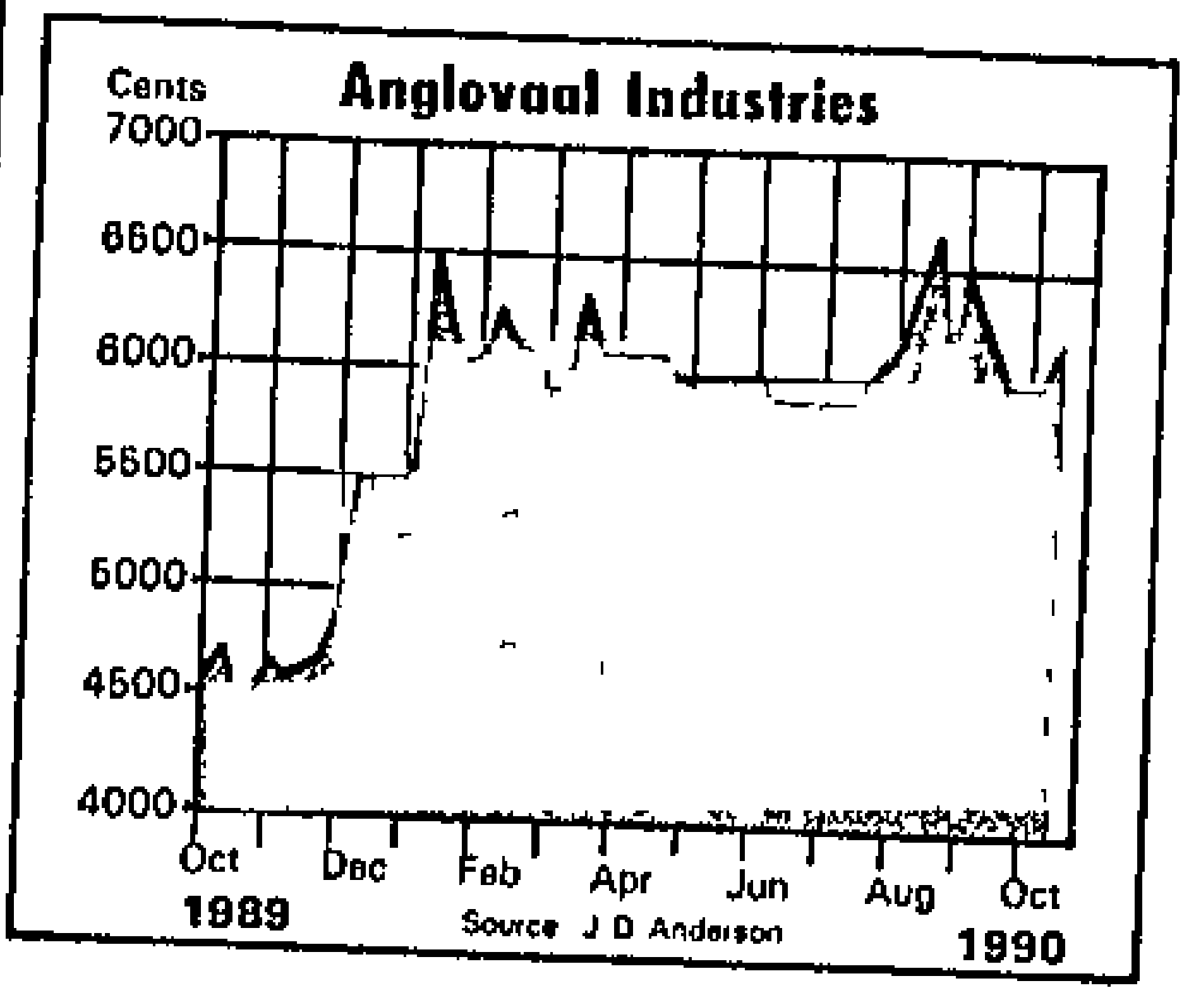
At worst, therefore, investors seem on fairly safe ground in assuming a full year's contribution from this new activity, though it can equally be noted that the positive effects are likely to diminish as the year progresses

On dividend cover, two points are relevant The first, as mentioned earlier, is that restructuring should have improved internal cash flow So far, this has not been reflected in any change in distribution policy, with last year's payout still covered 5,4 times by EPS — much the same as in 1989 and 1988

The continued conservative dividend policy could be justified on the grounds that expansion in the past two years has resulted in AVI moving from a small net cash position in 1988 to net borrowings of R312m at June 30 1990 However, the debt ratio is still only 22%, underlining that AVI remains conservatively structured Leading to the same conclusion is the fact that interest cover is still a healthy 13,3 times

And though the group plans to spend a further R1,1bn over the next three years, chairman Basil Hersov expects debt to moderate over this period

Obviously, this can only happen if the group as a whole is a net cash generator, if this is so the necessity of retaining high dividend cover is again called into question



Source J D Anderson

At the same time, however, there is no point in trying to argue that AVI can remain immune to general economic pressures, not to mention industrial and/or social unrest (the latter having affected, in particular, the performance of some textile interests last year) So while Hersov expects a further earnings improvement this year, his forecast is tempered with the usual caveat about socio-economic conditions

EPS growth has slowed progressively from the abnormally high 71% of 1987 to last year's 12% But unless it really becomes necessary to batten down the hatches, the financial position looks such that the group could maintain acceptable dividend growth even with a further slowdown in earnings

This much at least is necessary if the rating of the share is to be justified

Brian Thompson

WoM: Bank's demands are just not cricket

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W/Mail 26/10 - 1/11/90

By ROBERT LAING

WORLD OF MUSIC (WoM) may be the next JSE-listed firm to be liquidated

Standard Bank applied for WoM's winding-up after it failed to respond to a demand that R94 132 plus 23 percent interest be paid before July 25 Standard claims this is the outstanding balance on the amount owed to it by WoM's former subsidiary, Bartel Liquor

WoM is contesting Standard's liquidation bid, saying the bank is not entitled to look to it for any alleged balance

Standard called for Bartel's provisional liquidation last October WoM paid Standard R232 336 in February, which the bank accepted without prejudice to additional claims

Bartel Liquor was launched by Springbok cricketer Graeme Pollock and bowls champion Doug Watson to import Bartel Rawlings' UK liqueur range.

Pollock told *The Weekly Mail* "According to the deal struck five months ago Sterns now owns Bartel — they bought WoM's 51 percent and the remaining 49 percent belonging to Doug Watson and me."

WoM, Pollock and Watson thought the agreement released them from any financial obligations. However, Standard is holding WoM liable for Bartel's debts through a deed of surety signed before Bartel was sold to Sterns.

Pollock had approached WoM chairman Peter Cooke, who organised the first English rebel cricket tour to SA, for assistance in December 1988 Cooke agreed to supply Bartel with credit facilities through Standard Bank and to give it access to WoM's subsidiary World of Leisure's (Worles) liquor outlets Worles owned the Blue Marlin Hotel, 25 percent of the Protea Hotel group and 25 percent of Timeshare Dynamics

WoM handed its 51 percent share in Bartel to Sterns Jewellers in February 1989 for R60 000, which has not been paid WoM and Trust Bank applied for Sterns' provisional winding-up in December, resulting in Sterns Jewellers selling its retail outlets to Good Gold-Tanur for R12-million to raise cash

WoM, Pollock and Watson are still waiting for payment Most of this money has been frozen by the Reserve Bank while Sterns former chairman Maurice Jacquesson awaits trial on 3 254 counts of fraudulent activities, allegedly involving more than R253-million

The state alleges that Jacquesson — also a director of Jacques Film Distributors, Cu-Shade and Sylvecrest — contravened sections of the Currency Exchange Control Regulations Act, the Copyright Act and made false statements to customs.

Jacquesson allegedly declared a transaction value of £350 on boxes said to contain feature film, but payments effected through Standard Bank were for £29 900 Examination of the boxes' contents apparently showed that not one single importation contained a complete feature film, only segments of Hindi, Tamil and English-language films Reserve Bank spokesman Piet Troskie said Jacquesson may stand trial next month

WoM was listed at 45c on October 15 1987, a few days before the JSE crash Its shares were 9c when WoM was suspended on July 31 1989

Debt-plagued WoM has been forced to shed most of its companies, World of Music Retail and Rag Records were sold to Musica, *Top 40* and *Jive* magazines were sold to Publico, and Unisound (which traded as Television Radio Centre) and Bartel were sold to Sterns

WoM's problems appear to have started after it merged with Carnie Matisonn's leisure/property company Blue Marlin to form Worles WoM was initially suspended to allow it to restructure Worles However, all attempts to restructure the company failed and WoM is still suspended Worles' winding-up order was granted to Standard on November 21 By then Worles' subsidiary Timeshare Dynamics had been liquidated and its 25 percent share in Protea Hotels had gone to Rand Merchant Bank

Public will benefit from privatisation

232

Sowetan 26/10/90

By JOSHUA RABOROKO

THE most important consideration for the automotive component and allied industry in the "new" South Africa, might have little to do with the fact that it would be "new", the executive director of Free Market Foundation Mr Leon Louw said this week

Addressing the National Association of Automotive Component and Allied Manufacturers, he said it might be that there was a worldwide retreat from protectionism, which seemed likely to be more pronounced in South Africa, regardless of who governed

He said briefly, that meant that there might be a move towards an "open" economy, with the freer movement of money - both foreign and local - goods, services and people across the borders in both directions

As a result, he said South African industry would have to become more internationally competitive

He said constitutional reforms seemed increasingly less likely to have a major impact on the economy, positively or negatively

The liberation movements, especially the ANC, were becoming increasingly conservative on economic policy in that they were ever more in favour of perpetuating the status quo, especially in aspects of relevance to the automotive and allied industry

Louw said there was a major myth about the effect privatisation would have on health and social services in South Africa

The assumption that privatisation would put social services beyond the means of the poor was quite wrong

"If privatisation took place without any reaction in Government spending, then if will bring only benefits - and substantial benefits - to the public These benefits would be multiplied if subsidies become demand-side instead of supply-side subsidies

"If the subsidy goes to the person in need, who is free to purchase whatever services they need in a free, diverse and competitive market, they would get much better value for every welfare rand " he said

He said that the only people who stood to lose as a result of privatisation without spending cuts would be those who did not supply a service the people would chose voluntarily But there could be no doubt that the public would benefit from privatisation and deregulation of welfare pension.

Seardel group sees exports rising to R50m

Cape Times
28/10/90

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By AUDREY D'ANGELO
Business Editor

NINJA turtles — action dolls based on the cartoon figures, which are currently the most popular children's toy — are helping to push up profits for the Seardel group.

Executive chairman Aaron Searll said at the annual meeting yesterday that its toy division, Prima Toys, had secured sole distribution rights for Ninja turtles in SA.

"Unbelievable" demand for the turtles had boosted Prima Toys' turnover by 20% so far this year and was expected to push it up by another 20%

But most of Seardel's profits come from clothing, which accounted for 77% of group turnover and 72% of operating income in the year to June 30.

Searll reported that group turnover of R261,8m for the first three months of the current year was 14,8% higher than in the same period last year

However, tightly squeezed margins mean that profits have not risen in proportion to this Searll said estimated group pre-tax profit for the quarter was "on a par with last year."

The group reduced its borrowing ratio to 75% of equity by June 30, compared with 110% the year before

Advising a further reduction, the chairman of the Shareholders Association of SA, Issy Goldberg, said the borrowings were the reason the share traded at only 230c when its net asset value was nearly R5

Congratulating the directors on keeping dividends low in order to plough back profits, Goldberg said that if they continued to do this the share was "one of the cheapest in the country.

"This company is poised to become one of the major players in this country, provided it reduces its debts

"Dividends will come when the gearing is reduced," he promised, comparing finance charges of R30,2m in the past year to "a kick in the solar plexus".

Goldberg pointed out that of every rand received by the group, only 2,75c was profit — from which dividends had to be paid to shareholders He suggested that this should be explained to the workforce

Discussing clothing exports, Searll said they had earned R35m for the group in the past financial year This was 5% of total sales.

"This year we are expecting exports to top R50m. We aim to increase it to R10% of turnover in the longer term "

Some exports were already going to African countries And Eastern Europe was a possible market in the future. But at present the clothing exports were targeted mainly at Western Europe.

Searll said he did not expect the world-wide economic downturn to affect the company's export plans "That market is so vast that R50m is only a tiny part of it."

Colfin finds Logtek a good thing

SI Times 28/10/90

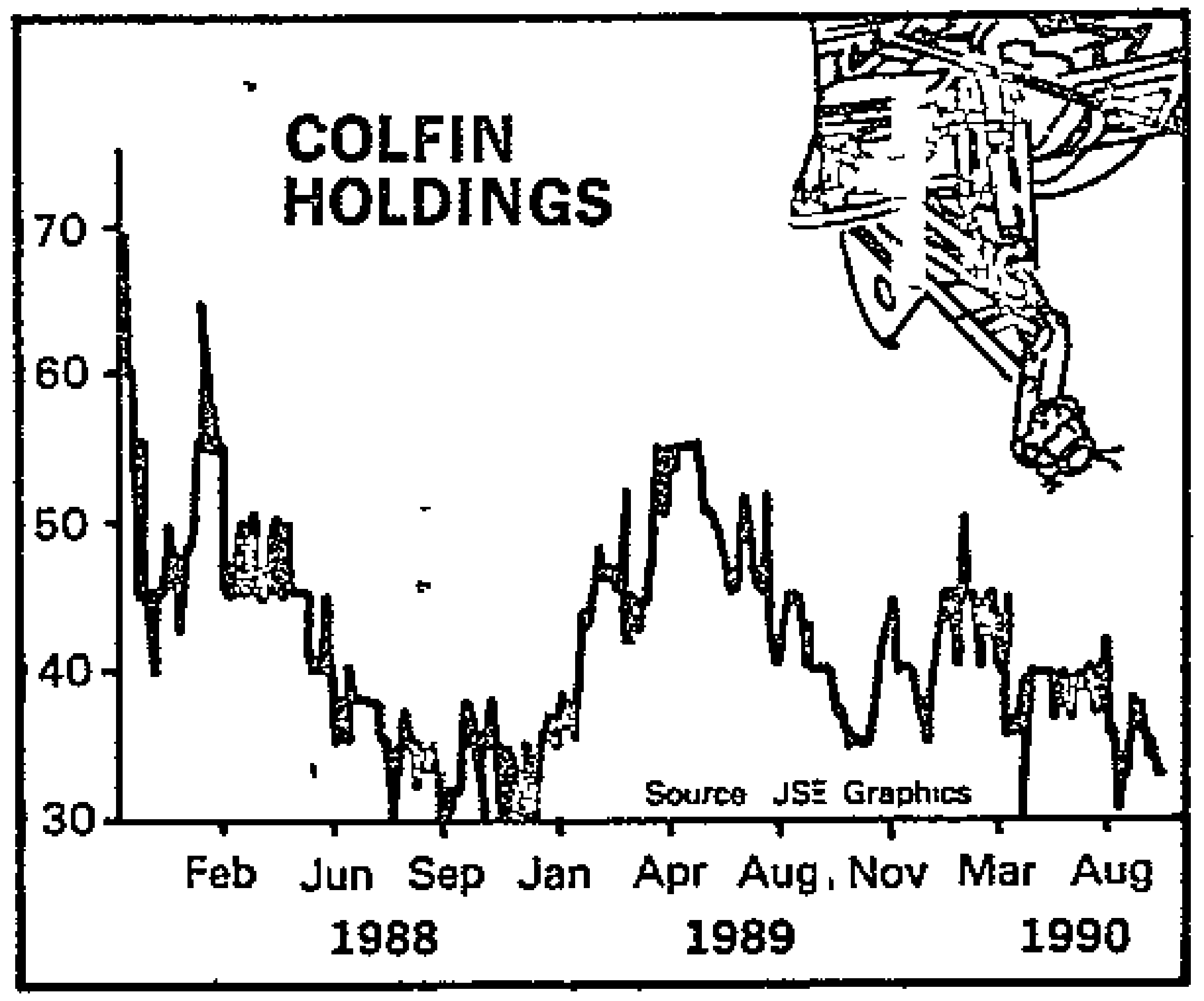
(232)

OUT of adversity came opportunity for Colfin Holdings after a crash in foreign investor confidence earlier this year opened the door for it to make a major acquisition at a favourable price.

Colfin's business is largely in corporate finance, but it has stakes in training companies and the computerised personnel management system Accsys

Colfin has not been without its detractors — a fact reflected in the share price of 35c. This is beneath the 37c of tangible net asset value of the company, which has a large intangible worth arising from the nature of its operations

The deal it has struck with Logistics Technologies (Logtek) could change the company's profile. Logtek — formerly trading as Technical Publications — is a fascinating specialist company in manuals, spares, documentation, training and so on.



Source JSE Graphics

Founded by Richard Willats 20 years ago, the company has grown into one of the most comprehensive logistics houses in the world — so much so that late last year a British company 'seeking investments sent a team to look at it. So impressed were they that they made an offer to buy it. They based their offer on the British rate at the time — averaging 13 times earnings.

But when the ANC's leaders once more roamed the land with talk of nationalisation, the Britons took fright and the deal fell through. This paved the way for a South African buyer, and Colfin was initially called in as an independent valuer of the business.

So impressed was Colfin, says chairman Harry Spain, that it made an offer to buy — on four times earnings Mr Willat sold his 68% shareholding in the company and will pursue other interests

The other shareholders, all management, will stay with the company and have agreed to accept tradeable paper for their stakes.

The vehicle for the deal is Furntech, a cash shell in which Colfin holds 28,5% directly as well as 52% of the Krok brothers' holding The Kroks previously controlled the company

Furntech will buy Logtek for R6,12-million cash, and will issue 7,55-million shares of 38c to the Logtek minority

Furntech will buy Colfin's other operating assets for R12,2-million, of which R4,7-million will be in cash, and 19,7-million shares issued at 38c Colfin will own 49,6% of Furntech's enlarged share capital of 56,6-million shares.

Colfin will offer to buy 52% of minorities' stakes in Furntech at 40c — 1c more than expected Colfin's final holding in Furntech depends on the level of acceptance

Its tangible net asset value will get at least a 10c-a-share boost from Logtek's property and other fixed-asset content. Furntech's name will be changed to Colfin Investments Ltd (Colvest), and it will have divisions operating in financial services, training, computers and logistics Colvest's yearend will be changed to April to match Colfin's.

One of the highlights of Logtek's achievements is in the indexing of spares. Large companies can conceivably carry identical spares under different classifications and not know it Logtek traces the history, origin and specification of spare parts and indexes them uniformly to help companies save on stockholding

It employs 350 people in three regional offices It is the owner of the Kwik-Kopy franchise, and its Techniprint operations have spare capacity which will be used by Colfin's other businesses.

Colfin assumed its present format in January this year when approval for the disposal of the assets of Management Services Corporation to Cashworths was given by a general meeting Manserv became a cash shell, control of which was bought by Garditex.

Minority shareholders in Manserv are still waiting for the 105c-a-share capital due to them as well as any interest

Mr Spain says the latest deal has attracted a Cape-based institution with a 10% shareholding He says the stake sold was assembled from various options and agreements with weak shareholders, many of whom were members of the original Cashworths

Colfin warns that it is involved in other negotiations not related to the Logtek deal, and that shareholders should still trade carefully.

by JULIE WALKER

Fanakolo is out

STANDARD VIII is required by employees at Gengold's Weltevreden gold mine which was opened this week.

English and Afrikaans will replace Fanakalo at the mine across the Vaal River from Orkney Employees with Standard VI plus a language test pass are also okay. The mine will employ 550 in the build-up to 30 000 tons a month. The initial yield is expected to be 4,2g/t, rising to 5g/t.

Twin declines are being put in for trackless mining, and the Ventersdorp Contact reef will be intercepted at only 115m. The escalated cost of phase one is R210-million.

If, if as Malbak seeks to keep its head

IF Malbak chief executive Grant Thomas could quantify the contingencies, he would be able to estimate the amount by which he expects earnings to fall in the coming year

The diversified industrial holding company reported a 13% decline in earnings a share to 119c for the year to August 1990 The dividend was maintained at 30,5c.

Mr Thomas introduced his presentation to the Investment Analysts Society with a variation on Kipling's If — on the lines of "If you can keep your head when all around are losing theirs, you'll be doing okay"

Mr Thomas outlined events since August 1989, beginning with Reserve Bank Governer Chris Stals' commitment to fighting inflation It was followed by the general election and the new Government's commitment to real rates of interest, and restrictive money-supply and fiscal policy

The prime overdraft rate was raised to 21% in October last year, Nelson was released later, nationalisation proposals were bandied about, townships erupted and the rate of inflation and gross domestic expenditure dipped

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Mr Thomas said that judging by the fall in the share price, analysts expected a big profit decline But turnover was 14% up at R8,37-billion and income increased by 6% to R724-million

But a 27% rise in interest — half due to higher rates and the rest to increased borrowings of R218-million — a 12% lift in tax to R172-million and the conversion of debentures hurt the bottom line

The effective tax rate grew by 4% because assessed losses in Darling & Hodgson, Holdains and Standard Engineering were used up Losses in Abercom could not be offset against SA-earned profits

A breakdown of contribution to earnings shows paper and packaging chip in 24%, engineering 22%, branded consumer goods 25%, food 11% and construction supplies 16%

The development division made 2%, international 3% and the corporate division 3%

Fixed assets grew by 17% to R939-million, investments by 13% to R444-million and current assets 12% to R2 6-billion Non interest-bearing debt was 11% up at R1,2-billion Borrowings were 10% up at R827 million, and the net asset value is 671c

The sum of the listed parts and the value of unlisted assets comes in at about 690c a share, according to Mr Thomas The current share price is 520c, well down from the year's high of 885c, but 70c above the low reached earlier this month

Mr Thomas said that the companies Malbak took over from Gencor in the mid-1980s had been completely reshaped He suggested that comment at the time was that Malbak had overpaid for several losers But the prices had been vindicated by the restoration of profits from those companies

Each company in the group gave an outline of its expectations for the current year Ellerine expects improved profitability, Tedelex believes difficult conditions will continue, Kanhym foresees earnings about the same

D&H has budgeted for a slight fall and Holdains and Standard Engineering a small increase Standard Engineering has made good progress in exporting

Haggie forecasts increased earnings for the rest of its year to December

An improvement should come from the development division and a steady improvement is due from the international arm

In response to a question about international expansion, Mr Thomas said Malbak would get the first brick firmly in place before putting another on top Its difficulties at MY Holdings have been well publicised

Mr Thomas collated the input of individual companies' forecasts into Malbak He had only two positive factors — increased emphasis on export markets and more on cost and asset management

"You know things are tough when you have to resort to listing asset management as a plus"

The negative side was longer Socio-political uncertainty, the recession, oil and gold prices the wrong way around, a higher tax bill and continued fiscal tightness

Mr Thomas said the board expected lower earnings, but the extent of the reduction was particularly difficult to predict

● The proposed merger of Malbak and Malhold will take place when marketable securities tax has been removed — at a saving of about R12-million

Myths exploded

MYTHS were scotched about the state of the platinum market by Rustenburg Platinum chairman Pat Retief at the company's annual meeting this week

The first fear — that smaller quantities of platinum could be required as world recession cut sales of motor vehicles — was countered by Mr Retief's explaining that tighter exhaust emission laws meant more would be used in each vehicle

The second fear — that recession would hurt sales of platinum jewellery in Japan — is rejected by Mr Retief He expects sales to increase by 100 000oz this year

Mr Retief says investors shied away from platinum, but investment demand was only 5% of the total in 1989 He says it looks as though it will come down to 2%

The last myth is that expansions by SA platinum producers could lead to surpluses in the next year or two

But Mr Retief is confident of a market for Rustenburg's planned increased production The company is protected against a downturn because by its cost-efficient production and its access to marketing and distribution channels

Privatisation stalled by low growth

S/Times 28/10/90

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By DIRK TIEMANN

PRIVATISATION is on hold not only because of ANC opposition, but also as a result of economic necessity, says special economic adviser to the Treasury Japie Jacobs

He gave that message to this week's Handelsinstituut congress in Durban

Another pointer to emerge at the meeting is that Eskom, Transnet and the Post Office will play a big role in the economy's reconstruction.

If more evidence of the shelving of privatisation plans were required it comes from the low Eskom tariff increases

Monopolies

The 8% rise was generous — original plans were to restrict it to 3% The emphasis is on cost-effective operations, and will be required from the whole public service

Outgoing institute president and Gencor executive financial director Tom de Beer told the congress that privatisation of natural monopolies would place a strain on political negotiations because of strong ANC opposition.

Division of opinion about these monopolies also existed in the institute's ranks, he said Bankorp chief economist Nick Barnardt believes privatisation has been shelved but not abandoned

"The issue is politically sensitive and the decision whether to go ahead should be negotiated by all. Any new government will be faced with tremendous financial pressures for infrastructual improvement It will realise that privatisation is best for the large and rapid inflow of revenue, but some token nationalisation can be expected"

Finance Minister Barend du Plessis says social spending as a percentage of gross domestic product will exceed 40% in next year's Budget. The current figure is about 38% If the interest bill on State debt is excluded, it could be 45% next year

Treasury adviser Dr Jacobs says a reduction in tax pressure on the economy, currently 23% of GDP, can be expected

Emphasis on lower taxes must be seen in the light of the economic growth programme The plan concentrates on the supply side, which means the removal of bottlenecks affecting skilled labour, capital and the promotion of productivity

Base

Reduction in direct individual tax will be possible only if Government spending grows at a lower rate than the economy

Poor economic growth and the consequent slow increase in the tax base have made it impossible for the Government to satisfy the needs of the disadvantaged

Emphasis will be placed on indirect taxation The effective company tax rate will be increased to lower the normal rate.

According to estimates for 1990-1991, individual income tax will contribute 30% to revenue, indirect tax 43% and companies 20,4%

Debt-ridden Pickard hacks its way back with sell-offs

S/Times 28/10/90

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Business Times Reporter

THE Pickard group is hacking and slashing to get rid of debt, but no thought is being given to dismembering the empire, says director Jan Pickard Jnr.

Picardi Holdings is selling its 90% stake in Union Wine to Kangra Holdings, owned privately by entrepreneur Graham Beck

In the past 10 years, the group has sold its extensive meat, food canning, property and sports goods interests

Losses

Talk abounds about a management buyout at Picardi Appliances (Picapli) That would leave financial services the only remaining interest

But Mr Pickard discounts the suggestion, saying Picapli is worth more than R60-million and the group is confident of a turnaround in better trading conditions

Picapli, its holding company Pichold and top company Picbel all reported large losses in the year to June Mr Pickard says this was the price of getting debt down dramatically After large-scale sell-offs, including the disposal of Union Wine for R19,5-million, group net debt is down from R207-million to R80-million

Minority shareholders in Union Wine are being taken out compulsorily at 100c when net asset value is 250c

Mr Pickard denies claims that an offer of 110c from Kersaf was rejected, saying "A while back before we decided that there was not much future for a small wine-maker without a spirits brand we tried to bid for Kersaf's liquor interests But Kersaf was not interested There was certainly no bid the other way around"

Mr Pickard also denies a claim that a R7-million restraint of trade is payable by Kangra to top company Picardi Investments

The Pickard group's history is chequered In 1977, the company was over-borrowed But after the sale of Karoo, Picbel reduced debt equity from 237% in 1977 to 35% in 1982

Devastated

Debt was reduced from R74,5-million in 1977 to R36,9-million in 1982. But after setbacks in recent years, it soared to R213-million and debt equity went to 142% last year

Mr Pickard says most of the debt was picked up in Picapli, which was devastated by last year's 40% import surcharge and tough hire-purchase curbs Picapli was expanding rapidly after the consumer boom of 1987-1988 and was caught with huge stocks

JAN PICKARD Jnr No more cash-eating crocodiles

Through heavy discounting and at horrendous cost to its bottom line Picapli has been able to reduce stocks and debtors

It has reduced its borrowings from R165-million to R91-million to date Margins have been restored and Mr Pickard hopes to turn last year's loss of R13-million into a taxed profit of R10-million in the current year

Mr Pickard says the group will stay with Picapli, which in a good year can make more than the record R25-million achieved in 1988

Other parts of the group are fairly liquid After the sale of Logans sports outlets, Picprop has cash of R16-million and another R19,5-million is coming in from Union Wine There is another R7,5-million in Picbel, explaining why the dividend in the top company was held last year in spite of problems lower down

Collapse

The financial services interests are held through wholly-owned Sagin, which has 30% of Cape Investment Bank CIB appealed to the Reserve Bank last week because small banks find it difficult to get trading partners after the Alpha Bank affair

Sagin is to be reversed into Picprop with its R16-million of cash to facilitate expansion in financial services

Mr Pickard said investment strategy will be to avoid "cash-eating crocodiles" The group will concentrate on inflation-proof earnings and moderate the pace of expansion

Major institution 'has taken stake in Colfin'

(232)

B Day 29/10/90

Analysis by
MERVYN HARRIS

FINANCIAL Services group Colfin must be one of the most underrated companies on the JSE. At the current price of 33c, the shares are on a forward dividend yield of 25% and a price to earnings ratio of 1,5.

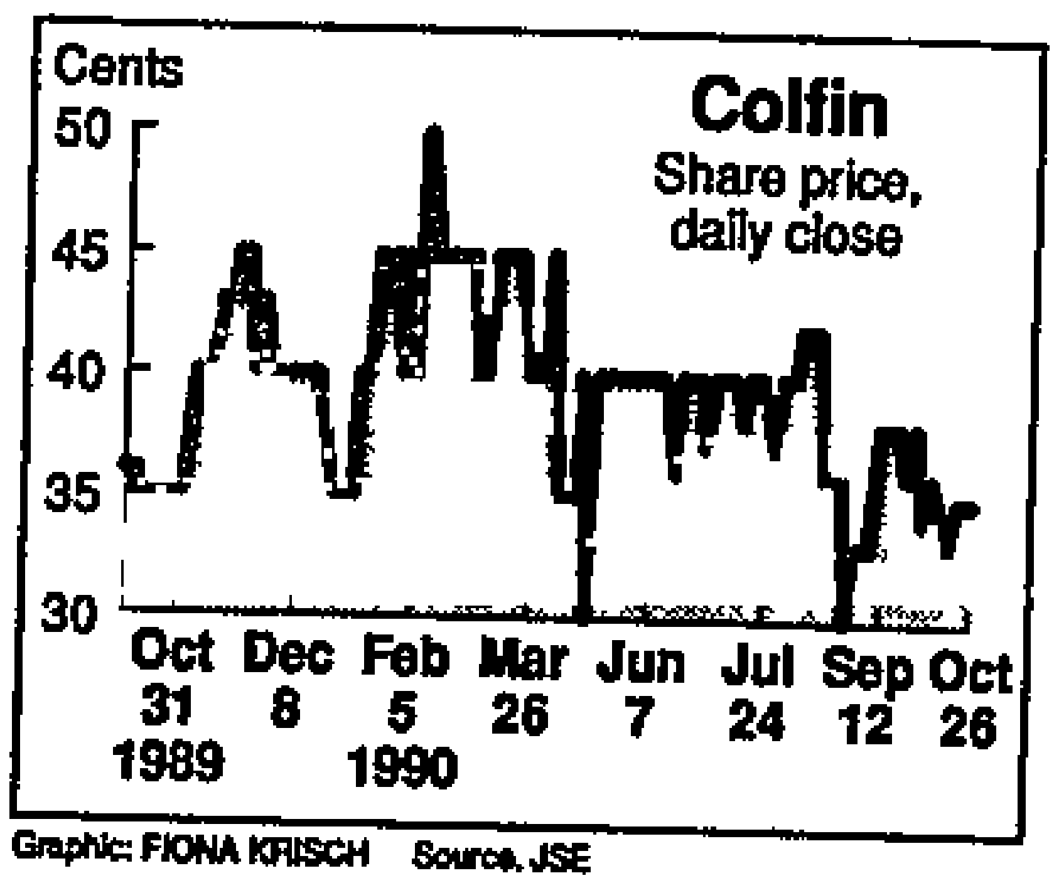
But two events last week could be the signposts on the way to a major rerating of the fledgling group which came to the market two years ago through a reverse listing of the Cashworth cash shell

The first was the trade of 1,5-million shares — 10% of the issued share capital — with market talk that a major Cape institution has bought into the company This represents a significant confidence booster as it alters its investment profile

The second event was the restructuring of the group and the acquisition of Logistics Technologies. This will transform Colfin into a more broadly based services operation with a significantly higher proportion of earnings based on contracts rather than on an ad hoc basis from financial services

The acquisition should also quell criticism levelled at the company that it was purely a services operation without assets The deal will boost tangible asset value a share from 37,4c to 55,7c

Colfin shares, which have slumped from a February peak of 50c to a low



Graphic: FIONA KRISCH Source, JSE

● **WIGGELL**

weighed down by the company's short track record, the state of the market and weak shareholders

The weak shareholders are those who bought Cashworths shares expecting it to become a cash shell and who have been offloading the shares at almost any price

Another factor which could have induced some hesitancy among investors is the relative youth and inexperience of the men at the helm — Harry Spain, Yakoob Paruk and Jeff Wiggell But at 32, MD Jeff Wiggell is an achiever

Born and educated in Johannesburg, he qualified as a chartered accountant in 1982 after an outstanding academic career and received Springbok colours for swimming in 1978

He learned two important lessons from his first job in Anglo's corporate finance division

Firstly, it gave him experience of being involved in major corporate finance projects such as the formation of Freegold, the world's largest gold mine, and the merger of Ford and Mazda to create Samcor

The second lesson was that the experience instilled in him an aversion to working in an institutional environment

After leaving Anglo at the end of 1986, he joined Reg Sherrell in first establishing Mercabank They were then part of the team which founded the original Duros financial services group The move into his own business came in 1988 when Wiggell joined forces with a former major client, Harry Spain, a senior partner with auditors Kessel, Feinstein, to form Columbia Corporate Finance with the backing of Columbia Consultants

Unrecognised

The company's name was changed to Colfin in April last year when the two partners bought Columbia's stake to gain majority control. The deal included the purchase from Columbia of what is now Colfin's computer and training interests.

These activities formed the basis of the group's results for the year to April 1990 when the company paid a maiden dividend of 6c on earnings of 19,3c a share

With Logistic Technology now under its belt, Colfin expects to at least maintain earnings and dividends Analysts are forecasting earnings of 22c a share and a likely dividend payout of 8c a share for the current financial year

Wiggell and Spain have high hopes for Logistics "It is still largely an unrecognised service in the private sector," Wiggell said

The acquisition of Logistics also gave Colfin its first property interests The offices in Midrand have a value of R6,8m

Despite weakening economy . . .

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Gencor lifts earnings 38%

Cpt Times 30/10/90

From **BRENT MELVILLE**

JOHANNESBURG — In a year devoted to consolidation, Gencor managed to shrug off a weakening domestic economy and softening international commodity prices to record a hefty 38% rise in attributable earnings to R1,45bn (R1,05bn)

Incorporating the 20% increase in share capital resulting from last year's rights issue however, Gencor — touted as the world's second largest mining house after Anglo American on gross assets of R16,3bn (R14,4bn) — produced earnings a more sedate 17% up at 123c (105,5c) a share A total dividend of 40c (34c) a share was declared

The performance, however, comes on the back of a warning by Gencor executive chairman Derek Keys that operating profits are likely to fall next year.

Keys said subsidiary Genmin was likely to be one of the hardest hit as Samancor, Gengold, Implats and Trans-Natal were likely to post earnings at levels about 10% and 15% lower.

In addition, he said the Genmin contribution, reduced to 41% (54%) of attributable earnings for the period, would be further diluted by a higher level of international exploration spending as it began to look further afield, and by lower earnings from its mineral sands investments

Although Samancor remained the major contributor to Genmin for the year, its donation fell to R251m (R321m), or 17% from 31% of Genmin bottom line.

Gengold pulled up next on the list of contributors at R157m (R154m) and the recently formed minerals division kicked in R119m (R77m), lifting its contribution slightly to 8% (7%)

Implats, which joined forces with Lonrho's platinum mines this year by selling them its contiguous Karee developing mine in exchange for a 27% interest in their enlarged operations, left its donation at R91m

Gencor's industrial side took a pounding however as pulp & paper group Sappi's contribution to group attributable profit fell to 16% (26%) on deteriorating domestic and international markets

Keys said it was unlikely that Sappi, which chipped in R240m (R276m) to attributable profits, would show growth next year although the purchase of five paper mills in the UK were seen as important building blocks for the future.

Malbak also reduced its contribution to R116m (R145m) as a result of the higher tax charge on the exhaustion of assessed losses and a reduced Gencor holding in the diversified industrial group

Recently listed energy giant Engen, market capitalised at more than R3bn, contributed a maiden R203m, or 14% to bottom line earnings and Genbel and investments added a full 29%, or R414m (R191m)

Keys expected the performance of both divisions to improve in the current financial year

In addition he forecast that while Gencor's operating profit was likely to fall, transaction profits should be fairly substantial and the group should certainly be comfortably able to maintain its dividend at its increased level

Acquisitions and growth in sales boost profits for Focus Holdings

B Day 30/10/90

PETER GALLI

SPECIALITY retailer Focus Holdings showed a 24% increase in after-tax profit to R2,06m for the 17 months to end-July due to organic sales growth and a number of acquisitions, management said yesterday

The group acquired 29 Cashworth stores and 22 Smiley Blue stores during this period, and now has a total of 109 stores

Of these, 84 are owned by the group and 25 are franchised

The group's financial year-end was changed from end-February to end-July to coincide with its trading cycle

This, combined with the effect of the acquisitions, resulted in turnover more than tripling to R76,8m (R21,3m previously)

However, extraordinary items comprising a goodwill write-off of R2,03m and restructuring costs of R529 000 for losses from discontinued operations relating to the acquisitions contributed to a growth in earnings of 17% to 9,93c (8,49c) a share

A final dividend of 2c a share has been declared for the period to end-July, with the group proposing to offer bonus ordinary shares as an alternative to the cash dividend

Ordinary shareholders will be offered 8 new fully-paid Focus ordinary shares for every 100 existing Focus shares held in lieu of the dividend

Opening

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Should shareholders not accept this offer, they would be paid the cash dividend, management said

" . we would like to conserve our cash resources, and we are confident that most shareholders, including management, will accept the offer," a spokesman said

Management was confident that, despite difficult trading conditions, the group would achieve earnings growth in the current financial year as the acquisitions and the opening of new stores had been fully integrated.

Star 31/10/90

Shoprite's acquisition costing R50-m

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By Tom Hood

CAPE TOWN — The takeover of the Grand Bazaars chain of 27 supermarkets will cost Shoprite almost R50 million.

This is disclosed by Shoprite's directors, who say R30,8 million will be paid for stock

Previously, only the price of fixed assets, furniture and trademarks (R14,9 million) had been reported, with the value of stock not determined.

The merger of the two Cape-based companies will create a chain of 75 supermarkets and make Shoprite the largest food retailer in the Western Cape, with sales approaching R1 billion a year, says managing director Wellwood Basson

Shoprite, one of the few companies without interest-bearing debt, will use the merger for growth and expansion into new areas with the aim of becoming a major food retailer on a national scale.

BIDay 31/10/90 232

Brokers back to the futures

ROBERT GENTLE

A GROUP of seven JSE stockbrokers are attempting to give the failed futures floor another chance and will commence trading there from November 1, it emerged yesterday

The SA Futures Exchange (Safex) sent out a statement yesterday confirming that "seven members have indicated they will be trading on the floor from Thursday November 1".

Accordingly, the statement added, pit observers and systems will be in place at the appointed time

Safex CE Stuart Rees, explaining the sudden interest in the floor after previous attempts had failed, said the Safex executive committee wanted to see if these seven members would constitute an adequate population

He would not be drawn on whether previous reports about the death of the futures floor had been greatly exaggerated.

Three futures market participants from firms known to be in favour of screen trading expressed derision at what was described as attempts to "resurrect" the floor

A JSE futures trader, who declined to be named, said it was "a last chance" to see if enough key players could be brought together to provide a minimum level of liquidity

Pinnacle applies to be wound up

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B Day 31/10/90

SUSAN RUSSELL

PINNACLE Holdings Ltd, which owes R6,1m to the troubled Alpha Bank, applied to be provisionally wound up in the Rand Supreme Court yesterday.

Company director Eben Goosen, who said he was also a manager of Alpha Bank, stated in an affidavit in support of the application that Pinnacle Holdings was "hopelessly insolvent" and that it had become impossible for it to extricate itself from this postion

Pinnacle was described in court papers as an investment holding company with interests in property, banking, the mining industry and entertainment financing.

The company was unable to pay the R6,1m owed to Alpha, Goosen said.

The Reserve Bank placed Alpha Bank under Ernst & Young's curatorship from September 21 after its R6m exposure to Spareco, which was provisionally liquidated in September.

In his affidavit, Goosen drew the court's attention to the fact that an auditor's investigation into Pinnacle's affairs had found that it appeared there had been "irregularities regarding share dealing pertaining to certain previous directors of the board", and that certain company stock had been overvalued.

During June this year Alpha Bank had, with Pinnacle's consent, asked Goosen to assist in managing the day-to-day affairs of the company, its subsidiaries and its

☐ To Page 2

Pinnacle

BDay 31/10/90

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☐ From Page 1

projects, he said As a result he had become acquainted with Pinnacle's affairs, and over a period of time realised it was in a hopelessly insolvent financial position

Goosen said Alpha had called up the R6,148 184 owed by Pinnacle on October 3 and had demanded that it be paid within seven days

Pinnacle was unable to pay, he said. Creditors were pressing for payment on an almost daily basis

Some had threatened legal action, including liquidation proceedings

Goosen said the company's banks had withdrawn financing facilities and Pinnacle was thus unable to pay its creditors

The company had to pay its employees' salaries at the end of October or they would leave, he said

Goosen added that it was desirable to retain present employees

Mr Justice van Dijkhorst granted the provisional order of liquidation, returnable on December 11

Special share offer closes tomorrow

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Sowetan 1/11/90

THE preferential offer of two million shares in South Africa's fastest growing life assurer, African Life, closes tomorrow

The company has applied for a listing in the insurance section of the Johannesburg Stock Exchange as from November 15.

The offer is open to staff, existing shareholders, policy holders and selected business associates.

When listed, African Life will be one of the few companies on the JSE with a majority of black shareholders.

African Life's total income increased by 38 percent to R37,1 million, and earnings per share rose by 25 percent to six cents in the half-year to September 1990.

The company's managing director, Mr Jack Bill said: "The company services some 160 000 premium-paying life policies in the low monthly premium bracket.

"We have a network of 23 branches nationwide and a sales force of more than 600.

"One of the major strengths of the company is its market focus, which has enabled it to bring the benefits of life assurance to a relatively unsophisticated market while still giving value of money.

"We have concentrated our expertise on providing products that meet the up-to-date needs of our target market."

The company is forecasting a 20 percent increase in earnings a share for the year to March 31, 1991 and 20 percent in dividend a share to 9,5 cents over the same period

"We are confident that our business will continue to grow and will gain additional benefits from a listing on the JSE," Jack said

Interboard, Buildcor to restructure

B|Day 1|11|90

CHARLOTTE MATHEWS

INTERBOARD, to be renamed Abacus Industrial Holdings, and Buildcor, to be renamed Audiobuild Holdings, will hold shareholders' meetings on November 20 to approve the reorganisation of the two companies

In notices to shareholders, the companies set out the details of the restructurings and disposals announced in July and September

Interboard has sold its flatboard division to Timberquip and Mogul which have been sold to Sappi for a nominal R1 each

Mogul has a net liability of R22,4m which Sappi has assumed

The reason for the sale is to halt the continuing operating losses the flatboard division is incurring and to reduce substantially Interboard's interest burden

Interboard is also selling Audiocor to Buildcor in exchange for 45,8-million shares in Buildcor

This brings Interboard's shareholding in Buildcor to 55,6-million shares or 96%, making Interboard the pyramid holding company

Buildcor will hold a R16m rights offer and Interboard will renounce its rights in favour of its shareholders so that Interboard's shareholding in Buildcor will finally be about 59,5% 232

Buildcor will acquire door manufacturing company Bruply as well as Audiocor and will transfer from the building and construction sector to the electrical, electronics and battery sector of the JSE

Gencor may opt for split up

CM Times 1/11/90

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From ADRIAN CLOETE

PORT ELIZABETH. — SA's second largest conglomerate and second largest mining house is "seriously studying" the possibility of breaking itself up.

Gencor, the General Mining Union Corporation Ltd, — a holding and finance company second in size only to Anglo-American Corporation — has been debating the issue to "unbundle the conglomerate" during a "major strategic review" over the last four months, Dr Dawie de Jongh, senior manager of planning and new business, said yesterday in Port Elizabeth.

Dr De Jongh made the announcement during his address at the conference, "The Outlook for Investments in the new South Africa", sponsored by Gencor at the University of Port Elizabeth.

In his conclusion, Dr De Jongh said: "Gencor's chairman, Mr Derek Keys gave his permission for me to tell you the following: Gencor is at present seriously studying the option of breaking up the conglomerate into its constituent companies.

"The real purpose would be to capture the conglomorate discount and to realise the full value of the underlying assets."

Gencor's subsidiaries and associated companies number more than 180 and include Group Five Ltd, Blue Circle Ltd, Sappi, Carlton Paper and Kanhym Investments Ltd, according to the 8th edition of Who Owns Whom.

In the last year, Gencor acquired Mobil Corporation.

The ultimate controlling shareholder of Gencor is listed as Sanlam.

Mr De Jongh pointed out that on Tuesday, Gencor's share price on the Johannesburg Stock Exchange traded at a 35% conglomerate discount to its net asset value.

After his speech, Mr De Jongh told the Herald: "It's a very important decision to make (to break up). The second biggest mining house could disappear from the scene."

Asked why the announcement was made at the economic conference, which featured speakers from the ANC, the Democratic Party and the Free Market Foundation, Dr De Jongh said:

"(The discussion to break up) is part of the economic debate — the debate on nationalisation, the break up of conglomerates and of free markets, with the ANC saying it wanted nationalisation and the breaking up of conglomerates.

"(But) purely from a financial point of view, it makes sense to break up if the conglomerate discount becomes too big

"Historically, big conglomerates have normally traded at a discount of net asset value," he explained. "The reason for this discount is very simply a belief by the investing community that the underlying assets of conglomerates are more valuable when held directly than through the conglomerate itself."

A final decision is expected to be made early next year, Mr De Jongh added.

Mr De Jongh devoted the main part of his address to the conference to the benefits of conglomerates.

"Associated with every big conglomerates in South Africa, there are advantages and disadvantages," he said.

Dr De Jongh said conglomerates play a major role in the economy especially in the exploitation of natural resources. Only conglomerates can undertake large mining projects, he said.

The diversity of the portfolio of assets contributes to the long-term financial survival of a set group of companies, he added

As well, conglomerates can more easily attract joint ventures with international companies.

"(However) there are major advantages to dismember conglomerates," Dr De Jongh told the conference. "(Those being) to get rid of the conglomerate discount and to capture the real value of the underlying assets, (and the) more efficient allocation of capital."

However, any break up of conglomerates must be done on an individual basis, he said.

Court provisionally winds up Kemtrade

(232)

SUSAN RUSSELL

KEMTRADE Holdings Ltd and two of its subsidiaries, Kemtrade Distributors SA and Alpha Pharmaceuticals, were provisionally liquidated in the Rand Supreme Court yesterday.

Mr Justice G Leveson granted the provisional orders following urgent applications by the three companies.

Kemtrade Holdings, which is involved through its subsidiaries in wholesale and distribution of a range of toiletries and pharmaceutical products to pharmacies, department stores and supermarkets, had its JSE listing suspended on October 16.

A Kemtrade director, Malcolm Yesner, who submitted affidavits supporting the applications, said the holding company owed about R8,5m to its bankers. Its liabilities exceeded its assets by about R1,8m. The holding company had issued unlimited guarantees in favour of all its subsidiaries.

BDay 1/11/90

Yesner said Alpha Pharmaceuticals owed the holding company about R2,5m and its bankers R140 000. Kemtrade Distributors owed its bankers about R7m and the holding company a further R1,7m.

Both subsidiaries had lost their share capital, Yesner said.

"Although Alpha Pharmaceuticals made a profit of approximately R170 000 for the six-month period (ending August 1990), its accumulated loss up until then amounts to about R520 000," he said. Kemtrade Distributors incurred a trading loss of about

☐ To Page 2

Kemtrade

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R2,8m during the same period.

Yesner said meetings were held with a merchant bank during October to consider the group's position. Restructuring and a cash injection of about R4m were proposed to enable the companies to carry on viable trading operations.

While the restructuring was being considered, a third party proposed a takeover of the Kemtrade Group.

Yesner said the third party was to investigate the group's affairs. It was agreed that restructuring proposals would be held over until this probe was complete.

Kemtrade was advised on Tuesday that the third party had decided against the takeover Restructuring proposed by the merchant bank had also fallen away.

Yesner said because the restructuring and proposed takeover had not materialised, Kemtrade Holdings directors had resolved to liquidate the three companies in the interest of creditors.

The return date for final winding up order is December 11.

BUSINESS DAY, Friday, November 2 1990

Bearish trade in quarterly options close-out

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ANDREW GILL

CAPITAL market rates jumped an early nine points yesterday in relatively active but very bearish trade in the quarterly options close-out that often sparks renewed interest in the market.

The Eskom 168 closed out at 16,36% after touching 16,38% thanks to a reasonably active spate of selling by exercising put (sell) options at 16,25%.

"They had no choice but to buy when the puts were exercised at 16,25% but as soon as they got them they were sold off like hot potatoes for fear of a bear run," one dealer said.

The bear run did not materialise with the rate ending at 16,34% but sentiment was sluggish and short-term prospects on the market are for higher rates.

"The close-out was a bit of an anticlimax because a lot of the positions had been sorted out in advance, especially on Wednesday afternoon," one dealer said.

"Some institutional interest was apparent at the higher rates but the banks seemed to be shedding a few bonds," he said.

With the Eskom rate climbing higher, government stock made further gains on Eskom bonds The R150 rate ended only 34 points off the E168 as the government stock found some support.

Sentiment on the market is bearish with hopes of an early cut in Bank rate now all but dissipated and a disappointing gold price, higher inflation and deepening recession taking their toll

Fears of retrenchments are also creeping in after Tuesday's large layoffs at Frankel Kruger Vinderine and Max Pollak and Freemantle

"Many dealers at broking firms are putting feelers out in the direction of institutions in search of some stable employment," said a dealer.

New expansion dawns as an era fades

S/Times 4/11/90

South Africa must look beyond the short-term stasis that was sure to accompany the transition to a post-apartheid, sanction-free environment, said Mr Stuart.

The underlying tone was of measured bullishness.

"We are at the dawn of a major expansion phase brought about by the readmittance of South Africa to the mainstream of world politics and economics"

This should mean higher growth, increased exports, a more stable currency, phasing out of the finrand, positive real interest rates, lower inflation at least initially, and pressure to redistribute wealth through tax and possibly through new prescribed investment rules

[illegible] 232

The JSE's low liquidity was a recurring theme of his speech He showed how difficult it was to place even R10-million in selected leading industrial shares, assumping that an institution could get a quarter of the market turnover

Once out of the top few weightings in the index, it could take 100 to 150 trading days to put R10-million into a decent portfolio In the next 10 largest index counters, it would take a year

Mr Stuart ignored the issue of capital gains tax. Clarity could lead to the sale of equities if the sellers could be sure their gains would not be taxed — or that their losses would be deductible

Nevertheless, demand for industrial equities looks as though it would overwhelm supply Mr Stuart said that probably the biggest threat to institutional cash flows could come from tax legislation making the savings route less attractive when compared with bank and building society deposits

Savings could be boosted by the proposed withholding tax on interest, the prospect of real interest rates, and institutions could feel more comfortable holding money in interest-bearing instruments

"Whether these proposals from government are the most sensible course of action is another matter Switching the flow of funds from the long-term investments promoted by insurance companies to short-term cash deposits hardly seems to be the most sensible thing to do

"It is not as if the banks particularly need to increase their deposit base. The problem the authorities have had with banks over the past two decades has been controlling their lending, not their ability to secure adequate deposits."

Switching from pension to provident funds could also lead to withdrawals, affecting the demand side

On the positive side, Mr Stuart said there were prospects that the PIC (Government pension funds) and more of the Transnet pension fund would be freed for investment in equities The PIC had a cash flow of between R8-billion and R10-billion and owned no equities Transnet was allocating its inflow of R2-billion a year to the equity market

He said life assurers had a formidable ability to market products, and that the forced savings of pension funds — of which individuals were virtually unaware — continued

The supply side depended on economic growth and perhaps privatisation later

"In the meantime we have piles of cash building up which is going to find it impossible to find its way into the shares that fund managers will want to buy"

Using the cash content of unit trust funds as a window to what institutions were doing with the equity contents of their portfolios, Mr Stuart said that at the end of September, liquidity was 24%

"The funds tend to be most liquid at the bottom of the market and most fully, invested at the top"

He believed that the consumer-oriented sector of the industrial market was the most attractive in the medium term Industrials comprised 43% of the overall market capitalisation and his recommended portfolio strategy was a 50% weighting

"Just a 1% shift in institutional portfolios would create an additional R1,1-billion of demand."

Mr Stuart concluded that the short term was beset by a most unusual degree of Middle-East inspired uncertainty, weak world markets and the fear of recession These factors precluded a meaningful drop in interest rates and a turning point in the economic cycle

Industrial share prices could drop by another 15% without a break in the long-term trend line, which would take the price-earnings ratio down to 7,1 times, and the dividend yield to 4,8% on the index

"This is probably the extent of the downside risk"

Mr Stuart said the groundwork was being laid both politically and economically to allow the next upswing to start from a solid base and be more extended than any of the tentative upswings of the 1980s

"Given access to world financial markets, SA has the debt capacity to finance far more rapid and sustained growth in the '90s than achieved in the '80s

"Black consumer spending and infrastructural spending on raising black living standards will be the twin forces that will drive the economy in the '90s Shares benefiting from rapid domestic growth will be the winners, not the exporters and weak rand beneficiaries"

Mr Stuart forecast a rise in the industrial index from the current 2 700 points to 3 050 a year from now, even though it could go lower first.

"The prospect of improved and sustainable earnings growth rates will be more sharply in focus this time next year and this should have a favourable impact on the way investors are prepared to rate the market."

He said there was no more than a few months to buy good-quality equities at current levels Patient accumulation of good-value second liners was the best strategy for smaller investors.

"Earnings growth of the index will remain positive over the next two years and will increase by nearly 30%

"If the PE moves to 10, then two years out the index will be more than 50% higher than it is today

"That will provide a total return, including income, of about 30% a year"

Institutions would get this kind of return if they remained parked in cash Nor would get their cash invested in their preferred shares unless they started before the rest of the crowd

Mr Stuart's arguments convince me that my position of share tipster in a bear market could soon become more positive

Sanlam undeterred by market decline

S/Times 4/11/90.

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SANLAM has been an aggressive buyer of shares throughout the decline in the stock market, says investment manager Ronnie Masson.

Sanlam's biggest purchase in the year to September was R400-million of De Beers shares at an average price of about R59. Next biggest were Impala Platinum, Iscor, Charter, Lonrho, SA Breweries, Anglo American, Kloof, Oryx and Driefontein.

Mr Masson says the next six to nine months will be tough, but he is confident that

By DAVID CARTE

in the longer run these purchases will be justified

"We are confident that the country will solve its political problems We are not all that worried about nationalisation either No responsible government will nationalise. I have no doubt that whatever government comes out of the constitutional negotiations will be responsible"

Projects

Mr Masson says the Life Offices Association has formed a committee to investigate investing in socially desirable projects Estimates of R2-billion a year are premature Amounts have not been discussed

Sanlam ended the year 10% liquid, which meant it had R3-billion cash

"If we were bearish, we would be about 15% liquid and if we were very bullish we might run it down to 5%"

Mr Masson says that if Richemont's dividend yield and PE are removed from market averages, top-quality shares, such as Plate Glass, Sappi, Malhold, Murray & Roberts, are reasonably rated He believes that FSI on a dividend yield of 7,5% is also cheap

Sanlam and Sankorp are unlikely to take out minorities merely because shares might be underrated

"If you take out the minority, you become 100% providers of capital Listings encourage good management"

Investment income last year rose by 22% to nearly R3-billion This is merely interest plus dividends On the real measure of growth — interest, dividends plus capital gains, minus losses — Sanlam's investment return was about 10%

Exposure

Mr Masson says most JSE indices rose during the year, but then fell to more or less their levels of a year ago

"Obviously, our five-year return is a good deal better, more like 30% a year and that's why we look good in investment surveys"

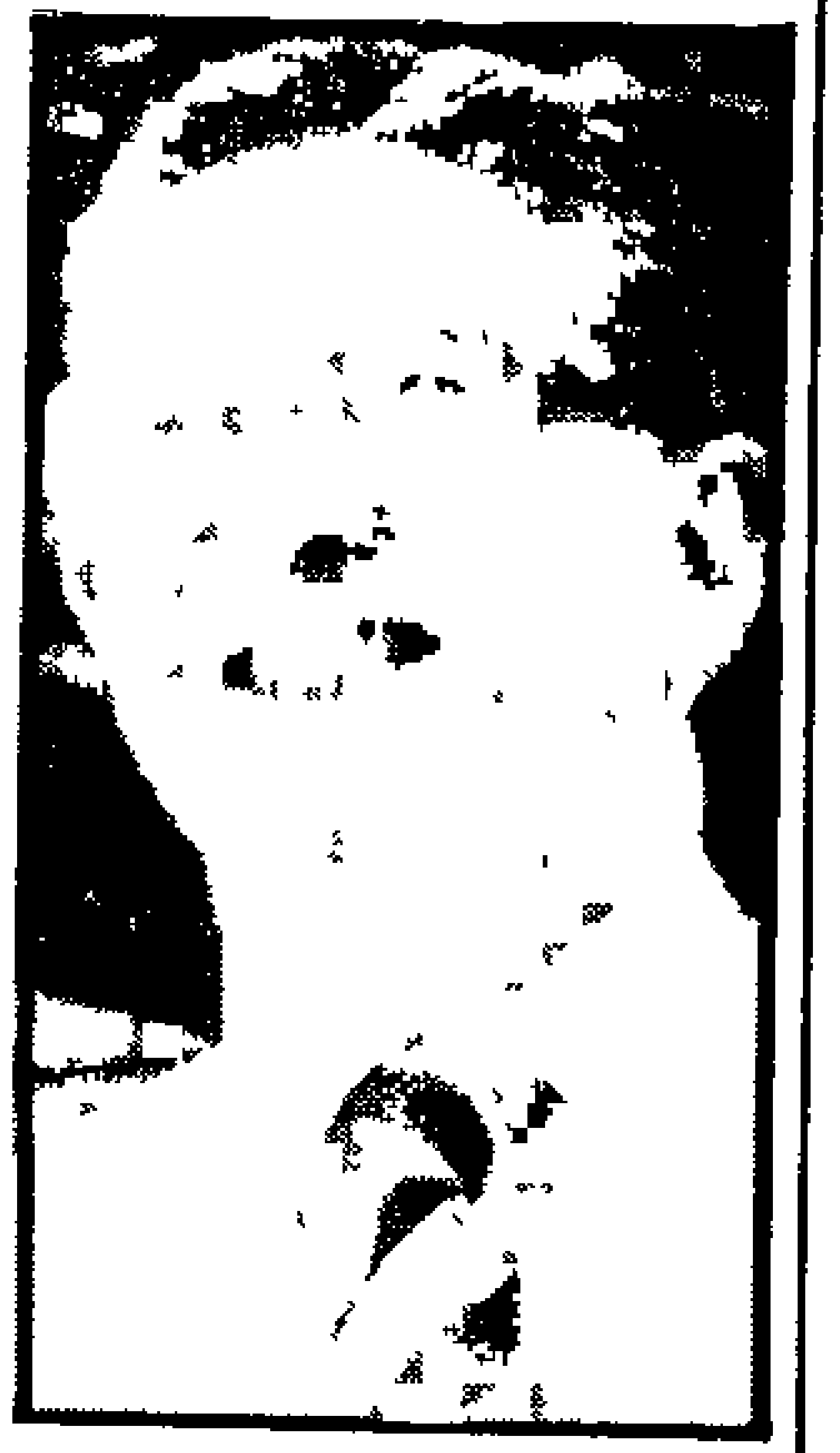
Gold shares account for only 10% of the Sanlam portfolio

"The metal seems to have lost its investment attractions, but we still have an exposure through mining financials, which constitute about 20% of the combined portfolios"

Mr Masson says equities account for an unchanged 50% to 60% of the Sanlam portfolios, gilts for 15% to 20% and properties 10% to 15% Sanlam invested R600-million in new properties last year Vacancies are rising and he expectes rent increases to moderate in the next year

Sanlam's policy of controlling strategic investments is still in place It stems from Sanlam's desire to invest in greenfields ventures

The Sankorp portfolio, which includes Gencor, Malbak, Nissan, Federale Volksbeleggings and numerous other controlled interests, listed and unlisted, did as well as the uncontrolled portfolios



RONNIE MASSON Little chance of nationalisation

Afrox full of gas and flying higher

By DAVID CARTE

AFROX consolidated its blue-chip rating this week with a 27% annual earnings increase — after allowing for inflation.

What's better is that chairman Peter Joubert expects further earnings improvement in 1991, recession notwithstanding

The gases, welding and hospital group reports sales up 24% at R903,9-million, operating profit 25% better at R184,4-million and taxed attributable profit 29% higher at R66,8-million in spite of an interest bill that surged 84% to R30,7-million A final dividend of 85c has been

Gencor's break-up feelers given a long yawn

S/Times 4/11/90

(232)

DEREK KEYS Unbundling of a giant is not to be sniffed at, but the market isn't impressed Picture TOM EDLE

By DAVID CARTE

THE stock market's apparent indifference to Gencor's proposal to break itself up means the scheme is unlikely to go ahead.

Gencor chairman Derek Keys says the proposal was aired at a conference this week partly to gauge investors' reactions.

He says: "There was one long yawn from the market, absolutely no reaction, so the idea is not a brilliant possibility."

The proposal was to distribute shares in Gencor's five main businesses — Genmin, Engen, Malbak, Sappi and Genbel — to shareholders in specie and thus to reduce the 25% discount between the Gencor share price and the value of its underlying holdings.

Shareholders in Gencor Controlling would also have received shares in the five underlying companies and a discount of 35% in the top company would thus also have been eliminated Mr Keys says the five divisions are centres of excellence run by highly competent managers whose need for a head office is doubtful

The reason for the existence of conglomerates is questioned abroad, particularly because of the discounts to asset value

"Twenty-five percent of R11-billion is a fair old sum Of course, even if we did unbundle Gencor, we could not get down to brass bolts. There would still be something of a discount — but even if the net gain was only 10%, we would be looking at R1-billion.

Smart

"Gencor's present structure does give financial strength. We would not look too smart if we had to forgo another Mobil because we did not have the means to go for it. We have made a gain of R2-billion on the Mobil acquisition already."

Mr Keys says a break-up is operationally practical. The mining house's mine servicing functions could all go into Genmin. The only head office functions that would be left would be treasury, foreign exchange and insurance These could serve all divisions contractually.

Unbundling is also possible in Malbak and Genbel, but he doubts if it would be wise.

SA's No 2 mining house this week announced attributable income up 38% to R1447-million in the year to August Earnings a share rose by 17% to 123c in spite of the recent R1-billion rights issue.

Gencor declared a final dividend of 26c, making 40c for the year, an 18% increase Engen contributed R203-million to the bottom line, Sappi R240-million, Genbel, thanks partly to rights-issue proceeds, R414-million, Malbak R116-million and Genmin R592-million.

At the end of August the stake in Genmin was worth R7,9-billion, Genbel R3,9-billion, Engen R2,5-billion, Sappi R1,5-billion and Malbak R606-million. Net assets were 1 375c a share, but by October 25 were down to 1 242c. The share price this week was 915c. There were gross assets of R16-billion and no net debt

Forecast

Mr Keys expects earnings to be down next year, but says transaction profits in Genbel should be large and the dividend should be maintained. Transaction profits arise from the sale of gold shares held for years to fund Genbel's TransAtlantic purchase.

Mr Keys says these share sales are unquestionably capital gains and therefore not taxable. Gencor does not need an objective definition of capital gains for peace of mind on this question

The Reserve Bank has

■ To Page Three

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4/11/90

ations will go to the Government
e months' time and a decision is
he first half of next year
ill have to be supported by about
cane, opening the industry to
nall-scale growers in KaNgwane
rg
Association chief executive Mike
ys expansion in Natal and the
insvaal will expand SA's 2-mil-
ut by about 300 000 tons a year

Long yawns for Gencor's unbundling idea

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■ From Page One

stated that defending the rand's internal and external value is priority No 1. Is this policy detrimental to the mining industry, SA's biggest net exporter?

Mr Keys says: "The rand's external value is being maintained But progress on maintaining its internal value is slow

"While revenue stagnates or declines, costs continue to rise, putting the mines under enormous pressure. But I'm in favour of containing domestic inflation. It would make a huge difference to a project like the new Oryx mine."

Mr Keys rejects the contention of some authorities that the mining industry's management methods are obsolete, unproductive and too labour intensive

"That may have been the case once, but it certainly isn't true of Genmin."

The case for breaking down JSE's pyramids

S/Times 4/11/90

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DIAGONAL STREET

by JULIE WALKER

PYRAMIDS should be knocked down, according to Richard Stuart of Martin & Co stockbroker. Mr Stuart gave a bullish speech on industrial equities to the Financial Mail Investment Conference, concluding that the risk of not being invested in leading industrials was far greater than being in the market.

He said the ANC had a valid point about concentration of power, and added that 40% of the JSE market capitalisation represented double counting

"Effectively, this means that the same assets are being listed more than once in holding company and pyramid situations Tax is the most subtle weapon that could be used to break down these control structures

"If, for example, a tax of, say, 15% was placed on dividends received in the hands of companies, it would make the whole daisy chain of holding companies and pyramids tax inefficient and encourage distribution of shares up the line to the ultimate shareholders.

"This would result in a far flatter control structure along American lines

"Can you imagine a market where PPC and Tiger Oats have the same liquidity as Barlows? Or Engen the same as Gencor? Or Amic the same as Anglo American?" Mr Stuart asked.

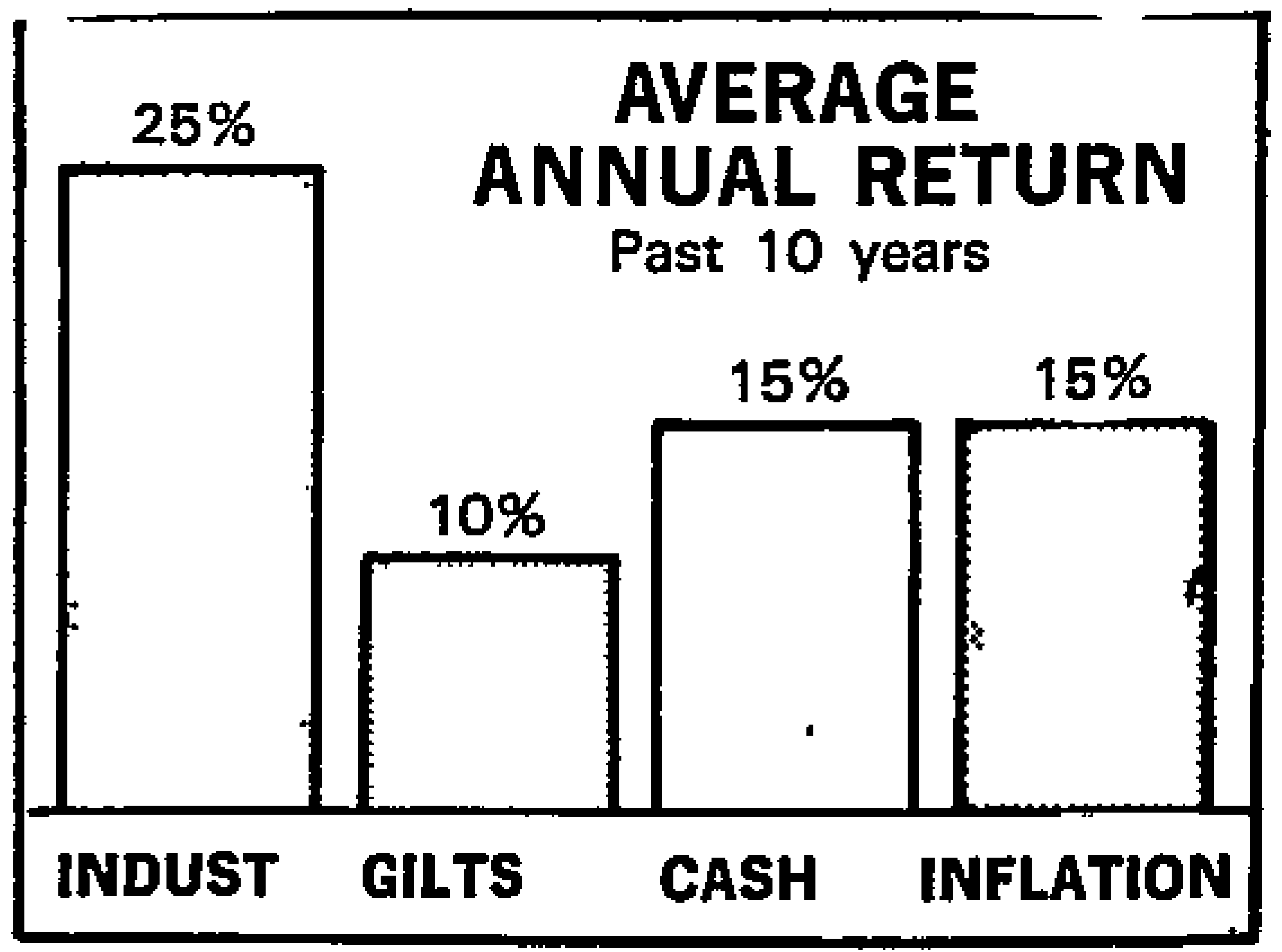
He argued that by virtue of savings institutions, half of the market was already owned by "the people"

"An unquantifiable but rapidly growing portion of the benficiaries are blacks Changes there will be. But the whole perceived problem of ownership and concentration of power can be overcome in an imaginative way that will not destroy confidence, the capital base or entrepreneurial flair

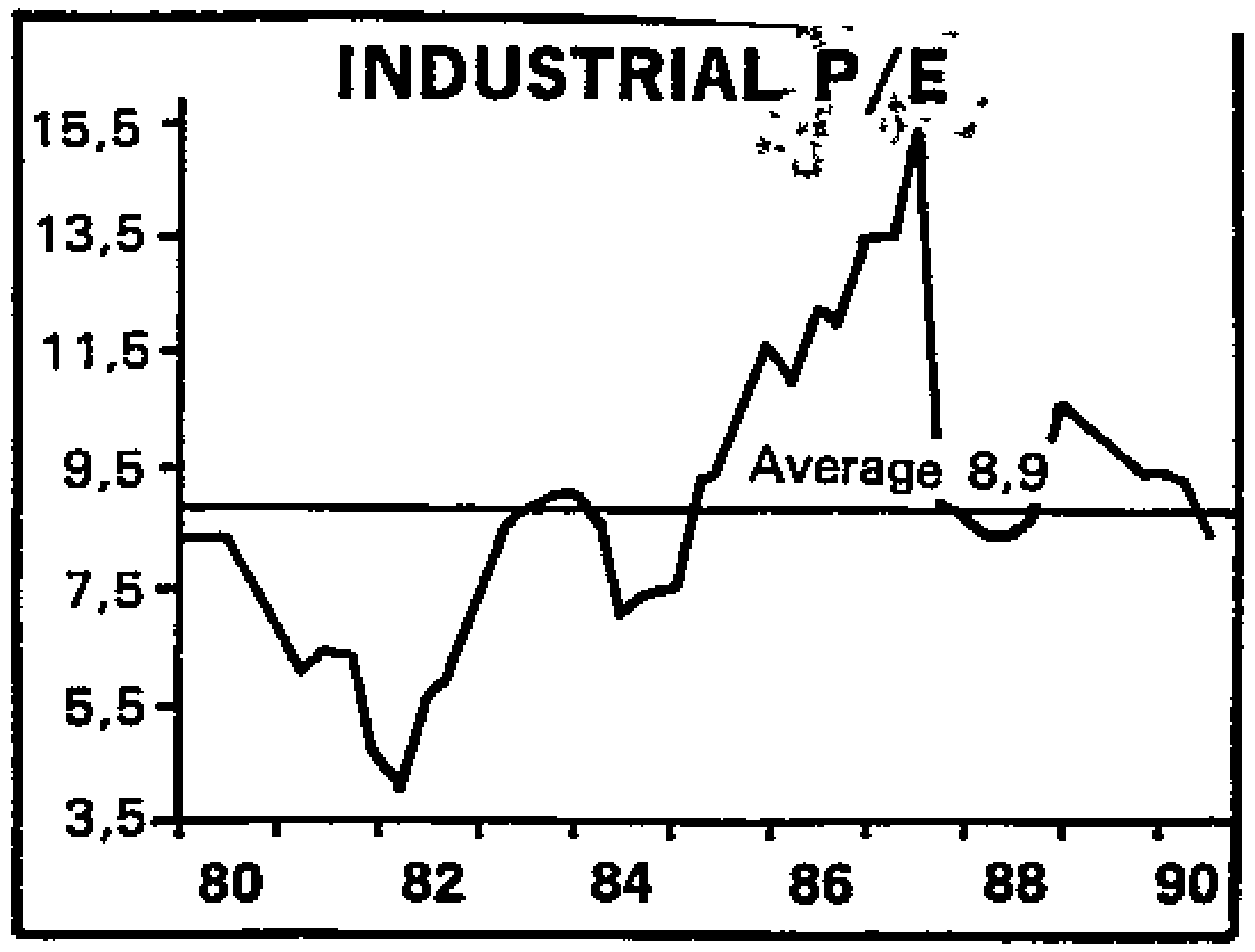
"In my view, it is high time anyway that our companies moved away from first- and second-generation control situations and became true public companies In that way the mobility of capital would be greatly enhanced.

"And the removal of 'cast-in-stone' control structures should lead to a resurgence of entrepreneurial activity and create more challenging opportunities at lower levels in the managerial scale.

"Business should take its cue from government's political strategy and set about 'democratising' itself," said Mr Stuart.



Industrials outperformed in a decade when average real gross domestic product growth was only 1,7% Direct mining houses did better, but direct gold shares worse



Eliminating Richemont — 11% of the index although it has no SA assets and is valued through the finrand — reduces the average PE from 8,5 to 7,9 — conservative by standards of the past 10 years.

● Pyramiding is peculiarly South African, and some companies seem to go to extremes to secure control. The Altron and FSG groups are prime examples.

Take 15% out of those dividends all the way up to the top and any control benefit the top company enjoys is wiped out by tax

There are dozens of examples, and more and more listed companies are following the pyramid route.

There is an opinion that if management is doing a good job, why should it worry about de facto control? If management is doing a good job, it will have the support of shareholders anyway.

Building industry faces grim future

Sowetan 19/11/90

By JOSHUA RABOROKO

THE continued gloomy outlook in the building industry is very depressing, and perhaps the only factors which can bring relief are improved political, economic and labour conditions.

According to the Stellenbosch University's Bureau of Economic Research latest survey of the industry these factors are not likely to occur in the immediate future

There are too many other influencing factors, and only once the political situation becomes more certain and positive, will improvements follow.

"The facts are that materials prices are continually increasing and labour is costing more and more; production output is decreasing and quality standards are deteriorating.

These factors are causing grave concern in the industry, the survey says.

Problems

"Labour unrest and the intimidation of workers are also causing problems, and these will also only be solved once the above-mentioned three factors have shown considerable improvements."

Forecasts suggest that conditions in the industry will not improve during next year, but that they may turn upward toward the end of 1991 or the beginning of 1992.

If this is so, the survey adds, next year will also be a tough year in the building industry, as well as in many other industries throughout South Africa.

It can only hoped that the political situation will improve to such an extent that its effect will permeate all the spheres of South African business and industry.

Regarding the labour situation, the survey says that the wage demands were unrealistic and that the quality of workers and artisans was continuously deteriorating.

This, in turn, led to deterioration in the quality of work being done and lower productivity.

A number of contractors also commented on their dissatisfaction with the labour unions as well as the industrial councils.

Slump

It says comments made by the subcontractors mirrored those made by contractors, but it appeared that they were now beginning to be more aware of the slump than previously and that their future expectations were becoming poorer.

Sector facing a shakeup

B Day 5/11/90

MARIETTE DU PLESSIS

MERGERS and takeovers are on the cards in the heavily overtraded office equipment sector, which has seen several small players collapse

Canoa, the official distributor of Canon products, is engaged in talks

It acquired liquidated Fast Fax shortly after Canoa chairman Terry McLintock, in June, predicted a looming "bloodbath" in this sector

McLintock confirmed last week he was negotiating with other significant players in the industry who were in financial trouble

And Canon Natal MD Doug Lumley confirmed the merging of certain Transvaal-based competitors into the group, adding that the listing of the office equipment supplier on the JSE was possible

He said the merging of both Fast Fax and Petprin, a National Panasonic division, with Canon Natal had not only placed Canon's combined market share in Natal at more than 50%, but also signalled the beginning of a similar strategy by Canon nationwide to establish one giant office equipment supplier

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In the event of a JSE listing, shares would be offered first to management, staff and clients, Lumley said

He saw the current trend in the market place, in which several smaller dealers had gone to the wall, worsening with the recent increase in the petrol price and continuing high interest rates

But he expected Canon's large base of machines in Natal to enable it to weather any economic downturn

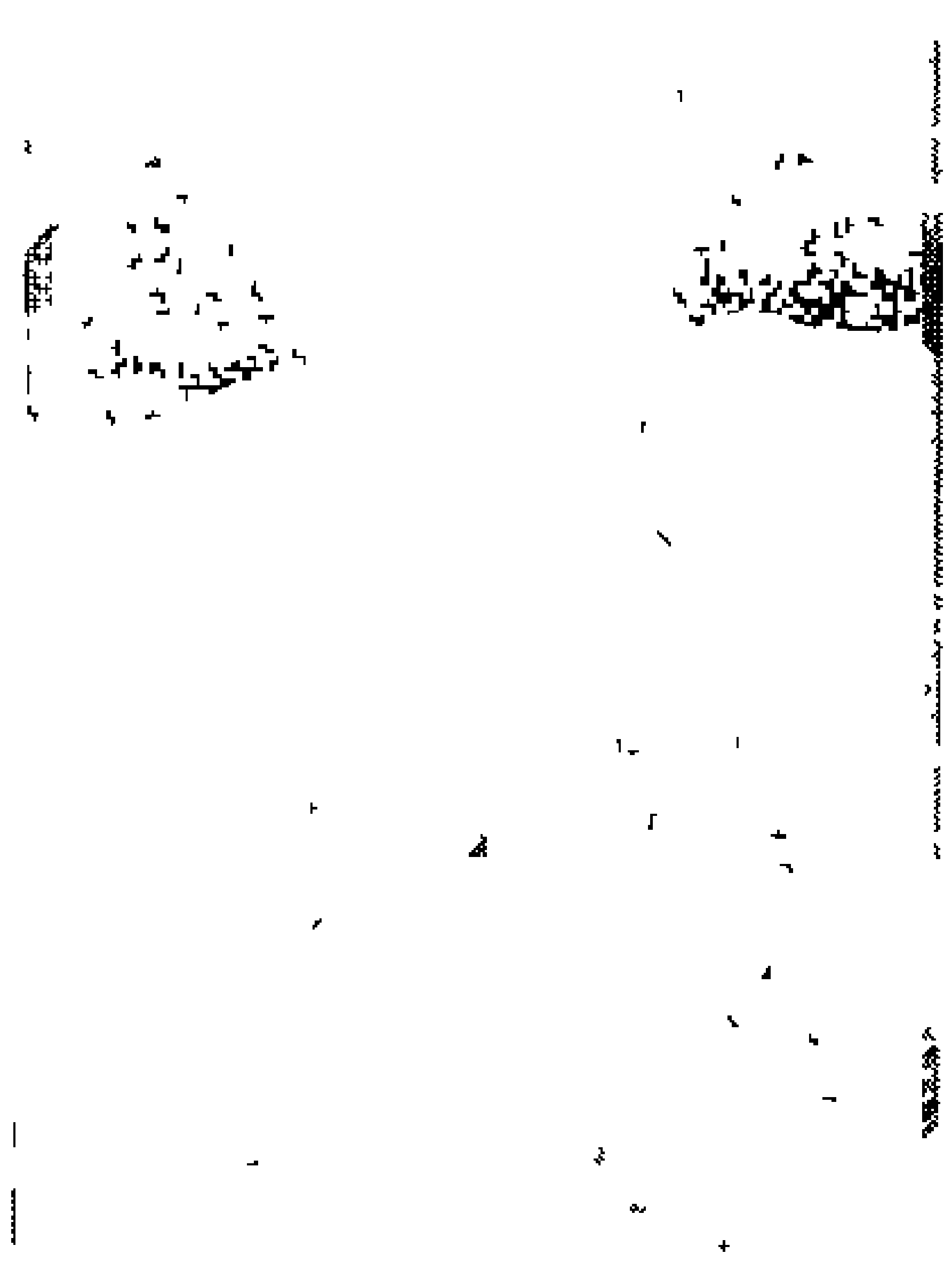
These developments followed media reports four months ago saying the "bubble' was about to burst" in the R2,5bn office equipment sector.

McLintock said Canon was active in the R500m-a-year fax market

8 BUSINESS DAY, Monday, November 5 1990

BDay 5/11/90 (232)

Stock market's temperature shows the economy's ills



● LOWENTHAL . . . sanguine

MERVYN HARRIS

THE NEW SA is a culture shock which has slowed down the investment process as people adjust their horizons to cope with what they think might happen

The stock market is the place where the temperature of the patient — the economy — is taken, and the uncertainties plaguing the market will disappear only when there is clearer direction of the political and economic future

Investment is a risky business but Norman Lowenthal of stockbrokers Lowenthal & Co is pretty sanguine about the tough situation the economy and the broking industry is enduring

He has been through several difficult downturns but economic cycles — a characteristic of the capitalist system of which he is a staunch advocate — always turn He expects to see a glimmer of light from the first quarter of next year when declining interest rates start stimulating the economy and therefore the market

Sentiment could also be boosted by a firmer gold price which would bring more cheer to Lowenthal. He is a leading member of the consortium which acquired control of Joe Berardo's ailing mini-empire, JMF (Johannesburg Mining & Finance), and turned it into the prosperous Consolidated Mining Corp (Consmining)

Consmining is a profitable group which produces more than half a ton of gold a month and two of its operating companies, Knights and West Wits, have started to declare dividends

West Wits is the country's largest open cast gold mine while Knights has the distinction of being probably the most actively traded share on the JSE

The recently opened Benoni Gold Mine, Lowenthal says, is an improved version of Knights and should be even more successful and profitable "We have costs under control and with the team of LTA Construction, Fraser Alexander, and ourselves, seem to have a winning combination"

The entrepreneurial spirit — a feature of Lowenthal's personality — came to the fore after 10 years as a broker when he became independent in 1980 to form what is now Lowenthal & Co

On the way, he learned that there was more to stockbroking than buying and selling shares Becoming involved in mergers and takeovers as the pace quickened in the '80s, Lowenthal & Co were the sponsoring brokers for the flotation of 28 companies on the JSE

He became a director of many of the companies he helped bring to the market but a big opportunity came in 1989 when JMF ran into trouble and he, together with and colleagues Gerald Rubenstein and Glenn Laing, put together Consmining; they now represent control of the group

Consmining is the holding company for a group which encompasses Egoli, Southgo and operating subsidiaries, Nigel, Wit Nigel, Knights, West Wits and the recently opened Benoni which will come to the market through a reverse listing of the Minetec cash shell.

The group has large reserves of underground ore

As a stockbroker, Lowenthal runs a lean, hands-on operation The firm is keeping its head above water during tough times in the broking industry and will avoid retrenchments

"We worked very hard during the good times and there is no reason why any staff should be sacrificed during the bad times," Lowenthal says

Star 6/11/90 (232)

Two property companies battle for majority holding

Two of Durban's major quoted property companies have locked horns in a hostile takeover bid which looks set to come to a head soon.

According to market sources, DPF Investments' Paddy Delaney has for some months been quietly buying shares in JSE-listed Grovewalk Holdings, writes **John Sherrocks.**

Mr Delaney is believed now to control one of the largest single blocks of shares in Grovewalk

While Mr Delaney would not comment on the speculation, Gerald de Rauville, managing director of Grovewalk Holdings, confirmed he was aware of the bid which he dismissed as "no serious threat"

Claiming that shareholders had been rallied to close ranks, Mr de Rauville said "As far as I am concerned Mr Delaney can whistle in the wind."

Property & Construction

FRANK JEANS

He said he had become aware over the past month that Mr Delaney had been buying Grovewalk shares

"We have taken the necessary measures and have closed shareholders' ranks

"I am confident the group will control more than 50 percent of the shares"

He was aware of Mr Delaney's "strategy" behind the takeover bid but would not divulge details

Two weeks ago he had, through a third party, requested a meeting with Mr Delaney "I am still awaiting his call."

Based on consultations with the group's attorneys and advisers it had been decided that it was not necessary to issue a cautionary notice as there had been no serious disturbance of trading and there was no chance of a takeover.

Established in 1979, Grovewalk Holdings was listed on the Johannesburg Stock Exchange in 1987 It controls nearly 30 percent of the JH Isaacs Group.

In its year-ended February 28 Grovewalk Holdings increased attributable income by 16 percent — despite a doubling of interest payable by the group in the financial year

Mr de Rauville was reported as saying that the year under review had proved difficult for the group, which holds interests in property-linked businesses

Whereas Grovewalk's property dealings and development division had a satisfactory year, its other operations performed below expectations

However, overall turnover was up 30 percent at R64,6 million from R49,5 million and net operating income up 41 percent at R9,8 million from R6,9 million

Durban Property Foundation Trust was formed by Paddy Delaney in 1985 For a number of years after its inception it concentrated on shopping centres and retirement villages It has since switched to office block development

● DPF Investments has announced November 16 as the deadline for shareholders to register for its forthcoming two-for-one rights issue The issue is intended to raise R9,1 million to repay short-term borrowings

SOWETAN BUSINESS

How the stock exchange works

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Sowetan 8/11/90

YOU do not have to own thousands to invest in the Johannesburg Stock Exchange. In fact, many people are not aware that their money is already participating in the exchange. For instance, where do you think the benefits of your endowment policy come from. In our endeavour to tell you more about investment JOSHUA MAFOLO from a leading stockbroking company will tell you about the stock exchange in four articles starting today.

JOSHUA MAFOLO

WHILE black economic empowerment has been the buzzword in business circles for quite a long time, to date no significant steps have been taken towards achieving this.

Although one may tend to agree that big business has an important role to play in this regard, our people will never get anywhere by shifting responsibility

Now that our political salvation seems to be nearer than when we first believed, is it not time that we should also pay attention to working out our economic salvation?

Political liberation has to be accompanied by economic liberation Any political settlement, if it is to be successful, will have to address the basic needs of the downtrodden and underprivileged

Even in this regard, a dependency psychosis has to be discouraged and people should be encouraged to help themselves and not expect the Government to take care of their needs perpetually. Economic liberation has to be preceded by economic education.

Education

For decades, important sections of our community have shunned economic education by "refusing to take lessons in capitalism" Those who tried to teach us the "virtues of capitalism" were resisted and suspected of ulterior motives.

It is unfortunate in that some business people have not yet learnt to put people first; whether they be workers or customers.

Our community has not only been kept in ignorance deliberately but has also blessed it. Those who have always wanted us to remain drawers of water and hewers of wood have thus largely succeeded

The African economic struggle must begin with economic education The right attitudes toward business in general and other financial institutions have to be fostered

The anger against companies and other financial institutions which were perceived to be exploitative must never be allowed to destroy the South African economy and our future

One of the least known financial institutions in the black community is the Johannesburg Stock Exchange (JSE)

The JSE was inaugurated in 1904 and has played an important role in the South African economy It is also interesting to note that countries like the Soviet Union, Yugoslavia, Hungary and Poland which in the past shunned stock exchanges and never thought they were important are thinking of establishing their own.

By the end of next year (if all goes well), the Soviet Union will be having its own stock exchange The winds of change are blowing everywhere, even in South Africa and we should never be caught with our pants down

What is a stock exchange? How did the JSE come into being? How does it work? Is there a place for the small investor on the JSE? Are there avenues the small investor can use to invest on the JSE and reap the benefits?

These questions and many others are addressed in this article and subsequent ones

Perhaps, at least five years from now, one will look back and see the importance of these articles. For those who do not feel guilty about making profits and improving their living standards, dreams can be made to come true and, not through wishful thinking, but careful planning and taking calculated risks

There are few things in life that happen by chance, the majority of things have to be made to happen One should never despise the day of small beginnings

A stock exchange is a place where securities are bought and sold Securities is a general term used to describe shares, gilts, debentures and other forms of tradable financial instruments Shares are issued by public companies

Stock

Gilts, on the other hand, are stock issued by the Government, while semi-gilts are stock issued by quasi-Government bodies such as Sats, Eskom and the Post Office.

These securities are traded by stockbrokers who charge a commission for their services At the JSE there is one trading floor for (equities) shares and another for gilts and semi-gilts

After the discovery of the Witwatersrand gold fields in 1886 and the establishment of mining and financial companies involved in exploration and financing such activities, there was a need to provide a market place for the shares of such companies

This culminated in the establishment of the JSE in 1887 It was founded by Benjamin Woollan

Through the years many buildings in Johannesburg were home to the Stock Exchange However, the Stock Exchange moved to its new home in Diagonal Street in 1978

Due to its rapid growth, a new building, the JSE Annexe, was officially opened this year and provided more space to the Stock Exchange and its members

During the first five decades of its existence, the Stock Exchange was in essence a mining market Since then rapid developments have ensured a dramatic change in its character.

Industrial development after World War 2 resulted in the establishment of many industrial companies

Today with more than 2 000 securities listed on the JSE, it is not surprising that there are three times as many industrial companies as there are mining companies

Prior to the establishment of the JSE, stock exchange operated in various South African cities through the years, most notably Pretoria, Klerksdorp and Kimberley

Although they were not as sophisticated as the JSE is, they provided avenues through which securities could be bought and sold

In our next article we shall look at the importance of the JSE, how it operates, terms and concepts associated with share dealing

The views expressed in this article are my own and not necessarily those of the JSE or its members

[redacted]

SS

Thirst for beer boosts SAB profit by R28m

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By TOM HOOD, ARGUS 8/11/82
Business Editor

THIRSTY beer drinkers provided an extra R28 million profit for SA Breweries in the six months to September.

The growing population helped to lift sales by 11 percent, according to the beer giant, which claimed today its product is increasing its share of the total drinks market

Agressive

But SAB also used what it calls "aggressive advertising, promotions, keen pricing and good management" to get people to drink more beer

Profit from beer jumped by 17 percent to R140 million and accounted for 65 percent of the group's total earnings of R214 million

This happened while consumer spending elsewhere is falling as the recession deepens.

The beer boom also helped to put R258 million into the pockets of shareholders. The interim dividend was raised 20 percent from 25c to 30c a share and gave them R45 million more than last year's interim payout.

Almost R1,8 billion is to be spent in the current year to cope with the country's growing thirst, most of it going on brewery expansions and new plant

Group turnover jumped by more than R1 billion or 19 percent to R6 890 million, with trading profit up 23 percent to R584 million

Profit margins increased to 8,47 percent from 8,2 percent, which chairman Mr Meyer Kahn said was due to increased operating efficiencies and stringent overhead controls.

Associated Beverage Industries, Edgars and the international operations were close seconds to beer in performance.

Southern Sun, which from September became a wholly owned subsidiary, did poorly by Mr Khan's standards, however.

Unrest led to a reduction in the number of tourists. The local downturn knocked domestic activity. Moreover, seasonal factors always dampen Southern Sun's first-half performance, he said.

Against a background of socio-political turbulence, high interest rates and a deteriorating economy, he said the results from Da Gama and Afcol were good

"Amrel's earnings reflected a formidable performance, given that it provides for deferred tax on a fully comprehensive basis

"OK faced very difficult circumstances and in view of the boycotts and the weak economy, it performed well."

Given the steady deterioration of the economy, Mr Kahn believes second-half growth will be well below what was achieved in the first six months.

But he says there will be reasonable growth for the full year.

COMPANIES

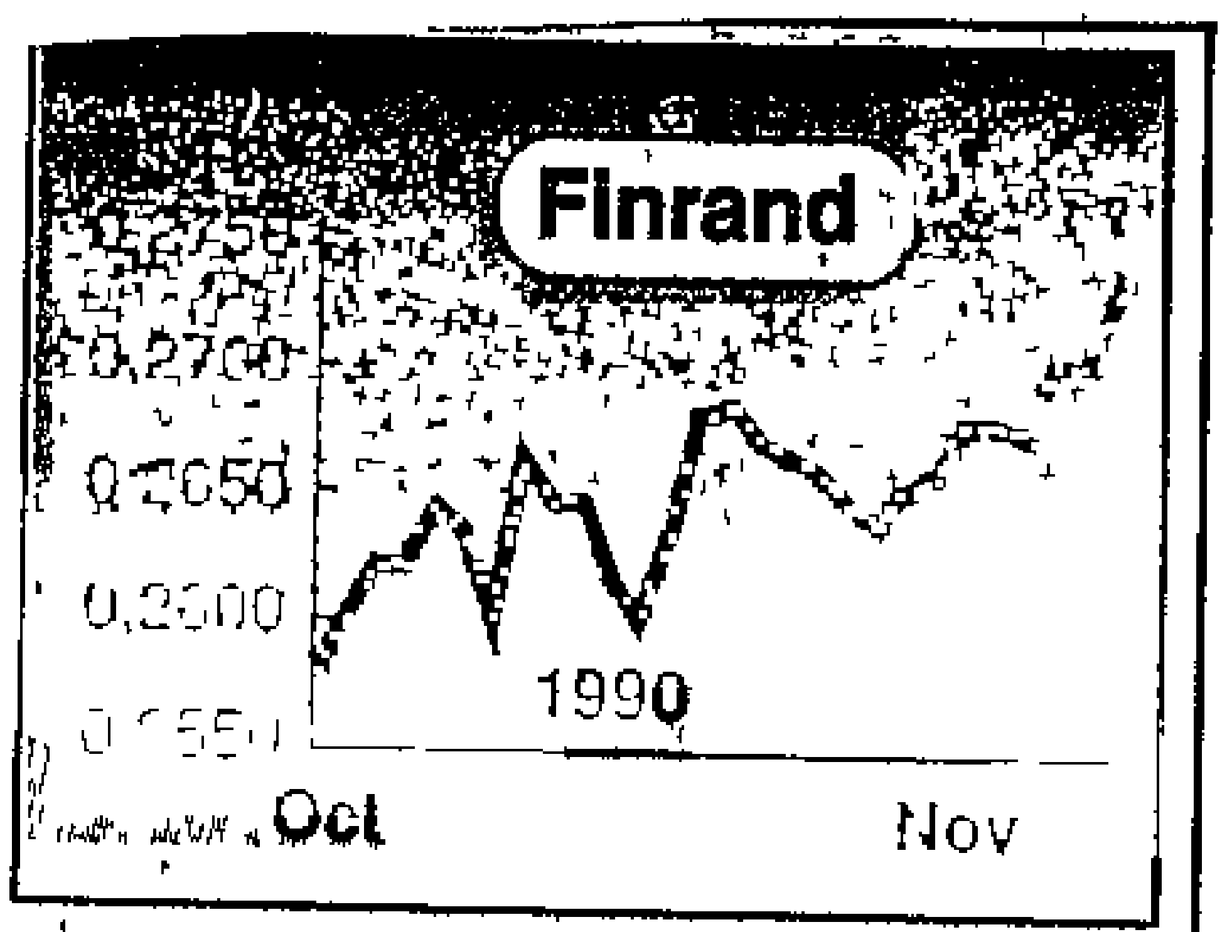
Star 9/11/90 232

Romatex gets rest of Twistex

The Romatex group has bought out the other half interest in Twistex (Pty) Ltd not already held by it, from former partner Falke Textiles for an undisclosed amount

Twistex was created in 1981 as a joint venture between Romatex and Franz Falke textiles

"The deal is not expected to have any short-term impact upon the Romatex group's results but the integration of its operations with those of neighbouring Romatex Nylon Spinners at Pinetown should have longer term benefits," says Romatex Floorcoverings managing director Jurgen Schmitt. — Sapa.



Graphic LEE EMERTON

B/Day 9/11/90

Rupert's broker to drop JSE deals

GRETA STEYN 232

LACK of foreign investor interest in SA has compelled a London stockbroking firm specialising in SA equities to stop making a market in JSE shares.

RND International, whose major shareholder is the Rupert family's Richemont, would stop making a market in SA and Australian shares from today, the company said yesterday

The firm, in which Rand Merchant Bank has a stake, has been an important player in the financial rand market because of its focus on investments in SA.

Declining trading volumes were given as the reason for the decision and no short-term improvement was expected

RND would continue to service major clients and would retain membership of London's International Stock Exchange

The finrand touched a high of $0,2770 yesterday — more than 7% higher than its level at the beginning of October

But a currency dealer said the rise in the finrand did not reflect significant foreign investor interest in SA. The continued net sales of SA equities by foreigners had abated, dealers said, leading to a fall in the supply of finrands

Amid conditions of "normal" demand and a fall in supply, the investment unit had broken through the psychologically important $0,27 level Short-covering aided the trend before a correction saw the unit lose a little ground to close at $0,2740.

The discount between the financial and commercial rands sank to below the 30% level for the first time in about five months at its high yesterday.

Dealers said improved sentiment was reflected in the absence of major sell orders and continued steady demand for SA gilts

Hard times for Barlows

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Wk Argus 10/11/90

From CLAIRE GEBHARDT

JOHANNESBURG. — Barlows, the giant company whose economic health is generally regarded as a barometer of the country's, is widely expected to report a huge 20 percent earnings drop in the year to September.

Results are due out on Monday

At the interim, Barlow's earnings were already down 9,3 percent in line with the generally grim outlook for the domestic economy and world commodity prices.

Further deterioration in economic activity to September has seen all but a handful of Barlow's subsidiaries report declines this week. This dispels any doubts that the country is in the grip of a painful recession.

Lowest level

With turnover equivalent to nearly 10 percent of GDP and interests stretching octopus like into almost every sector of the economy Barlow's results also give notice that 1991 will be a very tough year indeed.

Business profits are already at their lowest level in nearly 20 years, and with little prospect of a drop in interest rates early next year a long winter of redundancies could be in the offing

In 1990 all five of Barlow's core divisions — mining and minerals, industrials, food, international and property — encountered difficult trading conditions.

Overcapacity in the base minerals market, domestic inflation, widespread labour problems and continued high interest rates on borrowing which rose along with the take-up of the group's Rand Mines rights offer allocation, weighed in negatively.

Results out this week revealed that Barlows has received very little support from the fixed investment side or from mining. Major offshore arm Bibby & Sons came right this time and Reunert held up reasonably well in the circumstances

ICS Group presented the market with a shock with a 35 percent drop in earnings and Robor was not up to expectations

However computer group TSI's 25 percent decline in earnings was no surprise after the 33 percent drop at the interim.

Rand Mines was on the retreat on virtually all fronts apart from coal

Earnings a share were down 17,4 percent to 1592 from 1929c, because of an increased number of shares in issue following the 33-for-1000 rights issue in December 1989

In a swift move, the group this week announced the closure of its loss-making vanadium pentoxide production at Vansa, the mothballing of the Kennedy's Vale platinum mine as well as a cut in operations at Harmony gold mine.

Cement group PPC, part of the non-industrial interests, unveiled a concrete performance in a weak market with a 5 percent increase in earnings to 266,2c (252,6c).

Middleburg Steel and Alloys (MSA), long the icing on the cake, is expected to come in with substantially lower-than-expected results

With ferro-alloys and stainless steel plagued by tough world markets, the full-year contribution from MSA originally forecast to be stronger than at the interim, is now expected to be two-thirds down

However J Bibby & Sons, lacklustre over the past two years with the degree of decline being hidden by the depreciation of the rand, saw a reverse with a 22,5 percent increase in earnings to 20,4p (16,6p) a share.

Tiger Oats' 16 percent earnings growth in a troubled year reflects the group's broad spread of interests across the food and pharmaceuticals sector

CG Smith reported its sixth successive year of real profit growth despite the fact that Romatex had to contend with tougher competition from imports and Nampak was faced with major problems on the industrial relations front.

Exports

Reunert, helped along by exports reported a 15 percent increase in earnings to 234,1c (202,7c) having posted a 31 percent increase in earnings at the interim.

Unlisted industrials including earthmoving equipment, motor appliances, building materials, steel and paint, down 13 percent at the interim, are expected to continue to slide

This week Barlows was trading at 3100c, well down from 3815c at the interim and a high of 5450c on February 5

Valard gets it right with Landlock

S/Times 11/11/90

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By JULIE WALKER

THE turnaround at Landlock is another feather in the cap for the Valard management team.

Landlock is now Valard and the former Valard is pyramid holding company Valhold In the five months to May 1990 before the change of control, Landlock lost R3,3-million

But since June 1 when Landlock sold Girlock for cash and bought the original businesses of Valard for 41,2-million shares, rationalisation has stopped the losses

For the first time since 1984, the new Valard made a profit good enough to restore the dividend — 3,1c

Holders of Valard prefs agreed to waive current and arrear dividends in favour of an issue of ordinary shares. Gearing is down from 95% to 83%, and is expected to fall further by March

Valhold's only asset is 80% of Valard Its earnings for the six months to September were up by 4% to 7,2c a share, and the dividend 2,9c compared with 2,75c

Saflife shone with a 91% climb in the bottom line to 22,5c a share in the six months to September 1990 Directors comment that in spite of deteriorating conditions, Saflife's focus on business activities and curtailed costs have seen it right.

Presmed continued a good run In the six months to August its turnover was 87% up at R24,8-million and earnings a share grew from 6,7c to 10c Improved occupancy of hospitals, better collection of debts and cost control helped the results

Two hospitals and a day clinic are under construction. Presmed aims to increase profitability at 25% a year

Amaprop's turnover for the six months to September rose by 17% to R107-million, but profit before tax was almost unchanged at R22,2-million because of unlet space, especially in Cape Town's newly done-up Southern Life centre

The Carlton Hotel also incurred a bigger loss than in the corresponding period last year Outside shareholders called for less, so earnings a share were 8% up at 33,7c

Amaprop took a net stake of 50% in Retprop from Propgroup, spent R5,3-million on land next to the Bruma Lake development, is building cinemas and shops at the Carlton Centre, is refurbishing a West Street office block and Werksmans Chambers

It also sold its interest in two buildings to Main Street Property Fund for R18-million, making an extraordinary capital surplus of R6,3-million Amaprop has 2,5-million Main Street units

CNA Gallo rarely lets shareholders down and turned in strong growth for the six months to September Both turnover and earnings a share were 18% to the good at R337,6-million and 38,5c respectively.

An interest bill of R1,7-million, compared with a net inflow in the last period, kept pre-tax profit growth to R14,4-million at 11% But the shares of retained earnings of associates grew by a third to almost R6-million

Gallo has bought 50% of Nu-Metro The directors expect real growth for the year provided sales continue as before.

Shutdowns

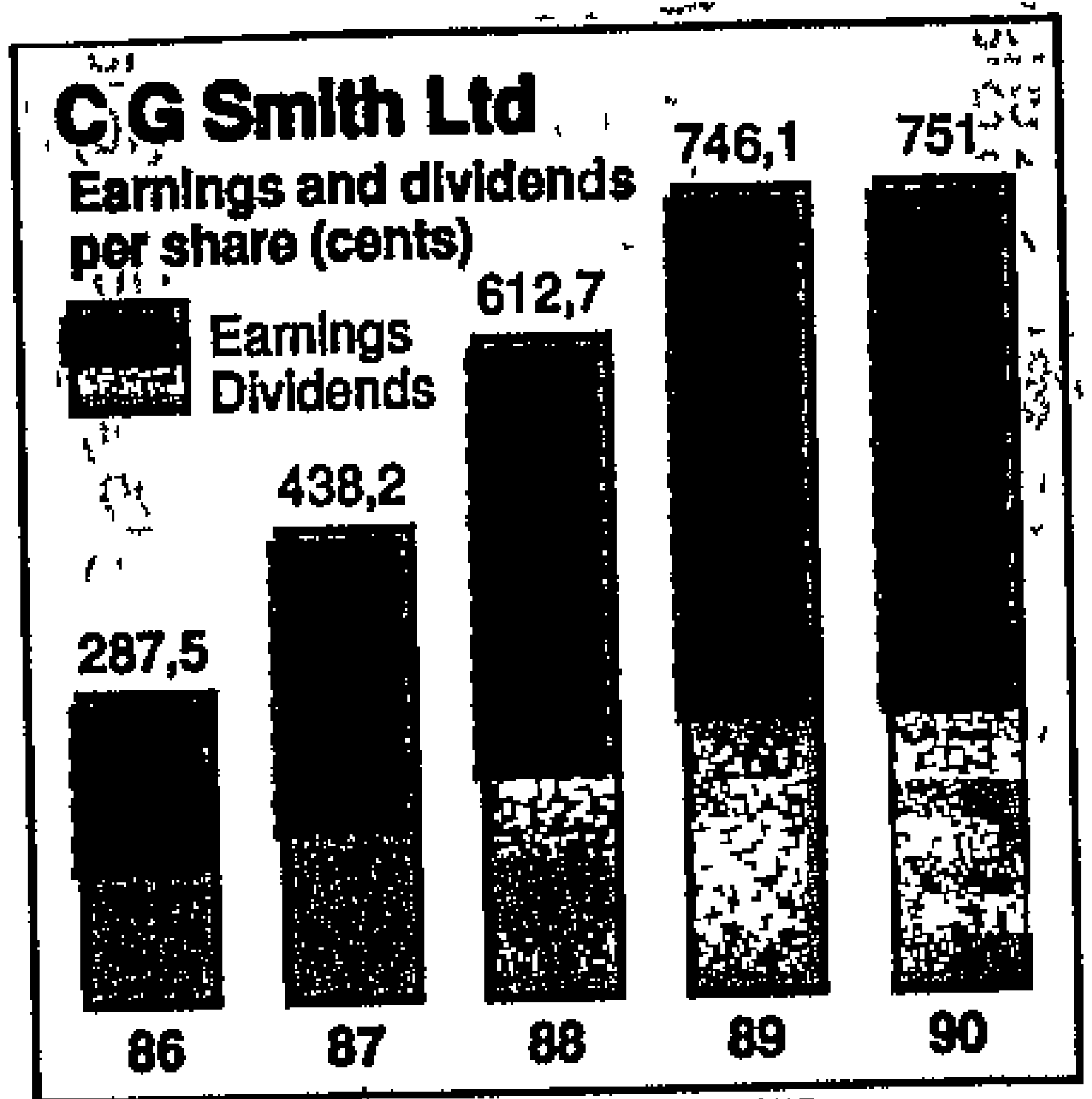
Sakers struggled It warned shareholders that the erratic supply of vehicles would affect it, but never expected the supply from Mercedes-Benz and Honda to cease for the last six weeks of the first six months

Used-car sales were below expectations, and turnover of R760-million was 16% lower than in the six months to September 1989 Gross margins were higher than forecast, interest a little lower, but earnings a share of 51c were down by two-thirds

The directors expect only 70c a share for the whole year, and a total dividend of 20c — 11c was declared at the interim.

Boumat is feeling the pinch, there is no chance of rebuilding vehicle stocks to cover manufacturers' year-end closedown, used-car sales will continue sluggish and the economy is deteriorating at a faster rate than expected

Of the 21 companies reporting interim results this week, 13 showed higher earnings than previously, seven at least matching inflation Eight reported lower earnings, and none showed a loss



Graphic: FIONA KRISCH Source C G SMITH LTD

B Day. 12/11/90

Textiles, packaging tie CG Smith down

(232) CHARLOTTE MATHEWS

THE effects of the economic downturn on C G Smith's packaging and textile divisions have counteracted good results from its food and pharmaceutical companies.

The group has posted a 1% improvement in attributable profits in the year to September.

Of the group's profits of R352,4m (R349,8m), 57,5% was contributed by C G Smith Foods, 36% by packaging group Nampak, 6,3% by textile group Romatex and 0,2% by other companies

Group turnover rose 14% to R14,2bn but pressure on margins, a higher interest bill and a higher tax rate reduced after-tax profits to R640,4m from R655,8m in 1989.

A total dividend of 263c (260c) a share for the year has been declared on earnings of 751c (746,1c) a share.

C G Smith Foods' sales volumes grew by 16% to R9,9bn. Operating margins declined to 6,7% from 7,3% in 1989 and interest cover fell to 4,5 times from 5,5 times.

Income from investments fell by R4,4m, but the tax rate was lowered to 33% (35%). This, together with a higher contribution from associated companies, boosted C G Smith Foods' after-tax profits by 6% to R415,1m

On earnings of 263,6c (235,1c) a share, a total dividend for the year of 87c (78c) a share has been declared.

The directors said C G Smith Sugar, Tiger Foods and pharmaceutical companies Adcock Ingram and Logos performed well but this was countered to some extent by disappointing results from ICS and Oceana Fishing.

C G Smith directors expect an improvement in earnings in the current year.

Anglo boss: Black statesmen soon

Cap Times 13/11/90

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Own Correspondent

LONDON. — Anglo American chairman Mr Julian Ogilvie Thomson hopes South Africa will have a new constitution, with blacks in the government, by next Christmas.

Interviwed on British television, he also indicated he would be prepared to see partial nationalisation of his corporation and predicted there would probably be a black director on the board in about three years.

Mr Ogilvie Thomson was speaking on Sunday evening on Channel Four's "Answering Back" programme in a series of interviews with leading international business and political figures.

Asked by presenter Mary Golding when he foresees blacks in governemnt in South Africa and a new constitution in operation, he replied: "I personally would hope that it would be next Christmas. But it may well be 1992."

He went on to indicate that while he is prepared to see partial nationalisation of Anglo American, he believed the chances of full nationalisation by a future ANC-led government were receding as the ANC "are beginning to see that this is not a sensible route to go down".

Brokers are braced for a lean summer

B Day 14/11/90

Business Day Reporter

ALTHOUGH stock market volumes picked up a little yesterday, brokers are preparing themselves for a lean summer with turnovers dipping to levels normally only seen in the "silly season" over Christmas and New Year.

The turnover value on the JSE yesterday was R51m. And on Monday only 4-million shares changed hands in 1 404 deals worth R26m.

This was the lowest value since January 3 1989, when deals worth R18m were recorded.

JSE president Tony Norton has indicated that firms and the exchange would feel comfortable with a daily turnover of around R100m.

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The moribund JSE has also affected futures volumes on the SA Futures Exchange (Safex), where the total value of contracts traded daily is hovering around the R50m mark, about 25% of the heady levels of the first quarter of the year.

Safex may have reached the point where further real growth will not occur until the illiquidity of the JSE is addressed.

JSE brake on futures market

B Day 14/11/90

(232)

ROBERT GENTLE

THE SA futures market, after three years of growth it can justly be proud of, has found itself at the stage where it will not develop any further until the structural problems of the underlying spot market — the JSE — are addressed.

This was one of the key conclusions to emerge from the three-day futures conference held at Sun City at the weekend.

The two key structural problems are the illiquidity of the JSE — which trades a mere 4% of its market capitalisation a year compared to more than 10 times that amount abroad — and its undercapitalised stockbroking structure which relies on partnerships rather than outside shareholders.

Delegates heard that the illiquidity problem — a long-acknowledged one that the JSE itself has been pushing government to end for years — prevents any meaningful amount of arbitrage operations, which should form a significant proportion of any futures market's turnover.

Arbitrage is the simultaneous trading of the same basic product in the futures and spot markets to take advantage of pricing inefficiencies.

The lack of capital among stockbrokers compounds the problem because huge, expensive blocks of shares have to be traded to get worthwhile profits out of arbitrage operations.

"People forget futures markets are called derivative markets because they derive their value from the underlying spot market," said Finansbank assistant GM Stuart Yates, explaining why Safex is a hostage to the fortunes of the JSE.

Yates showed how the illiquidity of the JSE results in inefficient price levels of futures contracts, which in turn means a built-in underperformance for any fund manager wanting to use futures to hedge his portfolio.

He said futures trading patterns on Safex were totally at odds with what theory demands they should be — and differ considerably from similar patterns on overseas futures exchanges.

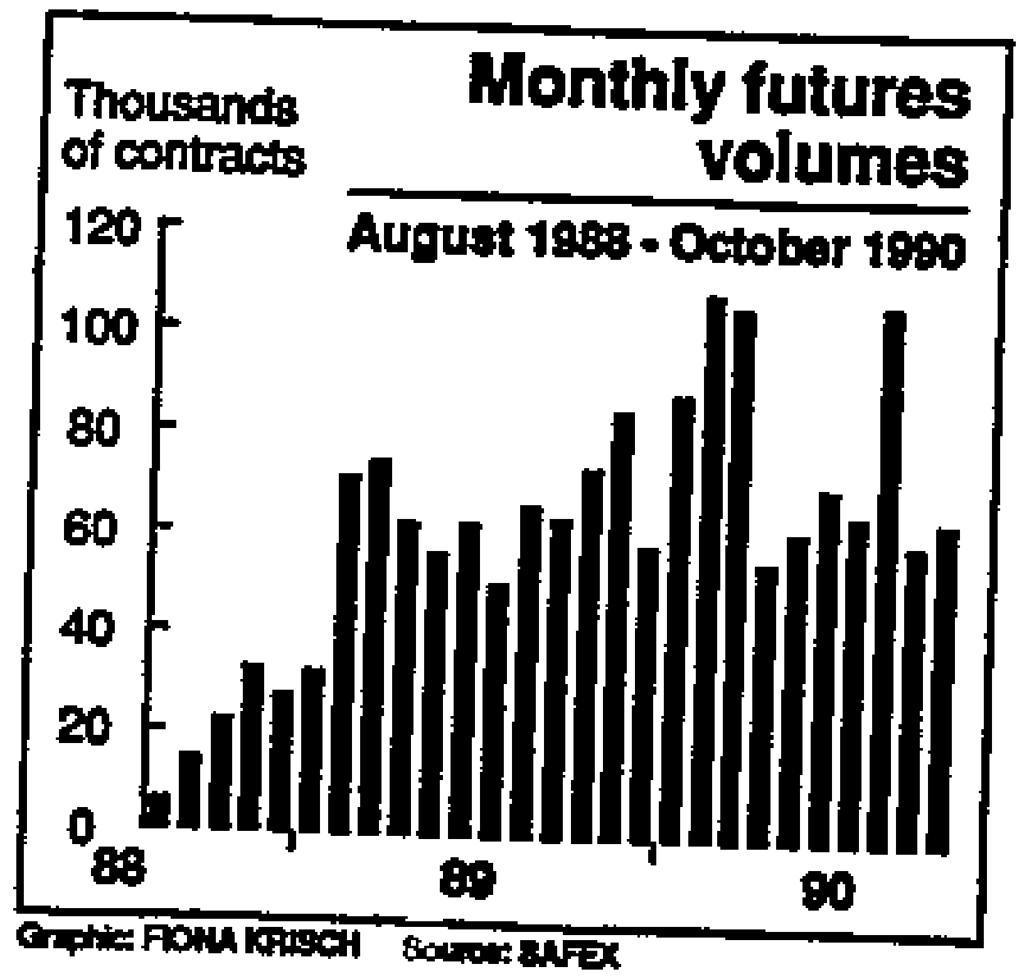
The proof lay in the differences between the actual value of a futures contract trading on Safex, and its theoretical or fair value — which is a function of factors like interest rates, carrying costs and income payments like dividends or coupons.

When a futures contract is trading at its fair value with regard to its spot value, an investor is indifferent to either. For example, if spot De Beers is R60 and its fair value in three months' time is say, R70, an investor is indifferent to holding the spot or the three-month De Beers.

However, if three-month De Beers suddenly climbs to R73 (spot unchanged) on market rumour, there is a R3 premium to the "fair value" — and this represents a risk-free profit.

It is realised in an arbitrage operation — simultaneously buying the spot De Beers at R70 and selling three-month De Beers at R73 (Had De Beers been trading at a discount to fair value, the opposite arbitrage would have been done — ie sell spot and buy the future.)

Arbitrage operations perform the valuable task of smoothing out pricing inefficiencies in both the spot and futures market and ensuring an optimum cost of capital in the economy.



Monthly futures volumes

August 1988 - October 1990

Graphic: FIONA KRISCH Source: SAFEX

In liquid overseas markets, these gaps are very narrow — often under 1% — and are soon abritraged away. In SA, they stand at anything from 5% to 10% — representing severe distortions in the price of capital. Despite the obvious profit to be made, market participants cannot take advantage of them because while the futures leg of the arbitrage deal is almost always feasible, the shares leg is not.

Greenwich Futures & Options MD Bryan Coyne suggested that the JSE boost liquidity by introducing negotiated commissions to bring down "exorbitant dealing costs", or allow trade in margined shares — ie, shares that can can be purchased with a downpayment or margin — typically about 20% to 50% of the total price.

If such issues were not addressed, Coyne said, participants would have to give serious thought to creating a separate forward market in equities. He also slammed the fact that JSE brokers paid lower transaction costs than outsiders.

He called for a level playing field and the opening up of the stock market.

Discount House of SA director Dave Renny said lack of arbitrage was less the result of exorbitant dealing costs than structural problems caused by a lack of capital among stockbrokers — a reference to the debate on opening up stockbrokers to outside shareholders.

JSE GM Darrell Till said the JSE's present structure was dictated by the concentration of economic power in SA, and that corporate membership would pose other problems — like the continued existence of equity floor trading. Discussions were taking place on this issue.

Asked whether the JSE could meet the futures industry half way by allowing stockbrokers to form alliances with banks, Till said this could put other stockbroking firms at risk. This was why the JSE earlier this year terminated a potential tie-up between J D Andersen and Allied Bank.

In all fairness, the JSE's problems are nothing new. But, in the current climate of low volumes — Safex is trading at around half its breakeven level and says it will soon have to cut costs — the urgency with which they need to be resolved is.

The onus again falls squarely on the financial regulators in Pretoria to break the present logjam which prevents the flourishing of the SA financial markets. They must tackle the root causes — deterrent taxation, ambiguity about capital gains tax, lack of foreign participation, the high level of economic concentration and the lack of a level playing field for different market participants.

LETTERS

Dear Sir

Toco makes a bid for some Spectrum assets

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BDay 14/11/90

CHARLOTTE MATHEWS

INDUSTRIAL products manufacturer and supplier Toco Holdings is negotiating to acquire either some of the companies of provisionally liquidated Spectrum Industrial, or some of its assets

Announcing a strong performance from the group for the six months to September and its first interim dividend of 2,5c a share, Toco Holdings chairman Paul Todd said Toco was offering R1,75m for Spectrum and some of its companies

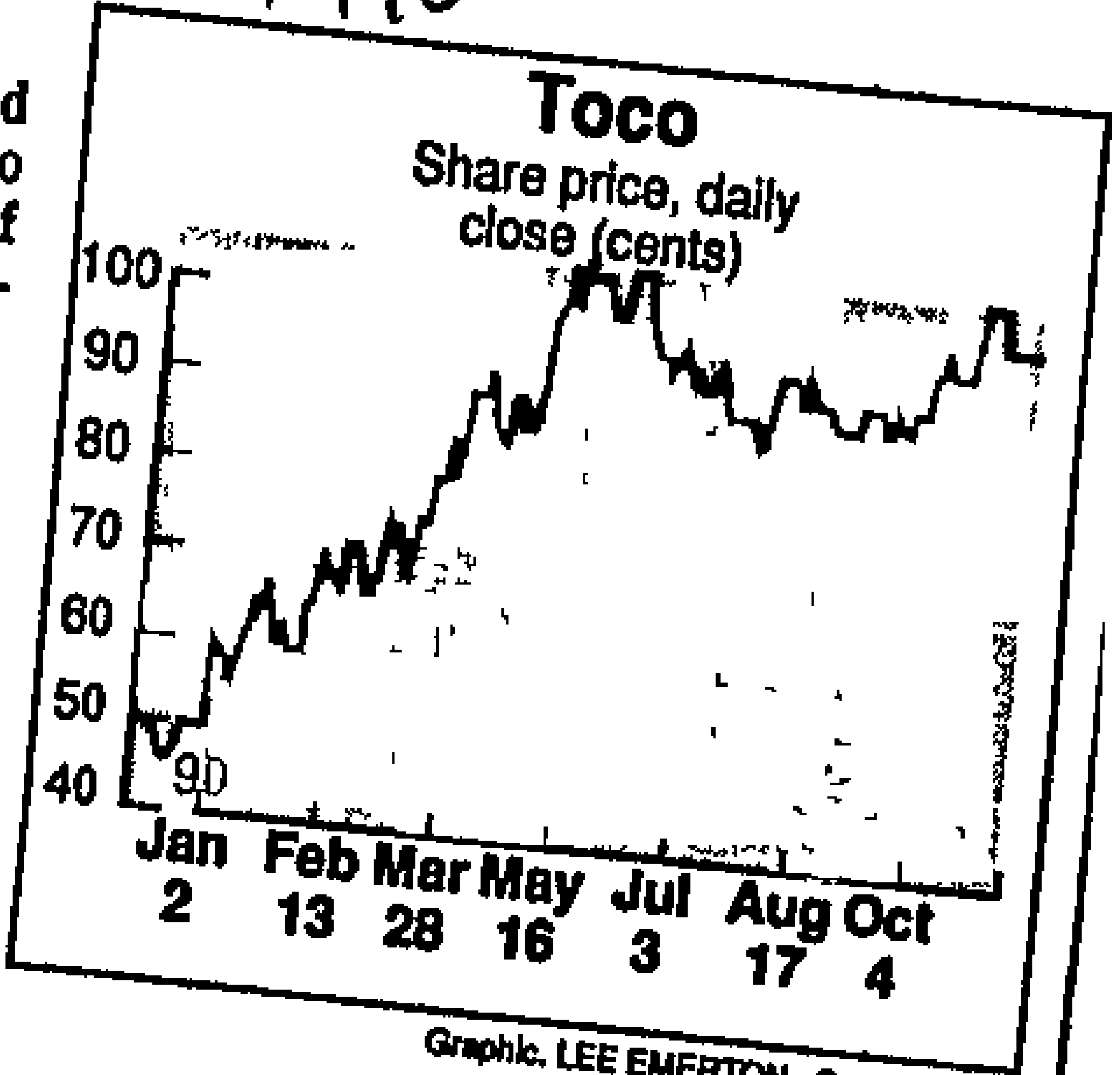
If this offer was not approved by creditors and the Supreme Court, Toco still had the right to acquire some identified assets of the Spectrum group for a lesser sum

Spectrum, whose shares are suspended from the JSE's retailing and wholesaling sector, is a distributor of industrial components, tools and hardware.

Todd said this fitted in with Toco's activities Toco has four divisions — lifting equipment, special steels and metal treatment, gaskets and automotive products

In the six-month period, Toco boosted turnover by 11% to R56,8m Operating profit grew faster by 38% to R8,9m

Operating margins had improved to 15,8% from 12,6% but Todd said there had been strong trade by divisions with a high value-added component and more normal margins were expected for the year.



Graphic. LEE EMERTON Source JSE

Interest payable tripled because the group had raised its stock levels to increase market share in some areas. Todd expected interest cover, now 4,8 times (10,3 times) would fall by the year-end

Attributable profits improved by 21% to R5,8m but on an increased number of shares in issue earnings rose 16% to 8,8c.

SOWETAN BUSINESS

Learning the language of stockbrokers

Sowetan 15/11/90 (232)

THE Johannesburg Stock Exchange is the most popular Stock Exchange in Africa. South Africa in an economic power to be reckoned with and there is no reason why this should not continue.

It can be said without doubt that without the Johannesburg Stock Exchange, the scale of economic growth witnessed in this country together with job creation that accompanied it could not have been achieved.

Although job creation and economic growth do not emanate directly from the stock exchange, they are by-products of its basic purpose.

The stock exchange's basic purpose is to provide an orderly market and, at the same time, provide a market in which

Investors

entrepreneurs can raise capital where investors can exchange shares for cash or cash for shares on the basis of adequate information.

In this investors are encouraged to convert their savings into investments and thereby participate in the creation of national wealth.

A stock exchange provides a relatively cheap forum for the exchange of shares for cash. It should be remembered that funds that are raised when shares are issued, are used in business operations and this helps in the creation of job opportunities.

Savings

Although people are encouraged to convert their savings into investments, the onus is on them to reconcile this with their short-term and long-term needs.

It is very difficult to take advantage of the benefits offered by the JSE without proper understanding of its language - terms and concepts which form part of the daily language at the stock exchange

Assets· These are possessions such as buildings, machinery, equipment, trade marks and even goodwill and are used to generate income.

Capital: Money that is provided by the original shareholders of a company and is used to buy assets which, in turn, generates employment and wealth.

Capital· Money that is provided by the original shareholders of a company and is used to buy assets which, in turn generates employment and wealth.

Dividends: Whereas interest is paid on bank deposits and loans, shares attract dividends which are tax free in the hands of investors. A company does not have to pay all its profits as dividends.

Yield

Dividend Yield (DY): This is the dividend expressed as a percentage of share price. (eg. if a dividend of 10 cents is paid on a share valued at 200 cents, the DY is 10 percent of 200 = 5 percent)

Earnings: Profits after tax has been deducted.

Earnings Per Share: Earnings expressed in terms of a single share.

Equity: Another word for ordinary shares.

Expenses: This includes items such as rent, electricity, telephone and raw materials.

Profit· What is left after all expenses have been met.

Prospectus

Prospects: When a company wants to issue shares, it publishes a prospectus in the Press, giving the details of the nature of its business, its directors, their address, renumeration, its conditions and why it wants to raise capital.

Public Placing: This is when shares are offered to members of the general public as opposed to a "private placing" which is intended only for trade investors, staff and clients.

Portfolio

Unit Trusts (Mutual funds): A managed portfolio where members of the public contribute money either as a lump sum or monthly payments to be invested on their behalf in the share market. Thus the public does not invest in specific shares, but the mutual fund does that on their behalf. The mutual fund Manager is responsible for managing the portfolio

Stockbrokers: These are members of the stock exchange. Shares, gilts, semi-gilts and debentures are bought and sold on the stock exchange by stockbrokers (on behalf of clients who may be private investors or institutions eg banks and insurance companies) in return for a commission.

Owned

There are 45 firms of stockbrokers in South Africa, each of which is personally owned by its partners\directors. No outside corporations or banks may own any part of whole of a Stockbroking firm.

A proper understanding of how the Stock Exchange work is necessary before one thinks of investing it. The easiest way to get one's finger burnt is to invest without the advice of experts.

Without proper advice, one can easily become poorer.

It is also suggested that for one's own interest, one should visit the stock exchange. Information sessions intended for the public are held in the JSE auditorium. The public can also see how shares are bought and sold on the market floor from the public gallery.

Joshua Mafolo, one of the first black investment analysts in the country, continues his series on investment and the Johannesburg Stock Exchange.

Competition Board starts investigation

Cape Times 15/11/90

232

Own Correspondent

JOHANNESBURG. — The Competition Board has begun an investigation into interlocking directorships which could radically affect the face of South African business

Interlocking directorships are common throughout business, particularly where companies are closely linked partners.

The investigation, an informed source said, formed part of a Competition Board probe initiated in August after the Anglo/De Beers group had increased its shareholding in Gold Fields of South Africa (GFSA) to 25% from 20%.

The probe is to determine whether the acquisition of additional shares constituted a "restrictive practice" which could place Anglo in a "monopoly situation"

It is understood that the Competition Board intends using the present investigation as a test case of interlocking or cross-directorships to establish a defined policy on the issue

Competition Board chairman Mr Pierre Brooks declined to comment yesterday.

COMPANIES

Kelgran to feature in pyramid listing today

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B/Day 19/11/90

RIAAN SMIT

THE controversial issue of listing pyramids on the JSE surfaced again recently when granite producer Keeley announced it would be converted into the pyramid holding company of its operating arm, Kelgran, currently a wholly owned subsidiary.

Kelgran is to be listed on the JSE's "mining — other" sector today.

Keeley said a pyramid structure would provide the controlling shareholders — a management consortium led by executive chairman Malcolm Keeley — with flexibility to enable Keeley to take advantage of expansion and acquisition opportunities

The move will also allow the controlling shareholders to maintain control even if they sell their shares in Kelgran or if Keeley expands by means of a paper acquisition

A JSE official said the advantage of a pyramid structure was that it allowed a company to expand without losing the controlling shareholding

Pyramids are allowed under current rules of the JSE, but are not permitted in the UK and the US

The official said that, theoretically, pyramids freed capital in the form of new paper and this should benefit the liquidity of the market.

Kelgran was a case in point because minority shareholders now had the same stake in two companies where they only had a stake in one before the listing.

But, he pointed out, because control was entrenched, it prevented predators from making bids for companies This allowed inefficient companies, which would otherwise have been sitting ducks for predators, from being taken over Often this retarded rather than boosted liquidity.

Martin & Co's Richard Stuart said at the weekend that a situation where the holding company in a pyramid and its subsidiaries were listed effectively meant assets were listed more than once

Stuart said the ANC had a valid point about concentration of economic power on the JSE He said 40% of the market capitalisation represented double counting

Stuart said the removal of "cast-in-stone" control structures should lead to a resurgence of entrepreneurial activity and create more challenging opportunities at lower managerial levels

Brokers' fears on fee system allayed

B|Day 19|11|90 (232)

MERVYN HARRIS

FEARS gripping the JSE broking community over the possible abolition of fixed commissions on share transactions have been temporarily allayed as the authorities decided last week that a thorough investigation into the issue was necessary.

Concern mounted after the issue was discussed at last Thursday's meeting between the JSE and the Financial Markets Advisory Board (FMAB)

While it was decided to go ahead with the introduction of a R30 minimum fee on share transactions, no conclusion was reached on the matter of replacing the fixed commission structure on share transactions with negotiated commissions

Deputy Reserve Bank Governor and FMAB chairman Chris de Swart said "This is a major issue which needs to be closely investigated and no decision was taken. The matter has so many implications and we will act responsibly by investigating all the pros and cons before making our recommendations to the Registrar of Financial Institutions"

The FMAB was established in terms of the Financial Markets Control Act to advise Finance Minister Barend du Plessis on issues related to financial markets. The Act was promulgated this year.

The discussions followed submissions to the Registrar by the Competition Board of the principle of a more open market in share trading on the JSE

Competition Board chairman Pierre Brookes said "The JSE is the epitome of the free market system and fixed commissions have certain negative implications for competition We would obviously like to see a freer market but as brokers are in the thick of things in the market, the decision has to be made by them"

News that the matter had been aired at the meeting sent shivers through the broking community Many saw the introduction of negotiated commissions as potentially disastrous at a time when turnovers were falling amid escalating costs

At present, there is a fixed commission fee of 1,2% for the first R5 000, 0,85% for the next R5 000, going down on a sliding scale to a low of 0,2% on deals over R1,5m

Brokers fear that the introduction of commissions negotiated between them and clients could lead to cutthroat competition and put some firms out of business as happened after the Big Bang in the UK

It could also mean a reorganisation of their services and introduce a marketing

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Brokers

B|Day 19|11|90 (232)

☐ From Page 1

element in broking as occurred among SA banks when Rocco (Register of Co-operation), the cartel which regulated pricing policy between banks, was dropped at the beginning of the '80s.

The tougher environment led banks to look at their range of services to customers and introduce fees on current accounts.

It took banks years to overcome the loss of fees

But some analysts believe smaller broking firms could benefit from the abolition of fixed commissions, while smaller institutions might be prepared to pay higher fees to make use of the research and other services provided by brokers.

The introduction of a minimum R30 fee on transactions is expected to be finalised in mid-December after all comments on the issue have been received by the Registrar of Financial Institutions

Pickard details Picapli losses

B/Day 19/11/90

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MARCIA KLEIN

FINANCIAL 1990 had been the most difficult in furniture-listed Picardi Appliances' (Picapli's) trading history, chairman Jan Pickard said in the annual report.

He said the household and appliances group, "which is totally dependent on consumer durables and semidurables", felt the full impact of continuing reductions in consumer expenditure. At the same time it had to maintain a high level of expenditure to support its existing structure.

Picapli posted a net loss of R13,7m for the year to end-June compared with a profit of R3,4m in the previous year, while holding company Pichold posted a loss in attributable earnings of R13,4m for the same period.

Pickard said Picapli remained dependent on interest-bearing debt — the interest bill stood at R27,5m at year-end — which significantly affected earnings potential. To ensure that resources were better utilised, Picapli had withdrawn from the portable audio market and improved its working capital.

Picapli featured on the stock exchange when its share rose 71% to from 35c last week to close at 60c on Friday.

Another Pichold subsidiary, Union Wine — which was bought by Kangra Holdings in September — showed "disappointing results", posting a loss of 15,1c a share compared with earnings of 13,9c a share.

Pickard said some smaller and less profitable liquor stores were sold while others in strategic areas were acquired.

● PICKARD

Earnings of Pichold subsidiary Picardi Properties (Picprop) declined by 33% to R1,3m in the year to end-June. In May Picprop announced the disposal of all its operating subsidiaries — Logans Sports, Revelation Luggage and Tush

Pickard said gearing in Picprop's subsidiaries had deteriorated, resulting in an 85% hike in the interest bill to R1,87m.

Pichold recently announced Picprop's proposed delisting and its becoming a wholly owned subsidiary. Picprop currently holds R14,2m cash.

Minimum broking fee slated

ROBERT GENTLE

THE Shareholders Association, the body which looks after the interests of small shareholders, yesterday slammed the soon-to-be introduced R30 minimum fee on JSE share transactions BDay 20/11/90

The fee was given the go-ahead last week after a meeting between the JSE and the Financial Markets Advisory Board, and is aimed at increasing the profitability to JSE stockbrokers of small share transactions.

Shareholders Association chairman Issy Goldberg, speaking in an interview from Cape Town, called it a "ridiculous iniquity" and expressed surprise it had been given the go-ahead He said his objections to it had not even been answered

Goldberg said he had sent a strongly worded letter to the financial authorities outlining his association's objections

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It had been acknowledged, but he had received no further response

JSE chairman Peter Redman said the fee would have a beneficial effect despite the present climate of low volumes, and would eventually make it more worthwhile for brokers to handle smaller transactions

He said he was waiting for approval from the Registrar of Financial Institutions for the date of introduction of the fee, which would be formally communicated to the public

BUSINESS DAY, Tuesday, November 20 1990 3

Judgments show increase in debt value of 53,9%

B Day 20/11/90

RIAAN SMIT

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THE value of default and consent judgments against businesses from January to August this year increased by 53,9% compared with the same period last year, Credit Guarantee Insurance Corporation (CGIC) economist Luke Doig said yesterday

He said a disturbing trend were the number of established businesses that were particularly affected.

The incidence of these judgments increased by a much lower 22,9% for the period, indicating that larger amounts were involved compared with 1989

Doig said the severity of the situation was further masked by the actual number of insolvencies between January and September 1990, which increased marginally to 1 235 from 1 191 the previous period.

He said the likely delay in lowering interest rates until the first quarter of 1991, together with the likelihood that the business cycle would bottom only in the last quarter of 1991, indicated that business failures were not yet over their worst period.

"There is little doubt that the amounts involved in this spate of insolvencies will be substantially larger than in the 1984-86 recession," he added.

The differences between the current recession and that of 1984-86 probably explained why established businesses were much more affected this time round than in the mid-'80s, he said.

The last recession was triggered by sharp increases in interest rates and the collapse of the rand. In contrast, the current interest rate was pegged on October 11 last year and it was "probably the longest period that interest rates have been at this level".

Established businesses that expanded in the mini-boom of 1988 could possibly have overgeared and were now paying the price of a sustained period of high interest rates, Doig said

FINANCE

World of Music aims at reinstatement on the JSE

B/Day 20/11/90

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BRENT MELVILLE

THE ill-fated World of Music (WoM) might soon have some good news for its 1 200 shareholders, if it is reinstated on the JSE after a record 16-month suspension. But several obstacles stand in the way of its return to the JSE's board

WoM chairman Peter Cooke says there is a major deal waiting in the wings, although it is dependent on the lifting of WoM's suspension

Restructuring

Cooke does not proffer further details, but alludes to a merger of sorts involving WoM, two major overseas recording companies and one local retailer He says a name change could also be on the cards

WoM was suspended at its own request because of its planned restructuring with subsidiary World of Leisure (Worles) which later fell through

It is believed record producer and manufacturer WoM has settled all its bank debts, with one exception, and is back on track and eager to have its suspension lifted

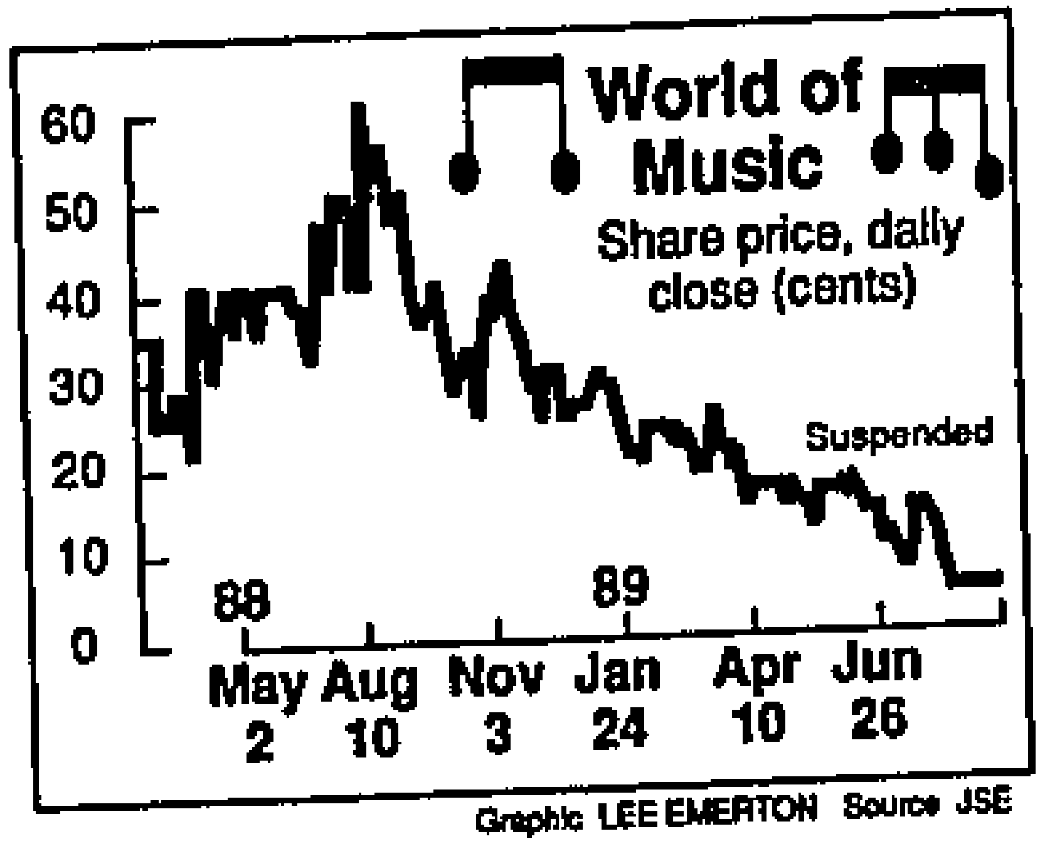
In November last year WoM was exposed to banks to the tune of R6m But Cooke said that debt had been erased by February through the selling off of the group's publishing and retail interests and its 21% holding in Protea Hotels

WoM now boasts a state-of-the-art R1,3m digital sound studio which it claims is the only one of its kind in Africa and one of 50 worldwide Cooke says the studio attracts numerous overseas recording artists but the suspension is hurting business

However, Standard Bank has applied for WoM's liquidation on the grounds that it cannot pay its debt, worth about R94 000

WoM is opposing the move

In July last year WoM sold 51% of liquor importer Bartels, which was partnered by Springbok cricketer Graeme Pollock, to then chairman of Sterns Diamonds Maurice Jacquesson Cooke said Jacquesson had still not paid the R60 000 purchase price by January and had not replaced the guarantee with Standard Bank as contractually agreed



Graphic LEE EMERTON Source JSE

"At the time of sale the overdraft with Standard was R232 000 Standard then put Bartels into provisional liquidation for that amount and called for a 415 inquiry (in terms of the Companies Act)"

Cooke and Pollock then applied for the liquidation of Sterns

Sterns then asked Cooke and Pollock for the remaining shares in Bartels and Jacquesson assured them he would settle with Standard which, says Cooke, has not been done

Cooke says WoM had complied with a request by the JSE for an audited three-month trading profit This was done by auditors T G Lockner & Co and, said Cooke, it disclosed a pre-tax profit of R197 000.

The JSE then suggested that an international firm of auditors confirm the figures Cooke says Fischer Hoffman & Stride has completed the audit

"We have been frustrated with our attempts to satisfy the JSE A relisting is paramount In effect it is our functional lifeline," says Cooke.

"Banks won't deal with you either. In that respect, if we win against Standard Bank we may have a huge claim for damages," he says

WoM's misfortunes started in June 1988 with the acquisition of 51% of the Blue Marlin group from Carmie Matisonn (who is now trying to float The Rooster Group) for a share transaction of R8,5m

Rand Merchant Bank (RMB) handled the acquisition

Blue Marlin was renamed World of Leisure

"It became immediately apparent that we had acquired something completely different to what the financial statements told us," says Cooke He says the group had based the purchase price solely on RMB-supplied figures.

Liquidation

WoM then sold Blue Marlin's TV & Radio Centre to Sterns, but six months later TV & Radio was liquidated "Then our problems started with Blue Marlin's Timeshare Dynamics (TD), which apparently had book debts of R6m," Cooke says

TD management then suggested a buyout, and payment to Worles was to be made by July 31 On August 7, TD went into liquidation

Malbak chief warns of 'excessive' austerity drive

BDay 21.11.90

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SYLVIA DU PLESSIS

GOVERNMENT'S austerity measures, while laudable in intent, are in danger of becoming excessive in execution, Malbak executive chairman Grant Thomas warns in his latest annual review.

While accepting the need to reduce inflation and maintain a disciplined monetary policy, he says real interest rates of about 7% are "harsh medicine" and will further dampen consumer spending and hence the economy.

"Indications are that the recession will deepen before it levels out and, in addition, the economy will be buffeted further by the oil price increase. The outlook for 1991 is therefore not an optimistic one"

Thomas says directors of the industrial holding group anticipate lower earnings for the year ahead. But the extent of the reduction will depend on three factors which are particularly difficult to predict.

These are the timing of measures taken to alleviate fiscal and monetary policies, the international prices of oil and gold, and the extent of labour disruptions.

● THOMAS

Malbak, whose subsidiaries operate in packaging and paper, engineering and mining supplies, branded consumer products, food, construction supplies and development, posted a 13% drop in earnings to 118,6c a share to end-August.

Dividends were kept at 30,5c, but cover was slashed to 3,9 (4,5) times.

Thomas says in his review the group has not escaped the ravages of the harsh economic climate.

"Had it not been for the effect of increased taxes in a number of our companies, primarily due to assessed losses having been fully utilised, Malbak would have maintained earnings a share"

It is also notable that the five major divisions which Malbak created through the consolidation and rationalisation of its various interests have held up well, he says

"Together, these divisions constitute some 98% of Malbak's total earnings and collectively, at the pre-tax level, increased profits by 2% while after-tax attributable earnings decreased by 5%."

These results also illustrate the relative protection afforded a conglomerate by diverse and counter-balancing investments in an economic downturn, he adds.

"The fact remains .. a properly structured conglomerate with good underlying assets and effective management offers investors the benefit of shelter during bad economic times, and can perform well in good times"

M&R skylight companies in merger

MURRAY & ROBERTS (M&R) plastics skylight companies Vikon and Valiant have merged with glass skylighting systems manufacturer and installer Modular Glazing Systems (Moduglaze). 232

Vikon will be the controlling and manufacturing operation in the group while Valiant will provide domestic skylighting to the housing market. Moduglaze will supply the commercial and industrial markets.

"We have been looking for opportunities to expand the Moduglaze operation throughout SA," joint MD of the new company Ian Lawrie says

Joint MD Rob Segeren says the development work of the three companies would be co-ordinated and they would have access to the latest technology from overseas Management will also look for export opportunities. B/Day 21/11/90

"We believe the continuing world trend to incorporate skylights in all major construction projects can only position our company to take advantage of an upturn in the construction industry."

B/Day 21/11/90

Trencor props up transport index

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MARC HASENFUSS

THE strength of heavily weighted Trencor shares has kept the transport index close to its September peak of 11 479.

However, this is not good news for all transport groups, as smaller companies are still toiling under recessionary conditions

Trencor, which provides transport services to gold, copper, platinum, diamond and base mineral mines in SA and Namibia, was seemingly unaffected by economic conditions, posting a 48% increase in attributable earnings to R81,8m (R48,4m previously) for the year to end-June

The Cape-based transport and manufacturing group has slipped slightly from its August high of R49,50 to hold steady at R46.

Deregulation

At yesterday's price of R46, Trencor had gained 84% during the past year to register the sixth largest gain on the market during the period

The transport sector, strictly a derived demand industry, has been severely hit by SA's economic downturn, rising fuel costs, and high vehicle replacement costs.

Transport analysts said that although smaller companies benefited from deregulation, they would still find it difficult to ride out the economic drought.

These operators faced the prospect of being squeezed out or swallowed up by more powerful concerns.

Market rumours that Trencor was on the acquisition trail were denied by a group spokesman yesterday The group acquired Holroyds Haulage in May this year.

Racy, despite being knocked by the economic slowdown, strikes and boycotts, managed a gutsy interim performance for the six months ended September, posting a 6% earnings increase to R1,35m (R1,28m) or 5,29c (5c)

Analysts said that with its small earnings growth, debt reduction and an expanded fleet which was 90% paid for, Racy "looked good" under present conditions Consisting of Hendlers Industrial Carriers and engine reconditioners Diesel City, Racy hit a 52c high in January, then a 22c low in September, but climbed back to 35c on anticipation of interim results.

MD Alan Jacobson remained optimistic, saying· "The group's order position is good

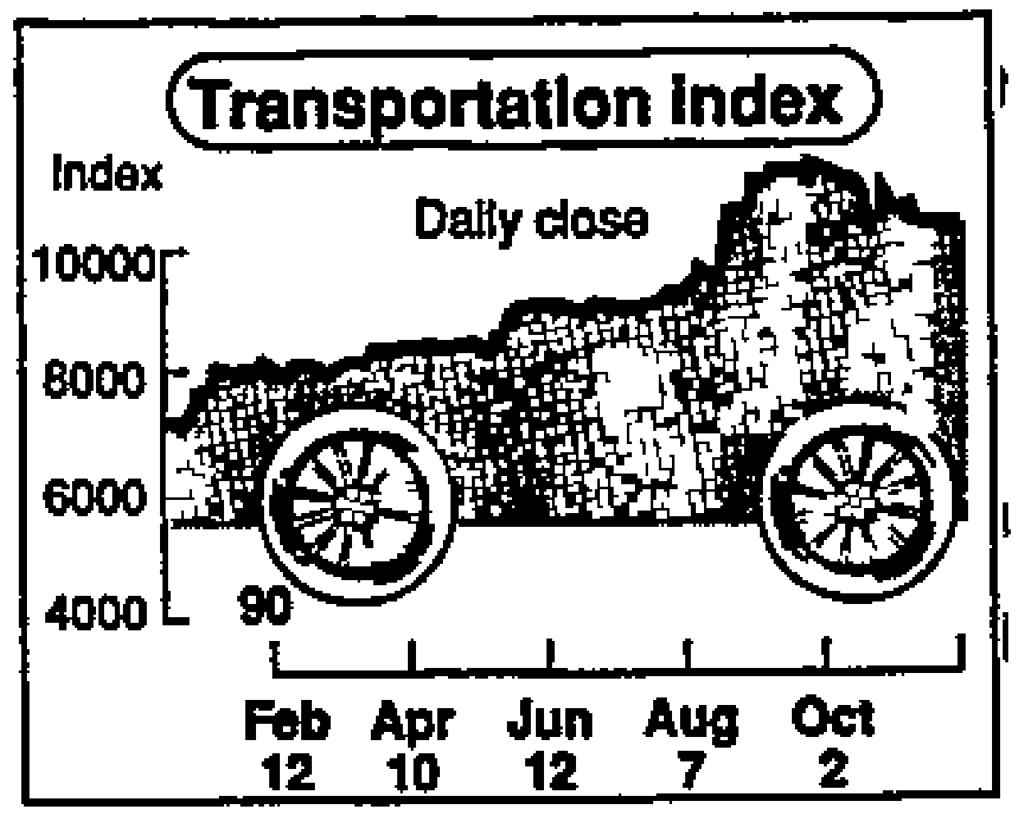
"We are fully utilised and trading exceptionally well, and looking to further expand our fleet in the 1990s "

Larger, well-established operators were also hit by the recession because of their inability to generate activity

Road freight transport group Unitrans maintained margins under difficult trading conditions, reporting a slender 6% increase in earnings to R14,4m (R13,6m) for the six months to end-September.

Analysts said they believed Unitrans' excellent track record would be maintained under its capable management team, despite its mediocre interim results.

CE Eduardo Garcia said he felt the group would maintain its margins, notwithstanding the recession, and expected an increase in earnings for the full financial year.



Graphic: LEE EMERTON Source: JSE

Unitrans's share price held up better, peaking at 460c in August, but touched a 370c low last Thursday It closed yesterday at 400c.

Boltons subsidiary Cargo Carriers delivered disappointing interims for the six months to August. Earnings a share fell 32% from 20,2c to 13,6c on a 3% increase in turnover to R91,6m (R88,9m).

Analysts said Cargo should have a better second half. "Cargo uses a faster-depreciating write-off policy than other companies, which makes their results look worse than they really are"

Cargo also had enormous asset value in more than 700 trucks, but the used truck market was severely depressed.

Earlier this year, Cargo signed a five-year R2m contract with Caltex for the carrying and distribution of Caltex products from its Mossel Bay depot. Cargo, unchanged at 190c yesterday, peaked at 300c last December and slumped to a 160c low in October

Furniture removal specialists Laser Transport Holdings saw earnings dip 18% to 35,2c (43,1c) for the six months to end-June in the wake of the economic decline.

No exception

Laser, which owns Stuttaford Van Lines, Pickfords and Frasers, reached 275c last November. It is trading at 140c, slightly above its 135c October low.

The Sure Group was no exception, reporting poor results for its year ended March, with attributable income falling 54% to R1,5m (R3,2m) after problems in its Foden truck and parts division

The industrial vehicle and materials handling group achieved a March high of 100c, which slumped to 20c but has firmed at 25c

The group was forced to reduce staff by 20% to contain costs after a 160% increase in the interest bill to R5m.

Unilever: R9,5m focus on speciality cheeses

Cape Times 22/11/90 (232)

THE Unilever group has invested R9,5m in a new Simonsberg cheese factory at Stellenbosch, where exotic varieties are made to continental recipes

In Stellenbosch for the official opening yesterday, Rick Griffiths — MD of Vandenbergh, the margarine and cheese manufacturing company in the Unilever (SA) stable — said it had acquired Simonsberg two years ago

"Unilever internationally has an increased focus on food This purchase was in line with others in the UK, France, Belgium, Germany, Italy and Brazil"

These acquisitions had led to an interchange of ideas and technology between countries which would result in new products from the Stellenbosch factory

Griffiths said the total market for cheese in SA was worth between R500m and R600m a year. Only a small proportion of this was for speciality cheeses, which were bought mostly by the upper income group

But there was scope for this market to grow since even in this income group SA people were still relatively unsophisticated about both cheese and wine

He said the investment in the new factory had been decided on in 1988 "We saw difficulties ahead for the economy, but we did not think it would be as bad as this"

However, the company was "very happy with the factory. We are looking ahead to a more encouraging (business) climate"

Griffiths said the view of the Unilever group was that "in mid-1991 we shall begin to see things turn a little By 1993 we should experience market growth ahead of the population"

Massive forex fraud probe

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Sowetan 22/11/90

THE South African Police commercial crime unit confirmed yesterday that an investigation had been launched into a suspected multi-million rand new foreign exchange fraud following the suspension of three listed companies on the Johannesburg Stock Exchange

A spokesman for the unit, which has broken a series of forex rackets in recent months, said the probe had been triggered by the Foreign Exchange Division of the SA Reserve Bank.

It was suspected that at least five private sector companies had broken forex control regulations on the movement of overseas currencies in and out of commercial and financial rand business accounts

Shock waves were caused when the JSE ordered the suspension of no fewer than three listed companies - shopfitter firm of Norvic, Lanchem door manufacturing company and Osprey gold mine

JSE general manager of listings and equity markets Mr Richard Connellan was quoted as saying the stock market suspensions had been ordered following discussions with Reserve Bank exchange control officials

It is understood the Reserve Bank has also ordered investigations into the affairs of two more companies - cash-shells Meter Systems and Management Services Corporation, which were suspended by the JSE earlier in the year

The SAP commercial crime unit was expected to release more details later yesterday - *Sowetan Correspondent*

Meningitis

DAR ES SALAAM - An outbreak of meningitis has killed 202 people within the last five months in various parts of Tanzania, a seniour health official says

Health Minister Philemon Sarungu said Tuesday the victims were among 2 132 people who had contracted the disease throughout the country since May - *Sapa*

Fired

Sowetan 22/11/90

WINDHOEK - Trans-Namib, the Namibian transport parastatal which took over from South African Transport Services, has dismissed 235 striking workers in the first post-independence mass dismissal

FM 23/11/90

LANCHEM/NORVIC/OSPREY

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SHARES SUSPENDED

A Reserve Bank investigation into suspected breach of exchange control regulations is understood to have prompted the JSE's suspension this week of three shares — Lanchem, Norvic Manufacturing and Osprey

The suspension resulted from a decision taken by the JSE, rather than a request from the companies Richard Connellan, GM of the JSE's Listings & Equities division, says simply the shares were suspended in accordance with Section 17.3 of the Stock Exchange Control Act, to "avoid any undue market speculation"

Charles Ferreira, non-executive chairman of Lanchem and Norvic Manufacturing, says the investigation into alleged exchange control contraventions does not involve the two companies, but rather external shareholders He intends to call a meeting of shareholders this week and to approach the JSE to have the two listings reinstated.

Ferreira says most of Norvic's shares are held by the executive directors and Lanchem But, he adds, it is unclear who currently holds control of Lanchem Also unclear is the relationship of Lanchem and Norvic shareholders with Osprey, a gold mine in the north-eastern Transvaal

Control of Osprey changed in August

FM 23/11/90 232

when Golden Osprey sold its 57,8% stake to Garditex International — the same company to which Financial Limited ceded its stake in Manserve (see this page). Garditex transferred 19,3% of Osprey's equity to an unnamed foreign company and 7,2% to its Swiss holding company

Simon Cashmore

Finrand round-trippers under scrutiny

Fraud probes soar to R5,6bn

S/Times 25/11/90 -

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THE POLICE Commercial Crime Unit is investigating fraud cases involving R5,6-billion, of which financial rand round-tripping makes a hefty proportion.

CCU head Brigadier Wolla Visagie says finrand deals — they involve sending commercial rands abroad and returning the money in finrands for a huge profit — are keeping his men busy.

By JULIE WALKER

He cannot say how much is involved in the three companies, trading in whose shares was suspended on the JSE this week

"The Reserve Bank is investigating. Until it gives us a figure, I cannot speculate on the amount involved. Nobody knows how much is involved.

"When investigation began into Repfin Finance in Cape Town it was thought the figure was R320-million. As more information surfaced, that figure rose to R500-million. It is not wise to speculate."

The companies suspended by the JSE this week are Norvic, Lanchem and Osprey. The shares of the three traded in huge volume and their price was volatile Their underlying assets have little investment merit.

The link between the companies is House of Investments, a Rosebank, Johannesburg, company formed in July 1988 "to assist investors ... to participate in a company that is actively trading in listed shares". House of Investments went into provisional liquidation on November 6.

Query

Several House of Investments directors were also on the board of Turf Holdings, which was delisted by the JSE two years ago.

In promotional literature, House of Investments claimed to be active in listed Lanchem and in the mining sector through Montrose Mining Its boasts were consistent — super-profits for all investors.

In October 1989, House of Investments told shareholders it had bought Norvic, which was to be listed. One circular showed it to own 51% of Epigro, which in turn held 51% stakes in both Quinset and Multigold.

Business Times queried Multigold's operations two years ago. It went into liquidation this year.

Norvic, Montrose, Multigold and others were not listed when shares were issued to the public

The connection between Osprey and the other companies is unfolding The major shareholder was Golden Osprey, an SA company owned by Swiss company Evergreen.

There was a large loan to Golden Osprey from Evergreen, serviced through the commercial rand in pre-tax income from management fees and other revenue.

Control of Osprey passed to Isle of Man-based Financial Ltd which ceded it to Garditex earlier this year. Garditex also bought the controlling stake of Management Services Corporation (Manserv), whose minority shareholders are still to be made an offer for their stake.

Garditex under another name was a finance company for Alfa Romeo Alfa Romeo borrowed large sums from a foreign prin-

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Finrands

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☐ From Page 1

cipal, possibly more than R20-million When the company pulled out of SA in September 1985, its holding here could have been sold, leaving the foreign borrowings complete, it is said

Any profit made in SA by Garditex could have left to service interest or to repay the capital balance of the borrowings.

Manserv became a cash shell worth R15-million after its assets were sold into Cashworths. Cashworths — now Colfin — has been absolved of any culpability by the JSE.

An investment by a foreign company in a cash shell through the finrand effectively buys money at a discount

The other cash shell involved is Meter Systems, whose assets were sold to Woodrow this year.

In August this year I spoke to Naas Ferreira, who was arrested last week in connection with the Reserve Bank's investigations into foreign-currency dealings

I inquired about plans for Manserv He told me he was not a shareholder in Manserv, but was acting in his professional capacity as a lawyer on behalf of Financial.

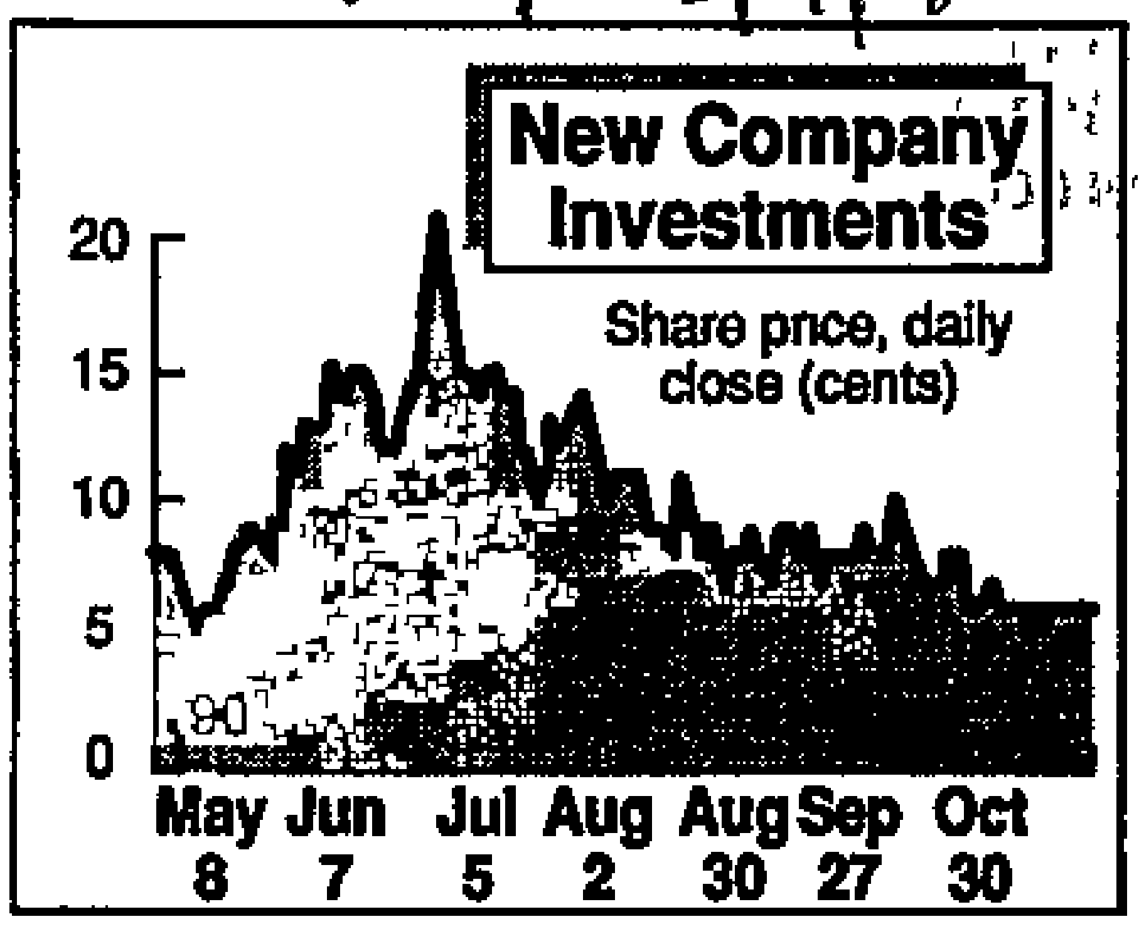
He said Manserv was buying 20% of Osprey, 25% of Lanchem and 80% of Meters, into which a large engineering concern would be reversed. Lanchem was to raise R20-million in a rights issue, and become a granite producer and exporter.

Venture capital market still in the doldrums

(232)

B'Day 26/11/90

MARC HASENFUSS



Graphic: LEE EMERTON Source: JSE

THE venture capital market (VCM) has been in the doldrums since first listings on the JSE in August last year.

In the prevailing economic climate adventurous investors, looking to invest outside the blue chip mainstream, would rather put money in second-line companies with a solid growth potential than a risky VCM company, analysts say

They say the VCM is rarely monitored by stockbrokers. "It does not make sense to buy penny stocks anymore."

The VCM sector consists of three companies, New Company Investments, Rico Breweries and Tecfin Investments, which offers alternative finance to entrepreneurs in return for a stake in the prospective businesses.

With high interest rates and a difficult business climate, banks have become cautious in their lending policy. It is essential for a borrower to have a good track record or adequate security. Under prevailing circumstances VCM companies seem set to acquire new business as the prerequisites here are simply a "novel idea, a business plan and a good management team."

Earlier this year Ernst & Young Corporate Advisory Services warned that the VCM remained "shrouded in suspicion" and was likely to remain so for some time.

Problems uncovered in lesser known companies had exacerbated the situation, and most institutional investors would require "some water to flow under the bridge" before they were again persuaded to invest in less sophisticated companies

New Company Investments (NCI) chairman Mike Clarke said the problem in the VCM was a lack of understanding by the investment community of the philosophy of that market.

"The short-term variations in our share price have become the yardstick whereby group performance is measured. During the past week I have heard five different rumours about why our share price is fluctuating, all of which were false. Despite this our shares traded over 5-million in volume last week."

When a share performs like NCI's, analysts would be inclined to say an insider position was being taken, he said. Clarke, however, guaranteed that no insider trading was taking place in NCI.

Investors could minimise risk by investing in a company which had a variety of concerns and not companies with "just one good idea".

NCI currently has 11 ventures on its books, ranging from specialised skin care and personal computers to water purifiers.

Equities market to 'bottom out soon'

B\Day 26\11\90. (232)

LESLEY LAMBERT

CAPE TOWN — Old Mutual's new assistant investment GM, Rowland Chute, is confident the equities market will bottom out next year and become more buoyant in the longer term, even though the odds are stacked heavily against it now.

Chute is replacing current assistant GM Rob Lee in an equities-unfriendly environment of high interest rates, economic decline and uncertainty over future changes in investment tax.

On international markets, the prevailing view seems to be that the equities decade — fuelled by liquidity, economic growth and political stability — is over and that fixed interest or other investment markets will come to the fore in the '90s.

But Chute believes that factors unique to SA will keep its equities buoyant in the medium to long term.

● CHUTE

Apart from the inevitable boost from a decline in interest rates next year, he argues that inflation will help sustain the market in the longer term.

"We may not see the tremendous re-rating of the past decade, but if investors buy some of the equities which have already discounted the bad news, and take a three-year view on the market, they should see relatively good returns.

"There will be a lot of cash looking for new opportunities when interest rates are brought down next year and as long as exchange control is in place the choice of growth assets to beat inflation will remain limited to equities and property," he argues.

Chute believes that in spite of current austerity measures, double-digit inflation is likely to remain a characteristic of the SA economy for the next five to 10 years

"A change in government will bring with it greater expectations, and inflation is unlikely to remain the priority it is now when new infrastructure has to be built and new jobs created," he says.

Inflation

He does concede, though, that the future possibilities of an increase in corporate tax and a fixed low-rated withholding tax on bank deposits could have an effect on investment in equities.

"Withholding tax would make interest-bearing investments more attractive to investors.

"But, again, they would be taking a short-term view, particularly in an environment where real interest rates may not be sustained in the longer term," he says.

COMPANIES

Argus 26/11/90 [redacted] 232 [redacted]

Argus set to split shares 20 to one

By ANN CROTTY

THE proposal to split the Argus share — on a 20 for one basis — is likely to sustain the recent strengthening in the share price in spite of the fairly pedestrian performance reported for the six months to end-September.

For the financial 1991 interim, earnings were up by just 2,2 percent to R13,66 a share (R13,36) and the interim dividend was unchanged at 275c.

The share price has moved against the generally weaker market conditions, advancing 25 percent so far this year to a current level of R215. Much of the appreciation was done on the back of speculation of a share split.

The move has been on the cards for some years but analysts expressed some surprise at the timing of the announcement in the interim report. This view assumes that part of the reason for splitting the share was to make it more attractive to the smaller investor who is now almost completely out of direct investment in the equity market

One analyst speculated that the move may have been taken in order to facilitate an employee share incentive scheme at some later stage. Chief executive Mr Doug Band would not comment on this speculation.

Whatever the reason behind the decision and in spite of the recent strengthening of the share price, market feeling is that if the 20-for-one split is effected, the share price could advance to as much as R12-R15 after the split. This is on the basis of previous experience with share splits and on the fact that the net asset value of the Argus was around R220 at end-March.

This valuation did not include a value for trade marks which in Argus' case would be significant A share split is expected to unlock some of this additional value.

Looking to the interim figures Mr Band, who says he is very pleased with the way the group has performed in tough times, notes that performances from CNA Gallo and CTP were strong and helped to counter the impact of the 8,4 percent drop in pre-tax profit contribution from Argus Newspapers.

Associates — which includes TML, Maisters and the associates of CNA Gallo and CTP — lifted their contribution by a sterling 28,8 percent to R7,4million (R5,7million)

Group turnover was up 12,6 percent to R816,2million (R725,1million), trading income rose 3,7 percent to R58,9million (R56,8million) reflecting a squeeze on margins — down from 7,8 percent to 7,2 percent.

The interest bill was cut by a third — down from R3,3million to R2,1million. This was in line with the reduced level of borrowings that resulted from generally tighter working capital management. In addition the group benefited from the proceeds from the sale of Argus properties in Durban.

Income from investments was down to R4million (R4,3million). The tax rate, which shot up sharply in the second half of financial '90 because of the need to provide for deferred tax at Hortors, was up to 44,7 percent — from 41,6 percent.

The combined effect saw a 3,3 percent drop in attributable earnings before associates to R20,7million (R21,4million). The contribution from associates swung this around to a 3,5 percent advance in attributable earnings — to R28,2million (R27,2million).

Looking to the remainder of the year, Mr Band says that trading conditions will continue to be tough, especially for the newspaper interests, but that performances from CNA Gallo and CTP may again help to counter the full impact from the weaker areas.

Blue chips not necessarily the best — study

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B Day 27/11/90

LESLEY LAMBERT
in Cape Town

A NEW study has shown that contrary to conventional wisdom, second-tier JSE equities perform as well as many of the primary blue chips which make up the bulk of institutional portfolios

The study, commissioned by Investec Bank and conducted by Michael Page, a senior lecturer at UCT's Graduate School of Business, concludes that actively managed portfolios of smaller companies' shares can, and should, yield a competitive return.

Traditionally, institutional investors have chased top tier, blue chip equities and tended to ignore the smaller second- and third-line counters. It is normally assumed that this has resulted in a self-fulfilling prophecy in which demand for scarce blue chip stock has driven up its market value.

However, Page's study challenges this assumption by showing that between 1980 and 1989, portfolios of smaller industrial and financial equities outperformed the larger equities on investment return and risk criteria

Institutional investors often bypass the second- and third-line counters because they believe their price movements are more volatile than those of the primary equities.

In Page's study, primary and secondary shares in industrial and financial portfolios performed competitively in terms of average annual investment return Ironically, when price volatility was factored into the calculation, the smaller equities in these portfolios outperformed the blue chips.

In the industrial portfolio, the blue chips showed an average annual return of 27,7%, compared with a return of 27,06% from the smaller stocks and 25,6% from the industrial index. But when the risk factors were included, the big and small equities yielded 16,03% and 19,24% respectively.

In the financial portfolio, the smaller equities' performance was even more impressive, yielding an average annual return of 26,84%, compared with 24,50% from the larger shares and 23,08% from the financial index. When risk was introduced, the returns were 14,62% and 8,95% respectively

However, a different picture emerged from the mining portfolio. Primary equities yielded 26,54% returns and secondary equities yielded 21,23%, compared with a yield of 23,5% from the all gold index Risk factors reduced the respective returns to 9,59% and 5,23%

Page ascribed smaller mining shares' relatively poor performance to the effect of a declining gold price on smaller marginal mines

The industrial portfolio was the most comparable, with size the main difference between primary and secondary shares In the financial portfolio, overperformance by the secondary shares in the first five years of the investment period more than compensated for underperformance in the five years to 1989.

Selection of equities for the study was based on market capitalisation and tradability First tier, or primary investment holdings, were defined as companies with market capitalisation of more than R1bn, while the second tier consisted of companies with market capitalisations of between R100m and R1bn

Given the limited trading volume on the JSE, a further filter resulted in the selection of only those companies where annual trading exceeded 2%.

The final database consisted of 130 companies, 42 in the primary tier with a total market capitalisation in excess of R220bn, and 88 in the secondary tier with a market capitalisation of just more than R32bn

A number of different portfolios were created on the basis of sector and price-earnings ratios

Page said that when selected equities were ranked by trading volume, there was greater proportional tradability within the second-tier grouping The most frequently traded of the large firms had a volume of 29,6%, compared to 32,8% for the small firms.

Page said this suggested that a significant proportional holding in the second-tier companies could be more readily acquired over time, not only because less capital was required but also because of the more frequent trading of the equity in the market.

Page concluded that the competitive performance, with the substantial reduction in funds needed to acquire significant holdings in the smaller companies, increased the potential for portfolios of this type

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Poor nations fear being left in the cold

B Day 27/11/90

BRUSSELS — The world's poorest nations fear they will be ignored when 107 countries gather in Brussels next week to wind up four years of talks aimed at setting rules governing trade into the next century.

"We are not very confident. We are not very happy with the way things have happened," said B K Zutshi, India's envoy to the Uruguay Round of global trade talks being held under the auspices of the Geneva-based General Agreement on Tariffs and Trade (GATT).

Developing countries went to the talks, which began just over four years ago in the Uruguayan resort of Punta del Este, with high hopes that markets for their agricultural produce, textiles and minerals would be enlarged.

But the talks covering 15 sectors of trade have become bogged down in the home stretch in a row between the 12-nation EC and the US over how fast and by how much to slash farm subsidies.

The dispute is threatening to scupper four years of hard negotiating, delegates say.

If no agreement emerges, the result could be a bitter transatlantic trade war waged by wealthy nations using subsidies which Third World exporters could not match.

"We feel that our interests have been set aside, particularly at the 11th hour," one Malaysian diplomat said.

"There's a lot of horse-trading by the majors and we are afraid that our interests will be compromised"

Agricultural produce is the biggest source of hard currency for many developing nations

Farmers in countries such as Brazil, Argentina and Uruguay — whose governments cannot afford subsidies — are unable to compete with their EC and US counterparts, depriving their states of urgently needed foreign exchange for debt payments and development.

One Filipino diplomat said. "It is important that there will be a moratorium on export subsidies

"The EC and the US can afford to subsidise their exports but countries like us cannot. We always lose out."

The subsidy war has prompted threats by some countries to block results in other areas dear to the US and the EC like opening up trade in services and protecting copyrights.

The agriculture ministers of Argentina, Brazil, Chile, Paraguay and Uruguay met last week and said their countries would walk out of the GATT talks unless the EC changed its stance.

"The agriculture question is vital," Argentine Agriculture Minister Felipe Sola told a news conference. "We will not accept anything that maintains the current status quo"

His Brazilian counterpart, Antonio Cabrera, said. "We cannot accept results from long and difficult international negotiations which are mediocre or which worsen conditions for producing and selling"

Industrialised countries' reluctance to drop barriers to imports of cheap textiles has been another source of chagrin for export-minded developing nations

India, Pakistan, Korea and Hong Kong, which earn a quarter of their hard cash through exports of low-cost textiles and clothing, hoped the $180bn a year sector would be brought under GATT's free trade umbrella

Their exports are restrained by an international accord — the Multi-Fibre Arrangement — which permits advanced countries to shelter their ailing domestic industries under a web of bilateral agreements curbing textiles and clothing shipments from the Third World

"We would want the shortest possible period for textiles to be integrated into GATT," Zutshi said

But the industrialised countries say they want the accord dropped later rather than sooner

Although the US has ceased calling for global quotas on textiles imports, the EC still says GATT rules must be tightened to prevent Third World exporters unfairly undercutting its textile industries

The developing countries, which see this as a ploy to maintain barriers, are aggressively fighting off a move to allow countries to restrict imports from individual suppliers when sudden surges damage or threaten domestic industry.

They say any restrictions must be imposed on all exporting the goods in question. — Sapa-Reuter.

Blue chips not necessarily the best — study

232

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to Iraq of medical supplies reported to be about R4,75 million (240 million yen), the Ministry said yesterday. — Daily Telegraph

Open markets 'best for SA'

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Cape Times 27/11/90

THE best economic system for the new South Africa appeared to be the social market system with private ownership of property and unfettered competition in open markets, said Mr Sam Motsuenyane, president of the National African Federated Chamber of Commerce and Industry (Nafcoc), in Cape Town yesterday.

But he followed this by emphasising a Nafcoc resolution which said that all companies listed on the JSE "must have at least 30% of their board members from the black community".

"At least 40% of their shareholdings must be controlled by the black community. At least 50% of the value of their outside purchases must come from black-owned suppliers and contractors and at least 60% of their top managerial personnel must come from the black community."

● **Full report — Page 12**

Anglovaal interims

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LIZ ROUSE

ANGLOVAAL Holdings and Anglovaal Ltd have declared unchanged interim dividends for the six months to end-December, indicating that the group should maintain profit levels.

Anglovaal Ltd has declared an unchanged interim of 30c on its ordinary and N ordinary shares, reflected in Anglovaal Holdings' payment of 2,36c for its ordinaries and unchanged 3,54c on participating preference shares. B/Day 27/11/90

Both have reorganised their capital structures since last year's interim payments, and have declared interim dividends well ahead of their February/March publication date.

The unchanged dividends indicate results should be on a par with last year's. While mining income is expected to be lower, Anglovaal's industrial holdings should be doing reasonably well.

TUESDAY, NOVEMBER 27 1990

Cape Times 27/11/90

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More blacks on boards – Nafcoc

By AUDREY D'ANGELO
Business Editor

THE best economic system for the new SA "appears to be the social market system in which private ownership of property and unfettered competition in open markets form the main ingredients of economic policy", Sam Motsuenyane, president of the National African Federated Chamber of Commerce and Industry (Nafcoc) said in Cape Town yesterday.

"Government intervention in determining wages, interest rates, key prices of commodities and exchange rates should be allowed only in exceptional cases."

But Motsuenyane followed this by quoting from a resolution passed by Nafcoc in September which said that all companies listed on the JSE "must have at least 30% of their board members from the black community.

"At least 40% of their shareholdings must be controlled by the black community. At least 50% of the value of their outside purchases must come from black-owned suppliers and contractors and at least 60% of their top managerial personnel must come from the black community."

Motsuenyane was speaking at a conference on the economic and financial prospects for SA, organised by London-based Euromoney publications at the Cape Sun.

He said there was a need for blacks to contribute towards their own development and that of the country. The social market system would give them scope to develop a spirit of enterprise and self reliance.

But he emphasised that both business and the government would have to do more to redress inequalities under which blacks had suffered in the past.

He urged the business community to consider "the initiation of joint ventures, partnerships and share venture schemes.

Firms should consider:

"Entering into contractual arrangements with black industrialists for the purpose of sourcing certain supplies from them.

"Supporting all educational programmes designed to promote black advancement

"Preparing blacks for a leadership role at all levels such as board participation, senior managerial and administrative positions."

Emphasising that there must be one educational system for all, and compulsory education for black children, Motsuenyane said this would cost about R50bn.

But it would be in the best interests of a future SA. "Both the government and the private sector are called on to contribute generously towards this end."

Nafcoc plea to firms

Sowetan 27/11/90 (232)

ALL companies listed on the Johannesburg Stock Exchange should have a board consisting of at least 30 percent black members, 40 percent black shareholders, 50 percent outside purchases must come from black-owned suppliers and 60 percent of top management and personnel must be black. Nafcoc president Mr Sam Motsuenyane told an international conference on South Africa's prospects in Cape Town yesterday. - *Sapa.*

Norton rules out JSE Big Bang

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BDay 28/11/90

LESLEY LAMBERT

CAPE TOWN — The JSE's problems would not be solved by a Big Bang of the type that allowed stockbrokers on London's International Stock Exchange to act as principals with their clients, president Tony Norton said yesterday.

Invited to address the question of whether a Big Bang on the JSE would result in a solution or a disaster, Norton told delegates at the Euromoney Conference yesterday it would result in higher investment costs, lower standards of client care and fragmentation of the market.

The key change in a Big Bang situation would be the replacement of the existing "single capacity" system, which limited a stockbroker's status in client deals to that of agent, with a "dual capacity" system which enabled the broker to act either as a principal or an agent.

Norton said proponents of dual capacity justified it on the basis of competition and international practice.

But, he said, international architects no longer considered the system to be such a good idea, because it had led to fragmentation of the market, erosion of self-regulation and the introduction of the expensive alternative of quasi-governmental regulation.

The latter form of regulation would not be cost-effective for the JSE, he said.

The exchange had recently invested in hardware, skills and systems to implement an equities market structure based on single capacity.

This, he said, guaranteed market security and a high degree of investor protection.

Norton said if a future government was critical of the present concentrations of financial and economic power, it would resist attempts to allow stockbrokers to become dominant participants in what had been an "independent group of agency brokers standing between Big Money and the savings of the man in the street".

Instead, the JSE — if it was to be relevant — would have to address the following realities of SA:

☐ Excessive concentrations of financial and economic power;
☐ Low liquidity in a large number of stocks;
☐ Inability to afford systems which were expensive to operate and police;
☐ Declining participation by small investors, partly because of a sense of inequality with big participants;
☐ The lack of a market-making tradition in equities by institutions in SA; and
☐ The need for affordable but effective surveillance capability and the provision of proper protection for investors through unlimited liability and a Guarantee Fund.

"Our national equities market is too important an economic agency for the development of our economy to be subjected to radical and unnecessary change. All energies should be directed at addressing the real problems like the removal of MST (marketable securities tax) and other mundane but cumulatively important issues," Norton said.

Way of making it on the JSE ...

Sowetan 29/11/90.

(232)

THE secret of making money on the JSE is knowing what and when to buy and sell. Shrewd investors concentrate on blue chip shares - top quality shares whose companies are run by top quality management.

This article on Unit Trusts by JOSHUA MAFOLO is the last in the series on investment at the Johannesburg Stock Exchange.

By JOSHUA RABOROKO

They buy at the bottom (when shares are cheap) and sell at the top (when shares are expensive) They strike a balance by 6 accumulating a portfolio of shares with top quality mining and industrial shares.

They also endeavour to get a spread of shares that will minimise risk The small investor on the other hand does not have access to such a portfolio because it requires a large investment capital outlay

Small investors can reap the benefits of investing on the JSE by investing in mutual funds\unit trusts

An investment in shares enables one to reap the benefits of capital appreciation as one watches it grow, even in an inflationary climate Increasingly, unit trusts are becoming a favourite avenue for the smaller investor to invest in equities

They enable a large number of investors to pool their money and invest in the various sectors of the JSE The three main sectors of the JSE are mining, financial and industrial Unit trusts diversify their investment in such a way the fund holders are not linked to a single company

As much as one does not "put all one's egg in one basket", it is not wise risking one's investment in a single company.

Unit trusts thus invest in the various sectors and thus get a spread of shares that minimise risk

Unit trusts are classified into three categories, namely general equity trusts, specialised equity trusts and high income trusts

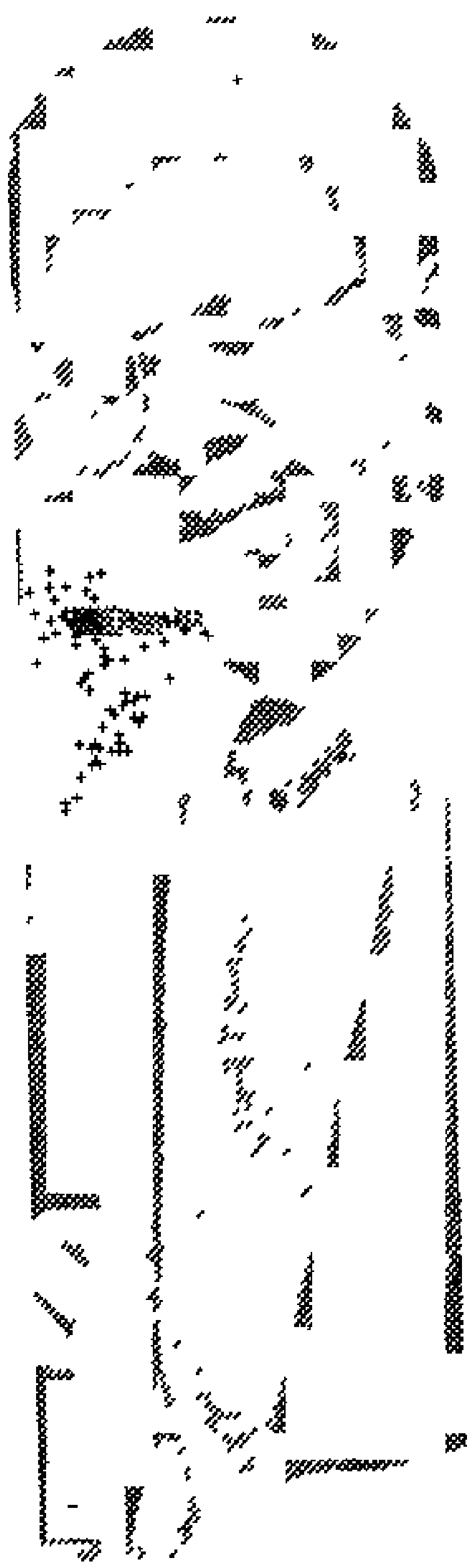
Trusts

General equity trusts cater for those investors who want an investment portfolio spread across the various sectors of the JSE In this way, a diversified spread of shares is achieved, which is difficult for the man in the street to accumulate

Examples of such unit trusts are Old Mutual Investors, Guard Bank and Sanlam Index funds Their purpose is to provide constant long-term growth and income producing investments

Special equity funds, on the other hand, cater for investors who would like to invest in a particular sector of the JSE Their purpose is often capital growth rather than dividends and by their nature are more volatile than other trusts. Examples are Sage Resources, Sanlam Industrial, Old Mutual Gold and Standard Gold Funds

High income trusts have their main emphasis in high income earning securities such as debentures, gilts, semi-gilt stocks and money market instruments. They cater for investors who want to minimise their risk and seek to secure their capital and earn higher and regular returns on their investment Examples are Corbank Syfrets Income



JOSHUA MAFOLO

Senbank, Gilt funds

Although most funds encourage a medium to long-term investment, unit trust holders can cash their units or part thereof anytime they want to on written notice, within a few days Dividends are declared either quarterly or half-yearly Such income is broken up into a dividend and an interest portion Dividends are not tax-free, while interest is subject to normal tax

Capital gains are also tax free

Unit trusts investment managers are highly professional and experienced They are supported by research analysts who are continuosly investigating investment opportunities.

Spread

Unit trusts also maintain a spread of investments over the various sectors of the JSE do not expose investors to individual shares. Thus some shares depreciate in price, these losses are generally offset by gains in others Unit trusts have to be managed correctly according to the Unit Trust Control Act

Each trust has a trustee, who has to be approved by the Registrar of Unit Trusts The trustee's responsibility is to look after unit trust holders' interest in terms of the Act

Options

One can invest in unit trust either by investing a lump sum and contributing to the fund at intervals or by contributing to the fund on a regular basis - every month The second option allows unit trust holders the benefit of buying more units when prices are low thereby averaging a lower cost per unit than if a regular number of units were purchased at regular intervals

When choosing a mutual fund that one wants to invest in, one must take one's needs into consideration Thus it is vitally important that one seeks the advice of experts before investing in any mutual fund

An investment in unit trust can bring one's dreams into reality whether it be sending children to university, buying a new car, extending a house or even buying one and being able to support oneself in retirement and not depend on others' mercy

NORVIC/OSPREY/LANCHEM

ACCOUNTS UNFROZEN

FM 30/11/90

The Reserve Bank has unblocked the bank accounts of Norvic Manufacturing and Osprey to enable the companies to continue trading Their accounts, with those of Lanchem, were blocked by the Reserve Bank last week and their shares suspended by the JSE

Assistant GM of the Reserve Bank's exchange control division Charles van Staden confirms that Norvic, Osprey and Lanchem — with previously suspended cash shells Manserv and Meter Systems — are being investigated in connection with possible contraventions of exchange control regulations Other firms are also believed to be involved in the investigation

(232)

Van Staden says the Reserve Bank unblocked the accounts of Norvic and Osprey after representations from management of the companies Discussions have also been held with the management of Lanchem, he says, and its operating subsidiaries continue to have access to their accounts, which were not blocked

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11/90 (232)

Lanchem and Norvic were trading at 3c and 11c — down from peaks early this year of 70c and 60c — while Osprey was at 26c from a high in January of 82c

Simon Cashmore

JSE IN CRISIS FM 30/11/90 (232)

ACCORDING TO THE CLOTH

PRACTICAL REFORMS COULD TEMPER THE JSE'S RECESSIONARY CHILL

For much of the past two decades, stockbroking has not been a bad business to be in True, there have been some testing bear markets, as in 1970-1971 and 1981 But, on the whole, most firms could enjoy satisfying profit margins — as a walk around the JSE parking lot would testify When trading went into a dull patch there was always the next spike in the gold price to look forward to

Suddenly all that has changed Trading volumes and, therefore, brokers' revenues have crumbled At the same time, costs have leapt ahead, partly on the back of an ambitious (and fumbled) capital spending programme pursued by the JSE Gold shows no sign of coming to the rescue

JSE president Tony Norton himself describes the situation as a crisis "No significant market in the world can survive on 2 000 deals a day," he says "We are living with very, very unpleasant circumstances"

A special meeting has been called for committee members on December 5 Norton says this is simply a normal, year-end strategic planning session, but some brokers believe there will be more to it and radical changes could be proposed

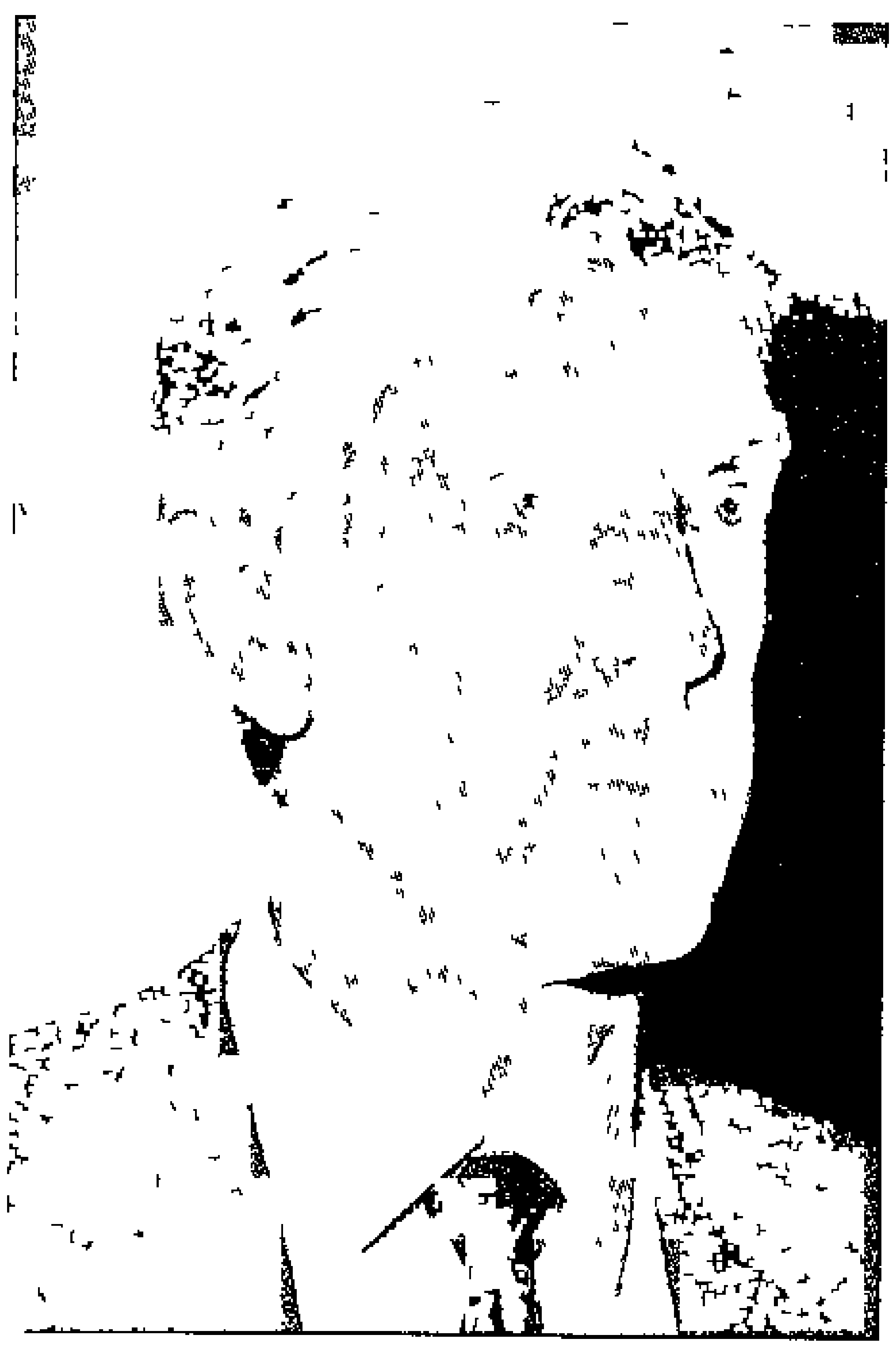
While the exchange's management and some of the older members insist the status quo should be maintained, brokers are hurting badly With only about 18 trading days left this year, daily trading this week was running at less than 1 800 deals, well below average levels of 1988 and 1989 (see graph)

It is not simply that brokers — and the JSE itself — need to examine rigorously what can be done to improve their cash positions Now the Competition Board is investigating the brokers' fixed commission structure Unless it accepts the status quo, the board's findings will almost certainly trigger fundamental changes to the way the equity market operates

Whatever decisions are made by the board, or by Registrar of Financial Institutions Piet Badenhorst, the effects will ripple through the economy But perhaps it *is* time for change The stock exchange, as the flywheel of the free enterprise system, must be seen to be efficient Right now, any suggestion that Diagonal Street works as efficiently as it should, sounds decidedly hollow

The statistics are familiar Liquidity on the JSE is the lowest in the world, with trading volumes running over the past five years at 4%-5,5% of market capitalisation, compared with 40%-80% in leading world markets Many shares are simply not marketable enough to justify new purchases by institutional portfolio managers That is a handicap which often results in negative ratings — discouraging new equity issues

Reasons for the illiquidity are not hard to find Economic and political conditions have swung sharply against investing in equity markets A determined effort by the authorities to combat inflation, high real interest rates, a stable currency, recession at home and abroad, sliding profits in industrial and mining sectors and wilted political confidence — all are now encouraging portfolio managers to invest in money and fixed interest markets rather than equities



Norton *declining daily deals feed fears*

As a leading assurance group's investment manager says "You can't blame the brokers or the JSE for the economy There is no way they can entice investors into the market until conditions change for the better"

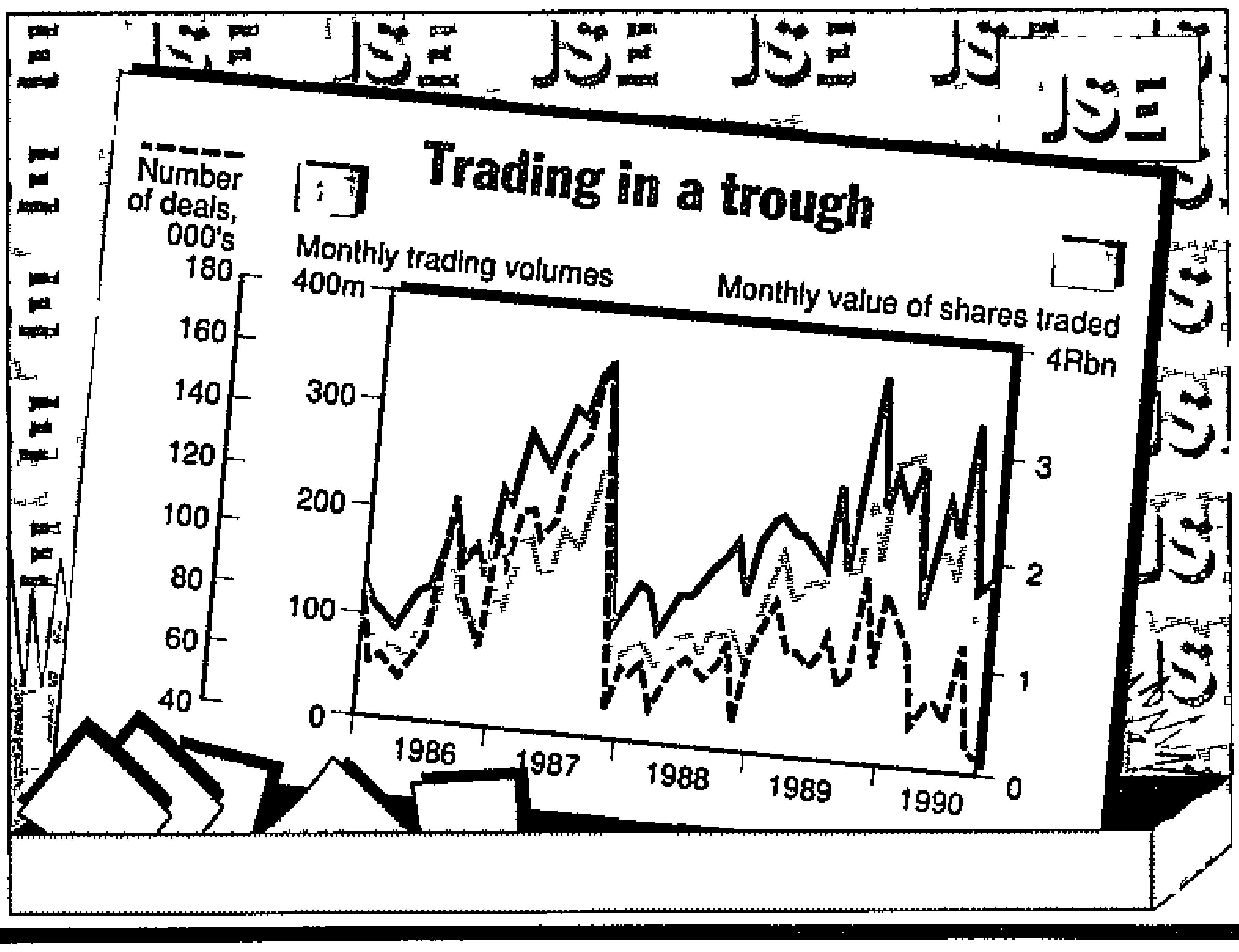
But the JSE's crippling scrip shortage has been years in the making During 17 years of double-digit inflation, with few opportunities for tax breaks, the nation's contractual savings have been funnelled into pension funds and insurance companies, which must invest massive cash flows as effectively as possible

SA equities sold off over some 15 years by foreign investors have been mopped up and locked away by local institutions As the economy has generated little real growth over the past decade, investment opportunities have merely narrowed, with the process fuelled by an increasing concentration of ownership Huge amounts of scrip are sterilised in control structures, involving pyramids, cross-holdings and large majority stakes

Ask portfolio managers why trading has sunk so low, however, and they are likely to cite the cost of dealing as a first concern For each deal, investors are faced not only with brokerage costs — not excessive by world standards, but on the rise — plus marketable securities tax (MST) of 1,5% and the possibility of tax on capital gains

Both these tax constraints were eased in the 1990 Budget MST is being phased out over three years and shares held for at least 10 years may be sold without incurring capital gains tax Like much that happens to the stock exchange, the phase-out process is far too sluggish

Finance Minister Barend du Plessis should eliminate MST in the next Budget, if not before And investors should be given greater clarity on the capital gains tax Large shareholders, particularly mining houses which badly need to mobilise capital, continue to hold on to essentially mature portfolios when they could well be sell-



FIM 30/11/90 (232)

ers were it not for the tax concerns 1990's Budget did not do enough to change that

Brokers' profitability is not the issue Efficient firms will survive anyway But there is little point in continuing to garner taxes which patently are stifling the national market for equity capital

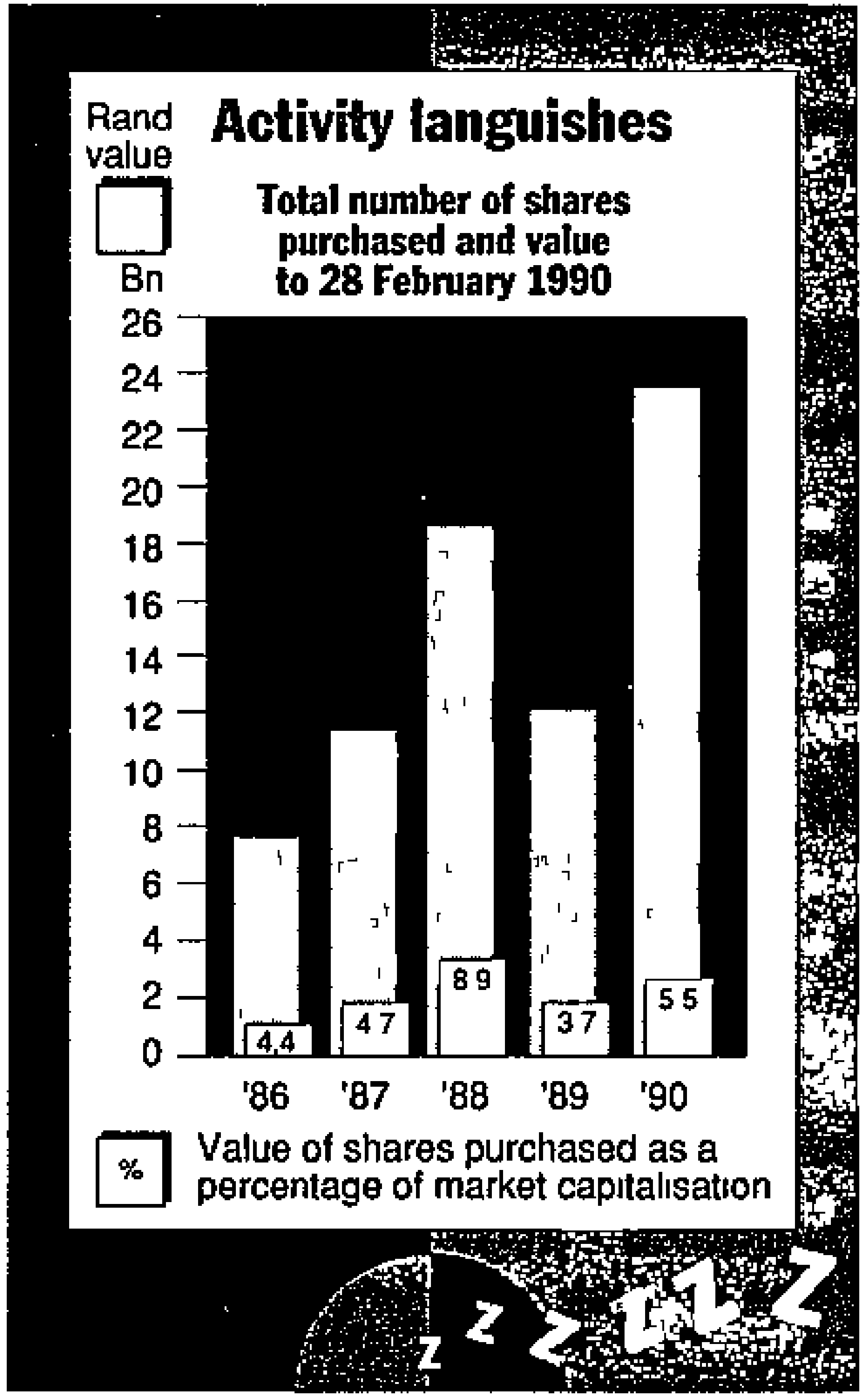
For its part, the JSE needs to take a much tougher approach in dealing with basic problems A quick count shows roughly 40 pyramid companies are listed, some were there for decades, but many have appeared more recently Norton, who says he is open-minded on the topic, reckons these have at least increased the scrip available in the assets concerned, and that entrepreneurs may decide not to expand companies if control cannot be assured

It is a lame argument Trading in pyramids is generally low, more than 40% of the JSE's market capitalisation is locked up in them In any event, many see a moral difficulty in allowing family ownership to be effectively retained through a small stake in a top company

Norton says a committee is evaluating the JSE's approach to pyramids, but — surprise — a conclusion is not expected before the second quarter of next year The JSE claims to be a self-regulating market It should do as London and New York have, and simply ban new pyramid listings Existing ones could be phased out If the JSE is diffident about its clout against powerful vested interests, let the new Securities Regulation Panel get involved

Then there is the JSE's own cost structure Three years ago, the JSE's balance sheet held a net cash balance In a capital investment drive triggered partly by difficulties encountered in the 1987 bull market, R38m has been spent on the JSE Annexe, with more on computer technology, including R11m on a traded options market that has yet to work There are now term borrowings of R43m, which would carry finance costs of around R8m this year

Norton contends a long-term view must be taken and a panic reaction should be avoided Clearly, one option that would swiftly release cash would be to lease back properties — though this may simply substitute lease payments for interest charges and, as Norton says, leave brokers in the hands of landlords



Similarly, at least some of the computer services now handled by the JSE could be contracted out to other parties, whether administrative functions or the trading service to be offered by Unex — probably with lower unit costs all round

Management and some brokers staunchly resist such ideas, arguing that control would be lost over "strategic" operations

There is some sympathy for this argument — and the exchange has done well out of the Diagonal Street properties bought in the late Sixties But new approaches may be unavoidable Sooner or later the JSE is going to have to squarely face basic questions does it exist to invest in property and provide technology, or to run a market whose main function is to offer liquidity and find best prices? And are brokers doing enough to adapt to a greatly changed environment?

Many firms have been slow to advance from being simply traders with a good network of clients Institutions are demanding added value, particularly quality research The more prescient have recognised that research will increasingly be sold in future Already, Ivor Jones has moved in this direction, by establishing I-Net with Times Media Expect others to follow

Costly investment conferences such as those organised by Frankel Kruger are unlikely to be offered free any longer Where they have the skills to do so, brokers should diversify Frankel Kruger has established an insurance broker and many have developed corporate finance departments The Registrar should encourage rather than impede this

These developments would be minor compared with the fundamental changes likely to follow a change to negotiated commissions All accept that commissions cannot be seen in isolation Once commissions are no longer fixed, brokers face narrower margins and greater capital requirements They may no longer be able to stave off corporate membership and electronic screen trading, so SA may be approaching its own Big Bang, whether intentionally or not

At a business conference in Cape Town this week, Norton argued that a Big Bang, with brokers allowed to act as principal rather than only as an agent for a client, is not only unnecessary but would be dangerous if not disastrous in SA The contention is that the market would soon be dominated by a half dozen giant institutions, that share dealing would become much more expensive for individuals, and that the large capital requirements would exclude blacks from the business

Be that as it may, a fixed commission structure — in other words, a price cartel — is looking more and more indefensible Some brokers, incidentally, say they have no fear of competition

After the Stals and Jacobs reports, legal frameworks have been established for the futures and bond markets In the Nineties, the equity market is facing a very different world There is a new political environment and a possible re-entry into the international arena SA is not alone in this, globalisation of financial markets has affected all

It is time for a critical re-appraisal on Diagonal Street ■

Plate Gl to write off R74m

. . . but UK sale profits soften the blow

CPA Times 30/11/90

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By AUDREY D'ANGELO
Business Editor

PLATE Glass and Shatterprufe Industries (Plate Gl) will write off R74m this year through the restructuring of its international wood division.

But the directors say these extraordinary costs "are more than offset by the profit from the sale of the UK flat glass operation to (French company) St Gobain for R434m The group's net non-trading surplus for the six months is R25m "

Plate Gl lifted net income after tax by 13% to R69,7m (R61,8m) in the six months to September But attributable income rose by only 1% to R35,1m (R34,9m) Earnings at share level were 213,1c (211,9c)

The interim dividend is unchanged at 65c a share

The directors say indications are that "in spite of increasingly difficult trading conditions the second half should show an improvement compared with the same period last year "

Plate Gl's wood and glass operations in SA performed well in the past half year But its overseas operations ran into trouble, particularly in Australia which, the directors point out, "is now in the grip of a severe recession"

They say their international wood division has "bitten the bullet" on loss-making overseas operations The timber trading division has been sold to London-based Tradelink, in what a company spokesman described as "an innovative deal giving Plate Gl minimum guarantees and the buyer progressive incentives to realise assets "

The group is also disposing of its Australian board outlets But "the process has been severely hampered by sellers dominating the market due to the severe economic recession in that country."

However, the wood division increased its contribution to interim earnings to 43c (2,4c) a share A spokesman said strong performances in Southern Africa, particularly by PG Bison, and the Central Africa division, helped this

Glass operations in SA are holding up well But the directors warn that the division's offshore development strategy is likely to impact on profits for the next 18 months

As part of the deal with St Gobain the group acquired a further 145 automotive glass installation outlets

"We are still investing strategically in the development of our 365 outlets in Europe and 103 in the US," says Ronnie Lubner, chairman of the international glass division

"Many of these were started less than two years ago Some are only a few months old Accordingly, our trading results do not yet reflect the full potential of this investment programme "

The glass division contibuted 107c a share to group earnings in the first half, compared with 208c the previous year.

The directors say the group "continues to make progress towards previous levels of profitability "

But, they warn, "a watchful eye must be kept on deteriorating economic scenarios worldwide."

Shareholders first

TOP COMPANIES

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S/Times 2/12/90.

BUSINESS TIMES ranks its top companies by the measure that matters — how they perform for shareholders

We take the share price at the end of September 1990, subtract the price at the end of September 1985 to arrive at a capital gain over five years

To this we add dividends paid in the five years, plus 12% interest on them to come to a total cash return to a shareholder

This return is calculated as an average annual compound yield a year on the opening share price

Studies

This is the method most large portfolio managers use to calculate their yield Fortune Magazine also uses it, albeit over only one year

The business schools of Cape Town and Wits and the authors of The Winning Way have used Business Times rankings in their studies of corporate performance

Because some shares trade thinly and infrequently and may thus not represent a true market price, we exclude any company in whose shares trade in the first nine months of the year is less than R3-million We also knock out pyramids, investment trusts, exploration companies, cash shells and companies that have changed their nature radically in the five years

Until 1984, Business Times based its calculations on compound growth in earnings a share over five years, but we switched to the above method because of varying accounting practices

Some companies allow for additional depreciation, others do not Some value stocks by the lifo (last in, first out) method, others by fifo (first in, first out)

Some include profits on the sale of assets in earnings Others do not

Entire business sectors use unconventional accounting It was thus necessary to exclude property, mining, banking, sugar and life- assurance companies

Other publications use total assets, but that method too is unacceptable because some companies revalue assets regularly and others do not

Some use cost and others market values Some companies consolidate Others go out of their way not to consolidate

Our rankings unquestionably identify the top performers They permit realistic performance comparisons between different types of companies and sectors And they can be compared to fixed-interest yields

For those to whom size is important, we provide rankings by sales and by taxed profit

Turnover is audited, intra-group sales are excluded and every rand of sales, be it for a life policy or a beer, is an achievement of sorts for a company

Update

Regrettably, some giants, such as Anglo American Corporation, Rembrandt and Gencor, do not consolidate or publish group sales

But all companies publish taxed profit and these giants are ranked in the earnings tables

The sales and earnings tables were provided at the press of a button by I-Net, the screen-based financial information and news service launched this year by Times Media Limited and stockbroker Ivor Jones, Roy & Co.,

We have updated I-Net's numbers to incorporate the results of September reporting companies

A roller-coaster ride for JSE and everyone feels the pinch

S/Times 2/12/90 (232)

By JULIE WALKER

FOR THE first time since P W Botha's disasterous Rubicon speech in 1985, political factors played a hugely influential role on the JSE this year.

The stock market started the year on a roll, spurted to a crest in February when the new State President made his landmark speech and unbanned the ANC and other organisations, but approaches the yearend all washed up.

In February, foreign hopes were raised and investors scrambled for stock. But the honeymoon was short. When, a few weeks later, Nelson Mandela was released from jail, the world received a sharp reminder of the desire by some elements to nationalise South Africa's private wealth.

Retreating

Just as the foreigners had rushed in, so they dashed for the door — and left a trail of collapsing share prices.

Market leader De Beers surged to R110 in May when it announced the delinking of its non-SA assets, but has since retreated to R60. De Beers hit that peak well after the other leading stocks.

Anglo American touched its top at R149 a share in February, retreating later to R90. Gencor hit R13,75 in February, yet sank below R8 in October. Such is the pattern.

The gold price did not rise in real terms, but mining costs certainly did. Nearly a third of the mines came into loss situations, even the giants. Closures and cutbacks did nothing to help share prices.

Leading industrial Richemont has only foreign assets. It continued to climb long after the SA blue chips had etiolated, topping R28 in August But its fall has since been steep — to below R20.

Share prices move on expectations, and as the economy tightened, companies found it difficult to match the earnings of the three previous boom years. At the time of going to press, the prime overdraft interest rate was still 21%.

Companies with even modest borrowings found their profits being bitten into badly by lenders' requirements. The JSE overall index was down by more than 500 points by November.

SA's investing institutions decided early in the year that they would take a back seat while share prices were on the wane, and the market all but died three months ahead of the usual silly season.

Trading volume dwindled so much that stockbrokers found themselves taking a bath. Nowhere near enough brokerage was being generated to meet the operating expenses of the more than 40 partnerships.

Many were overburdened with staff, computers and expense accounts as well as the rising charges of the JSE.

One of the biggest firms, Frankel Kruger Vinderine — it had already picked up two other broking firms since the October 1987 equity collapse — merged with one of the oldest, Max Pollak & Freemantle.

Jobs and salaries were cut both on that deal and at many other firms which faced losses. Hardly any will pay bonuses to staff members.

Low share prices provided opportunities for major shareholders to take-out minorities at a reasonable price. The JSE said goodbye to Southern Sun, Fed Volks, Swimline and many other smaller companies.

Beautiful

But the minorities struck back in the proposed takeout of Metal Closures members. The proposed deal was abandoned by the major shareholder after a fuss stirred by leading minorities.

But some sectors always do well out of adversity. The coal index showed a beautiful upward slope as the price of the other primary energy source — oil — nearly trebled to $40 a barrel on supply fears after Iraq's invasion of Kuwait.

Sasol's weighting in the chemical sector was enough to stop its decline as AECI forecast a downturn in profitability. Sasol shares climbed from R11 a year ago to R15,75 before retreating below R14.

The banking sector also featured with a steady performance. There was plenty of speculation about takeovers of minnows by whales and sometimes vice versa, which helped to put spikes into otherwise flat trands of individual stocks.

Beverages and hotels put up a sterling show. SA Breweries continued to defy gravity and kept on producing wondrous figures. There are also hopes of higher hotel profits from foreign tourists.

Boost

The furniture sector kept on growing, companies reporting much higher earnings in the main.

Their bottom-line declarations could have been pushed artificially high because of the partial method of providing for deferred tax which is adopted by all but Ellerine. Ellerine itself was the best without the boost — it rose from R12,60 last November to R35.

Retailers & wholesalers mirrored furniture, particularly on the performance of consumer-based companies. Clothing, footwear & textiles did badly because of the weighting of Frame, which has fallen from R14,75 to 620c since February.

Printing also climbed, although advertising revenue is declining. Transport also went to higher ground. The futures market got under way, but the floor built for trading in the JSE's annexe has been a nightmare — no dealers wish to use it.

The JSE's Traded Options Market (TOM) did not open. Trade was supposed to begin in June 1989, but the opening will not be before March 1991. The cost has topped R11-million, adding to stockbrokers' woes.

JSE members and investors alike are feeling the pinch, partly because of the absence of institutional interest. Nobody expects a miracle, but all hope for one.

Proposed sale of Maxmech to be resisted by minorities

BDay 3/12/90

PETER GALLI

SOME minority shareholders in Maxmech Mechanical Seals (Maxmech) are up in arms about the proposed sale of Maxmech's business to executive directors and controlling shareholders, Ivan Dettmann and Dave Grobler, for R500 000 in cash

They say this amount is too low and is well below the net asset value of Maxmech, a DCM-listed supplier of sealing devices. (232)

It was announced recently that the 56,72% controlling stake in Maxmech would be sold to Quad Industries for R238 960 and that the business concern of Maxmech would then be sold back to Dettman and Grobler for R500 000 Quad Industrial Resources would be reverse listed into the Maxmech cash shell. [illegible]

One of the dissatisfied minority shareholders, Peter Frankle who resigned as financial director in September 1989, said after Maxmech's AGM on Friday this amount was equivalent to 10c a share while the net asset value amounted to 28,6c a share.

Frankle believed the interests of minorities were being prejudiced by the transaction

However, executive chairman Mike Lang said Maxmech's real value diverged from its public valuation. He said the stock market was not necessarily an accurate guide to a company's valuation.

"Companies that do not pay dividends do not have any real intrinsic value to shareholders, and do not belong in the public field. People buy shares for dividend yield and capital gain, both of which are lacking in Maxmech at present," Lang said.

But Frankle said the company's assets amounted to about R1,5m, and that it was understood that a partial asset strip was contemplated by the buyers. He said, for example, the sale of one division would raise R700 000 to R800 000 — the equivalent of 14c to 16c a share.

Lang rejected the allegation of asset-stripping and said the board was concerned to return Maxmech to profitability. Maxmech posted a 78% drop in attributable earnings for the year to end-February.

Maxmech shares have shown a steady drop from 45c in 1986. They last traded at 11c on November 16.

Investors advised to remain fully committed

B/Day 3/12/90

LIZ ROUSE

THE downside potential of JSE share prices remains limited and investors should remain fully invested, says Hannes Human of broking firm J Bosman & Co Inc.

The firm recommends that 60% of individual portfolios should consist of rand and political hedges and energy shares. The rest should be invested in quality industrials and financials.

Human says that despite deepening economic and political uncertainties locally and internationally, a stronger financial rand and sharply lower daily turnovers on the JSE, the declines in the indices have been relatively moderate.

Neither the overall nor industrial indices should dip below the 2 500 level.

He feels the gold index has a bottom resistance area at the 1 250/1 300 level.

The presence of institutions was largely responsible for share prices remaining relatively stable.

The downside potential of all the leading overseas stock exchanges also appears to be limited, says Human. But the question is: "what must be done to attract investors in bigger numbers to stock exchanges?"

The slide of the US dollar might eventually benefit the gold price.

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Arrest

Inflation and expectations about inflation are building up in all of Europe, in Britain and in Japan. These countries are highly export-dependent for growth and the question will arise whether they could afford to accommodate the weak dollar for long.

Should they decide on lower interest rate patterns to arrest further slides in the dollar, uncertainties on the foreign exchange markets will build up, to gold's benefit.

Gold's uninspiring performance was a result of high real interest rates that prevailed for some time in leading industrial countries, but these real margins were beginning to fade.

Another reason for the weak performance of gold had to do with the drastic change over the past 18 months in the supply segments of physical gold markets.

The gold markets were able to absorb these shocks and the broking firm is confident that investment demand for gold will return in the near future. It foresees a higher average gold price for 1991.

Basic R30 share-dealing charge takes effect today

B/Day 3/12/90.

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ANDREW GILL

THE controversial R30 basic charge on share transactions at the JSE is to be implemented today, the exchange said at the weekend.

After months of bickering over the fee, which many felt would shut the small investor out of the market once and for all, the Registrar of Financial Institutions gave the go-ahead to amend the fee structure.

The previous system was a charge of one cent a share with a maximum level of R25. This meant someone buying 500 shares would only be charged R5 for the entire transaction.

JSE committee chairman Peter Redman argued that the new R30 minimum would entice brokers to look for smaller investors.

Brokers can waive the charge or charge a lesser amount if the transaction is less than R200. Previously the maximum was R25.

Brokers reacted positively to the move, saying it would bring extra money into stockbroking firms at a time when volumes were at a critically low level.

Redman said the move would not have any significant effect on brokers' revenues except to contribute to covering fixed costs.

He said it would encourage brokers to deal with small investors because they could at least cover costs.

Criticism has been levelled that the move would squeeze the small man out of the market as costs would become too much to bear and short-term small investments become impossible.

Redman said it was still one of the lowest fees in the world, compared with levels as high as 7,5% of the value of the transaction in the US.

The JSE, however, is one of the most illiquid markets in the world, with liquidity at about 5% of market capitalisation — and some analysts believe it might squeeze liquidity even more.

Registrar of Stock Exchanges Piet Badenhorst said in a statement at the weekend that the issue of negotiated tariffs would be reconsidered once the Financial Markets Advisory Board had submitted its recommendations.

W & A expands on JSE

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B/Day 3/12/90

NEIL YORKE SMITH

TODAY sees the listing of the additional shares and equity instruments issued in terms of W & A Investment Corp's restructuring through which it became the holding company for the worldwide interests of FSI Corp

The transaction transformed W & A into one of the biggest industrial holding companies in SA, with a market capitalisation of about R950m calculated on the basis of the current share price and a fully diluted share capital.

The restructuring was designed to consolidate the previously complex group structure and make the group easier to operate and simpler for investors to assess, chairman Jeff Liebesman said

It involved the delisting of Hunts, Homemakers, Teamcor and Citizens Holdings. Liebesman said the new streamlined W & A would enjoy cost savings and improved cash flow efficiency.

Effectively, the new arrangement eliminated three intermediate holding companies — Hunts, Teamcor and Homemakers — all of which now fell under W & A. It also brought under W & A control FSI's SA and international investments.

This gave the group five divisions manufacturing, distribution, retailing, international and financial services

Merchant banker Senbank said at the weekend it was pleased with investor reaction to the restructure.

"Only 30% of those entitled to the cash payout chose to accept it, and the balance retained their equity interests in the group," a Senbank spokesman said.

"Given the current state of the market we are well pleased with this result."

Steady GDM Finance profits rise 15,5%

B/Day 4/12/90

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LIZ ROUSE

TRADE finance company GDM Finance posted a 15,5% attributable profit rise in the six months to end-October in spite of the slowing economy

Earnings a share amounted to 15,9c (13,8c) and the interim dividend has been raised to 4,5c (4c)

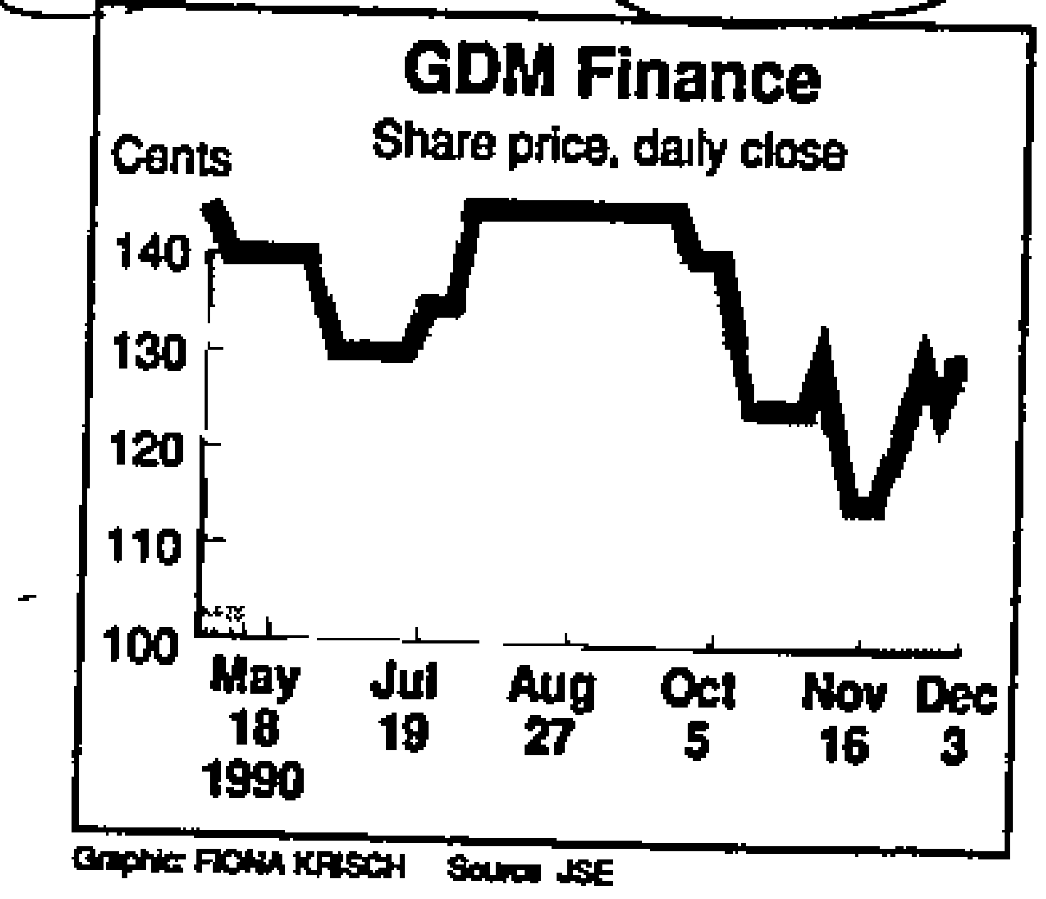
At the pre-tax level GDM Finance's profit rose by 26% to R5,9m from R4,67m Attributable profit increased to almost R4,1m from R3,5m after the deduction of R212 000 for the payment of a preference dividend and R184 000 paid to outside shareholders in the recently acquired African Shipping business

From its listing in September 1987 to April 1990, earnings have grown steadily by an annual compound rate of 75%

MD John Cowper says although the economy is tightening and GDM Finance's clients are finding trading more difficult, the company prides itself on its strict credit-granting procedures

The rate of borrowings to shareholders' funds currently stands at a conservative 3,44 times, says Cowper. The company's gearing objective is to have a ratio of borrowings to shareholders' funds of no more than 5 to 1, so at 3,44 to 1, GDM Finance is undergeared, allowing the group to grow without strain when the economy revives

African Shipping (Afship), a clearing and forwarding business in which the group acquired a 64% interest last year, continued to improve its performance and showed a taxed profit for the six-month period of R511 000, R327 000 of which is attributable to GDM Finance



Graphic FIONA KRISCH Source JSE

In the last quarter of the 1990 financial year, Afship made a first time contribution of R74 000 to GDM Finance

During the past six months Afship acquired Fowlie & Whytock, a Durban-based clearing and forwarding business. The two businesses have been merged successfully and Cowper expects further growth from this investment in the months ahead

Looking ahead to the rest of the year, Cowper says that, subject to there being no unforeseen circumstances, GDM Finance's shareholders can expect earnings for the second half to exceed those of the first half This means that earnings a share should amount to at least 32c compared with the 29,3c reported in financial 1990.

Liquidation boosts transport costs

Star 4/12/90

By Shirley Woodgate

At least three South African families have been forced to double up on the cost of the transport of their possessions overseas after Medwood Furniture Removers was liquidated on November 16

According to liquidator Boet du Plessis, of Aiken and Peat "I am aware of three people who have been hit but I do not know if there are more

"In two of these cases they have paid in advance, but have to foot the full bill for a second time'

Five firms — Supertrans Holdings Ltd, Medwood Furniture Removers (Pty) Ltd, Road Transport Service (Pty) Ltd, Grand National Transport (Pty) Ltd and Cross Country Movers (Pty) Ltd — were handed over to the liquidators on November 19

Meanwhile at least one local couple who paid Medwoods in full on June 7 was recently informed, after a long delay while their furniture was being shipped, that they would have to pay the bill again when it arrived in London

(232)

"They paid R15 000 up-front and are being expected to double up on this amount, said a local relative

Institutions inject new life into JSE

BlDay 5/12/90

(232)

MERVYN HARRIS, LIZ ROUSE and GRETA STEYN

BULLISH sentiment galvanised financial markets yesterday, with institutional buying lifting the stock market out of the doldrums and causing a significant fall in long-term interest rates on the capital market.

Aggressive institutional demand resulted in a surge in prices of quality industrial shares, which pushed up the industrial index 78 points or 2,7% to 2 903.

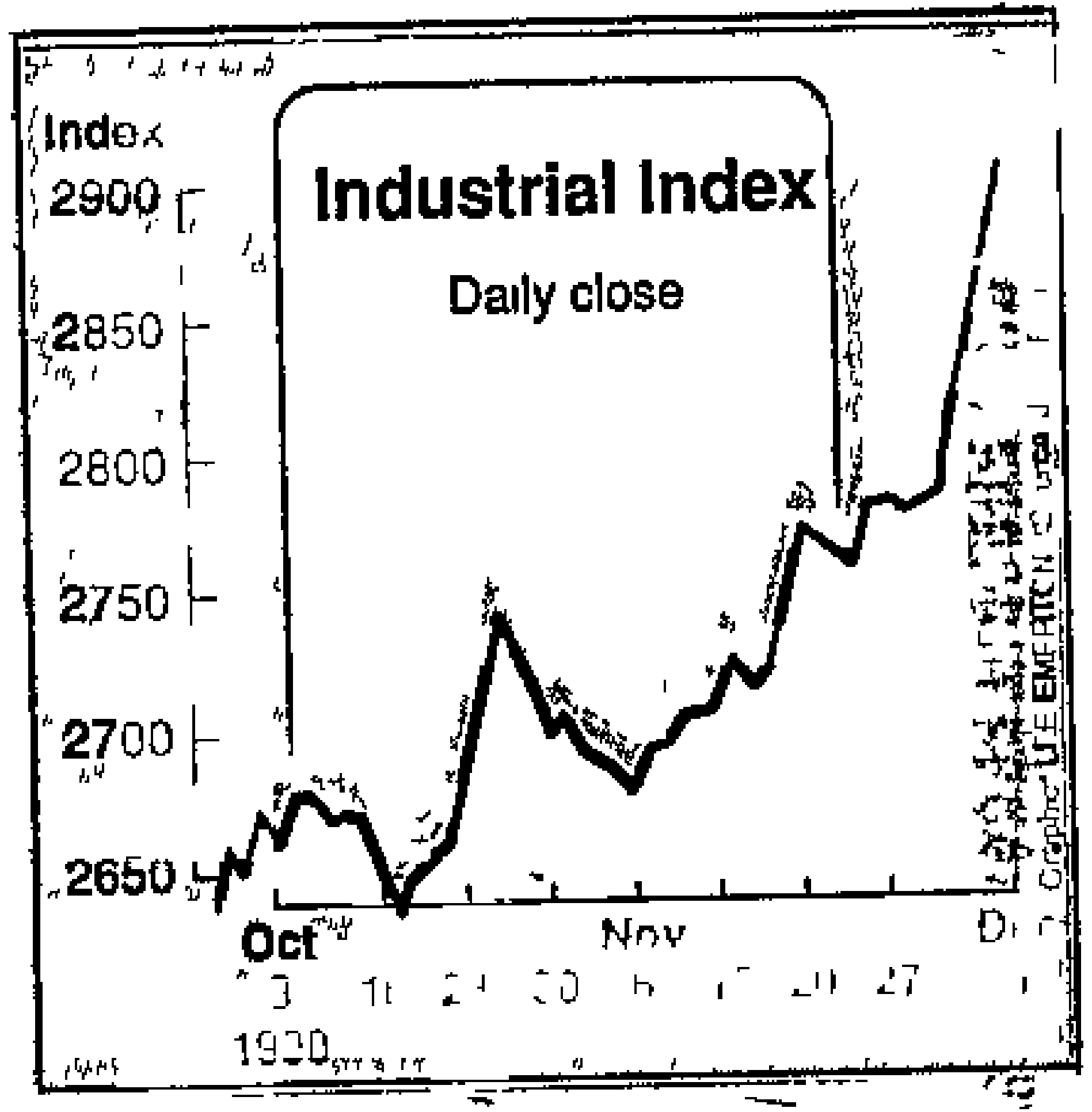
This brought the index rise to 4% so far this week on indications of an early cut in interest rates and expectations that share prices would move higher next year.

Boosted by strong demand for market leader De Beers, the JSE's overall index closed 1,6% or 44 points higher at 2 662 with gains outnumbering losses by almost three to one.

Gold shares eased on a London gold price which closed at $377,85 (from $380,62) on reduced conflict in the Gulf. The all gold index fell 12 points to 1 245.

Long-term interest rates broke through the crucial psychological level of 16% in a day that saw an 11-point slide.

Fund managers said the scene for the sharp rise in industrial shares was set by three factors — the firmness of Wall Street and London on Monday, the perception that interest rates could come down sooner rather than later and the huge institutional liquidity overhanging the market.



Southern Life GM investments Carel de Ridder pointed out that institutional liquidity had been building up sharply while equities were hitting lows

The funds' collective liquidity of R1,8bn at the end of the September quarter plus

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the inflow of funds in the past two months added up to a strong overhang of funds in the market.

An insurance spokesman took a more cautious view of yesterday's surge He said that the sharp rise in quality stocks' prices was a manifestation of the JSE's illiquidity He said a build-up of buyers in a market lacking scrip resulted in disproportionate movements in prices on low volumes The same applied to a sharp downswing in the market on low volumes.

He cautioned that the current upswing on the industrial board did not necessarily indicate a stampede into equities

A broker said that not all institutions were in the market yesterday and the fact that some had "jumped the gun" by buying quality industrials now rather than wait until the new year, had caught some by surprise

Yesterday share volumes totalled 8,36-million shares with a total value of R84,6m compared with Monday's 5,39-million shares valued at R45,6m.

Eskom's key Loan E168 rose marginally to 16,04%, but institutional buying put sudden downward pressure on rates, causing a rapid fall of a few points and bringing the initially reluctant jobbers to life Rates eased to a close of 15,93%.

An analyst said it seemed institutions were buying now to get the higher interest rates before further falls in yields on expectations of easier monetary policy made the stock more expensive.

Sentiment in the money market was also overwhelmingly bullish with demand for short-term assets exceeding supply There was strong demand at the longer end of the market as investors tried to lock into the higher rates before a Bank-rate cut. Banks are, however, keen to remain short in an effort to benefit most from a rates cut.

Swiss commodity trader Marc Rich said to be staking a claim in De Beers

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B/Day 6/12/90

JOHN CAVILL, MERVYN HARRIS and CHARLOTTE MATHEWS

LONDON — De Beers/Centenary's share price continued to climb in Johannesburg and London yesterday as rumours spread that Marc Rich, the Swiss-based commodity trader, was building a stake

On the JSE the counter maintained its strong upward trend, reaching a high of R68,75 before closing 125c up at R68,50

In London, the price gained nearly $1 to $20 during the day, marking a 25% recovery from the low touched two months ago

The speculation is that Rich is prepared to pay a 50% premium on the current share price Johannesburg analysts said while it would be difficult to gain control of De Beers, a bidder who acquired a 30% stake could be a thorn in the company's side.

Such a bidder would be able to demand board representation and have a say in the daily running of the company and would be able to block special resolutions

A De Beers spokesman said yesterday the rumour held "absolutely no truth"

London analysts discounted Johannesburg speculation that Rich — and possibly others — might mount a hostile bid De Beers/Centenary's control structure would virtually rule that out, they said

However, the price action and accompanying rise in volume was "intriguing" On Monday 154 000 De Beers were traded in New York against normal volume of 80 000 - 90 000 In London it has been running at 50 000 - 60 000 a day compared with 30 000 - 40 000 up to mid-November

The move up in dollar terms has also been helped by the coincidental strength of the financial rand, up 14% to $29,3c since the end of September

Analysts described the finrand's behaviour as inexplicable against the background of township violence and a weak gold price, although there has been some buying of SA gilts and parastatal bonds

Opinions varied about what lay behind the rally in De Beers

John Taylor, at brokers James Capel, said "Someone might be building a strategic stake, but why now? There is a lot of relatively bad news about diamond sales still to come When De Beers was down to $16 most of that news was in the price but $20 looks too high

"We understand the CSO (Central Selling Organisation) December sight in Johannesburg was sharply down and that it has warned sight holders (dealers) that January and February will be reduced from this year's levels.

"There are indications that De Beers has managed to get the other producers to agree to a quota decrease — apart from Botswana — but the outlook suggests the group will have to buy in a lot of stones next year which could increase Centenary's borrowings"

However, Williams de Broe Chaplin's David Ridley said "I don't think there is any great story behind the De Beers' recovery SA knocked the shares back too hard because, in rands, the price gave a

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Swiss

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sell signal That wasn't the case for the dollar price The shares looked too cheap at $16 They look a bit too high now"

At Lehmann Brothers International, Robert Davies commented "For months I have believed the whole Anglo group looked ripe for a shakedown and De Beers is the plum to go for," with international earnings and diamond market control

"Maybe Marc Rich is trying to shake the tree with a bit of greenmail It could be embarrassing for the Oppenheimers if someone did what Robert Holmes à Court did to BHP (Broken Hill — Australia's biggest company), by buying say 10% and then demanding a seat on the board We'll have to wait and see," he said

BUSINESS DAY, Thursday, December 6 1990 11

Rembrandt restructure will produce a giant

B/Day 6/12/90

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THE restructuring of Rembrandt financial interests will lead to to rationalisation in an industry considered "over-banked" and open the way to the creation of a banking giant.

Banking analysts say there is unlikely to be an early conclusion to the negotiations, but the first prize, says one JSE analyst, will be an enlarged financial empire in which Rembrandt has a 30% stake.

Rembrandt's portfolio includes 30% of Volkskas, 10% of UBS, 27% of Sage, 10% of SBIC and 10% of Boland Bank, as well as 30% of Momentum and an effective 15% in Allied through Sage subsidiary SFS and the Sage unit trusts.

Sage and its subsidiary SFS also hold 26% of unlisted Rand Merchant Bank, in which Allied has a 14% stake.

There are rationalisation benefits which will accrue as a result of a merger.

UBS can stand alone but it would like Volkskas, in which it has a 30% stake, under its wing.

Edey Rodgers banking analyst David Southey says the economies of scale which will be brought to bear by a merger between these two giants (UBS has assets of R15,7bn and Volkskas R20,5bn) will be of benefit to both.

Volkskas has lagged its competitors in terms of computer technology. UBS has a 30% stake in Volkskas and Volkskas a 10% crossholding in UBS.

In terms of the new banking legislation, banks will have to raise their capitaLassets ratios to 8% from the current 4,5%, but the requirements will be phased in over the next five years.

UBS has the strongest capital ratio in the industry, at 9,5%.

Southey says Allied is the cherry everyone wants to get their hands on.

"It has a good client base and excess computer capacity, but is thin on middle management.

"It needs to lease out its computer capacity at market-related rates."

Another JSE analyst suggests Volkskas and UBS may take a sizeable stake in Allied and Sage will then be split up.

The consensus is that Allied will not be swallowed up and will be allowed to stand alone, although in a larger financial group.

It is capital rich, with a capital:assets ratio of 6,5%.

Southey says Allied will need to raise its dividend cover from 2,2 to 3 over time in order to capitalise adequately, although its capital is sufficient for the present.

Its net asset value is 212c and any settlement will have to price it around this level.

Most analysts say Sage Life will be slotted into Momentum (and perhaps the life interests of UBS and Allied) and the other Sage Holdings interests will be merged with other group companies.

Prospect of good dividend jumps with Ozz's profits

B/Day 6/12/90

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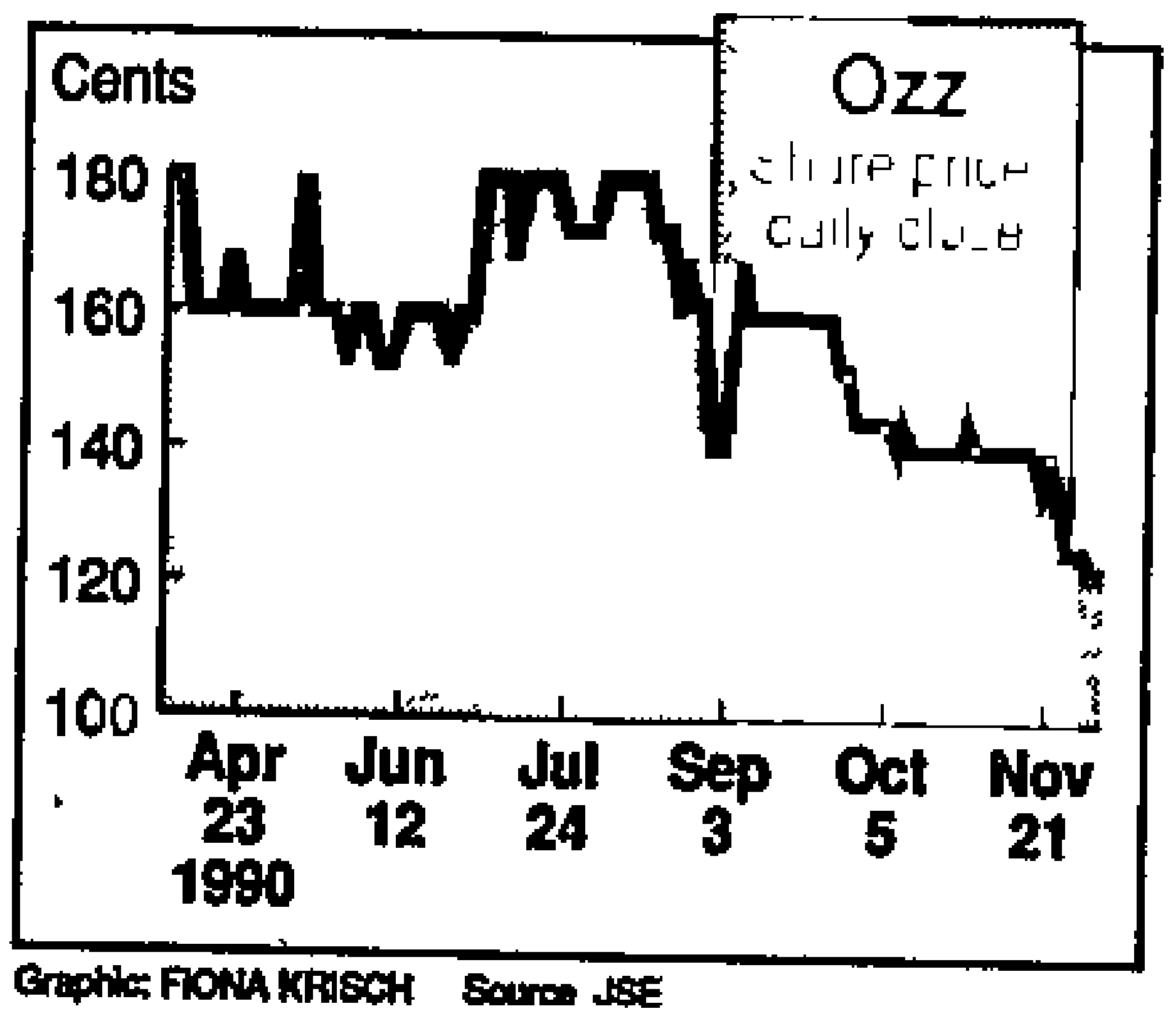
MARIETTE DU PLESSIS

INVESTMENT holding company Ozz posted a 79% rise in taxed profit to R2,8m (R1,6m) in the six months ending September, raising the prospects of a substantially higher annual dividend

Results published today show a 27% increase in earnings a share to 17,8c (14c).

Chairman Gary Zulberg said the major core businesses had beaten budgets while property development and investment, gas production and brick manufacturing performed "in accordance with expectations".



Graphic: FIONA KRISCH Source JSE

Turnover leapt by 147% and operating income, on an improved operating margin of 13,5% (12,7%), by 163% to R8,1m (R3m) while income before tax rose by 108% to R5;6m (R2,7m).

Directors have forecast a "meaningful improvement" in earnings a share for the year. They suggest a possible 26% rise to between 48c and 50c a share, an earnings yield of almost 40%.

No interim dividend is declared. The directors forecast an annual dividend of about 18c a share — covered 2,8 times — giving a 14,5% dividend yield on the present share price.

Zulberg said the cynicism directed at Ozz's acquisition of the assets of Lucem Industrial Corporation in late 1989 appeared to be unfounded

The deal pushed debt-equity to the 139% mark, heightening reservations among conservative investors, he said. However, gearing had dropped to 47,2% in the 15 months to end-November in conditions of tight money and high rates. At the start of the six-month period the debt to equity percentage stood at 79,5%.

The rise in interest paid represented a full six-month cost of the purchase of the Lucem assets but would sharply drop in line with the diminishing debt level, Zulberg said.

Two months ago, Ozz consolidated its share capital on a four for one basis At end-September net asset value stood at 296c a share compared with a current share price of about 125c.

The reduction in gearing to acceptable levels — with the probability of a further reduction in the current year — and the accompanying lowering in interest, boded well for Ozz's future, Zulberg said.

Expectations were that the reduced gearing would further strengthen earnings growth and boost the return on capital employed to about 25%, he said.

JSE outruns shaky finrand, weak gold

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LIZ ROUSE

THE JSE maintained its strong trend yesterday, defying a volatile financial rand and a weak gold price

There was continued demand for quality industrials, and a further rise in market leader De Beers led to renewed interest in selected gold shares

B\Day 6\12\90

The JSE overall index gained 33 points to 2 695, taking its gains to 6,2% since falling to its year low less than three weeks ago The industrial index rose 27 points to 2 930, up almost 5% on the week The gold index, after a sluggish start, rallied eight points to 1 253, spurred by a 125c (1,8%) gain in De Beers to R68,50

The total volume of shares traded increased to 10,4-million from Tuesday's 8,36-million, while the total value of shares traded rose to R93,4m (R84,56m).

Gold gains were modest because of the lower gold price

The financial rand closed weaker at R3,47/49 to the dollar after firming to R3,41/43 from Tuesday's R3,44/46.

Continued bullish sentiment drove capital market rates down further The benchmark Eskom E 168 softened to 15,86% from Tuesday's 15,95% close, while the shorter Transnet 12,5% 1993 fell from 16,17% to 16,11%

Conditions in the market could hardly be worse

TONY HUDSON

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Star 8/12/90

THE Johannesburg stock market has been through torrid times in the past 12 months and analysis of the major indices show that the decline has been severe although slow.

In the words of JSE executive president Tony Norton· "Conditions in the market could hardly be worse They can only get better."

Volumes as well as values have plummeted

The volume of shares traded for the week ending the last Friday in November was 33,25 million, compared with 90,74 million on the last day in November 1989. The decline was 63 percent

The value of shares traded in the same week was R240,82 million compared with R425,03 million, representing a drop of 43,3 percent.

On the base of Friday November 30 1990 compared with Friday November 24 1989 the drop was even sharper.

Volume plummeted by 58 percent, or by 8,8 million shares, to 6,33 million from 15,14 million, while the value of shares traded on those days fell by 69,5 percent to R40,63 million from (R133,23 million).

Looking at the JSE actuaries indices, however, some sectors showed gains in spite of adverse circumstances.

However, the overall index declined by 10,86 percent on the year to 2601 on the last Friday in November. The comparative figure for last year was 2918.

The most damage was shown to the all gold index which dropped by 41 percent to 1267 from 2149.

Other sectors fared better, with the financial sector gaining 12,5 percent to 1781 and the industrial index up 8,3 percent at 2792.

Diamonds also gained, rising 9,3 percent to 11 699.

All of these figures are well below the current inflation rate

In comparison, mutual funds performed reasonably well, with most at roughly the same levels as they were last year and several showing gains.

One of the reasons for this has been that the funds have moved out of equities and into cash-based holdings where returns have been far better.

As for the outlook for the coming year, it all depends on the outcome in the Gulf and socio-economic developments in South Africa

JSE executive president Tony Norton says. "The market cannot get any worse than it is at present It is not a bear market any more, it is a dog market"

He expects conditions to improve in the new year.

The two decisive factors would be the reduction of interest rates, hoped for early in 1991, and the return of institutional investors to the market place

He says it is most important that the monetary authorities do not keep the pain up for too long.

Technical analyst Tony Henfrey believes the current uptick in prices could last into the beginning of the second quarter of the new year.

But he says after that a further downswing will begin which will continue into 1993 before the recovery process begins. — Sapa.

Duros paper for revamp

S/Times 9/12/90

By JULIE WALKER

DUROS paper will be offered to members of Tollgate, Entercor, Norths and Gants in the latest corporate restructure proposal from the Cape conglomerate.

The four companies will become wholly owned subsidiaries in the Duros group Duros will be introduced to the official list of the International Stock Exchange (London and Ireland) simultaneously with the cancellation of Tollgate's listing (232)

The name Duros will be changed to Tollgate Holdings when the existing Tollgate has been renamed.

- Tollgate shareholders registered on January 18, 1991, will be offered 38 Duros shares and 300c cash for 100 Tollgate.
- Holders of 100 Entercor may choose between 34 Duros and 233c cash, or R223,33 cash or any combination.
- Holders of 100 Norths are offered 17 Duros and 117c cash, or R111,67 cash, or a combination.
- Holders of 100 Gants can take seven Duros shares and 450c, or R60 cash or any combination.

Members who fail to exercise the right of election will be deemed to have opted for the cash.

Holders of 100 Tollgate 14% unsecured debentures of 225c will be offered 38 14% A debentures, to be converted into Duros ordinary shares.

The effect of the latest proposal does not change the outcome had the previous one been executed. The only difference is that Duros paper is being offered — probably because the group is strapped for cash.

The scheme requires the approval of minority shareholders in the four companies to be delisted as well as sanctioning by shareholders and the Supreme Court.

Duros shares are 700c, Tollgate 250c, Entercor 200c, Norths 100c and Gants 55c. The current value of Duros makes the share alternative more attractive to members than the cash offer for Entercor and Norths.

But the value of the paper offer to Gants members falls below the R60 cash offer. The cash offers for Entercor, Norths and Gants are better than what could be raised by selling on the JSE.

Investec set to control Reichmans

S Times 9/12/90.

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By DAVID CARTE

INVESTEC BANK is about to buy control of clearing, forwarding and trade finance company Reichmans.

The deal will add another R300-million of assets to its R1,7-billion balance sheet, lifting Investec's total assets above R2-billion for the first time

Investec and Reichmans issued warnings in the past week. Provided negotiations succeed, they are expected to announce a get-together soon. Talks were still in progress on Friday.

The companies have not yet acknowledged they are talking, but executives of the two groups have been seen together

Core

The seller of 37% of Reichmans is W&A Investments, which believes trade finance is not one of its core businesses of manufacturing and distribution

The benefit for W&A of holding a stake in a trade finance house falls away now that trade sanctions appear to be ending

Chairman Bas Kardol confirms that trade finance is Investec's business

An acquisition along these lines would be Investec's style In the past its has entered new areas of financial services in a small way itself, then bolstered its activities through acquisitions

It is not clear whether this is a cash deal or for shares. If it is cash and the deal is done at 140c, Reichmans will be valued at R50-million and W&A could receive about R19-million.

W&A seems unlikely to hold a minority stake in Investec.

Reichmans did well until December last year Taxed profit in the year to December 1989 was R13-million — up from R3-million in 1986

Because of a R12-million exposure to a liquidated client, the half-year taxed profit was R6-million — down from R7,4-million An extraordinary loss of R5,25-million in respect of a disputed fire claim was also recorded.

Associate company Van Renen & Nichols recorded a R5-million loss, of which R1-million was attributable to Reichmans. Another problem debtor owing R12-million is Granich, which makes TV sets.

These setbacks sent the share reeling from 240c to 105c before the warning It has since rallied to 120c The cost of Reichman to W&A was 140c a share and it seems unlikely that W&A will accept a loss.

There is considerable complementarity between Reichmans and Investec Both have strong foreign connections Integrating these would save vast amounts of money

R1bn locked up in SA timeshare

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S/Times 9/12/90.

By DIRK TIEMANN

SOUTH AFRICANS own a total of R1-billion in timeshare units, but market growth is limited by an oversupply and low resale values

Research by Resorts Condominium International shows a supply of 260 350 timeshare weeks, but demand for only 176 640. These figures are only for primary sales from developers

RCI chairman Bruce Ravenhill does not believe supply is excessive because an average 20 000 weeks are sold a year

"Our research shows that about 110 000 families are in timeshare and the potential market is much bigger The average price of timeshare has risen by 23,5% to R10 500 a week over last year"

Enrolment at RCI inland resorts increased by 6%, in the Cape 16% and on the Natal North Coast 17,5%

Property economist Neville Berkowitz says the oversupply will remain because schemes are continually coming on the market.

"Timeshare is not an investment. It is a way of containing holiday costs. Prices will not rise much because of the excess supply and lower resale value Marketing costs of up to 40% are subtracted from the selling price Most people thus try to sell privately"

Mr Berkowitz says profit margins in any property development are at most 20%, and 80% of the scheme must be sold before it becomes profitable. Developers are suffering because levies on unsold units are eating into profits

Developers structure their projects on how many weeks they expect to sell. If they do this incorrectly, they will be saddled with average levy costs of R200 If the levy is payable on all 84 000 unsold weeks, the industry will pay R17-million a year

Mr Ravenhill thinks this unlikely, but his report advises developers to "structure projects with 42% saleable weeks and not to incur the cost of servicing levy for the balance"

Prudent

"It may be economically prudent to block off the low demand time and close the resorts for 10 weeks"

Mr Ravenhill says there are 140 timeshare schemes in SA

The report says there are 40 off-season weeks Demand for the in-season weeks exceeds supply Buyers are prepared to pay a premium for such time and "there are indications that such weeks are underpriced"

Potential buyers should note that the SA Property Owners Association (Sapoa) timeshare division has broken away to form the Timeshare Institute of SA (Tisa)

Investec in R50m Reichmans deal

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B Day 11/12/90 **GRETA STEYN**

ACQUISITION-hungry Investec has bought trade finance company Reichmans for R50m in a move which will dramatically expand the merchant banking group's foreign exchange operations.

FSI's W&A is the main seller in a deal that forms part of the industrial group's restructuring and shift in focus towards its core business. The deal involves the termination of Reichmans' listing and the conversion of its share capital to redeemable preference shares.

The pref shares carry a 13,5% return on 140c for every one Reichmans share held. Although Investec is also offering a cash alternative, W&A and other minority shareholders — together representing more than 75% of the issued capital — have elected to take the preference shares.

The cash offer amounts to 105c a share, lower than its last price of 125c. The share touched a low of 95c on news that the trade finance house had been battered by bad debts The pref shares will be redeemed at 140c on December 31 1995.

Investec said yesterday it had completed a detailed investigation into the affairs of Reichmans and believed the "problems recently experienced" were not of an ongoing nature Investec's involvement in Reichmans would enhance the finance operation's credit approval and limit procedures, it added

The deal will be effective from January

☐ To Page 2

Investec

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☐ From Page 1

next year and is conditional on approval by the Registrar of Banks and by the foreign exchange control authorities

"The acquisition of Reichmans which is well-versed in the area of international trade means that overnight we have strongly enhanced our foreign exchange operation," Investec executive chairman Bas Kardol said yesterday

The merchant bank has been developing its foreign exchange and trade finance operations for the past 18 months

The scheme will have no material effect on either the earnings or net asset value of Investec shares for the financial year ending March 1991

Investec has taken over Duros Merchant Bank, Corbank and has tried to buy the Board of Executors as part of its strategy to become a stronger niche operator in financial services

Investec takes over Reichmans in R50-m deal

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United Building Society MD Mike de Blanche has been appointed president of the Association of Mortgage Lenders of Southern Africa.

In a deal valued at R50 million, banking group Investec has bought trade finance company Reichmans Limited

Investec executive chairman Bas Kardol says "The acquisition makes excellent sense for both parties. Reichmans, which is a well run business, trading well in its established niche, will enhance and dramatically expand our foreign exchange operations"

The deal involves the Reichmans listing being terminated and shareholders being offered one Reichmans' redeemable preference share carrying a 13,5 percent coupon on 140c for every Reichmans ordinary share held

The dividend will be paid twice yearly in arrears and the first dividend will be for the six months ending December 31, 1991. The preference share is redeemable on December 31, 1995 at a price of 140c a share

As an alternative, Investec is providing Reichmans shareholders with a cash underpin of 105c a share

Mr Kardol said that shareholders holding in excess of 75 percent of Reichmans 36 million ordinary shares had indicated their acceptance of the preference share offer

The shareholders include W&A Investment Corporation and Reichmans management holding 63 percent, and institutional shareholders holding in excess of 12 percent.

W&A chairman Jeff Liebesman said the decision to sell its stake was in accordance with his company's policy of consolidating and building the group's core businesses, organically and acquisitively — Sapa

Star 11/12/90

BUSINESS DAY, Wednesday, 12 December 1990

Fastel liquidated following application by shareholder

SUSAN RUSSELL

FASTEL Holdings (Pty) Ltd was liquidated in the Rand Supreme Court yesterday following an application by its major shareholder, Mineral & Exploration Consultants (Pty) Ltd, which has a R4,3m claim against it.

Mineral & Exploration consultants holds a 76% stake in Fastel, which in turn is the holding company for a number of subsidiaries, including Fastfax which was provisionally liquidated in September this year

A director of Mineral & Exploration Consultants Brian George Wylie said in an affidavit his company's claim arose from a debt incurred by Fastel and its subsidiaries after purchasing equipment from Mitsui and Company Ltd.

Wylie said Mitsui had ceded its claims against Fastel to Mineral-& Exploration Consultants.

Whylie said from his research, there was no reasonable prospect of the company's financial position significantly improving

None of the subsidiaries which were also sureties was able to liquidate the debt.

The winding up order was granted by Mr Justice J Kriegler.

In another action, a company owning a Barkly West farm where diamond mining operations were conducted until funds dried up last year, was provisionally liquidated in the Rand Supreme Court yesterday with debts of R2,5m.

Klipdam Farms (Pty) Ltd and its holding company The Star of Africa (Pty) Ltd were both provisionally liquidated following applications by the companies

Klipdam Farms had assets of R554 188 including fixed assets, land and buildings, he said, while the company's total liabilities were R2,6m.

The return date for both applications is January 22 next year.

Also provisionally liquidated yesterday was civil engineering and road building company, Encon (Pty) Ltd, with liabilities exceeding its assets by R1,13m

MD Mark Lange said in court papers that Encon owed trade and other creditors about R2,8m

Lange said the company did not have the money to pay fortnightly wages of about R120 000 and about 20 creditors had already started legal proceedings against Encon

He said without the payment of two amounts owed on contracts by Eskom and IVH, Encon could no longer continue trading

Lange said Eskom was witholding the payment of R350 000 as a result of an unresolved dispute over a road building project.

IVH had not yet paid R240 000 still owing on a project because of unrest and riots

An associated close corporation which hires plant and machinery to Encon Plant Hire cc was also provisionally liquidated yesterday.

Lange said in an affidavit that the close corporation relied on Encon for its income and was not able to pay its monthly running costs of about R80 000 It had also stood surety for Encon in respect of R1m owed to Standard Bank

Institutions aid fall in capital market rates

BDay 13/12/90 (232)

ANDREW GILL

CAPITAL market rates slid yesterday as strong institutional and foreign demand swallowed up available scrip and squeezed the differential between government and Eskom stock to unprecedented levels

Dealers said large switches from Eskom into RSAs as a result of vastly improved marketability in the RSAs and a reluctance from the major borrowers to let go of stock at the higher levels meant institutions had to buy the rates down

The Reserve Bank, which markets RSAs, had apparently remained out of the market for the past few days and therefore those stocks had been falling short of demand

One dealer said the perception that the Bank rate would be cut early in the New Year meant institutions were trying to get stocks at the cheaper levels in order to show profits in their portfolios or take profits when interest rates fell

The differential between the two fell below seven points before coming back to 10 points

At the close yesterday it stood at 18 points.

Despite some major switches into RSA 150s, Eskom 168s still came down eight points, reflecting underlying demand for quality stock in expectation of the Bank rate cut.

One dealer said: "They feel that they have to cover themselves over the New Year"

Another said the fact that the rates were allowed to run down so much was partly due to there being few jobbers on the market at the moment, which meant there was less profit-taking than usual.

The R150 finished 15 points off at 15,88% while the E168 closed down at 15,79% from Tuesday's 15,87% finish.

Some dealers said today would show a further closing of the gap.

An analyst said a possible resistance level for E168s was about 15,75%.

He said there were still many buy orders for RSAs and these could come through today.

Offshore buying by clients that had not shut down for the holiday was reportedly strong but the major factor had been local institutions.

One dealer said: "On an investment basis the RSAs are a better bet while the differential is still there. People do not see that happening for much longer so they are climbing in."

Liquidators get bids for Greenfield assets

CHARLOTTE MATHEWS

BD 3/12/90

THE liquidators of listed Greenfield Property Holdings have received offers for the group's property assets and are preparing information for potential buyers to assess the situation, Westrust liquidator Les Cohen said yesterday

He said to date Greenfield Property Holdings, its wholly owned subsidiary Greenfield Investments, and the latter company's wholly owned subsidiaries The Terminus (Klerksdorp), Greenfield Nelspruit 404 and Greenfield Property Services had been placed in provisional liquidation

Greenfield Property Developments, a wholly owned subsidiary of Greenfield Investments, was in final liquidation (232)

Cohen said the liquidators were investigating the full extent of the group's liabilities, but the balance sheet at June 1989 showed total debts of about R86m

Logaro director Gary Perlman said Logaro had effective control over Greenfield Property Holdings and was formulating proposals to the banks for its subsidiaries

Sanlam, which earlier expressed some interest in Greenfield's Woodlands development — owned by Greenfield Commercial, which is not in liquidation — said this week it was not involved in negotiations

Hostile takeover bids 'rare in SA'

CHARLOTTE MATHEWS

THE negotiations between property companies DPF Investments and Grovewalk on DPF's offer to shareholders to take control of Grovewalk have been described as a hostile takeover.

Merchant bankers say that existing legislation on share control, shortly to be amended, makes it difficult to apply the term "hostile takeover" to SA, and the concentration of shareholdings made this a rare occurrence.

The most recent bid in SA described as hostile was the September 1989 offer by Investec Bank to take control of Mercury Trust, which held 80% of Board of Executors (BoE). BoE, which held 40% of Mercury, had previously made an offer to acquire 100% of Mercury

Investec withdrew its bid as "not commercially viable" after Liberty Asset Management (Libam) bought a significant stake in BoE.

A hostile takeover, one merchant banker says, occurs when directors of the "victim company" express the view that proposals being put forward are not in shareholders' best interests. A looming change of management following the takeover could influence their views.

"The term 'hostile bid' has usually been used overseas and not in SA because until now there has been no restriction on the amount of shares that can be bought up The new securities regulation code which will come into force next year lays down similar restrictions to those in the UK"

According to the draft regulations published in September, if 5% of the relevant securities of a company are held, dealings of these securities have to be disclosed If more than 30% of the voting rights are acquired, an offer has to be made to any class of equity holder

"Usually in SA control of a company vests in an easily identifiable group of shareholders and they own sufficient shares to block any takeover," a merchant banker says

The merchant bankers spoken to say SA tends to have shares in a few hands mainly for historical reasons

B Day
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Pass bid

Some of the strategies to avert a hostile bid include dealing in the companies' shares to suppress their value or selling off assets to make the victim company look less desirable.

Another example bankers mention of a takeover that could be described as hostile is the recent move by Metal Closures of the UK (MCUK) to make Metal Closures of SA (MCSA) a wholly owned subsidiary of the British company

In this case the 77% of MCSA held by MCUK enabled it to pass the bid and expropriate MCSA minorities' shares although brokers said the offer was unfair

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Cape Times 13/12/91

BOE still stalking . . . who?

By ARI JACOBSON

SPECULATION continued yesterday about the identity of the acquisition the Board of Executors is trying to make — which will almost certainly increase its exposure to banking

A cautionary announcement appeared earlier this week and chairman Paddy Wilson confirmed that negotiations were in progress.

MD Bill McAdam conceded after the AGM on Tuesday that a banking licence was an area of interest to the asset management group.

The shake up in the industry comes as a prelude to the new banking bill in January.

Searching for synergies and suitable cultural matches resulted in a perfect fit when Investec took over Reichmans at the turn of the week.

For a R50m payout Investec received solid exposure to the foreign market, through Reichman's trade finance arm, and strengthened its merchant banking section.

Top personnel 'captured'

But more importantly Investec captured top flight banking personnel, the dearth of which is a cause for grave concern to the industry.

Add to this booming technology costs which rule out (in most cases) the viability of small independent financial institutions, and the search for allegiances becomes paramount.

Troubled CIB has two collector's items for the BOE group — a banking licence and strong exposure into the foreign exchange market. This link could be a formidable mix except for what market sources describe as irreconcilable cultural differences.

But rumours persist that CIB has an ongoing interest in Fidelity Bank — in which BOE has a 30% stake.

A Fidelity spokesman squashed any link between any of these groups. "The bank is correctly positioned for the new Deposit Taking Institutions Act with sufficient capital to avoid market support."

Loose links will be tied up in the near term — which means possibilities exist with, among others Natal Building Society (NBS), Saambou, International Bank of Johannesburg (IBJ) and Boland Bank.

JSE activity in BOE and CIB shares tapered off yesterday after both institutions had recorded solid gains the previous day. But the synchronised market interest matched only by the hive of managerial activity at both organisations has heightened expectations of an exciting outcome.

Talk of levy scares Safex members

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ROBERT GENTLE

A NUMBER of SA Futures Exchange (Safex) members want to resign following market talk of a R2 500-a-month membership levy to raise funds in the current slack market.

This was reflected yesterday in a sharp downward movement in the selling price of Safex seats, through which holders gain membership of the exchange

The price plummeted from R55 000 to R20 000, which is well below the most recent issue price of R35 000

A Safex spokesman said "Because present low volumes have reduced the income Safex earns on transaction and clearing fees, we are looking at alternative ways of raising finance. However, nothing has been finalised yet."

Rand Merchant Bank MD Charles Bryant said that on Tuesday, when he tried to buy a seat, "there were at least three willing sellers"

BDay 13/12/90

Assets

The deal was not allowed to go through because Bryant was acting in his personal capacity

He would not identify "the willing sellers",

He said "The bottom line is that there is not a free market in Safex seats, which are ultimately assets that should be freely tradeable "

Market talk is that any levy imposed on seat-holders could produce a spate of selling among less active players, because of the extra trade that would have to be generated to cover the increased cost

Moreover, members who have more than one seat for investment purposes would find that the underlying nature of their asset had changed.

But there are signs that speculators are willing to buy seats.

JSE hopes for govt tax relief measures

B Day 13/12/90

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ROBERT GENTLE

GOVERNMENT could move to accelerate the phasing out of marketable securities tax (MST) in 1991 in a bid to boost market liquidity, JSE president Tony Norton said yesterday

MST, which is a tax on share transactions, stands at 1,5% It is scheduled to be phased out during the next three years at the rate of 0,5% a year

In an interview on the JSE's outlook for 1991, Norton said MST was a key factor explaining the JSE's low turnover

"Government might be persuaded to accelerate relief already promised in areas like MST It would be very constructive for them to do that" Norton said he had an enormous amount of faith in the present management of the economy, and believed there was a growing realisation in Pretoria that financial markets should be "nurtured by government"

In a further move to boost liquidity, the tax holiday or "safe haven" on shares held for 10 years or longer could be changed to apply to shares held for only two years, Norton said

Market turnover would also be helped by the growing mountain of institutional cash moving into the stock market once interest rates started easing next year

On the criticism the JSE has faced for much of this year, Norton said he expected the debate in 1991 to be less emotional

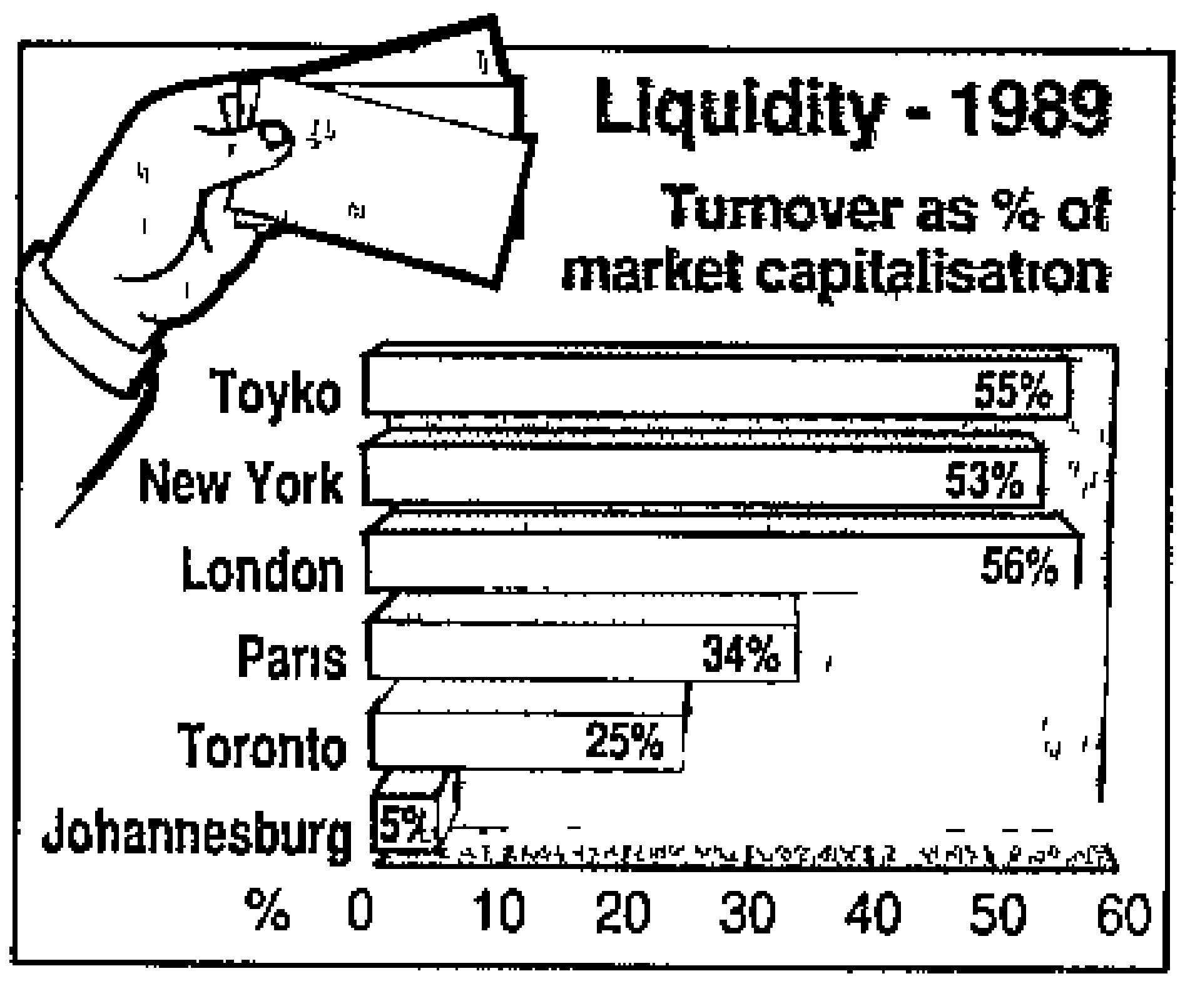
"Next year will bring a more realistic climate, unlike this year, when critics seized upon the fact that the JSE was working on too many things at the same time" These included the Traded Options Market (TOM), SA Futures Exchange (Safex), Bond Market Association (BMA), Securities Regulation Panel and the upgrading of the JSE's computer systems

"The coming year will be a period of consolidation as these projects come to fruition TOM, for example, is now bang on course and on budget, and should be operational in April," Norton said

On the perceived need for a fundamental restructuring of the JSE through deregulation or a "Big Bang", Norton said this was not a valid debate in SA's present set-up

"A Big Bang would not be a solution as there is no real problem crying out to be solved The JSE operates well after 103 years of evolution in providing a secure, independent and cost-effective market relevant to the SA environment"

Experience with revolutionary change abroad had shown evolutionists were winning the day, Norton said However, this did not mean they were against change "We are for change, but it must be thought through properly"



Graphic FIONA KRISCH Source JSE

Grovewalk: JHI sale gauged sentiment

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NEIL YORKE SMITH

SHAREHOLDERS in Grovewalk Holdings — the Durban property company defending a hostile takeover bid by DPF Investments — yesterday voted in favour of Grovewalk's R7,7m sale of its 29,2% interest in J H Isaacs (JHI) to UBS.

The decision was seen as critical in gauging shareholder sentiment regarding the DPF bid, Grovewalk MD Gerard de Rauville said in an interview yesterday.

"That shareholders supported management's decision to sell the interest reflects their confidence in us and in our ability to deliver the goods over the long term"

BD 7/11/90

Our Durban correspondent reports that a large shareholder, DPF MD Paddy Delaney, whose interests are making the bid, was represented by lawyer David Gordon and stockbroker Simon Oliver.

Delaney said afterwards the DPF bid for Grovewalk would continue.

About 93% of shareholders voted at the special meeting. The resolution to sell the JHI stake was favoured by 74,8%.

DPF is offering Grovewalk shareholders

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Grovewalk

BD 7/11/90

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100 new DPF combined units for every 100 Grovewalk units held b

Grovewalk has attacked the DPF offer on the grounds that it contains no cash element and is being made by a DCM-listed company with a short track record

DPF claims shareholders will earn better returns by accepting the DPF offer, and that it will improve the performance of Grovewalk which announced a R1,9m loss for the six months to August

De Rauville said "periphery issues" had also been discussed at the meeting These included the R500 000 restraint of trade payment UBS made to him personally and the R300 000 paid to Grovewalk.

Grovewalk directors had also proved conclusively that the JHI sale was no "poison pill" designed to deter the bidders.

"We proved that the JHI deal had been considered long before the bid was made"

It was disclosed during the meeting that Grovewalk might, in the future, consider a rights issue to raise further capital.

Prima scoops up Pickard's stake in CIB

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Cape Times 14/12/90

By ARI JACOBSON
and Own Correspondents

ANOTHER wave of uncertainty rippled through the banking sector last night when the Pickard family off-loaded their controlling stake in Cape Investment Bank (CIB) to Prima Bank.

Linked to this deal was the departure from the CIB Group (CIBG) of CE Andy Swartz because of what market sources described as "dissatisfaction over the sale "

Pichold chairman and CIBG GM Jan Pickard Jnr replaces Swartz with immediate effect.

Market speculation was that Swartz left after a disagreement with the management of Pichold, CIBG's parent company

Prima Bank came under JSE scrutiny last month for alleged liquidity problems, but the exchange later retracted this claim unreservedly

Prima — a privately owned bank — grew out of Rand Securities and was started by merchant bankers Johan Bellingan and Herman Haman about five years ago

CIB has also undergone problems — especially concerning the R15m default by Davis, Ralph & Sadleir (DRS) in the futures market.

Jan Pickard Snr said last night that the sale had been triggered by the need for rationalisation (fewer banks) and not by the difficulties experienced in the trading arena

The announcement says Prima Bank will make an offer to CIBG minority shareholders and will assume management control on December 18, the effective date of the transaction The CIBG board will be reconstituted to include Prima directors

Both banking institutions are leading players in specialised markets which expected to unlock substantial synergies They will have a combined capital base of about R45m

It is understood that Swartz plans to establish a financial consultancy business.

● Pichold minority shareholders are likely to take directors to task at today's AGM for the rejection of Tuesday's 600c a share acquisition offer by Urquhart & Co

It is believed Urquhart will make another offer of 625c today Jan Pickard Jnr said on Wednesday the 600c offer was "ludicrous"

However sources said while the offer may be was below the company's net asset value, it was more than double the current market value.

Another question which might be raised at the AGM today is the sale of Union Wine, which sources said displeased minorities.

Pichold shares closed at 375c yesterday after trading at a high of 700c in January and reaching a low of 220c in August.

Sources said Pichold — which reported a R13,4m loss and was in R114m in debt to the tune of R114m at the June year-end — had not been performing for some years and was operating from a low capital base and high gearing

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Rand softens in dull trading

A clearer look at Gencor's unbundling

Cpt Times 14/12/90 232

Own Correspondent

JOHANNEBURG — Gencor's unbundling was still under consideration though a task force's report on the issue had not presented startlingly compelling arguments either for or against the idea, Gencor's executive chairman Derek Keys said in London yesterday

Speaking to a group of British fund managers and investment analysts, he said "It is clear that the issue needs a lot more thought and our executives have now gone away to think about the implications of unbundling for the Gencor group."

Asked whether the examination of unbundling Gencor had been provoked by political posturing, Keys said definitely not "My responsiblity as executive chairman of this group is to ensure that the group is correctly valued

"If the Gencor share price stands at a 33% discount to its net asset value as it was last week, it means shareholders are being denied R5,4bn of their real wealth This surely is an issue that deserves our keenest attention?"

Keys also said another factor behind the unbundling idea was that "within the SA environment large organisations are not particularly popular Nor are they popular with the general public either"

Analysts said they understood this to refer to the ANC and the government and that it appeared to contradict the press statement claim that the proposal had "definitely not" been provoked by political posturing

Bank 'has no say' in Safex membership requirements

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BDay 14/12/90

ROBERT GENTLE

RESERVE Bank exchange control GM John Postmus said yesterday his department was not involved with membership requirements of the SA Futures Exchange (Safex)

He was reacting to a report this week on Safex's refusal to allow local futures broker Bailey Overseas to trade for clients on Safex despite Reserve Bank permission for it to trade for clients on international futures markets

Safex's reason for declining Bailey's application for membership — which was dismissed on appeal — was that the company did not meet the exchange's "total criteria for membership"

Local futures traders believe it is inconsistent that Bailey should be considered suitable by the Exchange Control authorities to trade in international markets using foreign exchange, and yet unsuitable to trade on the comparatively small SA market.

Postmus declined to answer questions on Bailey, citing Article 33 of the SA Reserve Bank Act No 90 of 1989, which he said prohibited him from disclosing any specific information regarding the affairs "of any person" who had dealings with, or who had lodged an application with, his department.

However, he said: "As has been published in the Press before, there are a few parties who are allowed to do hedging transactions abroad on behalf of SA clients, Bailey being one of them.

"Such authorities are granted on the basis of policy guidelines laid down for the department and are in fact relatively restrictive in nature, not only in respect of the transactions, but also as to the amounts and exposures."

Postmus added "All parties that have authorities of this nature are required to submit periodic statements to Exchange Control through their bankers, who are in any event required to control all transactions and report any deviations to us."

Pichold spurns new bid for shares

LESLEY LAMBERT

CAPE TOWN — Controlling shareholders of Picardi Holdings (Pichold) have rejected an increased offer of 625c a share made by Johannesburg-based Urquhart & Co.

The decision was made at the group's AGM on Friday and follows a previous rejection of a 600c offer.

Some minority shareholders responded angrily to the outright rejection of an offer price which was about half of net asset value, but well above the market price. The Pichold share rose 13% last week to close at 450c on Friday.

But it emerged at the meeting that the offer price covered little more than the R31m cash in Pichold and Picardi Properties, which meant the bidders wanted white goods manufacturing subsidiary Picardi Appliances (Picapli) — in which Pichold has a 93% stake — virtually for free.

The original Urquhart offer had been conditional on Picbel buying back certain investments, such as Cape Investment Bank (CIB), which would probably have lopped a couple more rand off the offer price. The deal to sell CIB to Prima Bank was consumated just hours before the AGM.

Picapli, which reported R13m losses in June after its toughest financial year, is Pichold's last significant operating subsidiary after the disposal this year of Union Wine and more recently of CIB.

Directors said at the AGM Picapli had returned to profitability and shareholders could expect bottom-line earnings of at least R10m to R11m this year, after an interest bill of about R20m.

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BDay
17/12/90

Results

Picapli's external interest-bearing debt had been reduced to R80m so far this year after a R50m reduction to R110m in the last financial year This had brought the debt to equity ratio closer to the 2:1 mark

In an interview after the AGM, Picapli MD Peter Spreckley and financial director Ed Teare were confident that last year's rationalisation had achieved the desired results

They said management decided on a quick fix last year to extricate the company from unprofitable markets at radically reduced profit margins and to apply other ruthless measures to cut debt to manageable levels

The results were lower levels of debt and working capital, reduced interest bills, zero tax this year as a result of last year's losses and a commitment to recapitalise the operating company with available cash resources.

"We took it on the chin last year and are now well positioned to capitalise on the traditional domestic appliance market. Our objective this year is to achieve 25% return on net assets which we feel is a necessary level, given our high proportion of debt," Teare said.

"Sustainable profit levels would require a debt to equity ratio of not more than 1.1. With debt currently down to about R80m and shareholders' funds at R34m, we are close to 2 1, but that is still too high," he said.

Spreckley said the highly rated after sales service provided by the company had paid dividends in keeping the level of consumer demand healthy in a competitive environment.

Picapli may be out of the rough but its gearing is still high and the economic environment in which it is convalescing is tough.

As stressed at the AGM, it will depend on a commitment by the major shareholders to route additional internal cash resources its way rather than into new investments.

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The holiday feeling invades the market

HAROLD FRIDJHON

WITH five full trading days to go before Christmas, interest is ebbing out of the money market. Asset trading has come almost to a standstill; the focus is on balancing the books and keeping out of the Reserve Bank's clutches. B Day 17/12/90

For the smaller banks this is a bone-crunching exercise with the institutions tightening the screws. Call rates were topping at 19% on Friday with the possibility that they might be poised to go higher today when the market shortage — the banks' combined debt to the central bank — is expected to touch R3bn.

The larger banks claim that their positions are comfortable and that they are getting their overnight cash at rates well below those extorted from the many smaller banks. Be that as it may, some of the majors may not be too comfortable when the banknotes start pouring out from their cash dispensers this week.

On Thursday the note issue reached R10,6bn and like the mercury in the thermometer, could continue to rise.

But rising rates are confined to the shortest end of the market; elsewhere the bullish mood prevails. The Treasury bill (TB) rate shed another four basis points on Friday to 17,37% (discount) from 17,41% in a singularly ill-supported tender; only R163m was bid for the R120m bills on offer. This surely is an indication of the fading interest in the market.

The BA rate, too, was cut to 17,65% from 17,75%, possibly in an effort to drum up trade. The rate for 12-month CDs (negotiable certificates of deposit) was trimmed five points to a middle price of 17,60%, probably for the same reason; bankers say that the demand for paper has dried up.

The shutters are up!

Insolvencies take their toll

B Day 17/12/90

GERALD REILLY

(232)

PRETORIA — The number of insolvencies among private individuals and partnerships has shown a sharply increasing trend since the beginning of the year, according to Central Statistical Services.

In July-September the insolvency toll increased by 14,1% to 834 compared with the same period last year

And compared with the previous three months — April-June — the increase was 13%. However, the number of company liquidations dipped sharply in August-October by 22,1% to 371, compared with the same three months a year ago. Compared with the previous three months — May-July — they decreased by 4,6%.

CSS says the continued downward trend in liquidations is largely a result of a big decline in the number of voluntary liquidations.

However, compulsory liquidations — normally two-thirds of the total — show hardly any change in the trend apparent since the beginning of the year.

BOE to link up with Anglo-Vaal?

Cap-Times 18/12/90

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By ARI JACOBSON

RUMOURS circulating in banking circles claim The Board of Executors (BOE) is negotiating a link-up with Anglo-Vaal (AV) as the new in-house bank for the giant mining financial empire.

The flow of the vast pension funds from the mines to the BOE, would be reciprocated with The Board acting as "corporate treasurer" to AV

At present the BOE lacks a banking licence, but with 150 years of solid service in the industry this should be easy to obtain

The restructured Anglo-Vaal has consolidated its insurance divisions — Crusader Life and AA Life Group — into the Anglo-Vaal Insurance Holdings (Avins) and is looking to latch-on a treasury division

Further information obtained is that Liberty Life — who acted as a "white knight" in helping BOE thwart the hostile bid by Investec in 1989 — would relinquish its stake to the Hersov/Menell family controlled group

An added incentive for financial intermediaries such as the BOE is a year's exemption from the harsh capital requirements due to be enforced under the new banking bill next year

BOE GM Tom Boardman declined to comment on the Anglo-Vaal position, but said more information would be forthcoming (hopefully) today

"The idea of having our shares suspended for so long is unappealing — we are working flat out to complete negotiations," he said

Comment from the mining house was unavailable last night

● Safegro fund managers has acquired a 49% stake in Mercantile Bank Holdings to fulfil the requirements of the Deposit-Taking Institutions (DTI) Act.

Safegro acted as corporate treasurer to Hosken's Consolidated Investments (HCI) and the IGI group The DTI Act requires an institution with a banking licence to control these activities

Lanchem, Norvic, Osprey to be relisted

ANDREW GILL

THE listings of Lanchem, Norvic and Osprey, suspended on November 20 for suspected involvement in breaches of foreign exchange regulations, will be reinstated on the JSE today

JSE president Tony Norton said he had been informed that "the reasons for their suspension had fallen away and they could now be relisted".

It is believed they were under investigation, along with previously suspended Manserv and Meter Systems, for alleged round-tripping

The key figure in the investigation is Ignatius "Naas" Ferreira who was arrested in connection with the investigation, charged with R24m fraud and released on bail of R5 000 in late November. His case was postponed to March 4

Representations by Norvic and Osprey management to the Reserve Bank in November to have their accounts unfrozen were successful. Norvic was suspended at 8c, Lanchem at 4c and Osprey at 27c.

Norton said the JSE had been only reactive in the matter and was happy that they could now be relisted. They were suspended in the interests of the market and shareholders, he said

A Reserve Bank spokesman said he was unable to comment on the relisting.

BDay 18/12/90

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HCI turns around to end year with peak share price of 800c

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B Day 20/12/90

LIZ ROUSE

HOSKEN Consolidated Investments (HCI) is ending the year on a high note with the share price at a peak of 800c after bottoming at 500c in October

A more diverse and focused group has emerged in the past year, making it less dependent on the vagaries to which short-term insurer IGI Insurance (54% owned by HCI) is subjected from time to time

In March this year HCI and its subsidiaries, IGI and Safrican Life Investment Holdings (Saflife) announced the formation of a R1bn investment management group, Safegro Holdings

Safegro, with three divisions to deal with institutional fund management, property management and personal asset management, is owned 51% by Saflife, 44% by IGI and 5% by HCI

In October, HCI chairman Michael Lewis announced that it was substantially increasing its stake in the highly successful Saflife to 74% from 11% by buying Crendell Investment Corporation (formerly the R42m Arwa cash shell), which had a block of Saflife shares

Earlier this month HCI announced details of this deal.

HCI bought from Tollgate Holdings 16,6-million shares in Crendell which constitutes 71,58% of the issued share capital of Crendell

The acquisition will be at a purchase price of 183c a Crendell share, to be implemented by HCI issuing one new HCI share to Tollgate for every five Crendell ordinary shares held

Crendell bought about 24% of Saflife's ordinary share capital at 400c a share and 4% of HCI's ordinary share capital at 950c a share for a total consideration of about R33m That leaves a residual cash balance of R9m in Crendell

The deal increases HCI's net asset value by 43c to 768c a share but decreases HCI's earnings by 20,5c to 145,7c a share, based on HCI's accouts for the year to end-March 1990

However, despite the short-term negative effect on HCI's earnings, directors are confident that there will be material long-term benefits to shareholders

Finally, HCI has tied up the future of its treasury activities, operated by Safegro, through Safegro acquiring a 49% interest in Mercantile Bank Holdings, a registered bank controlling company.

The acquisition has been made in view of the Deposit Institutions Act which is expected to come into effect in January Without its holding in Mercantile, Safegro may have been prevented from continuing its treasury activities.

Court order blocks Sun-Ciskei meeting

(232) **TANIA LEVY**

SUN International was yesterday prohibited from holding an extraordinary shareholders' meeting on Saturday to adopt resolutions needed to procure a JSE listing for Sun-Ciskei (SIC) Bisho 20/12/90

In the Bisho Supreme Court Mr Justice W Heath approved an urgent application brought by minority shareholders to have the meeting set aside.

They contended that Sun International had convened the meeting urgently and in bad faith to frustrate minority shareholders' rights concerning the purchase of their shares

According to affidavits filed in support of the applicaton, a 1987 agreement entitled minority shareholders to compel Sun International to purchase their shares unless an SIC listing was secured before June 30 1991

A reliable source said about R60m would be payable to minority shareholders — who hold about 26% of SIC's issued share capital — if there was no listing before that date.

With about 7% of SIC's shares, Rand Merchant Bank is one of the main minority shareholders through its wholly owned subsidiary Anglo African Shipping.

The five minority shareholders who made the urgent application were represented by Jeremy Gauntlett SC and Johan Froneman SC

They alleged that the meeting had been

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Sun-Ciskei

Bisho 20/12/90

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improperly convened, because SIC directors had not been consulted and had, in fact, never even considered listing SIC shares on the JSE.

In supporting documents to the application, Sun International MD Ken Rosevear was alleged to be of the view that SIC directors were duty-bound to further the objectives of SIC shareholders.

In addition the applicants claimed that the notice calling the meeting was defective because it failed to comply with technical requirements of company law. There was not enough detail about the resolutions to be adopted at the meeting.

Advocate Henry Viljoen represented the respondent.

Casualties of recession — and fraud

w/mail 20/12/90 - 10/1/90

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THE JSE

REG RUMNEY

THE year started with the final winding up of Quality Tyres. An investigation revealed unauthorised borrowings from banks of R54-million

Directors Alex Hawes and Edward Philip were arrested on fraud charges.

Liquidation of the year was listed parts retailer **Spareco** — debunking the idea, perhaps, that the parts business is recession proof.

Spareco was put into provisional liquidation by Ferodo in September

Alpha Bank became a casualty Alpha was put under curatorship of the Reserve Bank after running into liquidity problems as a result of R6-million exposure to Spareco.

Spareco employees took the company and several banks to court when their salary cheques weren't paid.

In the end, Spareco was bought for R15,3-million at an auction by a consortium comprising Vaal Auto, Broshure Investments and IGI.

The share was suspended at 90c, having reached 700c in its heyday

Matters came to a head at Sanlam's problem child **Bankorp**, holding company of Trust Bank.

Trust Bank, which had earned the "school for fraud" title, lost chief executive Chris van Wyk, who had been shifted into the job from the post of Bankorp CE. To the astonishment of the business community, Piet Liebenberg left a comfortable seat at the helm at Nedbank to take up a much hotter one at Bankorp

The minorities of Sankorp subsidiary **Fedvolks**, a symbol of the Afrikaner's steady ascent in the business world, were bought out. The delisting of the poorly performing industrial holding giant, 50 years after its birth, was seen as the end of the era.

Hotel group **Southern Sun** also lost its identity, to be swallowed up by holding company SA Breweries.

Of bulls, bears and bloodbaths

By ROBERT LAING

TURNING the ups and downs of commodity prices into thrilling reading poses a tough problem. Journalists tend to try and liven up descriptions of the day's trading on the world's financial markets with military metaphors.

Typical reading goes: "The pounding received by the Dow Jones industrial average boosted gold's rally to higher ground as investors sought refuge from the battered stock exchange. Gold quickly found solid support at the $380 level, but then lacked clear command from either oil or the dollar."

Financial markets, from business reporters' descriptions, sound like Napoleonic battlefields. It's a little disappointing to learn that a headline reading "Bloodbath on the JSE" doesn't necessarily mean brigades of Yuppies pounded each other with artillery fire or held their positions against bayonet charges. They just stood around with their hands in their pockets surveying overhead price lists.

Synonyms for up and down are limited, so the art of financial journalism is knowing when a price rise is a hike, a jump or merely a surge. Also when a drop is a downward spiral, a plummet or a plunge.

If there is one thing dealers always seem scared of it's being caught short before the weekend, which makes sexual innuendo fun.

Fear of being caught short causes the market to constantly soften and firm. For instance the *Sunday Star* reported: "Anglo has built up solid support around the R98 level. There is already a mild breakout, but a penetration at R96 could see it surge to R110."

Gold markets and the military metaphor have become particularly inspired since the invasion of Kuwait. Although no shots have been fired in anger in the Middle East yet, rumours of war and peace have produced "Bloodbath" headlines nearly every week.

May all be quiet on the gold front in the new year.

Anglo-Vaal, BOE in link-up deal

Cape Times 20/12/90

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ARI JACOBSON

THE BOARD of Executors (BOE) stepped into the limelight yesterday — shedding its minnow status — in a R57,2m deal which gave mining financial giant Anglo-Vaal Group (AVF) a 35% stake in The Board

Liberty Asset Management (Libam), BOE's protectors when Investec intruded in October 1989, relinquishes half of its 1,5m shares or a 10,4% holding, with the rest being built out of an unconditional offer to ordinary and loan stock holders

BOE's MD Bill McAdam said the offer price of R11,25 — the share was suspended at R8,30 — provides some indication of AVF's prospective valuation of the organisation

"While the onus is on The Board to fulfil such expectations — AVF by pitching the price at a R3 premium has a vested interest in making this work."

The AVF transaction gives BOE the opportunity of reaching blue chip status while shrugging off the threat of capitulating into the Standard Bank fold under Liberty's influence

"While AVF made the initial advances, BOE's strategic positioning for the '90s focused on an allegiance with a powerful diversified group Independently we sought each other "

Synergies — the essence of any valued partnership — sees Cape-based BOE strengthen AVF's presence at the coast ably supported by fishing and frozen food company I & J

The Board has R2,9bn worth of assets under administration, conducting top flight transactions in the property, corporate and private client arena

McAdam said a banking licence application would be lodged with the Registrar of Banks and hinted that "a blue chip bank would be the outcome if successful "

Really Noble Investments (RNI) which holds an 8,9% stake in BOE, provides some exposure in Durban

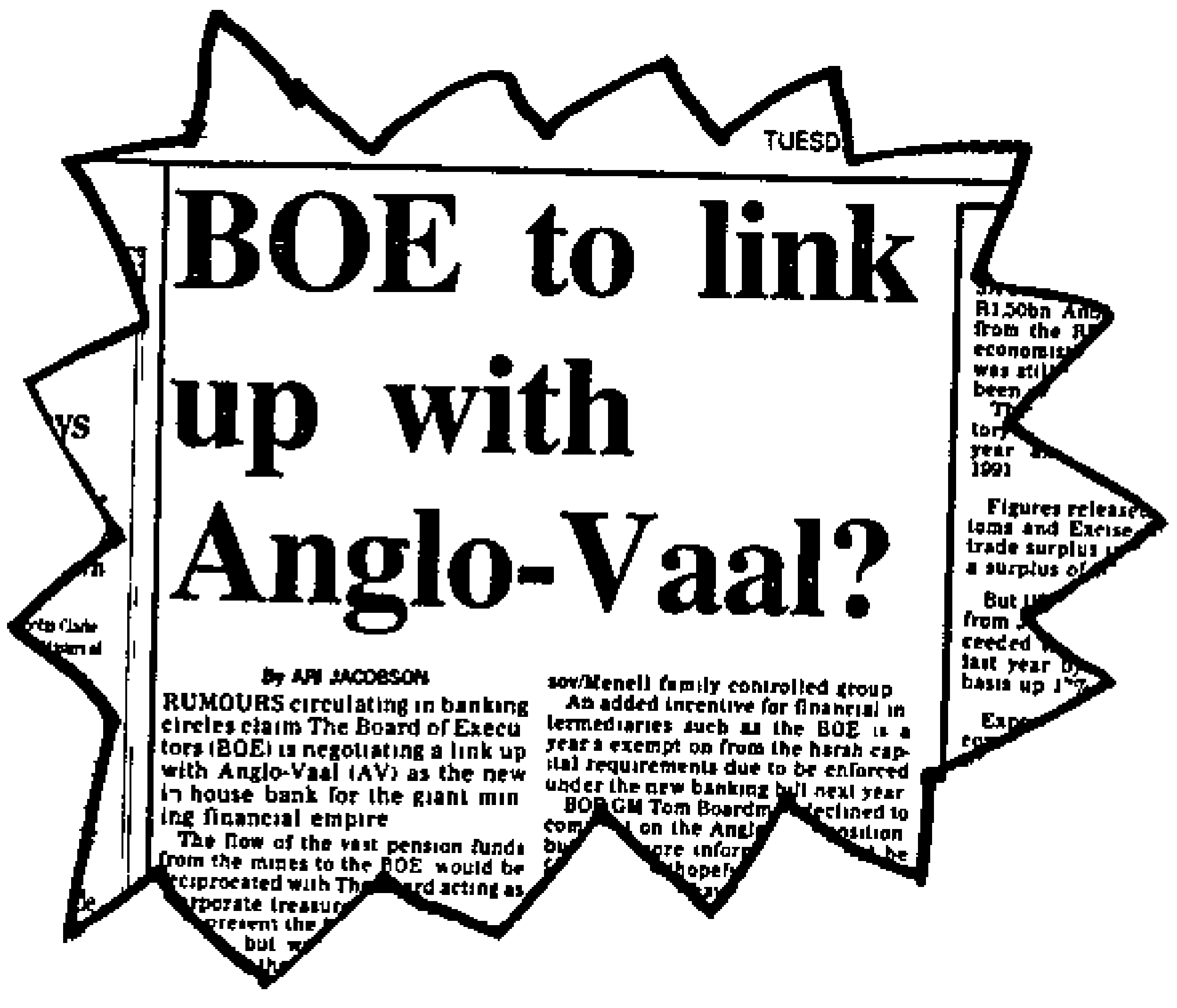
The might of AVF is well-documented in the Transvaal and McAdam hoped the group would "be fed so it could grow"

AVF has adequate energisers — R2bn worth of pension fund monies backed up by R500m in life assurance assets

An AVF spokesman said inter-group co-operation was encouraged — but a company was required to win the business Otherwise inefficiency, "a recipe for disaster", would ensue

He said the coastal bond and the quality of management and assets under BOE's control had been the prime motivators in the link-up

He dismissed the possiblity of further acquisitions in the rapidly rationalising financial services industry although AA Life (a large part of AVF's insurance arm) holds a 30% stake in Prima Bank.



TUESD

BOE to link up with Anglo-Vaal?

By ARI JACOBSON

RUMOURS circulating in banking circles claim The Board of Executors (BOE) is negotiating a link up with Anglo-Vaal (AV) as the new in house bank for the giant mining financial empire

Ari Jacobson's forecast in the Cape Times on Tuesday, that there would be a link-up between the Board of Executors and Anglo-Vaal Industries, was proved right yesterday.

Prima Bank dismantles CIB

Cape Times 20/12/90

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From LESLEY LAMBERT

PRIMA BANK is dismantling its recently acquired Cape Investment Bank — it has confirmed the retrenchment of at least 37 CIB employees and is negotiating the sale of two CIB subsidiaries.

But Prima MD Johan Bellinghan denied market rumours yesterday that entire trading divisions in Cape Town and Johannesburg had been axed this week. Heconfirmed that 24 of the 53 people employed in CIB's Cape Town head office and 13 of the 25 employed in the Johannesburg trading division, had been laid off

The corporate finance division in Johannesburg would be addressed tomorrow.

Bellinghan also confirmed that the sale of two CIB subsidiaries, computer systems company Top Edge and computer software company Digitracks were being negotiated. Between them, they are understood to employ about 20 people, the majority of whom are likely to remain employed by the new owners.

Suggesting that more retrenchments were likely, Bellinghan said that from January 1 all financial trade done by the merged operation would be done in the name of Prima Bank.

"The only CIB dealing room operations to remain will be funding operations and the bank's unprofitable advances book will be run down. But we will maintain a smaller Cape Town office as a branch of Prima," he said.

Bellinghan said the retrenchments were an unfortunate but necessary part of a radical rationalisation process to restore troubled CIB to profitability.

Harry O's is the family with the mostest

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MARCIA KLEIN

THE 16 wealthiest families in SA — based on their holdings in their own businesses listed on the JSE — are worth more than R5bn collectively

A Financial Mail (FM) survey — published in this week's edition — shows that nearly half of the R5bn is accounted for by the Oppenheimer family, which is worth R2,4bn based on its holdings in Anglo American Corp, De Beers and Minorco

Second to the Oppenheimers are the Rupert/Hertzog families — which are worth considerably more than R457,1m with their listed holdings in Tegniese & Industriele Beleggings (which controls Rembrandt) and Richemont

Liberty Investors' Gordon family is worth R482,7m and the Methven family of Rainbow Chickens is worth R398,6m

Pick 'n Pay's Ackerman family rates fifth, and is worth R390m with its holding in Pick 'n Pay Holdings and Pick 'n Pay Stores, according to the FM

The Venter family has R283,3m with its holding in Ventron Corporation

Mobile Industries and Trencor's Jowell family is worth R172,5m

Daly's has brought the Hamilton family into eighth position with its R160m holding, Wesco, Toyota SA and Metair Investments' Wessels family is worth R140m, followed by Pepgro/Pepkor's Wiese family, which came in 10th with a holding of R135,2m

After that comes FSI's Liebesman family (R130m), the Mowzowskis of Elcentre (R129,5m), and Anglovaal Holdings, Anglovaal and Anglovaal Industries' Menell and Hersov families (R122,6m) Foschini's Lewis family (R115,4m), and Keeley Group's Keeleys (R95,2m) also feature

B/Day 20/12/90

New venture could boost Fralex

B Day 21/12/90

CHARLOTTE MATHEWS

THE venture by Fralex into underground mining will have a significant effect on the group's long-term profitability, although the group's short-term outlook is negative

Fralex is the holding company for materials handling company Fraser Alexander

Financial director Les Maxwell said yesterday the group's recent venture into underground mining on its own account had uncovered some deposits and feasibility studies were now being done

Fraser Alexander had mined chrome deposits in the past and it was likely to look in that direction as well as mining gold, coal and other minerals if the opportunity arose

In the group's annual report released in September Fraser Alexander chairman Peter Flack warned that a decline in activity had been experienced in several of the group's operating divisions in the preceding six months

Maxwell said this still held true

"I don't think our results will be as good as last year Certain of our markets have been affected by factors which were not as clear in September as they are now -- for example, township violence has prevented getting any concrete products into the townships

"Tenders and inquiries are now starting to come in but we are uncertain if we will be able to recapture the fall in volumes experienced in the last three months"

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Doubled

The decline in the group's shares reflects this perception Holding company Fralex's shares have slipped nearly 40% in the last six months from 925c in May to 560c yesterday In the five months from December 1989 to May 1990 the shares doubled from 450c and trade was frequent At their peak the volume of shares traded was nearly 80 000 in one day

Operating company Fraser Alexander's shares closed at 950c after climbing to R13,50 in August from 760c in December

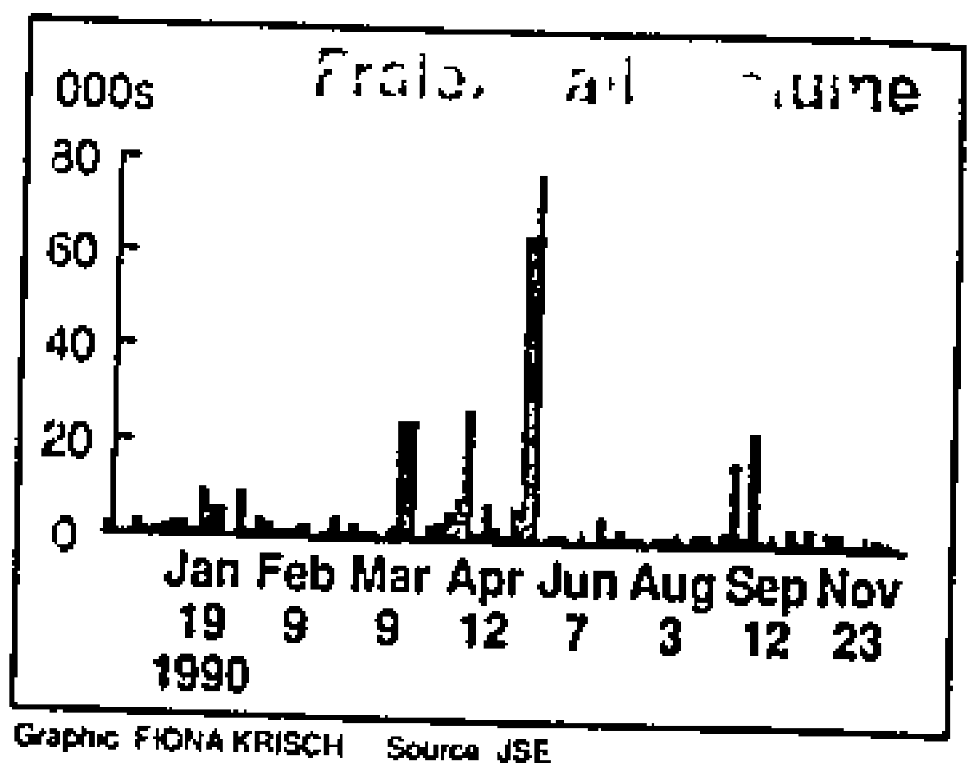
Analysts are unable to offer any conclusive explanation for the shares' movement

Fralex holds 72,9% of Fraser Alexander, whose core business is handling mining and industrial tailings

The group's five-year profit history reflects steady growth which has seen earnings climb from 37,6c a share in 1986 to 165,5c a share in the year to June 1990 In the same period total assets have risen from R46m to R142m.

Fralex shares are tightly held According to the latest annual report, directors and employees hold 34,8% of the issued share capital, pension funds, insurance companies and other corporations hold 45,2% and another 44 individuals hold 16,6%

Of the 27,1% of Fraser Alexander shares not held by Fralex, pension funds, insurance companies and other corporations hold 22,4%



Graphic FIONA KRISCH Source JSE

Maxwell said the shares tended to trade thinly as a result of this structure and the price moved sharply on small trade volumes

He believed the group's track record and expectations of continuing growth in earnings was the reason for the upward movement in the share price this year

The large volume movement in May was believed to have been primarily the result of one major institution balancing its holding in the group between Fralex and Fraser Alexander

JSE takes close look at pyramids

B Day 21/12/90

ZILLA EFRAT

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THE JSE is investigating pyramid structures, which look set to become relics of the past.

JSE president Tony Norton says world trends indicate that the days of pyramid structures, which do not exist in most developed countries, are numbered, especially if the SA market becomes more liquid.

Norton expects the JSE's working group to make its recommendations in the first quarter of 1991. These will be discussed by the JSE's listing and general committees and any changes decided on will go through in the second quarter.

The JSE will review aspects of pyramids, including whether they are fair to all shareholders.

Some merchant bankers expect to see pyramid structures disappearing, or being far harder to create in the future. But they believe any changes will affect only the formation of future pyramids.

The future of pyramids will be influenced by legislation related to the Securities Regulation Panel, expected to come into effect in February.

Representations have been made regarding the draft of this legislation, the final form of which is expected to be published in January.

One expected outcome is that any future change of control at the top of a pyramid will require that similar offers be made to minorities all the way down.

Standard Merchant Bank corporate finance GM Mark Barnes says such requirements make a take-over of a pyramid structure more expensive. However, minorities are assured of the same price as

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Brokers sent scurrying as short circuit triggers blast

B1Day 24/12/90 **TIM COHEN** 232

A BRIGHT flash followed by billowing smoke yesterday sent brokers scurrying for cover at the JSE annexe across the road from the main JSE building, prompting one wag to say the event took some of the sparkle off the gilts market.

The JSE had to be evacuated shortly after lunch following the electrical malfunction Security officials feared the gas resulting from the blast might have been poisonous

But the interruption only lasted about 30 minutes, after which the brokers drifted in

JSE president Tony Norton said trading was not affected for long although power in the building had to be turned off for a short time.

Only the computers on the gilts floor had been affected for any length of time before the JSE's back-up power sources came into operation

He said trading on the floor had been slow anyway, and rejected the suggestion that the power malfunction resulted from an attempt to inject some energy into the floor.

He also rejected the idea that the malfunction was the result of brokers attempting to make an early getaway before the Christmas holidays, saying the blast was "definitely unrehearsed".

"This is really irritating" he said, commenting on the fact that the JSE had just moved into the building on August 10

He said the large box where the malfunction occurred, just outside the lift on the first floor, was burnt out from what had clearly been a short circuit.

Azapo labelled a sellout by breakaway branch

B1Day 21/12/90

THE Durban branch of the Azanian People's Organisation (Azapo) has withdrawn from the organisation and established the Revolutionary People's Movement (RPM), saying it had been apparent for some time that Azapo was "hanging onto the coat tails of the ANC".

Azapo's Durban chairman Imrann Moosa and secretary Monwabisi Vuza yesterday accused the organisation of being in no different a position from the ANC and PAC regarding a negotiated settlement

A constituent assembly would be "a sham through which a new multicoloured, exploitative, oppressive ruling class would emerge", they said

By late last night there had been no comment from Azapo on the breakaway

Speaking in Cape Town yesterday, Azapo vice president Peter Jones said he hoped recent rank and file criticism of the ANC would make that organisation less hostile towards a consultative conference of liberation organisations

Jones said partially representative talks between liberation movements and government would not solve internecine violence. These organisations needed to meet on a representative forum in order to have the capacity to intervene and resolve conflict by peaceful means

Azapo had formally adopted a position towards a meeting between liberation movements, involving the ANC, PAC and others, to move towards a consultative conference — Sapa

Persbel deals 'spell no change in control'

MARC HASENFUSS

SPECIAL bargain deals in Perskor Beleggings (Persbel) shares on the JSE last week and the 27% share price hike to a record 400c a share was seen by analysts as institutional reshuffling of long-term investment considerations rather than a change in control (232)

Key Persbel directors could not be reached for comment yesterday in the wake of the two special bargain deals of 1,4-million shares at 400c each on Thursday and Friday

Analysts said it could be a potential rise in the value of its assets as Persbel has a stake in M-Net M-Net shares, issued at 100c, have doubled in price since listing.

The activity and the price rise brings the Persbel shares in line with other companies in the publishing and printing sector, which are at record highs

Caxton featured earlier in the week on a 50% or R50 rise to R150 with only 100 shares changing hands in one deal Times Media Limited (TML) is at a record 800c, while the Argus Group moved to a new high of R235 ahead of a proposed share split.

Holding company Persbel's share price movement pulled up subsidiary Perskor shares by 100c to R11 at the weekend

BDay 26/11/90

BUSINESS OUTLOOK '91

By Syd Vianello
Research Analyst
— Industrials
Ed Hern, Rudolph Inc

Star 24/12/90.

Whither the industrial market?

A year ago I predicted the industrial index would show little growth in 1990 as the economy slowed and corporate profitability came under pressure.

As it turned out, my prediction seems to have been on target. At the time of writing, the index level of 2960 was not much short of my targeted 2950

So what for 1991?

Current signals indicate a worsening of the key economic indicators early in the year

Gross domestic product (GDP), already negative (annualised) for three successive quarters, should remain negative for much of 1991, while negative fixed investment already seems to be a way of life in SA

Unemployment is forecast to deteriorate rapidly in the first quarter of 1991 — in fact many workers may well be returning after Christmas to no job, while early reports in December from leading retailers indicated a rapid drop-off in trading, compared with the levels recorded earlier this year, due, I am sure, to continued high inflation (more recently the petrol price increases), lower growth in wage increments, the uncertainty created by the unemployment spectre and the decline in incomes of the informal sector (particularly taxidrivers).

Profitability

Company profitability will also be negatively affected by

- The Government's continued anti-inflationary drive, which will see government expenditure real growth once more at a virtually zero level
- The stronger rand, which is affecting export industry profitability severely.

Although investment restrictions have now been removed by the European Community, we see little actually coming here for a long time because of the unclear views of the ANC and other like organisation on nationalisation. Clearly the latest decree in regard to white-owned Zimbabwean farm properties won't create a climate conducive to investment

The lifting of trade barriers could help certain industries such as iron and steel and certain agricultural products, but clearly the mooted boosting of trade with East European countries and Africa will always be restricted by foreign currency constraints.

The world economic outlook will, as always, not escape SA and prospects of slower world activity could hurt demand for and revenue from some of our primary exports such as platinum, steel, ferrochrome, coal, sugar, etc.

Fortunately, the start of construction on the Lesotho Highlands water project will compensate for some of the decline in Mossgas activity

But the possible closure of some gold mines or a major cutback in gold mining activity will both put many tens of thousands out of work and reduce mine purchasing activity (and development) somewhat severely.

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Scenario

Compounding the above is the political scenario, which indicates a further high capital outflow for 1991 in terms of our international creditor arrangements and an ongoing postponement of employment-creating opportunities because of the uncertainty.

Inflows into Eskom stock should continue, but this does not create jobs.

Whatever the number of new jobs created, if any, it will not cover population growth and unemployment will worsen.

When will the economy turn? We think weak signs will emerge later in 1991, particularly when the expected lowering of interest rates has the desired impact.

But let us warn that maybe up to three drops in interest rates might be needed to re-stimulate the economy (remember 1985-87?).

By then we also hope that a weaker rand will help exporters recover their profit margins and generally create a climate more positive than the present one

Perhaps, too, the constitutional negotiations will have started and helped improve the political climate.

So how will all this affect the industrial market?

Fundamental

Let us begin by examining the fundamental truths underlying the South African industrial board of the JSE·

- Many years of low growth and negative GDFI has resulted in current debt ratios of the top index stocks remaining well within acceptable levels.

Little or no new money is expected to be raised in the foreseeable future.

- Privatisation is currently out of the question until the political questions are resolved, so institutional investment in this area will be zero
- Potential investment opportunities in government, semi-government and parastatal stocks will decline because of lower expected deficits or capex programmes under consideration.
- The outlook for commercial and industrial property is unexciting because of the current CBD oversupply situation.
- The gold mining industry as an investment medium appears dead — in fact disinvestment may well occur if the gold price remains at current levels.
- The non-convertibility of the local currency effectively limits investment opportunities outside SA to a small range of stocks such as Minorco, Richemont, Fit, Lonrho, etc.
- Institutional cash holdings cannot for psychological reasons be allowed to rise too high, while in any event the returns from cash are forecast to decline considerably in 1991.

So what happens?

Merry-go-round

Effectively, we get "inflation" in the share market where cash can only logically be dedicated to industrial stocks And because we have a virtually finite number of stocks being chased by ever-increasing cash flows, stock prices inevitably rise in the resultant merry-go-round.

We therefore think that despite the current poor economic outlook, the industrial board will start to display exciting growth signals later in 1991 as the returns on alternative investments (cash) decline, the earnings outlook improves and industrial equity holdings in portfolios need to be increased to more realistic levels

We therefore think that top-quality index stocks could rise by as much as 20 percent in 1991 as investors scramble to increase their equity exposures and simultaneously reduce their gold and related positions.

Our forecast is for an industrial index of 3 500 by end-1991, with significantly weakened earnings and dividends yields attaching thereto

This strange paradox is, regrettably, the result of the cumulative effects of a decade of erratic economics, uncertain politics and worsening untradeability in the market due increasingly to the high level of power concentration in South Africa

COMPANIES

Rentbel stages recovery on Trek Airlines connection

BDay 27/12/90

GRETA STEYN and LIZ ROUSE

THE battered share price of Rentmeester Beleggings (Rentbel) staged a 6% recovery on news that Trek Airlines, in which Rentbel has a large stake, is to start competing with SAA soon.

The industrial holding company's share price clawed its way back up to 350c after slumping to a low of 330c.

Despite the recent gains, Rentbel's value is still almost 33% down from the beginning of the year. Its year high was 570c and for 1989 700c

After a period of rumours of financial trouble, Rentbel is making much of its 44% stake in Trek, describing it as "a trump card".

Rentbel chairman P H N Bremer said in the group's annual report that the matter of the fuel price was being addressed by management in order to ensure long-term growth.

But he noted that "excellent results" were expected from life assurance activities.

Rumours that an important subsidiary, President Insurance, is on the verge of liquidation have been denied but President Insurance MD Johan Wasserfall has resigned. Extensive rationalisation is taking place at President, including the closure of unprofitable branches. President countered talk of financial difficulties by pointing out its solvency margin was about four percentage points above the 15% statutory requirement.

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New insurance legislation forcing additional provisions and reservations reduced Rentbel's income for the year by R1,3m. The 45% drop in earnings for the year to June was a major factor behind the slump in the share price.

Market speculation is that Rentbel could be the target for a takeover. At 350c, it is trading at a substantial discount to its net asset value of about 915c.

The group has been restructuring to put the focus on core activities. This includes the sale of its chemical interests to AECI and the liquidation of clothing subsidiary Wolnit.

Persbel and Remgro in printing deal

MARC HASENFUSS

THE share price of printing and publishing group Perskor Beleggings (Persbel) rose sharply to a new high yesterday on the back of news that the group had negotiated a right in the printing and packaging interests of the Rembrandt group (Remgro).

The agreement, approved by shareholders at the Persbel AGM on November 5, was financed through the issue to Remgro of an undisclosed number of Persbel shares. Persbel chairman Koos Buitendag yesterday refused to disclose the number of shares issued. BDay 28/12/90

Rembrandt directors could not be reached for comment.

Rembrandt Beheer shares gained 10c to 1100c on the JSE yesterday. (232)

Analysts said the Persbel shares issued could be the 1,69-million shares (representing 20% of Persbel's issued share capital of 8,3-million ordinary shares) traded in two special bargain deals on the JSE last week.

Persbel's shares rose 12,5% or 50c yesterday to 450c with 221 552 shares changing hands in five deals worth nearly R1m. Perskor shares were unchanged at 1100c.

Early morning trading yesterday saw a single book-over deal worth R774 363 of 181 552 Persbel shares at 410c. Persbel's shares have been heavily traded during the second half of this year and have gained 125% since a March low of 200c.

Persbel is the investment company for Perskor Publications, which publishes The Citizen, Transvaler and free distribution newspapers. Perskor's magazine subsidiary Republican Press prints Scope, Personality and Garden and Home. Its book publishing division operates nationwide.

In the year to June 1990 Perskor expanded and rationalised its printing capacity as well as increasing its printing markets The annual report said printing made "a substantial contribution" to the group's profits in the past year.

Perskor prints stationery for the computer market and has a plant which specialises in printing cheques and encoded documents for financial institutions.

Rembrandt owns 30% of PrintPak, according to McGregor's Who Owns Whom.

COMPANIES

Shareholders still in dark over talks

ZILLA EFRAT

NEGOTIATIONS between Allied, UBS, Volkskas and Sage Holdings are continuing, with shareholders little wiser than they were when merger talks were first announced three months ago

The four groups have cautioned shareholders again today that discussions aimed at a grouping of their interests into a new diversified financial services group are continuing.

B Day 28/12/90 (232)

When the first announcement of the talks was made at the end of September, it was believed the four groups would merge their interests into SA's largest single financial services group with combined assets of about R50bn

However, reliable sources close to negotiations told Business Day recently that planning had apparently swung towards the formation of a holding company that would control UBS, Volkskas and Allied

Each group would maintain its own individuality and identity

But a services company would be formed to take care of the three banks' data processing and services needs, leading to huge synergistic savings.

Sage, it appeared, had been left out of the talks

UBS Holdings CE Piet Badenhorst yesterday declined to comment while the talks were in progress, as did Allied chairman Norman Alborough

However, when asked why talks were taking so long, Alborough said the negotiations were complex and involved a large transaction Other directors could not be reached for comment yesterday

Gold undermines overall index

JSE ends year on high note in industrials

B\Day 28\12\90

(232)

THE rally of blue chips in the first half of December has enabled the JSE industrial index to post a rise of almost 8% in 1990 and most dealers expect the gains to be extended today.

The further rise should come on "window dressing" of shares to buttress portfolios at year-end. The strength of the industrial market reflects the shortage of quality scrip and comes against a background of falling global equity markets

The industrial index yesterday firmed two points to close at 3 003. While this is still 215 points below the peak reached in the wake of President F W de Klerk's historic address at the opening of Parliament in February, it is 218 points above the level at the start of the year.

Until yesterday the Dow Jones industrial average, at 2 637, was more than 116 points below where it started the year.

But weakness in golds and market leader De Beers put the skids under the JSE overall index after it had hit a peak of 3 399 in March The index yesterday closed at 2 712, 8,8% or 262 points below where it started the year at 2 974

The transformation of De Beers into De Beers Centenary lifted the shares from a level of R59,75 a year ago to a peak of R110 in May. But the shares then slid to a recent low of R60 before closing yesterday at R67,15.

MERVYN HARRIS

The rise and fall of gold shares has been even more dramatic as the short-lived bull market petered out Starting the year at 2 029, the JSE all gold index peaked at 2 252 in February and tumbled to a low of 1 101 in early December before staging a recovery to close yesterday at 1 202 — down 40,5% or 825 points since the start of the year

The transport sector was in the forefront of the gains by industrials with the index climbing 72% to 1 2272. The gains were on the back of leaders Trencor and holding company Mobile almost doubling in price, while most of the other shares in the sector languish near their year lows.

Strength in leading stores shares has lifted the retailers ~~and~~ wholesalers index 55% to 3 111, while gains by Ellerine — the market's star performer on the year — and J D Group swept the furniture and household index up 45,5% to 451

With Persbel the latest share in the printing and publishing sector to scale

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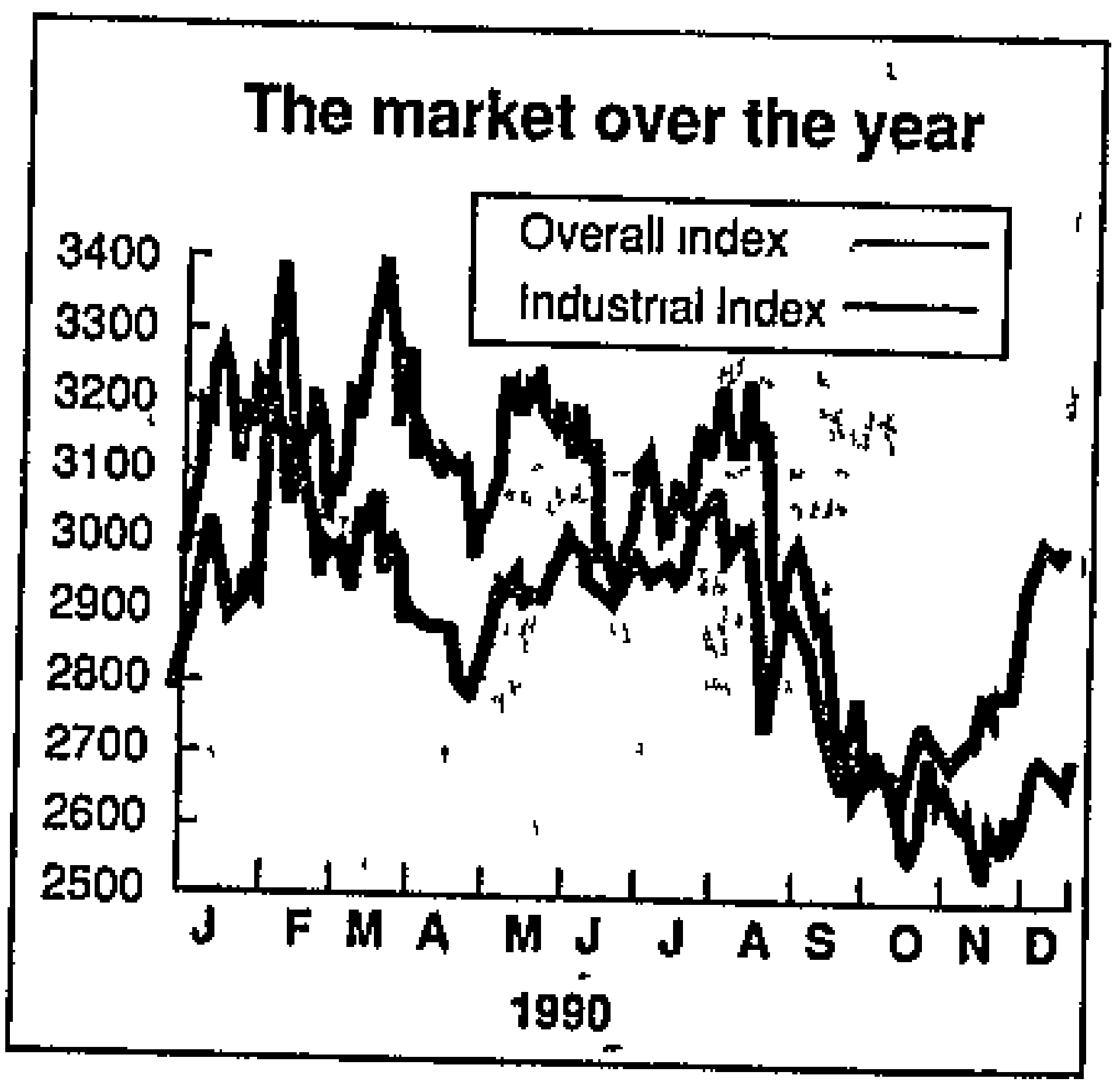

Graphic LEE EMERTON Source INET

JSE

B\Day 28\12\90

fresh peaks, this sector index has spurted 40% on the year to 4 076, while strength in industrial leader SA Breweries has enabled the beverage and leisure sector to chalk up a gain of 29,5% to 6 674

Fishing was one of the worst hit sectors in the wake of Namibian independence and the cutback on fishing in its territorial

(232)

☐ From Page 1

waters The index slumped 52,1% to 596

While the bank sector registered a rise of only 9,8% on the year to 1 758, two of the non-index weighted shares in the sector — Investec and Board of Executors — were making a last-minute entry into the list of the year's top 12 price gainers with gains of almost 100% on the year

R3 bn Sasol deal

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W/E ARGUS 29/12/90 expected soon

Argus Correspondent

JOHANNESBURG. — Sasol is expected to make an announcement soon on the takeover of the remaining 50 percent of Sasol 3 that is currently owned by the government.

The deal could cost more than R3 billion

A Sasol spokesman said "Is is difficult to say when negotiations with the government will be finalised All I can say is that an announcement will be made soon, probably early in the new year"

Should the deal be finalised, Sasol, which reported an 18 percent increase in earnings in the year to June, stands to benefit handsomely.

Analysys have already revised upward their earnings forecasts for financiai 1991 because of the higher oil price.

These forecasts will need to be revised further as Sasol 3's profits are consolidated into Sasol's income statement.

In the year to June, Sasol 3's operating profit came to R453 million (R375 million in 1989), largely owing to higher prices received for synthetic fuels and substantially higher interest earned

Dividends of R150 million were paid, of which R75 million accrued to Sasol.

In financial 1990 three divisions — synthetic fuels, coal and oil and other businesses, including chemicals and fertilisers — each contributed roughly a third of Sasol's operating profit

If Sasol 3's operating profit had been consolidated into Sasol's income statement, the synthetic fuels division would have contributed 50 percent to Sasol's operating profits

However the benefits will be reduced by the cost of funding the purchase of the remaining 50 percent of Sasol 3

The Sasol spokesman said the price paid would be market related and that it was premature to speculate on how the deal would be finalised.

Analysts say the price should be between R3 billion and R4 billion, which includes loans of R2,3 billion that Sasol 3 owes the governmenmt.

Sasol's balance sheet is strong — there is little long-term debt Gearing is at 5,6 percent, so there is clearly scope to increase borrowings.

In addition, Sasol 3-has R1 billion in cash, which could be used to pay off some of the incrased borrowings arising from the deal.

Rights issue

The possibility of a rights issue cannot be ruled out

Sasol's contract wih the government says the obligation to take over Sasol 3 must be met before 1993 at the latest, unless "the circumstances then are unduly prejudicial to either party."

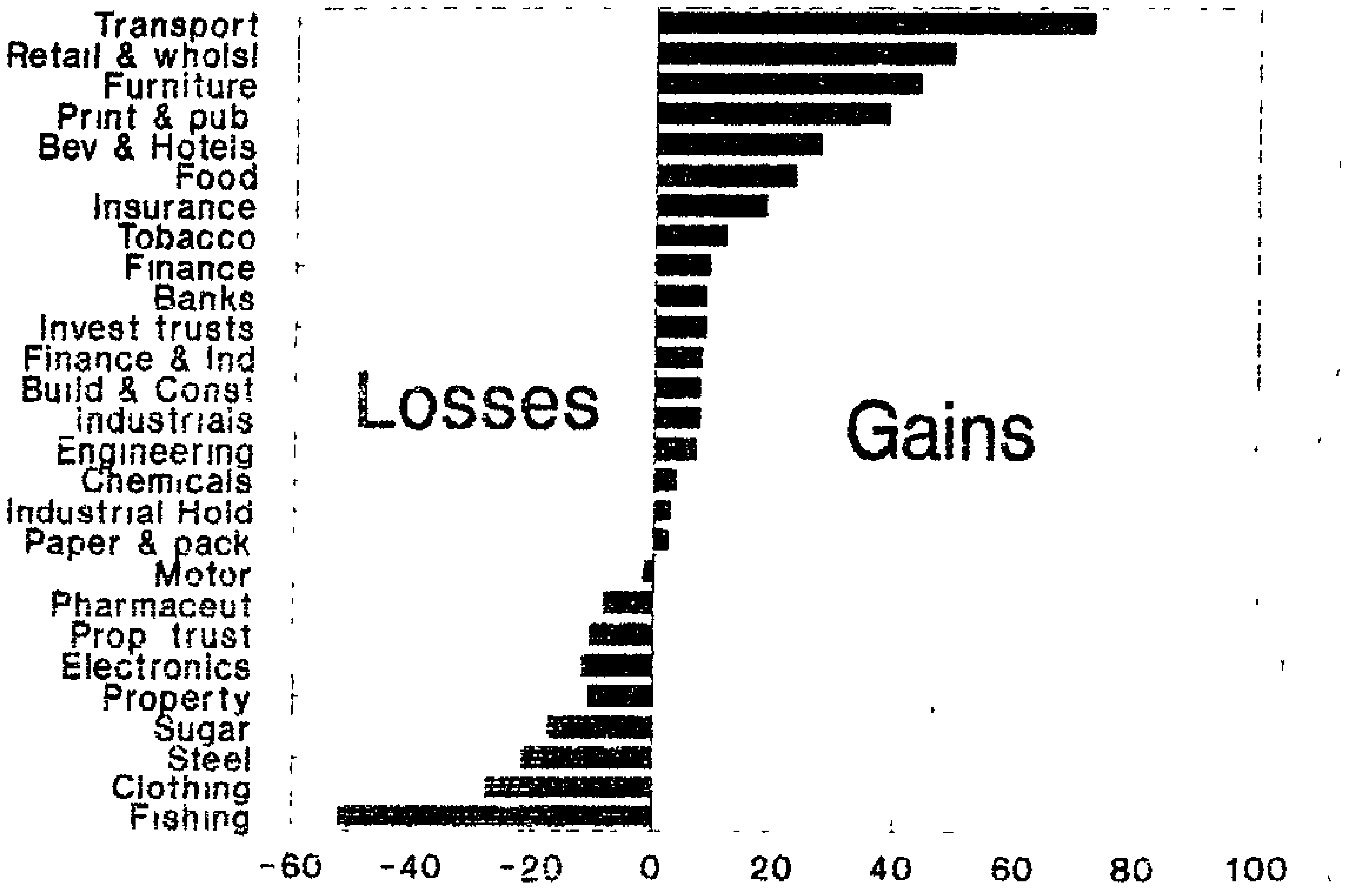
But it is possible that Sasol decided to go ahead wuith the negotiations because of the new tariff protection system introduced by the government and the higher oil price caused by the Gulf crisis.

It's all fizz, pop and furniture

Star 29/12/90

DEREK TOMMEY

Price changes 1990 — JSE indices



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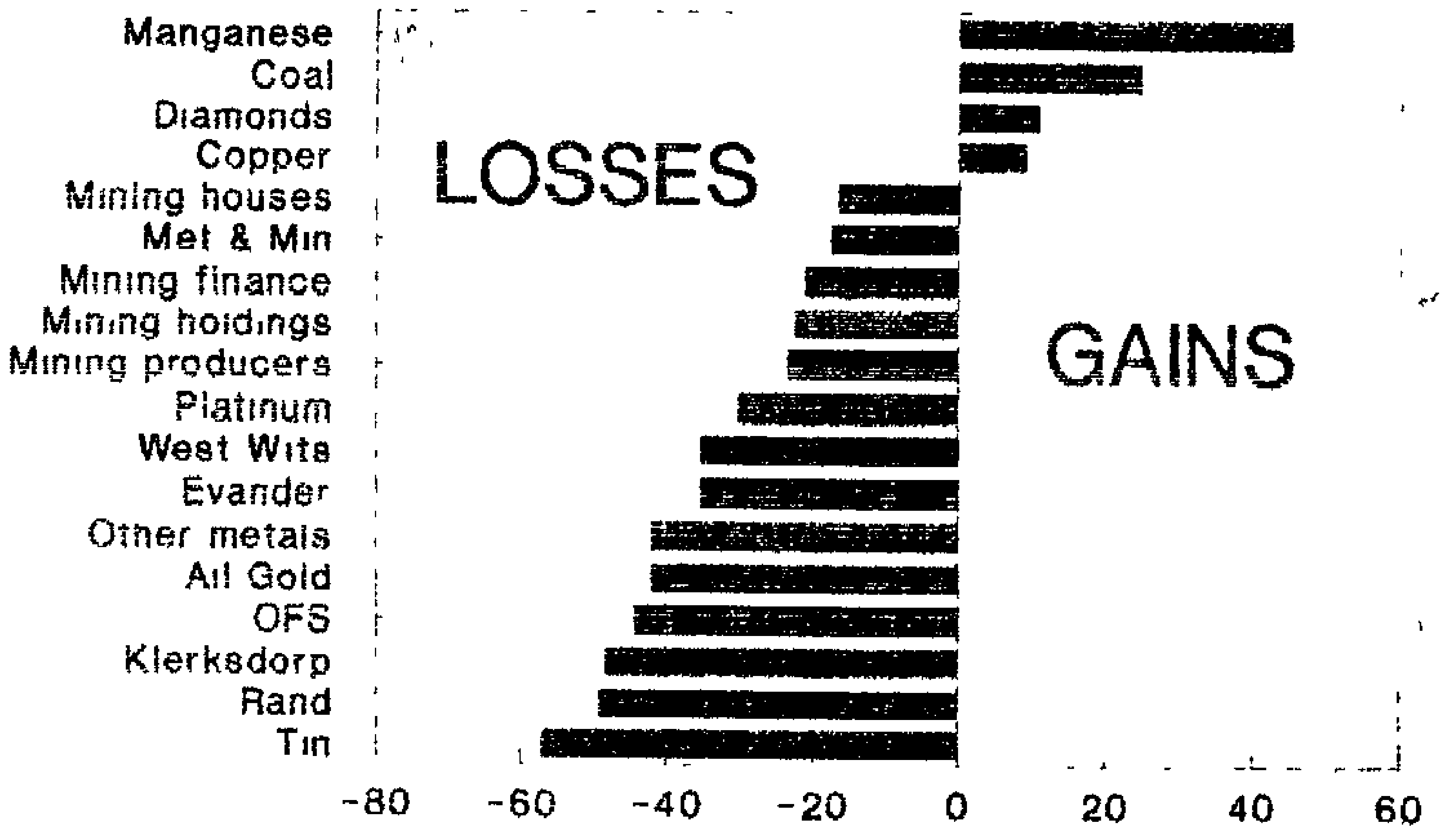

Mining

SHARE prices on the JSE fell 7,9 percent in 1990, proving it was not a profitable year for investors.

But while many of them showed losses, an analysis of the movements of share prices indicates some were able to make money.

In fact, they made quite a lot if they chose the shares of the right companies — those successfully meeting the requirements of the growing black market, especially in the areas of soft drinks, pop music and furniture.

Among the top gainers were the three soft-drink firms — Dalys, ABI and Suncrush South Africans, it seems, have an unquenchable thirst for Coca Cola, which the three companies bottle

Dalys shares rose 127 percent from R11 to R25, while shares of associate Suncrush gained 104 percent, rising R115 to R225

ABI shares rose 105 percent, gaining R6,15 to finish at R12

All three have tremendous track records and would seem to have continuing strong prospects

Musica shareholders were also well rewarded Musica is a rapidly growing force in the pop record, tape and compact disc retail market.

Shares rose 169 percent from 13c to 35c CNA-Gallo, which partly operates in this market, also did well Its price gained 81 percent, rising R8,30c to R18,50c.

Shares in Anbeeco, which supplies audio equipment, watches and other semi-luxury goods, and operates on the fringe of the market, rose 108 percent, gaining 65c to 125c

The demand for furniture, after the lifting of HP restrictions, helped push up the price of Ellerine shares 168 percent from R16,75 to R45 Nictus, which has several furniture stores, saw its price rise 75 percent from 20c to 35c

Shares in JD Group, which operates Joshua Doore, Price 'n Pride, Bradlows and Score Furnishers, gained 72 percent, moving from R3,10 to R5,35

Other to shine included engineering company Toco, whose shares doubled in price from 50c to 100c However, black purchasing power was not behind its growth, but rather the strength of its management.

Carlcor (Carlton Paper) was another frontrunner, doubling its price from R7,50 to R15 Here, black purchasing power probably did play a part in boosting expectations, for as black living standards rise so do their purchases of paper products

Transport company Trencor was another whose price doubled, rising from R27,50 to R55 Top class management and a niche market contributed to its success

Shares in finance company Board of Executors rose 95 percent from R5,50 to R10,75, reflecting its acquisition of a "big brother" in Anglovaal

Finance company Investec also shone in the wake of a number of acquisitions, the share rising 92 percent from R6,50 to R12,50

Shares in printing group Perskor took off towards the end of the year, gaining 78 percent on news that Rembrandt was buying into it

Food company Royal showed a 87 percent rise in price and Pick 'n Pay saw its price rise 74 percent

The strong gains made by these companies in a year which progressed from semi-recession into a real recession shows that in the main they have good management and, if one believes that success breeds success, they have excellent prospects ahead of them

There were plenty of big losers in 1990

But for the most part these were marginal gold mines unable to cope with the slide in the rand price of gold. But they could recover, given a better gold price

Meeting the futures challenge

Star 31/12/90

OUTLOOK '91

By Brenda J Greyling, Managing Director, Safia

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Crystal-ball gazing is a difficult and risky occupation

Long-range predictions are subject to error by virtue of unforeseen events or forces over which we may have no control

The fortunes of futures markets are highly sensitive to the state of local as well as global economic affairs

Should the US or the world fall into a state of depressed economic activity, the local futures market would suffer with them

Subject to the aforegoing caveat, we are approaching 1991 with optimism and enthusiasm for the growth of our industry

We have to accept the coming changes and have the foresight to prepare for consequential opportunities and believe that the present downturn in momemtum is temporary.

A year ago, the mood was one of excitement and opportunity to be created by the pending formalisation of the market and the expectation of institutional business, which never materialised.

By contrast, the present mood is that of uncertain future, consolidation, concern for the problems that surround our market and a heightened appreciation of the need to safeguard the integrity of the industry.

We learnt several lessons early in the game

The unfortunate floor/screen issue which divided the membership and wasted money taught us that while compromise may seem gentlemanly when the coffers are full, it doesn't sit as well as when members become concerned with ekeing out a living

In the end, market forces prevailed and it becane clear that the majority preferred screen trading

We learnt from the maxims “If it ain't broke, don't fix it” and “He who is firstest with the mostest winneth”

Even more damaging was the broker default shortly after the formalisation of the market, which served to test the role of Safex as a self-regulator.

Although it is difficult to measure the extent of damage in potential volumes lost, it is clear that there must be absolute integrity in our markets if they are to survive.

The resulting re-examination of exchange trading rules and procedures will hopefully go a long way to preventing a similar default

How long it will take to restore investor confidence remains to be seen

But we should emphasise the success we have had

There is a licensed exchange and clearing house in place, established at relatively low cost

For the first time, standards have been set for operators in the financial markets

Over the past year more than 1 200 candidates have successfully completed the Junior, Ordinary or Senior Certificate of the recently introduced Financial Markets Examinations

The Institute for Financial Markets has been established, which outlines the applicable code of ethics and the standards of professional conduct expected of instrument traders in the financial services industry

Extensive education has taken place

To date, Safia has conducted 46 futures conferences and seminars, and put out 16 textbooks and publications on futures

Several other innovative products such as a video and PC-based training programmes have been designed to benefit the industry

On the immediate agenda several items need to be addressed, which are impeding the growth and realisation of the full potential of the futures market

Recent low volumes have been ascribed to several factors

- The lack of institutional business due to insufficient education of trustees, as well as of back office operational personnel.
- the absence of tax legislation.

There is a great need to educate auditors so that they can advise clients on accounting for futures and tax implications thereof.

Potential business is being lost because of the inability of some auditors to understand futures and the reluctance to encourage clients to make use of them

For instance, some auditors accept without question losses sustained in gilt cash market dealings, but express grave concern regarding margin calls or possible losses in respect of futures contracts

The absence of Reserve Bank permission for foreign financial, rand participation will impact significantly on the price efficiency and liquidity of the futures market

The exchange, through its compliance and surveillance team, must ensure that membership values and ethics are above reproach

The exchange must be ruthless in cutting expenditure in order to lower transaction costs, to assists its members in enhancing income flows

None of these issues is singularly vital to the survival of the industry Cumulatively they become significant

We aim to redress each of these impediments in 1991

Once these fundamental objectives have been addressed we can indulge ourselves in new product development, fiddle with existing contracts and fantasise over state of the art technology and automated trading systems to prepare for new market opportunities

While some onus falls on the regulators to break the present log jam caused by deterrent taxation, capital gains tax uncertainties, the question of foreign participation, the high level of economic concentration, and the lack of level playing fields, it is ultimately the responsibility of futures market participants to secure the future of the market for everyone

While each year is different, each is also a product of the one that preceded it

Consequently, we must build on what we have achieved and expand on the innovations we introduced.

If we pool our resources and talents, we can meet the challenges ahead

We at Safia are c
ensuring that the
ket becomes a vi
of the financial s
try in this decade