CONTROL & OWNERSHIP

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JULY — AUGUST.

R2bn to be raised in a spate of rights issues

CT 11/7/91 (232) 180

Own Correspondent

JOHANNESBURG — More than R2bn in new capital is to be raised in a spate of rights issues in the first half of this year by companies taking advantage of the buoyant share market

Standard Merchant Bank corporate finance GM Mark Barnes says rights issues are logical at the moment

"With the cost of funding still high and with management becoming less optimistic that interest rates will drop as a result of the ongoing high inflation," he believes more issues will take place.

He expects many companies "will take advantage of price-to-earnings ratios standing at levels higher than they have been for a while".

Barnes says the funds raised will be used largely to refinance existing borrowings and to place them in a strong position for expansion in the next upturn

With high price-to-earnings ratios, fewer shares need be issued to raise the same amount of capital, which avoids excessive dilution of earnings per share

"Second-tier companies will more likely use the funds as an alternative form of financing to borrowings rather than for expansion purposes," says Barnes

Firstcorp executive vice-president Stuart Jones agrees it is an opportune time for rights issues "considering the market is holding up so well".

The market would not follow a rights offer unless it felt the funds raised would be used well

"If the funds raised are to be used to reduce debt it is up to the market to decide if a reduction in debt is necessary.

"If a company has a good track record, then institutions are likely to follow the issue without knowing exactly what the company has in mind"

In recent weeks rights issues were announced by Metropolitan Life (R220m), Consolidated Metallurgical Industries (R100m) and UAL's Sycom property fund (R75m)

The R1,1bn raised in April by energy group Engen is to be used to fund expansion and exploration projects Engen's issue was the largest the JSE had seen since July 1989 when Gencor raised R1,4bn.

The rights issues have been undertaken not only to finance projects but also to reduce debt and take advantage of any potential acquisitions given the depressed economy

According to JSE statistics, R4,18bn was raised through rights issues in 1990 About R2,5bn had been raised by this time last year. A feature of last year was the number of mining companies coming to the market — 11 compared with two so far this year

JCI's ferrochrome producer CMI is offering a 30% discount to induce shareholders to follow their rights

Gengold's developing gold mine Oryx had to put plans for a rights offer on ice because of bearish market sentiment

Metropolitan Life is an example of a company taking advantage of a high price-to-earnings ratio

The share currently stands at 1 000c, having risen by over 70% from its low of 575c in October last year — the ratio moving to 16,4 from 9,4

Rights issues set to raise R2bn capital

BDay 1/7/91 (232)

WILLIAM GILFILLAN

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He expects many companies "will take advantage of price-to-earnings ratios standing at levels higher than they have been for a while" Barnes says the funds raised will be used largely to refinance existing borrowings and to place them in a strong position for expansion in the next upturn.

Opportune

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"Second-tier companies will more likely use the funds as an alternative form of financing to borrowings rather than for expansion purposes," says Barnes.

Firstcorp executive vice-president Stuart Jones agrees it is an opportune time for rights issues "considering the market is holding up so well"

He says companies must tell the market what the funds would be used for. The market would not follow a rights offer unless it felt the funds raised would be used well "If the funds raised are to be used to reduce debt it is up to the market to decide if a reduction in debt is necessary

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COMPANIES

Saficon counts on recovering lost ground

LIZ ROUSE

MOTOR group Saficon Investments' earnings should recover to 95c a share and the dividend rise to 24c from the past year's 53c a share and 14c respectively, chairman Sydney Borsook and CE Kurt Hipper forecast in the annual review

Inadequate supplies of Mercedes-Benz and Honda, the group's flagship vehicles, knocked Saficon's performance in the past financial year

To arrive at the forecast recovery in earnings, Saficon's board — one of the few to make precise forecasts — has assumed adequate supplies of new vehicles and that it will regain some of the market share lost during the past financial year

It is also counting on little competition from the used car market and continued growth in its service and parts business

Borsook and Hipper's forecast of 1992 earnings puts the group back to the 1988 earnings and dividend level In that financial year earnings were 92c a share and the dividend amounted to 27c

Saficon hit peaks in 1989 and 1990 when earnings a share were 147c and 149c a share respectively and dividends were 42c and 43c

The group expects a R318m increase in turnover to R1,78bn in the year to March 1992, that new vehicle prices will increase 14% and that gross margins will be 0,5 percentage points lower than last year Operating costs are expected to rise by 11%, the corporate tax rate to remain unchanged at 48%, net trading assets to increase by R38m and Boumat to achieve its forecast earnings

In the year to March 1991, the group's turnover declined slightly to R1,46bn but operating profit fell 31,9% to R57,3m

Metfund doubles liquidity to 'cushion weakness'

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ROBERT LAING

THE high ratings of the all gold and industrial sectors are making portfolio managers cautious, resulting in Investec Group's Metfund doubling its liquidity to 18% from 9% during the quarter to provide a "cushion against expected weakness that may occur in the short term". BDay 1/7/91

Metfund, Metboard's unit trusts, produced a return of 22% for the year to date excluding distributions, beating the JSE all share index's 20,5%, fund manager Hendrik du Toit said in his quarterly review.

While the industrial index advanced at a rate similar to that of the first quarter, the all gold index increased by 37% — roughly 10 times as much as the gold price's advance.

Du Toit said he was cautious about exposing the portfolio to gold shares because of the "less than encouraging international environment for the bullion price"

"The industrial index, at a price-to-earnings ratio of almost 13, is also expensive in the light of its own history," he said.

He said the portfolio included new counters which reflected the group's expectations of a sound dollar and slowly improving world economy. Metfund has acquired holdings in Safren, Samancor, C G Smith, Engen and Absa.

☐ Investec Investment Trust announced earnings of 98,8c a share.

COMPANIES

Foschini's stake in Etam deal kept secret for months

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B/Day 1/7/91 ANDREW GILL

FOSCHINI was committed as a 50% partner in the financing of the Etam acquisition as early as January this year but shareholders who were told about it were sworn to secrecy, UAL corporate finance executive director Tim Sewell said

The group went public with plans to acquire a R131m equity stake in Oceana Investments to finance Oceana's hostile takeover bid for UK retailing chain group Etam last week

Foschini and Oceana are both controlled by the Lewis, family Sewell said all major institutional shareholders in Foschini had been canvassed about the deal prior to the final sanctioning

Foschini and Oceana director Mike Lewis said the secrecy was necessary because an element of surprise was essential as the bid was contested.

Foschini is to pump in between R131m and R153m in the form of an enlarged equity interest in Oceana Oceana and UK investors have set up Oceana Retail Enterprises (ORE) on a 50/50 basis for the purpose of making the offer to Etam shareholders Oceana will, however, have voting control in ORE

Oceana will raise the capital with the issue of 16,7-million new shares to be underwritten by UAL.

Sewell said there was absolutely no truth in suggestions that Foschini was bailing out Oceana in its bid

Oceana had used most of its resources in buying the 28% stake it has in Etam and outside funds were needed to finance further share purchases, he said

Lewis said from London the deal in no way benefited the Lewis family to the detriment of other shareholders.

He said the takeover attempt was going on as expected and they had not been surprised by any moves by the London Takeover Panel, with which they had been working in full consultation.

If the bid for the entire issued shares of Etam was unsuccessful it was likely that Oceana's listing in the UK would be terminated. While it was obviously preferable to be listed in the UK, another offshore listing could be attained, Newell said

Analysts said the money being poured into the deal by Foschini, which was being financed in the medium term, could have an effect on the group's gearing and possibly adversely effect earnings in the short term

Stock dividends are being paid in lieu of cash and would be easily liquidated, Lewis said

The outcome of the bid was expected within the next five to six weeks

NATIONAL SORGHUM BREWERIES
PER SHARE
National Sorghum Breweries Limited

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Ovbel Holdings writes off R2,7-m

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By Tom Hood Star 1/7/91

CAPE TOWN — More than R2,7 million was written off by Ovbel Holdings as the cost of closing down the building division of Bellandia, one of the Cape's oldest and well-established home builders

This is disclosed in Ovbel's annual report for the year to March 31

Chairman Andrew Ovenstone said the write-off was one of the main reasons for the 27 percent drop in group earnings to R4,5 million

The housing industry experienced its most difficult year since Bellandia was founded more than 25 years ago

Persistently high interest rates and the general economic downturn and loss of employment resulted not only in a decline in demand for new houses, but resulted in repossessions by financial institutions in the less expensive areas.

This was followed by the liquidation of repossessed stock at discounted prices and financial institutions reducing their lending

"Bellandia's business in these areas slowed to a trickle, which impacted negatively on results," said Mr Ovenstone.

"We regretably had to restructure for the future This meant considerable retrenchment and the elimination of our own building operations

"In future, Bellandia will concentrate on residential township and housing development and will sub-contract the construction aspects of its developments"

Ovcon, the building and civil engineering arm of Ovbel, had secured a satisfactory order book with projects like the Victoria Wharf (R60 million), Mill Park (R24 million) and Protea Assurance House (R20 million), but it still had spare capacity and the ability to build large and fast-track structures

Profits exceeded forecasts by 20 percent in the second half Ovcon had cash holdings of nearly R17 million at the year-end and was well placed to perform satisfactority in the current year, said Mr Ovenstone

Ovbel's property interests were unlikely to deliver a smooth flow of earnings

Analysis of assets, however, revealed underlying strength and substantial profits to be earned in the future

Ovbel was able to slash borrowings from R23,5 million to R15,5 million by March 31 The percentage of borrowings to shareholders funds was down to 34 from 44 percent a year ago and was well within the group's self-imposed limits of between 50 and 60 percent of total shareholders funds, said Mr Ovenstone

This placed the group in a strong position to take advantage of opportunities in the future

Ovland, the property arm, had increased profits substantially in spite of lower demand for offices and shops

Timeshare had a difficult year Durban and South Coast timeshare projects had not met expectations because of an oversupply of timeshare stock

Emphasis in the future, however, was likely to be on industrial developments

Ovdeco, which develops and markets coastal resorts, had performed well and profits should be generated by new projects in the pipeline

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Brokers have not given up on Eersteling

B/Day 2/7/91

BRENT VON MELVILLE

EERSTELING's suspension on the JSE has not dissuaded investors from trading in the gold mine, now in provisional liquidation

A prominent Johannesburg brokerage is offering shareholders in the Pietersburg gold mine a way to recoup some of their investment

Selected Portfolio Brokers (SPB) is inviting Eersteling shareholders to join an investment syndicate which aims to give shareholders the opportunity to realise some return on their investments However, SPB, run by Maggie Payne, will not disclose details of shareholder's options

SPB specialises in selling unquoted shares directly to private investors It is in the process of floating The Rooster's Group and Anrodà Construction Last year it was involved in the ill-fated Barrowmate venture

When Eersteling was suspended from trading last month its shares stood at 4c, down 91c from its 95c high a year ago

JSE GM, listings, Richard Connellan said a stockbroker could not trade suspended stock, but there was nothing to stop private treaty transactions outside the JSE He said Eersteling could be delisted,

Market speculation was that SPB could be acting on behalf of someone who was trying to mop up all Eersteling shares in a compromise with the company's creditors The shell could then be used for reverse listing purposes

Solid industrials lift mutual funds

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B/Day 2/7/91.

LIZ ROUSE

THE two mutual funds in the Southern Unit Trusts stable recorded improved growth for the June quarter as a result of the solid performance of industrial shares on the JSE and the better outlook for mining shares

Southern Equity Fund achieved a return of over 25% and Southern Mining Fund's return was over 15% for the six months to end-June, putting both funds above the industry averages

Southern Equity Fund's return improved to 13,43% in the June quarter from 10,61% in the first quarter, while Southern Mining Fund showed a strong returnto 13,7% in the June quarter from -21% in the first quarter of 1991

Portfolio manager Carel de Ridder said changes made to the portfolios earlier this year, together with adjustments in the past quarter, positioned the portfolios in sectors that had performed well

The background was favourable in the June quarter The JSE all-share index rose by 15% and all but recovered the losses of 1990 to close the quarter just off last year's all-time high. Shares in most sectors improved, with the industrial index up 12% and the mining financial index up 17%

The rand gold price recovered as a function of a steady bullion price together with a strong dollar, thereby attracting investors back to gold shares

On the outlook for the local economy, De Ridder said there were encouraging signs, notably the improvement in the balance of payments situation However, the failure to bring down inflation made it difficult to expect a strong recovery in the short term and Southern's portfolio managers predicted an upturn only in 1992

They did not expect significant reductions in interest rates and believed the Reserve Bank's strict monetary stance would be maintained in the months ahead

De Ridder said it was not unusual for share prices to anticipate improvements in the underlying economy While company earnings remained depressed, the prices of most quality shares had moved higher in expectation of stronger earnings growth

He said many shares were expensive, but this could be sustained as the economy began to recover Recent political events had improved prospects for business and, provided foreign capital was made available, there would be strong growth

De Ridder cautioned that, as much of the recent share price gains had been achieved as a result of anticipated economic growth, any setbacks could cause prices to decline

Liquidity

Southern Euity Fund held 35% of its total assets of R49,6m in industrials at the end of the quarter, 12% in financials, 15% in mining financials and 16% in other mining holdings, including diamonds, gold and platinum Liquid assets stood at 22%

Malhold, Malbak and CMH were sold while the holding in Stanbic was reduced Anamint and Richemont stocks were increased and a new investment made in FIT

Mining financial stocks made up 36% of Southern Mining Fund's assets of R16,5m, with 22% in direct golds, 11% in diamonds, 14% in other mining shares and 4% in resource-related industrial shares That left a liquidity rate of 12%

During the quarter the fund invested in Mid Wits, Southvaal, Implats and Amgold and sold its holding in Iscor Transnet TA10 (Elfi bulls) were sold out of both funds and each acquired RSA R150 long-dated bonds

IDC selling puts hold on Sorghum shares

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B Day 2/7/91

MARCIA KLEIN

INVESTORS who took up about 92% of the 43,8-million shares offered by National Sorghum Breweries (NSB) are unlikely to be able to sell their shares at a profit until the Industrial Development Corporation (IDC) stops selling shares at the end of July

NSB said yesterday that investors had subscribed for about 92% of the shares offered by the brewing company and that the IDC had taken up 4,1-million shares — representing about 8% of NSB's issued share capital — in terms of its underwriting commitment The brewing company claimed that about 90% of the shares taken by the public had been bought by black investors

Finansbank, NSB's merchant bankers, said several investors had failed to acquire shares as they had been unable to complete their applications ahead of the offer's June 19 closure deadline NSB has persuaded the IDC to sell shares at the 100c offer price from its underwriting allocation to investors who apply by July 31 on a first-come-first-served basis

Finansbank corporate finance GM Mareo Bekker said yesterday the offer by NSB could not be extended as the prospectus had specified a closure date of June 19 and requests for an extension had only been received in the last week or two

The offer would remain in place until the IDC shares were taken up or until the end of July, when the offer closed Investors hoping to buy shares from the IDC have to apply through the share trading office which has been established by NSB

No indication has been given of the cost of trading the shares through the share trading office, although the office was set up because the firm's directors believed JSE brokerage charges were unacceptably high The IDC has underpinned the share price by its undertaking to buy any shares tendered in the next 12 months at 100c each

In the year to June 1990, NSB's net income after tax decreased by 12,6% to R11,1m (R12,7m) on a 16,5% turnover increase to R310,1m (R266,2m) Operating income was down by 16,6% to R14,5m (R17,4m).

NSB's directors have forecast a 14,8% rise in turnover to R356m.

Unit trusts outperform JSE indices

(232)

CT 2/7/91.

By ARI JACOBSON

THE advantage of managed portfolio's has been highlighted once again with the latest returns from unit trusts

Among others The Board of Executors (BOE), recently linked with the mining finance empire of Anglo-Vaal and the Metfund of merchant bank Investec — dispelled the argument against passive involvement in the stock market

The Metfund, for instance, outperformed the JSE all-share index for the year to June with a 22% return (excluding distributions) against the all-share index's 20%

The investment community has noted these benefits with, in the case of BOE, its growth fund generating R10m new business, for the quarter to June

The unit price appreciated by 14% for the quarter — this considering the well-spread risks adds to the value of a unit trust holding

BOE's senior GM John Winship said the fund had taken advantage of the strong share market performance to boost the amount of funds invested on the JSE

"Its clear the bull market's in place and although current share movements may be overdone in the short term — the long term has excellent prospects "

However, contrasting strategies are apparent in the unit trust industry

Metfund decided in the quarter under review to increase its liquidity from 9,2% to 17,8% The reason said fund manager Hendrik Du Toit is that the industrial index on a price earnings (PE) ratio of 13 was considered expensive — based on historical trends

But Du Toit said this liquidity also provided a cushion against expected weakness in the short term — which, in turn, would provide for buying opportunities

"The strength was used to take profits in some areas and improve quality and focus of the portfolio "

He said the new counters obtained, reflect the bank's belief in a sound dollar and slowly improving economy

Metfund, over the three months to June, acquired holdings in Safren, Samancor, CG Smith, Engen and financial giant ABSA

BOE on the other hand increased exposure to diamonds and mining financials — with new holdings in Genbeheer and Genbel Cyclical and recovery opportunities saw the purchase of Malbak, Murray & Roberts, Pick 'n Pay and Waltons

Another, Southern Life's equity fund in the same period held 35% of its assets in industrials, 12% in financials, 15% in mining financials and 16% in other mining holdings with liquid assets at 22%

This fund sold Malbak, and CMH increased stakes in Anamint and Richemont and brought in FIT (Liberty's off-shore arm)

This gameplan achieved a 25% return for investors for the six months to June

W&A says earnings will recover in 1991

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B|Day 3|7|91

ANDREW GILL

A SLIGHT decline in W & A's diluted earnings a share for the six months ending June 1991 would even out overthe whole of 1991, Jeff Liebesman said in his chairman's report released yesterday

In the group's 1990 annual report, he said there would be a "one-off distortion" in the 1991 results because of the July 1990 restructuring of W & A and the resultant increase in the proportion of earnings flowing from the second half of the year

W & A restructured last year when it acquired FSI Corporation's worldwide interests in scaffolding, shoring and formwork as well as the minority interests in five of its own subsidiaries

Expansion

Disposals of non-core businesses, reorganisation of under-performing businesses and the closure of peripheral activities were part of the process.

He said that in 1991 the group would continue to focus on development of core businesses, which were being prepared for an economic upturn, the increased competition in the face of SA's ending isolation and for furthering international expansion

Management had identified businesses which required remedial action and were taking "appropriate steps", which were starting to show positive results, he said

In 1990 total assets grew more than R1bn to R3,1bn as a result of the restructuring Divisional contributions saw the consumer businesses provided R81,4m and industrial activities R50,2m.

Gearing climbed to 67% from 52% with debt up at R942m as a result of taking on FSI's liabilities Cash on hand increased to R107m

Liebesman said the level of interest-bearing debt was not only budgeted in relation to operating profit and interest rates but also to tax rates and allowances.

Provided the interest and tax charges remained within acceptable limits in relation to operating profits, as was expected this year, management was comfortable to finance growth in assets by borrowings.

He said pre-tax profits were about R200m after financing debt, a strong position in relation to other groups

In the year under review, the effective tax rate fell to 10,4% from 1989's 27,3%

Divisionally, good results were achieved by Gentyre with its fifth consecutive set of record profits set in 1990 Further growth in taxed profit is forecast in 1991.

The retailing and consumer distribution businesses showed a 56% growth in its contribution to W & A and made up 23,7% of profit before property and corporate costs

Other good performers were Teamcor (excluding Vektra and Elcentre), and Macphail

Unit trust managers bullish

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Finance Staff Star 3/7/91

Current share price rises are forecasting a period of economic growth, commencing early in 1992, says Anthony Gibson, portfolio manager for Syfrets unit trusts

In a statement accompanying the release of the latest quarterly report of Syfrets unit trusts, Mr Gibson says that assuming the economy is at the bottom of the economic downturn, a rising equity market is consistent with previous economic cycles

He believes that the share market is at a historically expensive level, but adds that South Africa is entering an uncharted period that could prove to be the start of growth not seen for the past two decades

The Board of Executors senior general manager John Winship echoed this statement, saying it was clear that a bull market was in place and while share price moves may have been overdone in the short term the long term prospects were excellent.

"The economy will recover in 1992 and, coupled with the abolition of sanctions and lower interest rates, our industrial companies will see rapid growth in earnings

"The next major move of the share market will be driven by the expectation of future earnings growth"

Equity exposure

Mr Gibson says the Syfrets **Growth Fund** would remain relatively fully exposed to equities, but with the current high price levels, will only commit further funds to counters offering above average returns

Equity exposure was further increased to 80 percent during the June quarter

The income distribution of 3,22c for the past quarter results in a total distribution of 13,17c for the past twelve months, while the total return over the past 12 months was 29 percent

The Syfrets **Income Fund** reported income distribution of 3,92c for the past quarter resulting in a total distribution of 16,02c for the past twelve months

This represents an income yield of 15,63 percent on the unit price of a year ago The total return for the past twelve months was 16,88 percent

Mr Winship says more than R10 million was invested in the **BoE Fund** which acquired 700 new unitholders during the quarter

"We are the fastest growing trust on the market The trust assets were substantially invested in the share market and this strategy proved to be correct since the stock exchange enjoyed a buoyant quarter"

The unit price appreciated by 14 percent during the quarter

Safegro Unit Trust announced a growth of more than R8 million in assets under its control for the June quarter

IGI Life Fund Managers, the managers of the fund said yesterday assets rose to R32,6 million compared with R24,3 million at the end of the first quarter.

Safegro said that there was a strong inflow of funds during the quarter and that the unit price increased by 12,6 percent as share prices responded to improved sentiment

The profit performance of the fund during the 12 months to June yielded a total return of 20,2 percent.

Liquidity stood at 15,7 percent at the end of the quarter compared with 18,7 percent at the end of March.

While the fund managers believe the market is in a bull phase, it remains cautious in the short-term and thus liquidity is unlikely to decrease much below its current levels.

Asset growth

The Norwich NBS Unit Trust also took advantage of the stronger market conditions, reducing its liquidity from 49 percent at the end of March to eight percent at the end of the past quarter However, the fund still holds an additional 7,5 percent in Eskom gilts

Assets grew by 14 percent to R18,6 million, while the overall return of the fund for the past 12 months was 18,6 percent.

Norwich, however, does not regard the overall market as cheap and does not rule out some pull back in prices.

"Selectivity in shares now purchased will be more important than earlier this year, although such a correction would not be significant," the fund managers state

CFM cautious about equity market outlook

6 \P day 4/7/91 (232)

LIZ ROUSE

CONSOLIDATED Fund Managers (CFM) has sounded a cautionary note on the short-term outlook for the equity market.

CFM, the portfolio management company offering specialist advice in the unit trust industry, warns that the JSE suffered severe setbacks on two occasions when the dividend yield of the JSE industrial index fell below 3%, where it is now. This occurred previously in 1969 and 1987.

CFM says that considering the state of world economies, the nervousness that is developing in major international stock exchanges, the depressed state of the local economy and the high price/earnings rating of the JSE, it believes that considerable risk exists at present and would caution against undue short-term optimism.

The JSE has risen significantly in response to the changing environment and to the shortage of quality scrip. The performance of industrial shares has been dramatic given the weak state of the economy.

Company profits have come under severe pressure and in many cases dividends have been maintained on reduced earnings. While CFM is positive about the longer term outlook for equities in the new SA, the market could well correct to more realistic levels in the near future.

Sacos pulls out of team for Switzerland

B/Day 4/7/91

(232)

THE SA Council on Sport (Sacos) has pulled out of the delegation travelling to Switzerland next week to plead the case for SA's readmission to the Olympics

And it now seems that Sacos, one of the five umbrella organisations taking part in current sports unity talks, will pull out of the talks altogether.

Sacos said yesterday it was disillusioned with a "watering down" of principles by the Interim National Olympic Committee of SA (Inocsa), headed by Sam Ramsamy

Sacos is a hardline body largely active in Indian and coloured communities It has campaigned against an early return to international sports arenas

Commenting on the withdrawal from the Inocsa delegation, Sacos president Joe Ebrahim said the "last straw" had been Sunday's meeting in Johannesburg when Inocsa "pushed through" a resolution agreeing to a selective lifting of the moratorium on international sport contacts

He was particularly incensed at the clause which said "The abolition of apartheid in sport means profound and irreversible change, which is different from the removal of every vestige of apartheid"

Ebrahim said this was a breach of conditions laid down at last year's Harare conference under which Sacos agreed to take part in the unity discussions

Sacos, which wanted to see a new political constitution in place before international sports contacts were resumed, would now have to rethink its position, Ebrahim said

At Sunday's meeting of Inocsa, four of the delegates for Tuesday's meeting with the IOC were named — chairman Ramsamy, vice-chairman Mluleki George, secretary-general Johan du Plessis and treasurer Issy Kramer — Sapa

Good quarter for unit trusts

BDay 4/7/91 (232)

LIZ ROUSE

NBS Hallmark Mutual Fund experienced a record inflow in the June quarter, increasing its number of unit holders by 18%

Ken Burns, the fund's MD, said that the industrial content of the portfolio had been increased steadily during the quarter

And Volkskas Unit Trust acquired 2 800 clients in the first quarter of its existence, while the market value of the trust amounted to R13,3m at the end of June

Burns said as the market consolidated during the next few months, NBS Hallmark would reduce its 24% liquidity level to take advantage of buying opportunities

Burns said NBS Hallmark had a fairly active quarter, adding two more quality stocks with rand-hedge characteristics (FIT and GFSA) and generally increasing its holdings across the board, including a new introduction of Berzack

The fund increased its holdings of Dries and Harties in the gold sector, which portfolio managers believed had bottomed

However, NBS Hallmark was being cautious with its buying programme until the fundamentals looked better, said Burns

The mining content of the portfolio at the end of June was 32% (March quarter 35%), financials 8% (7%), property trusts 7% (8%) and industrials 53% (50%)

The top 10 holdings in the portfolio in order of size were Engen, BTR Dunlop, Powertech, Consol, Suncrush, Anglos, Pick 'n Pay, Higate and Amcoal

Looking ahead, Burns said that although the share market was overpriced at present, a minor correction would provide the fund, which remained fairly liquid, with interesting buying opportunities

Sapa reports that the price of the Volkskas units increased by 22,9% during the quarter, compared with a 14,9% increase in the JSE All Share Index during the same period.

Volkskas Unit Trust's assets at the beginning of the quarter were invested in gold, 15,19%, mining houses, 8,69%, diamonds 3,07%, industrial, 44,16% and liquid assets, 28,91% — Sapa

Electronics industry at crossroads, says Venter

BDay 4/7/91

ROBERT LAING

SA's electronics industry was at a crossroads, Altron executive chairman Bill Venter said in his annual review.

"One path leads to its further expansion through increased local manufacture and technology development with a meaningful penetration of export markets

"The other leads to a road already travelled that of merely representing foreign companies which take all the major decisions unilaterally in overseas-based boardrooms"

The overexposure of local electronics companies to the whims of their offshore suppliers is underlined by Altron's subsidiary XeraTech, whose right to officially represent Xerox products ends in August

Venter said shifting international perceptions of SA would open the local market to greater competition from US, European and Japanese high-tech conglomerates

However, Altron was not unduly concerned about the return of multinationals because the "current wave of open-mindedness about the future of SA is unlikely to favour foreign vendors at the expense of local suppliers"

He said Altron's experience was that they usually prefer to work with strong local partners to avoid the problems and costs of grassroots level establishment

SA has the worst differential between the consumption and production of electronic goods out of the world's 30 major developed and developing countries, Venter said SA's consumption of electronic goods accounted for 3,4% of its GDP, while production equalled only 0,9% of GDP.

SA ranks as the world's ninth largest importer of electronic goods and government protection of local manufacturers has to be maintained

"Summarily exposing these industries to unfair competition from countries with different work ethics, educational levels, productivity rates, inflation rates and government export subsidies, will spell disaster for SA

"It will lead to loss of jobs, loss of confidance, dumping and the ultimate dependence on foreign powers"

Incentives

He said while government urged industry to export, it was not offering matching grants, concessions or other incentives

"A low rand on its own does not make it possible to export manufactured products SA industry does not have the financial, technical and personnel resources to develop an adequate number of indigenous products and requires a package of incentives to do this"

Business opportunities in Africa were improving and the group had received contracts totalling more than R150m from two major states recently, Venter said

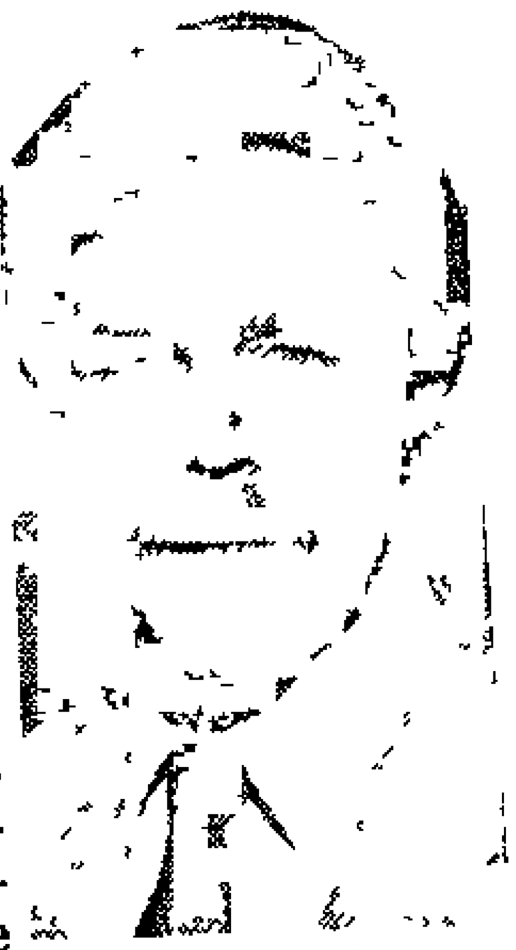
Shares lose 5% on Rusfurn shake-up

B/Day 4/7/91

MARCIA KLEIN

MARKET reaction to news of a major shake-up in furniture retailer Rusfurn saw the share losing 5c or 5% to close yesterday at 95c, testing May's year low of 90c

Rusfurn said yesterday CE Geoff Austin had resigned and former banker Laurie Korsten was replacing him It also proposed a rights offer to recapitalise the group



● AUSTIN

Although the news was generally not well received by the market, analysts said in its defence that something had to be done to address Rusfurn's funding problem

An analyst said Senbank — which is Rusfurn's main bank — was worried, and it "had to come in and do something"

Also, Senbank was one of the only institutions involved with Rusfurn which was big enough to underwrite a rights issue

The amount to be raised has not been determined, but an analyst said the R100m which had been reported was "possibly very low"

Analysts said a problem with the rights offer was that quite a few investors — especially the institutions — might not follow their rights

Unidev, which has a 22% stake in Rusfurn, was not expected to follow its rights At a current price of 95c, an analyst said the rights issue may prove to be quite expensive for Senbank

Although some shareholders would follow their rights because the share was relatively cheap, an analyst said others may not want to spend more on an investment that had not lived up to expectations

Reaction to Austin's departure was mixed Some analysts felt he was a good "hands-on" retailer, while others felt he should not have expanded the business at the rate that he did

However, an analyst said the expansion of the business and of the debtors book was an incentive for the management target to be achieved in terms of the share incentive scheme, and a more realistic scheme — as has been proposed by Senbank — could lead to a tightening up of the business

This could mean that in the short term Rusfurn would need to get its house in order in terms of financing and controls on the granting of credit This contraction of the business would result in low growth in the short term

With this in mind, analysts said the shake-up came at the worst time, with furniture sales dropping off sharply, and with expectations of a bad year for the furniture industry Analysts expected a decline in earnings for the year to end-June.

Analysts said the disagreement between Austin and Senbank was either over him wanting to sell off assets, including Dion, or he may have been pushing to sell the debtors book to a consortium of banks and take it off the balance sheet.

Although the proposed recapitalisation of the group would help, this was a short-term solution With debtors remaining on the balance sheet, the risk would remain and there was the possibility that Rusfurn could find itself with a similar funding problem a few years down the line, an analyst said

Dinette set to list on the JSE

B/Day 4/7/91

232 ANDREW GILL

THE JSE is set for a new venture capital market listing on July 25 in the form of a company, Dinette Industries, that intends taking advantage of the growth market created by basic housing development

The company will make "dinette" tables and chairs which will be sold into the low income market with demand emanating from government's planned housing development programme

"This is not a luxury we are making," former Afcol director and chairman of Dinette Jack Cheskelson said last night "We are selling a basic product to a low income mass market"

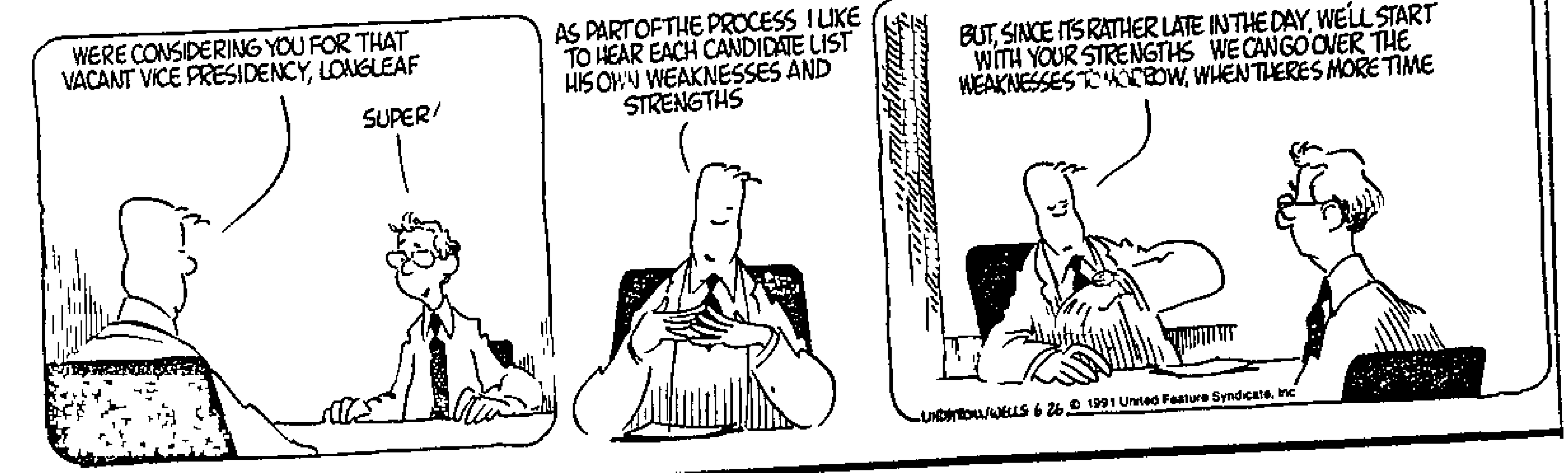
The only reason for the listing is to allow a 30% investment from foreign backers who would normally have to wait about six months to invest if it was a private company.

The company is to raise R2,9m in the issue in a private placing. More than R2,6m has already been raised from friends and relatives in SA and abroad

Syfrets fund

SYFRETS Growth Fund's total return (capital plus income paid) for the past 12 months to June 1991 was 28,98% The compound annual return was 33,64% for the three-year period ended June, not for the 12-month period as incorrectly stated in Business Day yesterday The error is regretted

EXECUTIVE SUITE By William Wells and Jack Lindstrom



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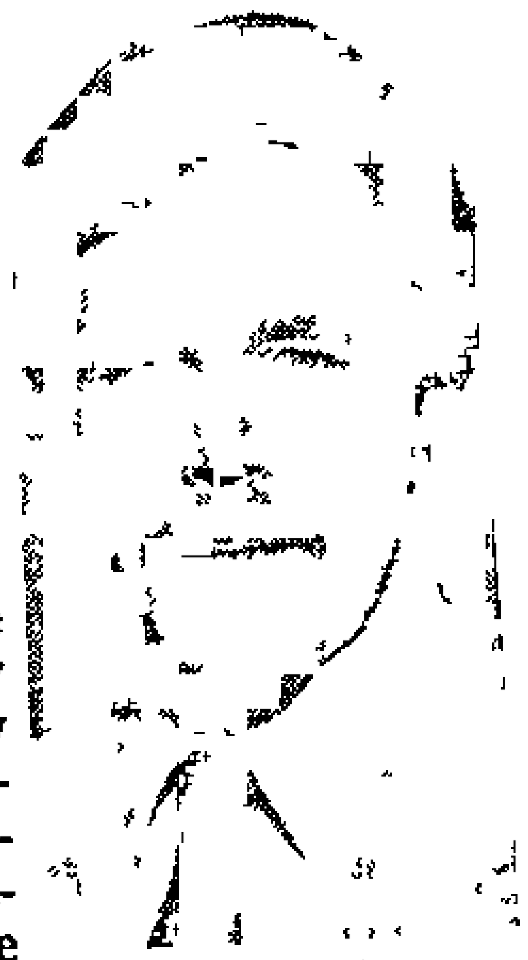

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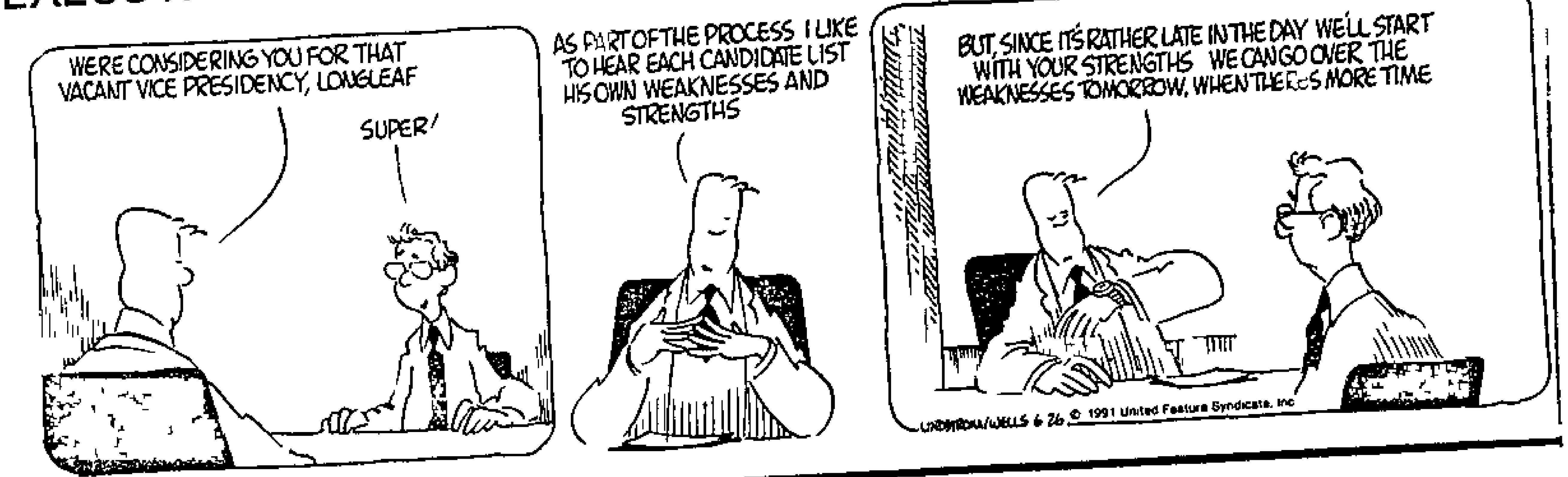
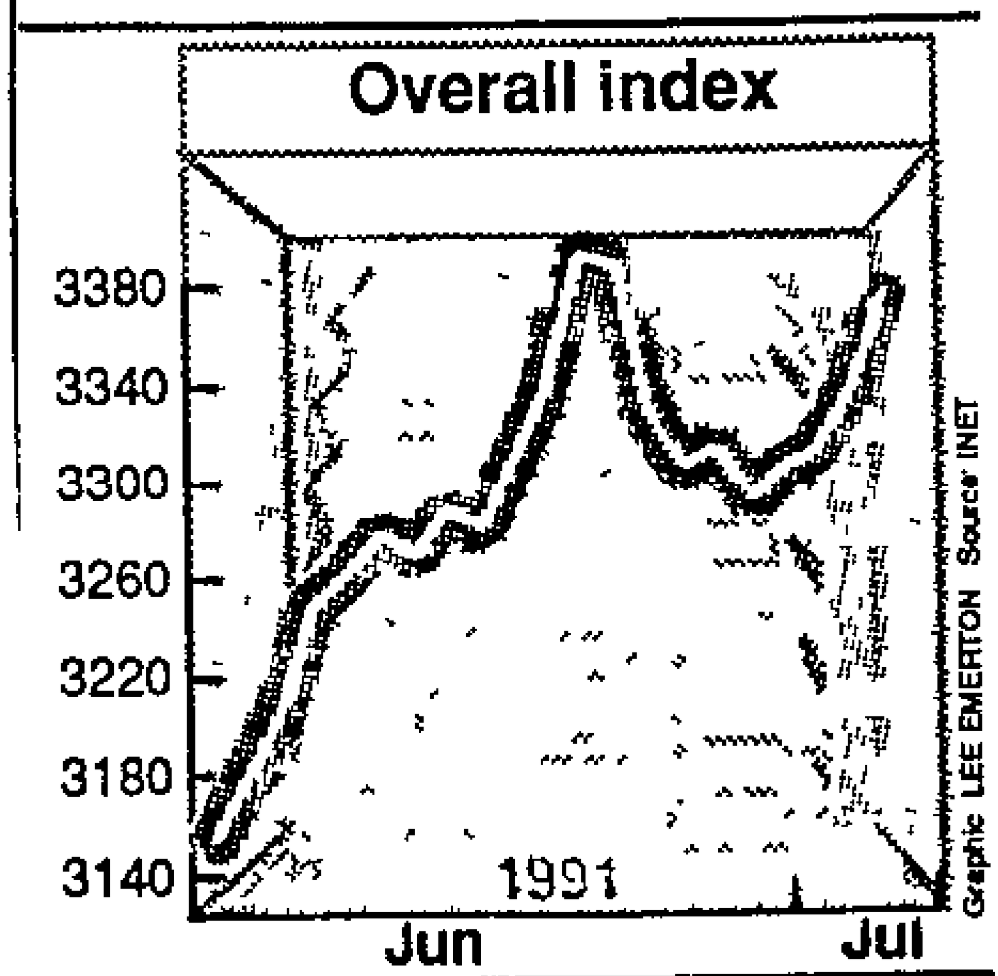




JSE boosted by sanctions report

Bday 4/7/91

MERVYN HARRIS (232)

A REPORT that Japan had decided to lift sanctions on SA gave an added twist to the upward spiral of share prices on Diagonal Street yesterday

The report also caused a sharp about-turn in the capital market, causing the bears to lose the upper hand Long-term rates plunged about eight points on the news to reverse the increases seen after poor inflation and money supply data

Reuter quoted Japan's top-selling newspaper, Yomiuri Shimbun, as saying Japan would also set up full diplomatic relations with SA after the Group of Seven London summit later this month

But a Tokyo foreign ministry official said no decision had been made and the government was watching developments

The paper quoted several government sources as saying the government had made the decision because of the release of political prisoners and approaching negotiations between Pretoria and the ANC.

On Tuesday another newspaper, the Tokyo Shimbun, said Japan would end sanctions in late July, and would co-ordinate its policy on SA with the US and Europe

Last month the Japanese cabinet announced an end to curbs on tourism but said economic sanctions would be retained until SA had dismantled apartheid.

The news report helped fuel bullish sentiment on the market, spurring strong overseas demand for SA shares and sending prices of quality shares surging across nearly all sectors

Dealers said trading turned hectic in the afternoon after a firm opening on the back of overnight demand for SA shares in New

☐ To Page 2

JSE

Bday 4/7/91 (232)

☐ From Page 1

York The activity came after only a brief pause for breath amid suggestions that the market needed a healthy correction in the wake of last month's sharp gains, particularly among industrials

But investors thrust caution aside to lift the JSE overall index 39 points to 3 377, the all gold index 34 to 1 445, the industrial index 32 to 3 860 and there were also strong gains by other mining-related and financial shares

Sentiment was boosted by a higher gold price which firmed from a London morning fixing of $367,75 to again test the $370 level despite a strong dollar It closed in London at $369,25

Some analysts said the strong share buying pressure on the JSE could have been on hopes of positive news coming from the ANC conference in Durban and the possible lifting of US sanctions by the end of the month

Momentum trust scoops 54% return

B/Day 5/7/91 (232)

Business Day Reporter

IN THE latest of the unit trust results, Momentum Unit Trust Scheme announced a total return — including capital appreciation and income — for the past 12 months of 54%

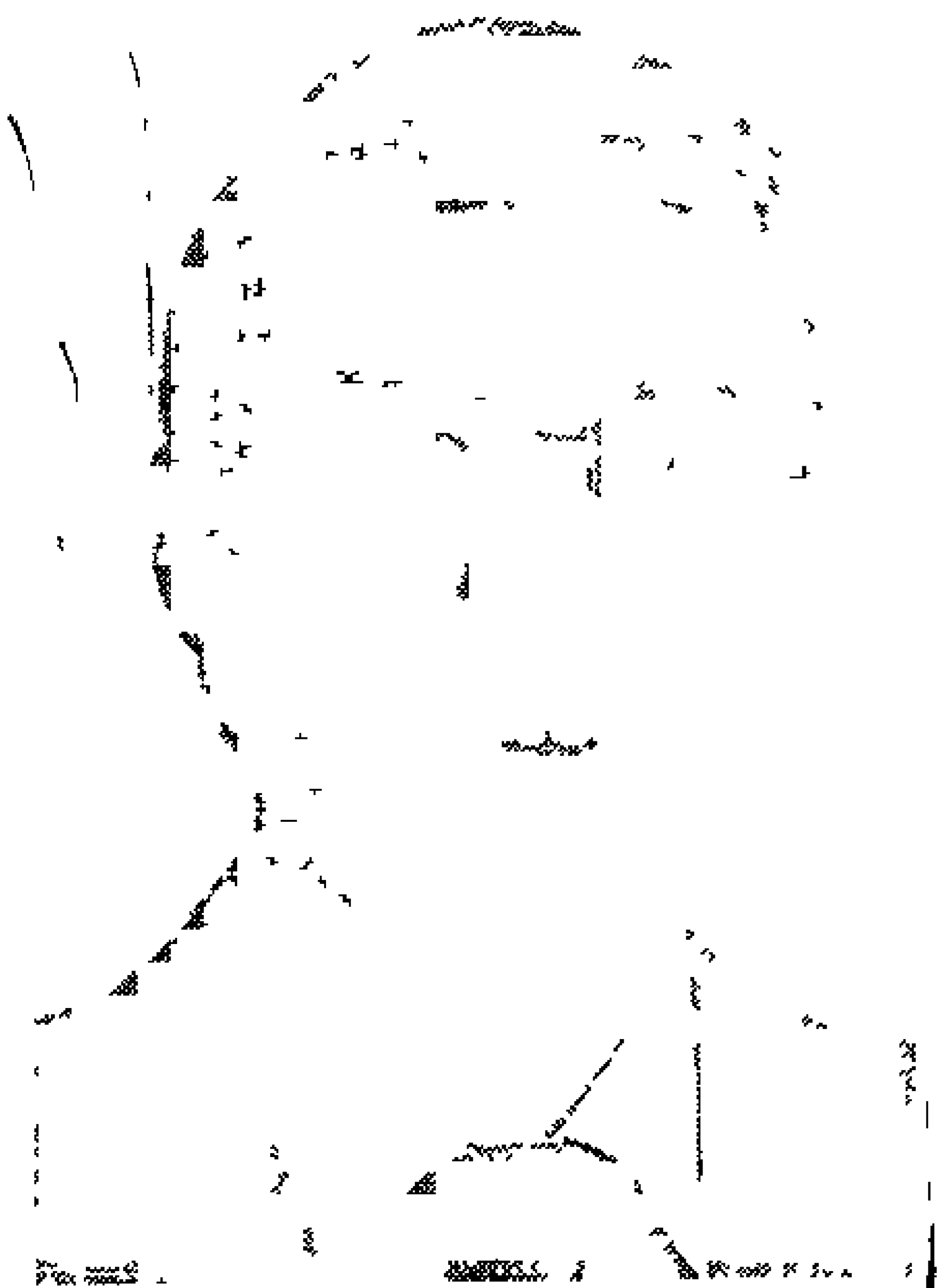
In the first half of 1991 the return was more than 29% An income distribution of 6,28c a unit has been declared for the six months ended June 1991

The portfolio was nearly fully invested at the end of June Momentum Fund Managers MD Peter du Toit said "The most significant aspect of the portfolio is the 19% exposure to gold producers The accumulation of gold shares in the quarter has already yielded signficant returns"

Over the past few months the rand/gold price has depreciated substantially, which, with the refocusing of production costs and development on the mines, has resulted in a reappraisal of gold-mining fundamentals

"The dollar price of gold has yet to stage a recovery However, gold is still money to many investors around the world As world trade moves into a new age of social and economic interaction at all levels, so too the monetary value of gold must appreciate," Du Toit said

The consideration for gold investment and the prospect of real economic growth in the 90s were playing signficant roles in the direction of the SA shares market



● DU TOIT . exposure to gold producers

While short-term setbacks might occur, medium-term expectations were encouraging and fully justified the present structure of the portfolio

Du Toit added that during the quarter, Huntcor, Absa, Fedfood and Transnet Elfi III were added to the portfolio, while Stanbic, Commercial Union, W & A, Sunbop and Afcol were sold

FM 5/7/91

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CORPORATE PROFITS

LOOKING FOR RECOVERY

PROFITS MAY BE NEAR THE BOTTOM BUT NO UPTURN IS IMMINENT

As is apparent from the severe setbacks sustained by some leading industrial groups, business conditions have generally continued to deteriorate as the year progressed

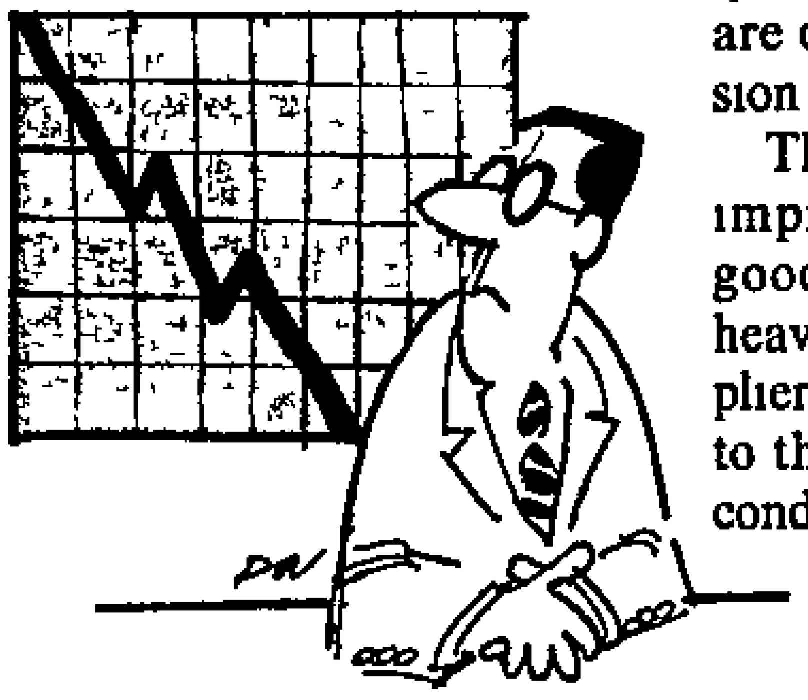
However, analysis of corporate profits announced over the past six months underlines a peculiarity of this recession. its effects remain patchy, certain sectors, particularly those exposed to consumer spending, remain surprisingly buoyant.

The same approach was taken for the *FM*'s previous profit surveys Summarised in the accompanying table are the results of major industrial companies that reported over the past six months. Selection is based partly on size, with an arbitrary cut-off of about R100m turnover

An attempt is made to ensure that the figures are comparable with results for the previous period, to minimise distortions from corporate restructurings or changes in financial periods

Some 170 companies appear on the list. They are roughly the same companies as appeared in the previous table and cover the entire industrial board. Reporting periods (interim or preliminary year-end figures) are mostly for the fourth quarter of 1990 or the first quarter of 1991

Whereas the last roundup (*FM* January 4) showed that the average change in EPS for those in the table had dropped to a negative 0,4%, this year the average is 0,9%. And while six months ago, average dividend growth had fallen to 8,4%, this time it is only about 6% From these broad averages the deterioration may have virtually bottomed out.



Predictably, results in the industrial holding sector are mixed, though it's notable that few of the large diversified groups continued to produce real growth in earnings or dividends Nearly two-fifths of the 26 groups included from this sector posted lower earnings and there was an average decline in EPS of 2%, two of them cut their dividends; seven merely maintained them

Sectoral trends largely reflect developments in the economy Companies dependent on fixed investment, spending on infrastructure, exports, commodities or precious metal markets tended to be the worst hit at trading level Thus earnings performances were almost consistently poor in building and construction (average EPS fall of 11%), motors (average decline of 16,6%), steel and allied (average drop of more than 42%) and transportation (average decline of 32%)

Results shown from companies in clothing, footwear and textiles (average EPS decline of 19%) roughly reflect the blows dealt out to many manufacturers. They have been hurt by falling sales volumes, competition from imports, rising finance charges, capital spending programmes and the sudden moves by customers to slash inventories

On the other hand, distributors of many consumer products, especially semi-durables, have again held up well In the retailers and wholesalers sector, EPS on average were virtually static, but for individual companies there were wide variations, including some more outstanding performances.

Three other sectors where the earnings trend remained vigorous were beverages, hotels and leisure (EPS rose by an average 34%), furniture and household (EPS were up by an average 20%), and paper and packaging (EPS increase of 18%) For the last the sales are closely linked to consumer spending on durables and semi-durables.

Exactly when industrial profits will turn upwards will depend on many factors, not least of all the nature of the business concerned

As was emphasised last week when LTA released its results for the 1991 year, industries such as construction, which work largely on long-term contracts, are only now entering recession

There is no sign of any improvement for capital goods suppliers such as heavy engineering, for suppliers of goods and services to the gold mining industry, conditions will almost certainly worsen as the mining houses intensify efforts to contain cost escalation They will have to look to other markets.

There is, however, growing optimism that the economy will recover in 1992. Who the immediate beneficiaries of this will be obviously depends partly on what brings about the recovery

Exporters, for example, would benefit strongly from a return to growth in industrial economies, a continuing easing of trade sanctions or a resumed depreciation of the rand Commodity prices have fallen to a three-year low and have yet to turn firmly upwards.

Inventories in many sectors have been slashed to low levels Simpson McKie economist Graham Boyd has pointed out that inventories are already at a very low ratio to GDE, a rise in inventories or even a lower rate of destocking, he says, has a powerful statistical effect on the measured growth rate Manufacturers may also benefit from an inflow of foreign capital

While positive developments may emerge, it is also likely that certain obstacles standing in the way of brighter business conditions will remain in place for some time

One obstacle is the feeble level of fixed investment by the private sector With a few recent exceptions — such as SA Breweries — many industrial companies have been cutting back on capital spending To change this, there will have to be higher levels of confidence but also, in many cases, sharply higher levels of capacity utilisation

Further easing of interest rates will happen eventually, but the probability of a steep drop is low In general, profits are likely to benefit at trading level, rather than from shrinking finance charges. High real rates are not usually seen as a prime ingredient for getting a profit boom off the ground.

Wait for 1992

While the trend in industrial profits may have bottomed, there is no great assurance that a marked upswing will appear this year Equity investors are now assuming there will be enough positive developments in the economy and political backdrop to get profits growing again by the first half of 1992.

But predictions of favourable events (such as interest rate cuts) have been pushed into the future more than once over the past 18 months

Should these assumptions prove optimistic, share prices will be looking even more expensive than many now think As Simpson McKie has argued "Either the economy will show a substantial recovery by 1992 or it won't, in which case one would be an aggressive seller of all but the rand hedges "

At this stage, sanguine forecasts of a profit upswing continue to be made, though they suggest a return to vigorous growth may be as much as two years off.

Frankel Max Pollak Vinderine forecasts EPS for Industrial index companies will rise by 8,5% in calendar 1991, by 19,6% in calendar 1992 and by more than 20% in calendar 1993 Simpson McKie forecasts EPS for these shares will grow by 8% over the next 12 months and by 23% in the 12 months to June 1993, with dividends rising by 7% and by 17% over those two 12-month periods

Fergusson Bros Hall Stewart's forecast, based on an unweighted average for more than 100 shares, is EPS growth of 5,9% and DPS growth of 7,8% in the year to March 1992, and EPS growth of 17,6% and DPS growth of 15% in the year to June 1993.

Even should these forecasts prove broadly correct, they underline the point that share prices of many companies are discounting results a long way ahead. Any buying now should be highly selective. *Andrew McNulty*

FM 5/7/91 (232)

CORPORATE PROFITS: LITTLE GROWTH LEFT

Company	Reporting Period	Turnover Rm	Turnover % change	Operating Profit Rm	Operating Profit % change	Finance Charges Rm	Finance Charges % change	EPS c	EPS % change	DPS c	DPS % change
INDUSTRIAL HOLDING											
Amic	Dec 31	[illegible]	[illegible]	[illegible]	−49 4	122 0	[illegible]	[illegible]	[illegible]	350,0	0
Anglovaal Ind	Dec 31	3 855 7	[illegible]	[illegible]	7,5	43,0		[illegible]	[illegible]	—	—
Barlow Rand	Mar 31	15 023 0	[illegible]	[illegible]	−0,6	338 0	[illegible]	[illegible]	[illegible]	51,0	0
Bid Corp	Dec 31	197 2	[illegible]	[illegible]	14,2	▲6,5	[illegible]	[illegible]	[illegible]	26,0	66 7
Bolton Industrial	Feb 28	[illegible]	[illegible]	[illegible]	−54,6	n/d	[illegible]	[illegible]	[illegible]	26,0	−43 5
BTR Dunlop	Dec 31	700 8	[illegible]	[illegible]	21,0	8 8	[illegible]	[illegible]	[illegible]	165,0	17,9
CG Smith	Mar 31	7 888,0	[illegible]	[illegible]	8 2	131,3	[illegible]	[illegible]	[illegible]	111,0	5,7
Cullinan	Dec 31	[illegible]	[illegible]	[illegible]	15,8	10 2	[illegible]	[illegible]	[illegible]	17,0	0
Darling & Hodgson	Feb 28	[illegible]	[illegible]	[illegible]	12,4	n/d		[illegible]	[illegible]	‡50,5	381 0
FSI Corp	Dec 31	n/d		[illegible]	[illegible]	n/d		[illegible]	[illegible]	35,0	0
Grincor	Dec 31	[illegible]	[illegible]	[illegible]	39,3	15,3	[illegible]	[illegible]	[illegible]	28 0	21 7
HLH	Mar 31	[illegible]	[illegible]	[illegible]	23,8	24,8	[illegible]	[illegible]	[illegible]	32,6	12 8
Imphold	Dec 25	[illegible]	[illegible]	[illegible]	23,3	4,8	[illegible]	[illegible]	[illegible]	7,0	21 7
KNJ	Dec 31	[illegible]	[illegible]	[illegible]	26,8	4 0	[illegible]	[illegible]	[illegible]	—	—
Longmile	Dec 31	[illegible]	[illegible]	[illegible]	−5,2	6,0	[illegible]		[illegible]	0	—
MacPhail	Dec 31	[illegible]	[illegible]	[illegible]	13,8	n/d	[illegible]	[illegible]		19,0	15,2
Malbak Group	Feb 28	[illegible]	[illegible]	[illegible]	6,0	89 0	[illegible]	[illegible]	[illegible]	12,5	0
Micor Holdings	Dec 31	[illegible]	[illegible]	[illegible]	−67 8	n/d		[illegible]	[illegible]	—	—
M & R Holdings	Dec 31	[illegible]	[illegible]	[illegible]	8,1	10,9	[illegible]	[illegible]	[illegible]	46,0	15,0
Picbel	Dec 31	[illegible]	[illegible]	[illegible]	−13,4	10,2	−52	[illegible]		100,0	—
Plate Glass	Mar 31	[illegible]	[illegible]	[illegible]	[illegible]	n/d		[illegible]	[illegible]	222,0	0
Royal Corp♣	Feb 28	220 8	[illegible]	[illegible]	30 2	2,9	[illegible]	[illegible]	[illegible]	7,0	16 7
Safren	Dec 31	[illegible]		[illegible]	7,9	n/d	[illegible]	[illegible]	[illegible]	60,0	9 1
T & N Holdings	Dec 31	413,4		[illegible]	−23,4	§21,1	[illegible]	[illegible]	[illegible]	13,8	−55,5
Toco Holdings	Mar 31	[illegible]	[illegible]	[illegible]	31,6	3,0	[illegible]	[illegible]	[illegible]	7,5	25 0
W & A Investments	Dec 31	3 098 5	[illegible]	[illegible]	7 8	▲117,9	[illegible]	[illegible]	[illegible]	42,0	0
BEVERAGES, HOTELS AND LEISURE											
Amalgamated Beverage	Mar 31	[illegible]	[illegible]	[illegible]	24,7	§5 2	[illegible]	[illegible]	[illegible]	26,0	23 8
Distillers Corp	Dec 31	n/d	[illegible]	[illegible]	11,3	§0 3		[illegible]	[illegible]	11,0	10 0
Interleisure	Dec 31	190,4	[illegible]	[illegible]	[illegible],6	2,1	[illegible]	[illegible]	[illegible]	4,8	11 8
Kersaf	Dec 31	904 1	[illegible]	[illegible]	13,0	13,5	[illegible]	[illegible]	[illegible]	58,0	16 0
M-Net	Mar 31	426 4	[illegible]	[illegible]	4,0	6,0	[illegible]	[illegible]	[illegible]	7,0	64 2
SA Breweries	Mar 31	15 385 0	[illegible]	[illegible]	20,7	§275 0	[illegible]	[illegible]	[illegible]	118,0	16 8
Sun Bop	Dec 31	788,6	[illegible]	[illegible]	17,2	0,4	[illegible]	[illegible]	[illegible]	65,0	22,2
Suncrush	Dec 31	[illegible]		[illegible]	30 0	n/d		[illegible]	[illegible]	125,0	30,2
Transkei Sun	Dec 31	[illegible]	[illegible]	[illegible]	4,8	0	[illegible]	[illegible]	[illegible]	13,8	5,8
BUILDING AND CONSTRUCTION											
Anglo-Alpha	Dec 31	[illegible]	[illegible]	[illegible]	−0,8	13,6	[illegible]	[illegible]	[illegible]	132,0	14,8
Basil Read	Dec 31		[illegible]	[illegible]	32,5	▲2,9	[illegible]	[illegible]	[illegible]	10,0	0
Basil Starke Group	Dec 31	[illegible]	[illegible]	[illegible]	18 3	4,4	[illegible]	[illegible]	[illegible]	—	—
Blue Circle	Dec 31	[illegible]	[illegible]	[illegible]	−6,3	6,9	[illegible]	[illegible]	[illegible]	115,0	4 5
Boumat	Mar 31	[illegible]	[illegible]	[illegible]	46,3	25,3	[illegible]	[illegible]	[illegible]	48,0	6,7
Everite	Dec 31	[illegible]	[illegible]	[illegible]	−62,2	0,9	[illegible]	[illegible]	[illegible]	4,0	−46 7
Grinaker	Dec 31	[illegible]		[illegible]	−25,5	4,8	[illegible]	[illegible]	[illegible]	10,0	−23 1
Group Five	Dec 31	[illegible]	[illegible]	[illegible]	9,6	n/d		[illegible]	[illegible]	27,0	17 4
PP Cement	Mar 31	[illegible]	[illegible]	[illegible]	−7,0	3,6	140 0	[illegible]	[illegible]	45 0	7,1
Shoredits	Dec 31		[illegible]	[illegible]	4 4	◇4,3	[illegible]	[illegible]	[illegible]	◇8,0	0
Stocks & Stocks	Oct 31	[illegible]	[illegible]	[illegible]	6,3	5,3	[illegible]	[illegible]	[illegible]	4,0	0
Supreme Industrial	Dec 31	[illegible]	[illegible]	[illegible]	284,3	20 3	[illegible]	[illegible]		10,0	42 9
CHEMICALS AND OILS											
AECI	Dec 31	[illegible]	[illegible]	[illegible]	−17,4	130 0	[illegible]	[illegible]	[illegible]	87,0	0
Chemical Services	Dec 31	[illegible]	[illegible]	[illegible]	46 0	n/d	[illegible]	[illegible]	[illegible]	120,0	20 0
Engen	Feb 28	[illegible]	[illegible]	[illegible]	12,0	n/d		[illegible]	[illegible]	42,0	20 0
Omnia Holdings	Dec 31	380 8	[illegible]	[illegible]	−5,1	n/d		[illegible]	[illegible]	30,0	15 4
Sasol	Dec 25	[illegible]	[illegible]	[illegible]	58,9	▲204 5		[illegible]	[illegible]	32 5	18 2
Sentrachem	Feb 28	[illegible]	[illegible]	[illegible]	−3,3	64,3	[illegible]	[illegible]	[illegible]	6,0	−52 0
CLOTHING FOOTWEAR, TEXTILES											
Amshoe	Feb 28	[illegible]	[illegible]	[illegible]	−14,1	5,3	[illegible]			9,0	0
Bolton Footwear	Feb 28	[illegible]	[illegible]	[illegible]	−13,6	4,5	[illegible]	[illegible]	[illegible]	8,4	−23 6
Conshu	Dec 31	[illegible]	[illegible]	[illegible]	7,4	5 6	[illegible]	[illegible]	[illegible]	11,5	9 5
Da Gama	Mar 31	[illegible]		[illegible]	−28,1	n/d		[illegible]	[illegible]	38 0	−30 2
Frame	Dec 31	1,8	[illegible]	[illegible]	[illegible]	▲18 6	[illegible]	[illegible]	[illegible]	0	—
Lenco	Feb 28	[illegible]	[illegible]	[illegible]	27,9	18 3	[illegible]	[illegible]	[illegible]	10,0	11,1
Rex Trueform	Dec 31	[illegible]		[illegible]	−61,0	0 8	[illegible]	[illegible]	[illegible]	—	—
Romatex	Mar 31	[illegible]	[illegible]	[illegible]	−48,4	9,0	[illegible]	[illegible]	[illegible]	10,0	−60 0
SA Bias Ind	Dec 31	[illegible]	[illegible]	[illegible]	6,8	1,9	[illegible]	[illegible]		18,0	0
Seardel	Dec 31	[illegible]	[illegible]	[illegible]	3,1	§16,9	[illegible]	[illegible]	[illegible]	8,0	0
ELECTRONICS											
Aberdare	Dec 31	432 4		[illegible]	11,7	n/d		[illegible]	[illegible]	150,0	14 5
Allied Electronics	Feb 28	2 655 0	[illegible]	[illegible]	30,8	n/d		[illegible]	[illegible]	142,0	15,4
Allied Technologies	Feb 28	926 5	[illegible]	[illegible]	6,8	n/d		[illegible]	[illegible]	268,0	0
Datakor	Mar 31	498 5	[illegible]	[illegible]	−11,9	8 9	[illegible]	[illegible]		6,5	21 4
Fintech	Feb 28	624 0	[illegible]	[illegible]	[illegible]	4,7	[illegible]	[illegible]		20,0	—
Fintech Informatics	Feb 28	380 3	[illegible]	[illegible]	[illegible]	n/d	[illegible]	[illegible]		0	—
Grintek	Dec 31	605 8	[illegible]	[illegible]	−24,6	1 2	[illegible]	[illegible]	[illegible]	2,4	−20 0
Power Technologies	Feb 28	1 204 2	[illegible]	[illegible]	28,2	n/d		[illegible]	[illegible]	9 3	10 7
Reunert	Mar 31	759,7		[illegible]	−5,3	▲8 1	[illegible]	[illegible]		22,0	0
Siltek	Dec 31	n/d		[illegible]	−10,1	2 9	[illegible]	[illegible]	[illegible]	10,0	−9 1
Tedelex	Feb 28	268 5		[illegible]	38 4	7 6	[illegible]		[illegible]	7,0	40,0
Technology Systems	Mar 31	837,7	[illegible]	[illegible]	9,2	n/d	[illegible]	[illegible]	[illegible]	10,5	16,7
ENGINEERING											
African Oxygen	Mar 31	[illegible]		[illegible]	19 2	▲19 1	[illegible]		[illegible]	63,0	26 0
Bearing Man	Feb 28	[illegible]	[illegible]	[illegible]	−1,6	6,6	100 9	[illegible]	[illegible]	30,0	−25,0
Dorbyl	Mar 31	[illegible]		[illegible]	−4,4	▲16 0		[illegible]	[illegible]	28,0	0
Ed L Bateman	Dec 31	423 0	[illegible]	[illegible]	49,9	1 1	[illegible]	[illegible]	[illegible]	72,0	26,3
Fenner	Feb 28	[illegible]	[illegible]	[illegible]	40,4	§2,2	[illegible]	[illegible]	[illegible]	7,6	15 4
Fraser Alexander	Dec 31	104 7	[illegible]	[illegible]	[illegible]	n/d	[illegible]	[illegible]	[illegible]	11,0	−21 4
Genrec	Dec 31	279		[illegible]	166,6	n/d		[illegible]	[illegible]	25,0	100,0
Haggie	Dec 31	254,			−6,6	▲20 3	[illegible]	[illegible]	[illegible]	157,0	0
Hudaco	Nov 30	403 1	[illegible]	[illegible]	26,2	§9 0	[illegible]	[illegible]	[illegible]	60,0	4,2
Metkor	Mar 31	1 409 7	[illegible]	[illegible]	2,9	24,2	[illegible]	[illegible]	[illegible]	4,7	10 8
NEI Africa♣	Dec 31	712 2	[illegible]	[illegible]	−67,3	n/d		[illegible]		166,0	−21 8
NTC	Dec 31	602,8		[illegible]	22,3	10 6	[illegible]	[illegible]	[illegible]	60,0	13,6
Robor Ind Hold	Mar 31	360 2	[illegible]	[illegible]	−31,8	1 8	[illegible]	[illegible]	[illegible]	19,0	0
Standard Engineering	Feb 28	298 0		[illegible]	−19,6	7,9	[illegible]	[illegible]	[illegible]	14 0	0
Uniholdt	Dec 31	196,9	[illegible]	[illegible]	4,1	7 5	[illegible]	[illegible]	[illegible]	13,5	12,5

continue PTO

OM buys 7 percent stake in Pep

(232)

Star 5/7/91

By Magnus Heyster

Old Mutual said last night it had acquired a stake of 6,6 percent in Pep Limited, which is considered to be the dominant clothing retailer in the lower-income end of market

The deal is valued at R105 million.

The deal, done at the end of May, was at a price of R27 a share, which included the dividend

Yesterday Pep was trading at R33 a share.

This means that, together with the recently declared dividend, Old Mutual can already show a return of 30 percent for its unit-trust holders, policyholders and pension funds

Portfolios

The shares were bought from Pepkor, Pep's holding company

They were allocated to the Investors' Fund, Old Mutual's general equity fund and to other portfolios

At a purchase price of R27 per share Pep, was trading on a P/E ratio of 13,9, which is significantly lower than other retailing stores whose share prices stand at P/E multiples of 18 to 20 times.

Pep has a dominant share in the lower-income end of market segment and is also cash-based, with cash resources of R250 million.

Apart from Pep Stores, Pep Limited is also the holding company for Ackermans and Harties.

Customers

Ackermans is currently being repositioned to attract customers from the upper-lower and lower-middle class market segments

Pep recently acquired control of Harties, which was started by the son of the original founder of Pep, Renier van Rooyen

It is expected to generate increasing returns

Star 6/7/91

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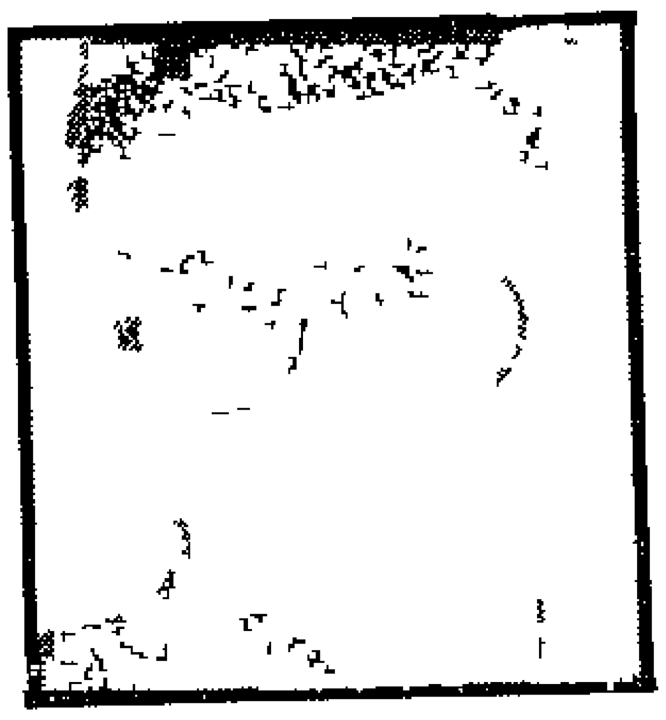
Investing made simple

Starting out on the JSE

THE first in a series on the basic workings of the Johannesburg Stock Exchange by Andre du Plessis, head of portfolio management at stockbrokers Ed Hern, Rudolph & Co.



NOT many South Africans understand the workings of the Johannesburg Stock Exchange

South Africa is not an equity-owning country and compares poorly with the UK, for instance, where one in four Britons now own shares

To the unenlightened the exchange may seem complicated and often confusing But remember, the more you learn the more you earn

Here are some of the questions commonly asked about investing in the JSE, with answers that present a very elementary introduction — so please skip the parts you already know

As an investor what risks do I face?

The most serious risk you face is the impact of inflation on your investment capital

We have all come to know and fear the word inflation but often forget the rate to which it has increased in the past 20 years

Our inflation rate has risen relentlessly since the early 'seventies from around 2,5 percent to more than 19 percent in recent years

The average inflation rate during the 'eighties was just over 14 percent a year, while the outlook for any significant reduction is not particularly promising

What has been the impact of inflation?

Quite simply, you have become poorer if you have not taken adequate steps to protect your investments For example, one rand saved in 1960 was effectively worth less than 7c at the beginning of 1991

Looking to the future, this means that, with an increase in the consumer price index of say 15 percent a year, the purchasing value of R100 today falls to R50 in five years and R25 in 10 years

Therefore, merely to maintain the value of your capital (after inflation) it needs to grow at the following rates

Period	Inflation rate		
	12%	14%	20%
Five years	1,8	1,9	3,2
Ten years	3,1	3,7	5,2
Fifteen years	5,5	7,1	8,4

How do I as an investor beat inflation?

You will agree that the performance of various investments in an inflationary environment over the past 15 to 20 years should provide some guidance

Broadly, the only investments which have consistently beaten inflation on a longer term basis, are quality shares and selected properties

COMP

Local stocks spark foreign interest

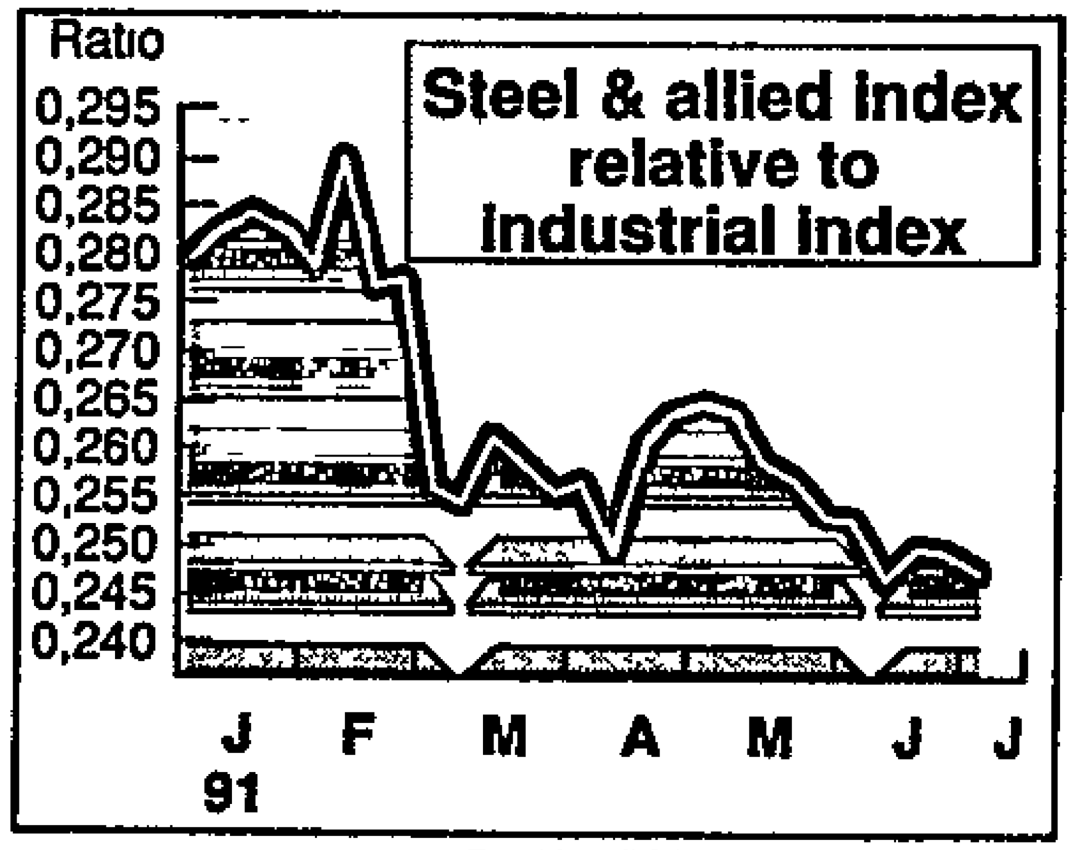
232 BDay 8/7/91

BRENT VON MELVILLE

AS SANCTIONS teeter, the dollar strengthens against the rand and the US economy begins to right itself, overseas investors are again beginning to take a strong interest in certain JSE stocks.

A major beneficiary in recent weeks has been steel-producer Iscor, which has seen its share price jump more than 10% Europeans are believed to have picked up over 10-million shares last week alone

This high-volume daily trade left Iscor's share price at 221c by week-end, a price which market observers believe is an important support level It puts Iscor on a price-to-earnings ratio of 5 times and a dividend yield of 7,7%, compared with the sector ratings of 10,1 and 6,4% respectively



Graphic: LEE EMERTON Source INET

Investment analyst David Russell of stockbrokers Irish & Menell Rosenberg believes the rise could indicate that the market is already discounting short-term poor results from companies in the steel and manganese sectors

The market also feels that prospects for the steel and ferro-alloy producers have been boosted somewhat by the strengthening of the US dollar relative to the rand

In early January the rand was at 2,55 to the dollar, compared to 2,90 at present — a fall of 12,1% in six months Market observers say this is likely to give margins a little more flexibility as production costs are rationalised

But in the shorter term Iscor is expected to report sharply lower earnings for the year to June A lower offtake from the more profitable local market has forced it to resort to increasing lower-priced exports in order to maintain production efficiencies Exports have jumped from about 32% last year to 45% of total sales this year, and are expected to go higher by year-end

This has had a significant impact on profitability, with the international price of flat steel products falling steadily over the past several years from about $380/ton to about $300/ton at present

Highveld Steel & Vanadium is also suffering from similar problems on the steel side with consumers building up inventory ahead of last January's 14,5% price hike

Despite the short-term bleakness, Russell says the lifting of sanctions by the US could see a resurgence of investor interest in both steel and ferro-alloy shares which historically have attracted American investors

He said that when sanctions were imposed certain stocks listed after that time were prohibited to American investors — Iscor falls into this category and could be an attractive "new" share for them

Another stock which could attract American buying is Consolidated Metallurgical Industries (CMI), which in the past three months has moved up 43% from a low of 610c Its current price of 875c puts it on a historical p e of 5 times and a dividend yield of 13,1%

While CMI has returned to profitability, its results for the year to June are expected to be put under pressure by the R181m acquisition of Purity Ferrochrome However, that debt burden will be alleviated by the issue of 30-million preference shares to raise about R100m

ANIES

Crendel share price boosted by speculation

D/Day 8/7/91 SEAN VAN ZYL (232)

MARKET speculation of a "major deal in the pipeline" has boosted cash shell Crendel Investments' share price by 40% to 280c over the past month.

Composite insurance holding company Hoskens Consolidated Investments (HCI) — which holds majority interests in IGI, Safrican Life and Safegro — recently acquired a 71,5% stake in Crendel Investments from the Tollgate group. Crendel was previously a clothing manufacturer.

Market talk suggested that HCI might be looking at reverse-listing merchant banker Mercantile Bank Holdings into the Crendel listing. HCI has an indirect 49% interest in Mercantile through Safegro, the financial services arm of the group.

However, HCI's chairman Mike Lewis said last week that no deals were on the cards, "and HCI would eventually inject a share portfolio into the Crendel listing".

He added that no developments could be expected in the short term as HCI was still finalising the details.

Crendel Investments sold its manufacturing assets for R42m in the beginning of the year and acquired about a 24% interest in Safrican Life. The company also bought approximately 4% of the issued share capital of HCI in a combined deal worth R33,4m.

With HCI now at the Crendel helm, market rumours have abounded on what the insurance group plans to do with the investment holding company HCI, in line with JSE requirements, has also made an offer to Crendel's minority shareholders. But only 1,25% of Crendel's shareholders took up HCI's share swap and cash offer

UAL unit trusts reach R1bn for the first time

(232)

B/Day 9/7/91

LIZ ROUSE

THE four unit trusts of the UAL Management Company reached a market value of more than R1bn for the first time during the June quarter

UAL Management Company MD Clive Turner says this is particularly significant as UAL does not have its own marketing force, but relies entirely on independent intermediaries such as financial consultants, auditing and legal firms and other personal investment advisors.

Turner says the improvement in the overall market and a continued healthy net inflow was reflected in the growth of the value of units in the UAL Unit Trust, boosting the market value to nearly R536m (R474m in the March quarter)

The fund's liquidity was reduced to 24,4% from a relatively high 33,7% in the March quarter when funds were being accumulated to take positions in a more optimistic equity market climate.

Turner says the portfolio has maintained its focus on leading mining, financial and industrial shares, with sound prospects over the next two years.

New holdings introduced were Minorco, ABSA and Premier Group, while additions were made to existing holdings in De Beers, First National Bank, Liberty Life, SA Breweries and Engen

A distribution of 19,70c a unit for the quarter has been declared.

The UAL Mining and Resources Unit Trust grew to R236m (R220m at the end of March), with an income distribution of 6,20c a unit.

Portfolio manager Bill Belovay says although share prices on international stock exchanges have disregarded the US recession, metal prices have been short-term in their outlook and their sluggishness is reflecting oversupply.

During the quarter the fund increased its direct gold-related investments and bought Kloof, Driefontein and GFSA, selling its holding in Southvaal.

The UAL Selected Opportunities Unit Trust has grown to nearly R100m (R80m), with a net inflow of R8,5m.

Vindicated

Liquidity was reduced to 13,9% from 17,1% in the March quarter. New holdings were established in Afrox, Sunbop, Voltex, Berzack and Clinic Holdings.

Thw UAL Gilt Unit Trust grew to R164m from R156m The new investment focus was on the medium-dated area with the acquisition of the new P007 (1996) with a conversion option

Liquidity was allowed to build up to 35% (32%) and the defensive structure of the portfolio was maintained, an approach which has been vindicated, say the managers, as the gilts market came under upward pressure with the continued application of stringent monetary policy. Tight conditions are expected to continue

Industrials getting expensive — fund managers

232

LIZ ROUSE

Bday 9/7/91

CERTAIN industrial shares are moving into expensive territory and a period of consolidation could lie ahead, say managers of the GuardBank group of unit trusts.

Nevertheless, significant falls are not expected for the JSE and the market should be underpinned by the lack of quality financial and industrial scrip

The outlook for the equity market in the near future will continue to be influenced by the trend in the gold price and the outcome of political developments.

The major fund, GuardBank Growth Fund, increased its exposure to equities to 81,28% in the June quarter (from 76,61% at the end of the March quarter), with the value of its portfolio up at nearly R1bn (end-March: R841,1m), while gilts, cash resources and liquid assets were reduced to 18,72% at R230,1m (end March R255,2m or 23,29%). Total assets were up at more than R1,2bn (R1,1bn).

The repurchase price increased 13,69% over a year ago and the half-yearly distribution was 62,67c a unit for the six months to June (comparable half-year: 44,29c), giving a 12-month distribution of 118,96c.

During the June quarter, the fund bought 100 000 Winkelhaak at lower levels and increased holdings in Stanbic, Implats, Rusplats, Charter, GFSA and Sasol

It lightened holdings in Anglos, UBS, Richemont, Adcock Ingram, Rembrandt Controlling and Rembrandt Group.

GuardBank Resources Fund's total assets grew to more than R56m (R51,2m), consisting of equities valued at more than R45m (80,45%) and gilts, cash resources and liquid assets of R10,9m (19,55%), compared with equities worth nearly R42m (82,01%) and liquidity of R9,2m (17,99%) at the end of March

An income distribution of 3,99c a unit for the six months to June (previous quarter 4,48c), brings the 12-month total to 8,81c, yielding a return of 9,6% for 12 months.

GuardBank Income Fund, whose total assets edged up to R30,25m (R29,7m), with liquidity up sharply to R9,82m (32,46%) from R3,05m (10,27%), increased its defensive stance against deteriorating fundamentals.

Bank 'assistance' of R300m for CIB

BDay 1/7/91. (232)

ROBERT GENTLE

THERE was growing speculation yesterday that the R300m at the centre of the CIB liquidation row was actually a form of special assistance given by the Reserve Bank to help CIB trade its way back to profitability.

This conflicts with the version given at a recent CIB creditors' meeting by former MD Andy Swartz. He has maintained that the R300m was a deposit which was withdrawn when the Bank became aware that CIB was going under

Eleven days after the alleged "withdrawal", the Bank applied for liquidation of CIB

That the R300m was a deposit, or that the Bank acted unethically by pulling out its money ahead of the liquidation, has been repeatedly denied by Registrar of Banks Hennie van Greuning

"I can categorically state that it was not a deposit," he said yesterday.

He said he would not say anything more because he was bound by the Reserve Bank Act which allows the Bank to withhold certain information from the public in the interests of macro-economic stability.

The theory in the market yesterday was that the Reserve Bank, having learned of CIB's liquidity problems late last year, lent it R300m at a rate of 1%. CIB then redeposited the R300m with the Reserve Bank at a rate of 16%, meaning CIB had effectively made a 15% (R45m) turn on the deal The question in the market was why did the Reserve Bank simply not give CIB R45m instead of going through such a tortuous transaction?

Van Greuning conceded that with the benefit of hindsight and given the inadequacies of the old Banks Act compared with the more rigorous Deposit-Taking Institutions Act, it was perhaps not wise to have issued CIB its final banking registration around August last year.

"If a similar situation existed today under the present legislation, a final banking registration would not be issued," he said.

The necessary checks and investigations had been applied in the case of the CIB final registration, Van Greuning said, but "within the looser constraints of the old Banks Act".

Nevertheless, the feeling in some quarters of the market was that CIB was already showing signs of problems in the second half of last year, and that consequently the Reserve Bank should not have granted it final registration.

Van Greuning said the only real indication of serious trouble emerged in March this year, long after the final registration had been issued.

Van Greuning confirmed that the third auditor appointed to value CIB's assets and liabilities was KPMG Aiken & Peat's auditing division, and that this had been at the invitation of the SA Rail Commuter Corporation, CIB's largest single creditor with a deposit of R249m.

Finrand boosted by new optimism

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B/Day 9/7/91

SHARON WOOD

THE ANC's three-phase proposal for lifting sanctions boosted the finrand yesterday, reducing the commercial rand discount to a new low

Dealers said there had been strong demand for SA gilts from Europe throughout the day Demand had outstripped supply

The finrand closed 5c higher yesterday at R3,26 from Friday's close of R3,31 The commercial rand discount narrowed to 11,27% from 12,38% on Friday

The finrand's advance caused late selling of gold shares on the JSE and a 17-point rise in the all gold index at mid-afternoon turned into a three point loss at the end of trade with the index closing at 1 466

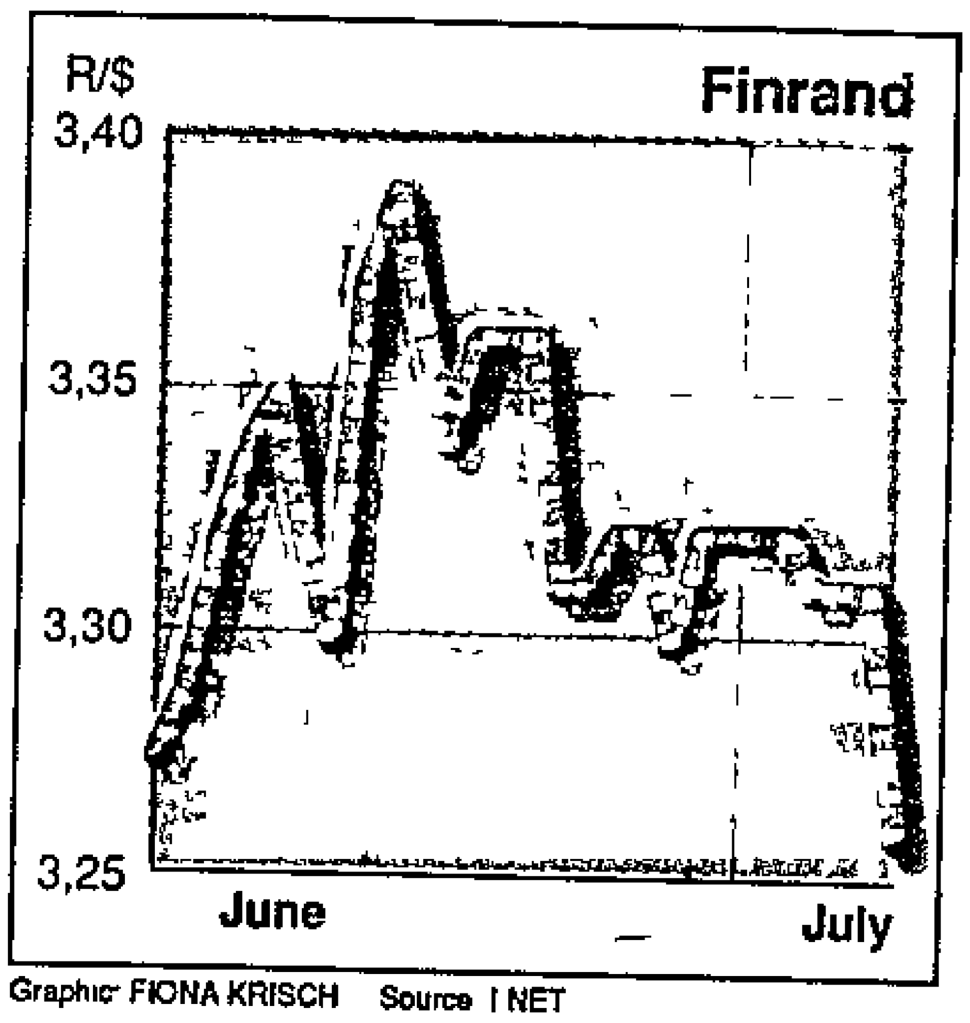
Some traders expected the finrand to ease today in response to what could have been a "knee-jerk reaction", altough others said there was room for the finrand to strengthen further

On the capital market rates softened in response to foreign interest The Eskom E168 closed at 16,105% from Friday's 16,15%, while government's RSA 150 stock closed at 16,43% from Friday's 16,47%

Simpson, McKie analyst Marilyn Visser said interest in government stock had been growing steadily over the last few weeks, with buying interest mainly from Germany and Switzerland

"Demand during the day was not out of the ordinary but this could be due to delays between settlement dates," she said

The settlement dates in the capital and



Graphic FIONA KRISCH Source I NET

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Finrand

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□ From Page 1

financial rand markets did not coincide and buyers might be processing finrand transactions first before gilt transactions, she said This could result in a rush of gilt transactions in the next few days

"Sentiment is better following the end of the ANC conference because people are satisfied with the outcome" Visser said this could lead to better demand for government stock because the gilt yields had become more attractive

The commercial rand strengthened against the dollar yesterday, closing at R2,8923 from Friday's R2,9003 close

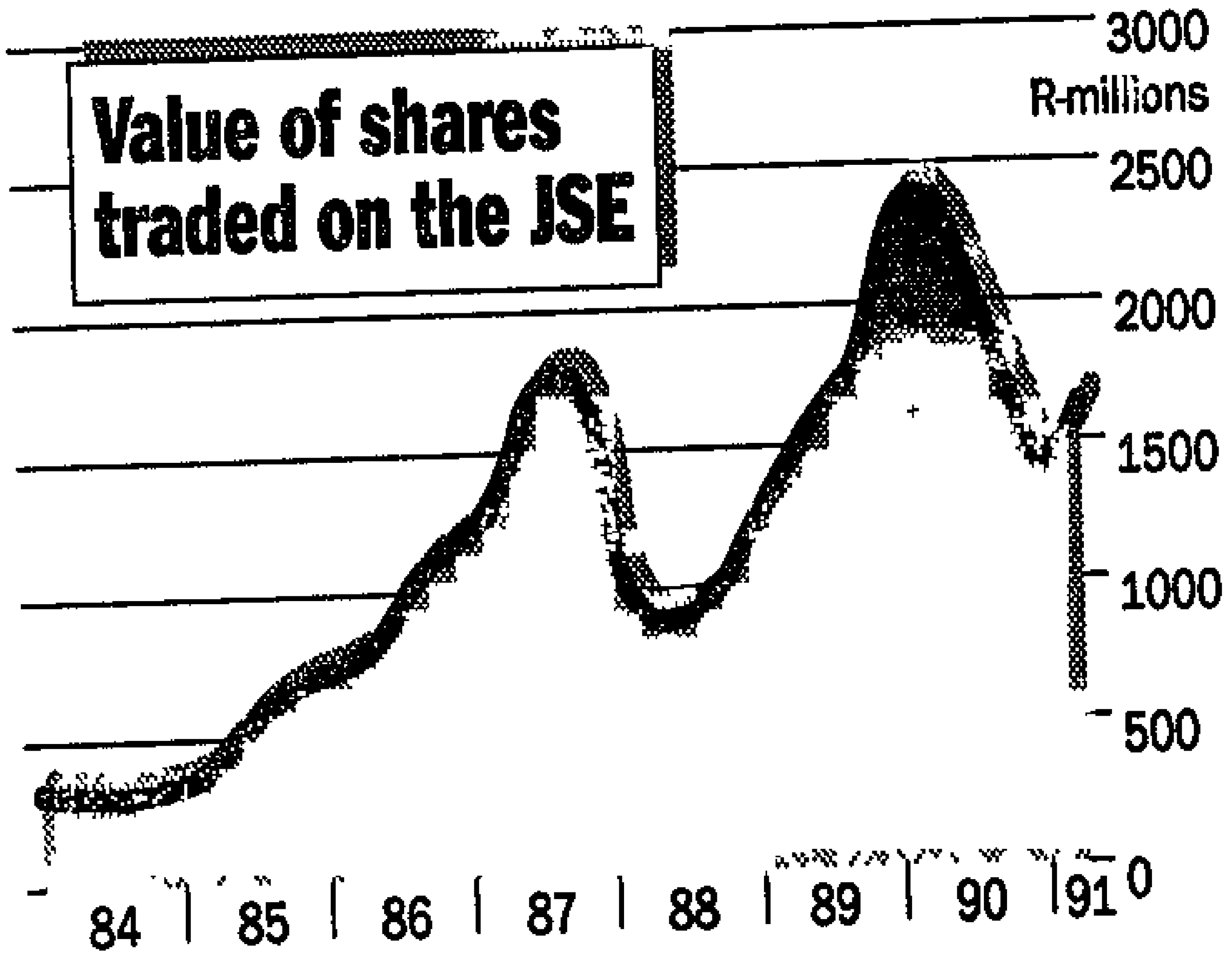
The rand benefited from dollar profit-taking and the lack of further US economic data which had recently stimulated dollar buying interest

□ The JSE overall index closed 19 points higher at a new record of 3 439

Banks would lord JSE in 'Big Bang'

Star 9/7/91 (232)

By Magnus Heystek,
Finance Editor



Deregulation of the Johannesburg Stock Exchange will foster an even greater concentration in the economy, says a special report by the Bank of Lisbon.

The report, released yesterday, claims opening the JSE to non-broking members, financial institutions in particular, will create difficulties in view of the high concentration of share ownership

The viewpoint differs sharply from the oft-repeated perception that deregulation of the JSE, akin to London's Big Bang, will improve competition and increase the marketability of the local equity market

However, the author of the Bank of Lisbon report, an eminent economist, disagrees

"Five or six company groups control roughly 80 percent of the shares listed on the market, and in each group there is a bank.

"The JSE could be dominated by possibly half a dozen large broking firms under the control of a particular bank.

'Cornered'

"Particular shares could be cornered, with a conflict of interest emerging between banks acting as brokers on the one hand, and investors on the other," the report says

The report refers to the problem of illiquidity associated with the JSE

For instance, although the market capitalisation of the JSE is the world's 12th largest, it only ranks 20th in terms of market turnover in relation to market capitalisation.

"Such liquidity is roughly six percent, whereas for the major markets the ratio is typically about 50 percent

"If banks became market makers they might well confine their market making to the leading shares, which are already more marketable than the bulk of counters quoted on the JSE.

"Marketability of the latter type of shares may not improve at all

"Any improvement in the liquidity, moreover, may prove to be temporary

"If banks are unable to derive a suitable return from market-making activities, they could before long abandon this role

"This is what happened in London after the so-called Big Bang of 1987.

"Market liquidity could indeed diminish in the wake of deregulation in the sense that negotiated commissions could lead to higher dealing costs for small private investors, thereby diminishing their participation in the market

"Deregulation and market making by banks, moreover, hardly addresses the causes of high market illiquidity stemming from exchange controls, the complex and vast company holding structures and the ongoing subtantial increases in the cash flows of financial institutions

"This now approximates to R30 billion on an annual basis.

"From the viewpoint of improving liquidity on the JSE, certain other measures could be more germane

Securities tax

"The marketable securities tax on share purchases was reduced by 0,5 percent to one percent in the March Budget and the authorities have indicated that the tax will be phased out by 1993. This should enhance turnover on the market," the report says

"Other possible measures to improve market liquidity include the removal of the last remnants of a capital gains tax, and permission for non-residents to participate in the South African futures market

"The other problem relates to regulation of the JSE. At present the JSE regulates itself.

"It operates its own formidable rule book and has a clear code of ethics binding all brokers

"It argues that a high degree of self-deregulation is facilitated by single-capacity trading and individual membership of the exchange

"Dual-capacity trading, on the other hand, would almost inevitably result in the erosion of self-regulation, which could lead to the introduction of quasi-governmental regulation

"This would prove to be less effective," the report says

Market 'heading for consolidation'

Star 9/7/91

(232)

Finance Staff

A period of consolidation for the share market is probable in the months ahead, says GuardBank in its quarterly unit trust reports.

The managers of GuardBank's three unit trusts comment that the outlook for the equity market in the near future will continue to be influenced by the gold price and the outcome of political developments

"However, based on traditional fundamental valuation criteria, certain areas of the industrial market are moving into expensive territory and it is not improbable that a period of consolidation for the equity market lies ahead.

"Nevertheless, significant falls are not anticipated for the JSE and the market should be underpinned by the lack of scrip in the financial and industrial sectors," GuardBank comments

At the end of the second quarter, the market value of the **GuardBank Growth Fund** was R1,23 billion of which 81 percent was in equities and the balance in gilts, cash and liquid assets

The ex-distribution repurchase price of R20,14 per unit at the end of June was 13,69 percent up on last year's price of R17,72.

Income distributions totalling 118,96c per unit have been declared for the 12 months to June.

The market value of the **GuardBank Resources Fund** at the end of the second quarter was R56,01 million, while the ex-distribution repurchase price of 137,59c was 2,16 percent higher than last year's price.

A distribution of 8,81c a share was declared for the year to end-June.

The market value of the **GuardBank Income Fund** at the end of the quarter totalled R30,25 million, of which 67,5 percent was held in equities.

The repurchase price was hardly changed at 106,99c, while an income distribution of 19,02c was declared.

The four trusts in the UAL stable reached a market value of more than R1 billion for the first time in the June quarter.

UAL managment company MD Clive Turner says the improvement in the overall market and a continued healthy net inflow was reflected in the growth in the value of the UAL Unit Trust to R535 million

Mr Turner says the portfolio has reduced its liquidity levels and maintained its focus on leading mining, financial and industrial shares.

A distribution of 29,7c per unit was declared for the quarter.

The UAL Mining and Resources Unit Trust grew to R236 million during the quarter and declared an income distribution of 6,2c.

Portfolio manager Bill Belovay says that although share prices on the international stock exchanges have disregarded the current US recession, metal prices have been more short-term in their outlook and their sluggishness is reflecting the current oversupply situation.

UAL Selected Opportunities grew to nearly R100 million with a new inflow of R8,5 million during the quarter. Liquidity was reduced to 13,9 percent.

The UAL Gilt Unit Trust grew to R160 million during the period.

Propcor buys housing estate from Faircape

B/Day 10/7/91 (232)

JSE-listed SA Property Corporation (Propcor) has bought the multi-million rand Jakkalsfontein coastal estate housing development from Faircape Homes for an undisclosed sum

Faircape joint MD Michael Vietri said the sale had nothing to do with Faircape's financial position

Faircape reported a bottom line loss of R5,9m in the year to end-December

"Propcor has a stake in Faircape and it was a beneficial inter-company deal," Vietri said

He added that the company's interim results would probably reflect a reduced loss, but he expected Faircape to be back in the black by the year end

"We have been restructuring the company and have succeeded in bringing our overheads down"

Jakkalsfontein, a housing development set in a private nature reserve on the Cape's West coast, faces onto three kilometres of private beach

It was launched in late 1990

Propcor property manager Tony van Heerden said the group would be responsible for financing and completing the project

"Facilities do exist for the financing, but we are examining other options as well

"A fair proportion of the funding has already been done, with about R2,5m still needed to finance the development to completion," he added

Forty-eight units have already been sold, with land and building contract sales amounting to R14m

Anglo pension fund sells off all its Adprom Holding shares

ROBERT LAING 232

ADPROM Holding's major institutional investor jumped ship last week, despite the share's price of 25c being nearly half its net equity value of 45c, sources said. BDay 10/7/91

Last Wednesday 600 000 Adprom shares were sold — the exact number held by the Anglo American Pension Fund, according to Adprom's transfer secretary, Unidev Registrars.

With 3,9% of Adprom, Anglo American Pension Fund was the largest shareholder excluding Adprom's directors and its holding company Fintech Informatics.

Adprom CE Terry Jones said the sudden spike in transaction volume came as a total surprise to the computer consumables supplier.

"The big question is: Who bought the shares?" he said. Records of the transaction, which would identify the buyers and sellers, would take about another week to be processed.

"I grant that our last results were disappointing, but I still think they were crazy to sell now while the share's price is so far below its net equity value," Jones said.

A spokesman for Anglo American Pension Fund said it did not comment on its share transactions.

In May, Adprom reported its first loss since its inception in 1975. Its attributable loss was R177 000 (1990 R2,6m).

Old Mutual trusts' liquidity falls

BDay 10/7/91 232

LIZ ROUSE

WITH their relatively low liquidity levels, the Old Mutual unit trusts were well positioned for the upturn in the stock market in the June quarter, and liquidity fell further

The unit trusts managers' strategy has always been to be as fully invested as possible because a unit trust's function is to invest in equities or gilts

The R2,7bn Old Mutual Investors' Fund, with 265 000 investors, remains the industry's general equity top performer over five-, seven- and 10-year periods by following this strategy, with respective returns of 24,82%, 26,35% and 26,47%.

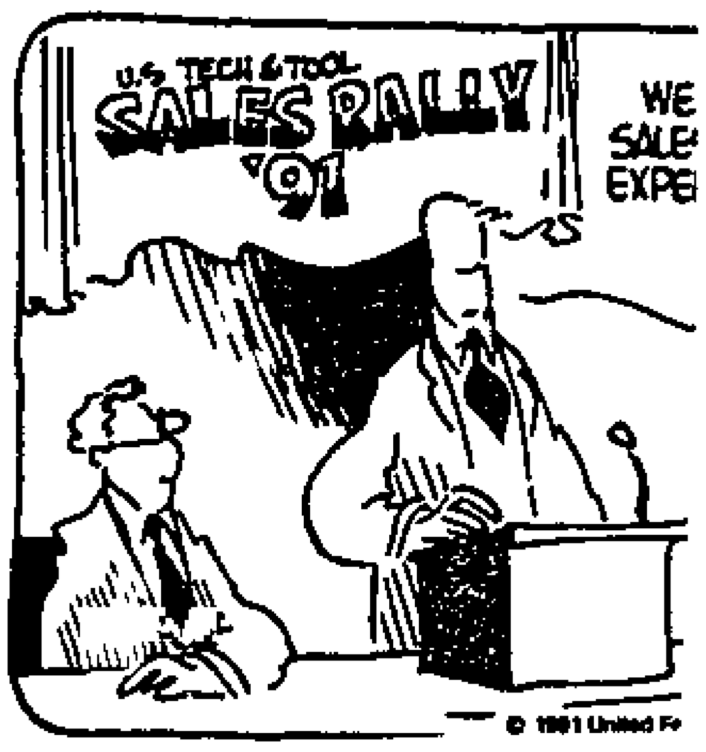
In line with the upturn in golds, the Gold Fund improved its performance, with a 29,99% gain — the best increase in this sector during the quarter.

A feature of the quarter was the record payout by the Income Fund, which made a 17,75c a unit distribution for the 12 months Income Fund's cash holdings were boosted significantly to R9,9m largely due to the sale of R4m Landbank stocks and R7m NCDs About R3m was put on six months' deposit

Investors' Fund liquidity fell to 13,7%.

Industrial Fund's liquidity dropped from 17,5% to 7,9%, boosting the fund's performance during the quarter

EXECUTIVE SUITE



Investment is offered in health project

(232)

INVESTORS are being invited to buy into the R13,75m Bedfordview premises of the Health and Racquet group, SA's largest health club group

In the 19th property participation to be launched by Masterprop, the property arm of financial services group Masterbond Trust, participation is offered by a private placing of 13 750 subscription units, each consisting of a R1 000 debenture and one ordinary share of R1.

The building, housing the Bedfordview Health and Country Club, is the fourth Health and Racquet Club building to be offered for participation by Masterprop

The club is a joint venture by the Health and Racquet group and the Bedfordview municipality, which made a R2m contribution to improvements on the premises

There is now a health centre, squash centre, tennis pavilion, bowls club and sports pavilion on a 12,7ha site BDay 10/7/91

The unbonded property is expected to render an initial annual yield of 12%, giving the investor an internal rate of return of 24% calculated on a five-year cashflow

Masterprop MD Graham Manchip says the venture gives the small investor an opportunity to put his resources into a multi-million rand property

Bullish sentiment stokes the markets

BDay 10/7/91 (232)

GRETA STEYN

REPORTS that the US was about to lift sanctions fuelled bullish sentiment in the financial rand and gilts markets yesterday.

Dealers said the mood was fast approaching euphoria as expectations heightened that Americans were poised to enter SA markets.

Strong demand for financial rands pushed the discount between the investment unit and the commercial rand to another record low of 9,7%. This compares with an average of 24,3% during 1990 and a peak of 52,9% in 1986

The finrand strengthened to a close of R3,18 yesterday from Monday's R3,26 to bring its gains since the beginning of the month to about 4%. It was last at these levels about four months ago

As a measure of foreign investor confidence, the discount between the finrand and the commercial rand is of more significance than the investment unit's absolute level. A wide discount means foreigners are prepared to invest in SA only when they get huge returns

The recent closing of the gap between the two currencies means foreigners no longer benefit so richly from investing via the financial rand and earning interest and dividends in commercial rands. But gilts dealers said the sharp drop in returns had not deterred European investors from piling into the SA market.

Long-term interest rates shed another seven points yesterday, bringing the fall in rates since last month's mini bear run ended to almost 20 points. The buying could signal expectations of a capital gain to be made when the financial rand is abolished German and Swiss banks' efforts to market SA capital market stock had also contributed to European bullishness, dealers said.

With the discount between the two currencies at present levels, some foreign creditors with debt inside the standstill net entered the market yesterday to "leave the net" via the finrand. More creditors could opt to receive their capital in finrands

The effect of this would be to widen the discount or at least slow the speed of its narrowing This was one of the factors mentioned by Reserve Bank Governor Chris Stals as slowing down efforts to scrap the dual currency mechanism.

On the JSE industrial share prices continued to surge yesterday, rising 42 points to a new record high of 3 949 and within striking distance of the 4 000-point level.

Market observers attributed the buoyancy to underlying optimism about positive political developments and the impending scrapping of US sanctions.

COMPANIES

Sanlam unit trust achieves 39% return

CAPE TOWN — Sanlam's Industrial Trust achieved a total return of 39,1% in the year to June, outstripping the industrial index's rise of 33,5% over this period

LINDA ENSOR

Total market value of the life assurer's five unit trusts stood at R1,55bn at the end of the quarter

The Industrial Trust generated a total return of 13,2% during the second quarter and will pay out 17,3c a unit in income distribution, bringing total income to 38,3c a unit for the year to end-June 1991. This is 31,6% higher than the amount paid in the previous year.

B/Day 10/7/91

Sanlam's general fund produced a total return of 13,4% in the second quarter and 21,5% over the year to end-June. Its liquidity dropped dramatically to 9% (20%) with purchases being made in Mid Wits, Dries, Freegold, Keeley, Kelgran and Engen, among other stocks

The Sanlam Mining Trust also dropped its liquidity to 9% (12%), generating a total return of 12,3% over the quarter and 3% over the year An income distribution of 7,9c will be paid bringing total income for the year to end-June to 16,8c a unit.

The Index Trust, which generated a total quarterly return of 12,5% and an annual return of 16,3%, will pay out 28,1c a unit giving a total income for the year of 58,3c — 40,8% higher than the previous year.

The quarterly return of the Sanlam Dividend Trust was 17,1% and the annual return 32,8% Liquidity was 6% (9%)

232

Discount on finrand reaches historic low

232

By Sven Lünsche

Star 10/7/91

The discount between the financial and the commercial rand fell to a record low of 8,7 percent yesterday, but the Reserve Bank gave no indication that a unitary rand would be created soon.

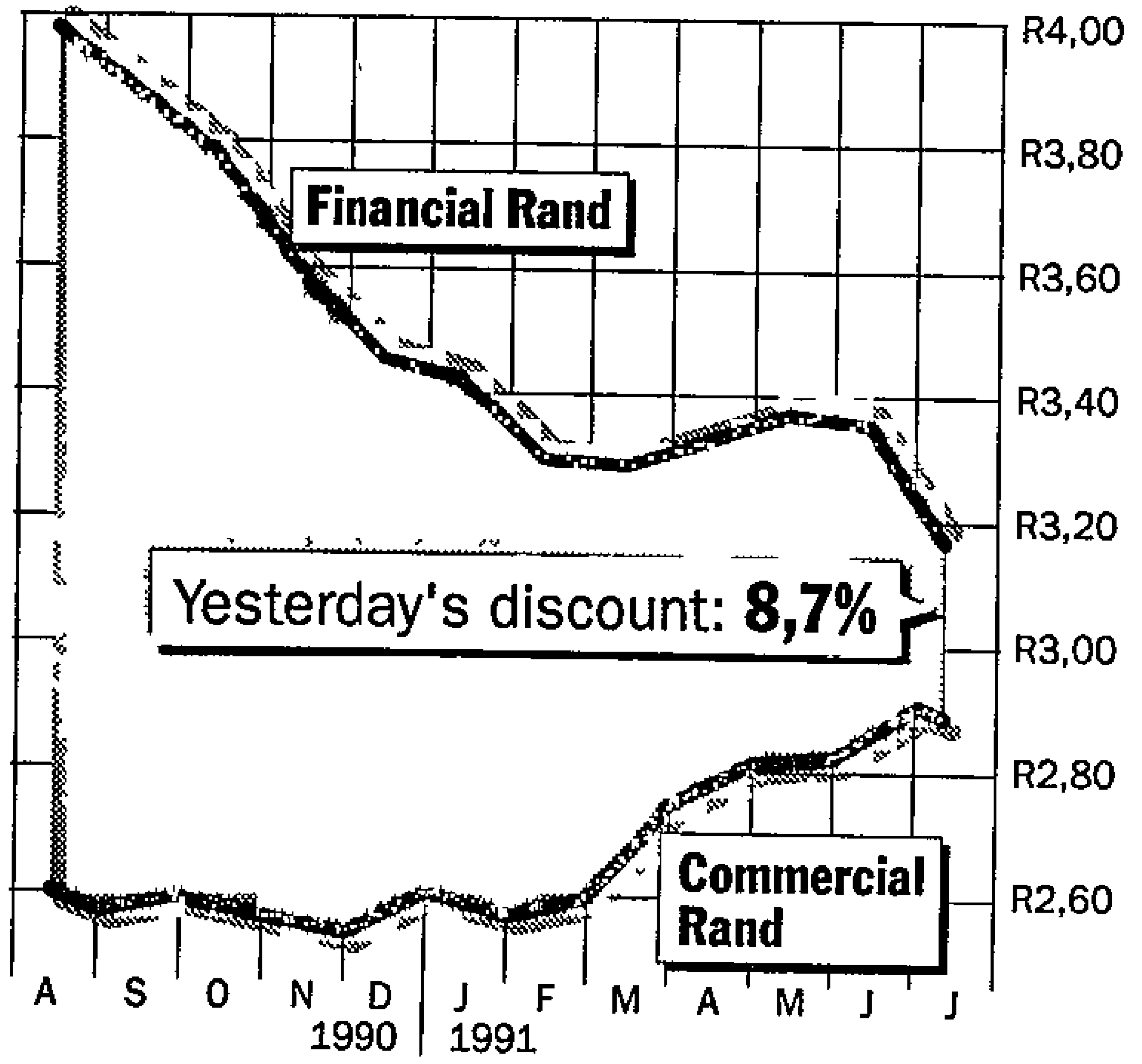
The financial rand has strengthened by over 20c over the last month and closed yesterday at a record level of R3,17 to the dollar, a gain of 10c on the day.

This narrowed the discount to the commercial rand to 8,7 percent, compared with a discount of 12 percent at the end of last week.

The financial rand has been bolstered by the prospect of a swift end to US sanctions, a less militant attitude by the ANC and continued demand for SA gilts from German and Swiss investors.

The Reserve Bank is on record as saying the finrand will not be abolished unless foreign banks and multilateral agencies, particularly the International Monetary Fund, again extended long-term loans to SA.

A unitary rand would inevitably tempt foreign investors, who by and large invested in SA stocks and gilts through the finrand, to sell their holdings, given the uncertain political future.



If these outflows cannot be offset by access to international loans, South Africa could face a substantial shortage of funding at a time when socio-economic demands on the budget are escalating.

Jan Postmus, the Reserve Bank's general manager (exchange control department) reiterated this position yesterday.

"The low discount by and large reflects foreign investor perceptions of SA and is a function of market forces only.

"It is also only one of the elements that will play a role when we decide to abolish the finrand," Mr Postmus said.

The monetary authorities will bear in mind that a unitary rand would probably settle at about 10 percent below the current value of the commercial rand, thereby boosting inflation by two to three percentage points.

In a recent analysis for stockbrokers Davis Borkum Hare, Potchefstroom University economists Professor Lou van Wyk and Dr Wilma Viviers argue that abolishing the finrand would be beneficial for SA.

The abolition of the finrand would boost the confidence of future foreign investors, reduce the cost of foreign exchange transactions, strengthen the relationship between SA and international institutions and increase foreign investments on the JSE.

The economists add, however, that the fundamental requirements for such a change have not yet materialised, because of a number of difficulties:

- The level of the foreign exchange reserves should be sufficient to cover imports for three months — roughly R15 billion.

The possibility of building up reserves from their current value of around R7,5 billion is limited, given the outlook for the economy.

- The political environment is still too volatile.
- Investments in SA by the international community must grow.
- The inflation rate is still unacceptably high.
- SA will require IMF funds to bridge the gap between the finrand and the commercial rand, which is not yet possible.

"The accomplishment of these considerations will be onerous," the economists say, "and therefore a unitary monetary unit is not readily expected."

News leak spurs leading shares in dramatic session

B Day 11/7/91 232

MERVYN HARRIS

LEADING shares soared in a dramatic session of trading on Diagonal Street yesterday as news leaked out that US President George Bush was to lift economic sanctions against SA

The JSE overall and industrial indices each rose 2,2% to scale fresh peaks but were off earlier highs as selected shares succumbed to profit-taking The overall index climbed 77 points to 3 508 and the industrial index surged 87 points — a gain of 129 points in two days — to close at 4036 after touching 4061

The euphoria gripping the market was reflected in share price gains outnumbering losses by almost six to one, as trading started off with a bang and continued in that vein for most of the day, leaving some dealers stunned.

"I have not seen such a market for a long time but it is difficult to explain a rationale behind such a surge The market is looking 'pretty' expensive but not much stock is coming out," a trader said

Certain local institutions which sold industrials to overseas investors over the last week must be rueing their decisions, as leading shares defied predictions of a need for a correction and continued to move to higher ground, dealers said.

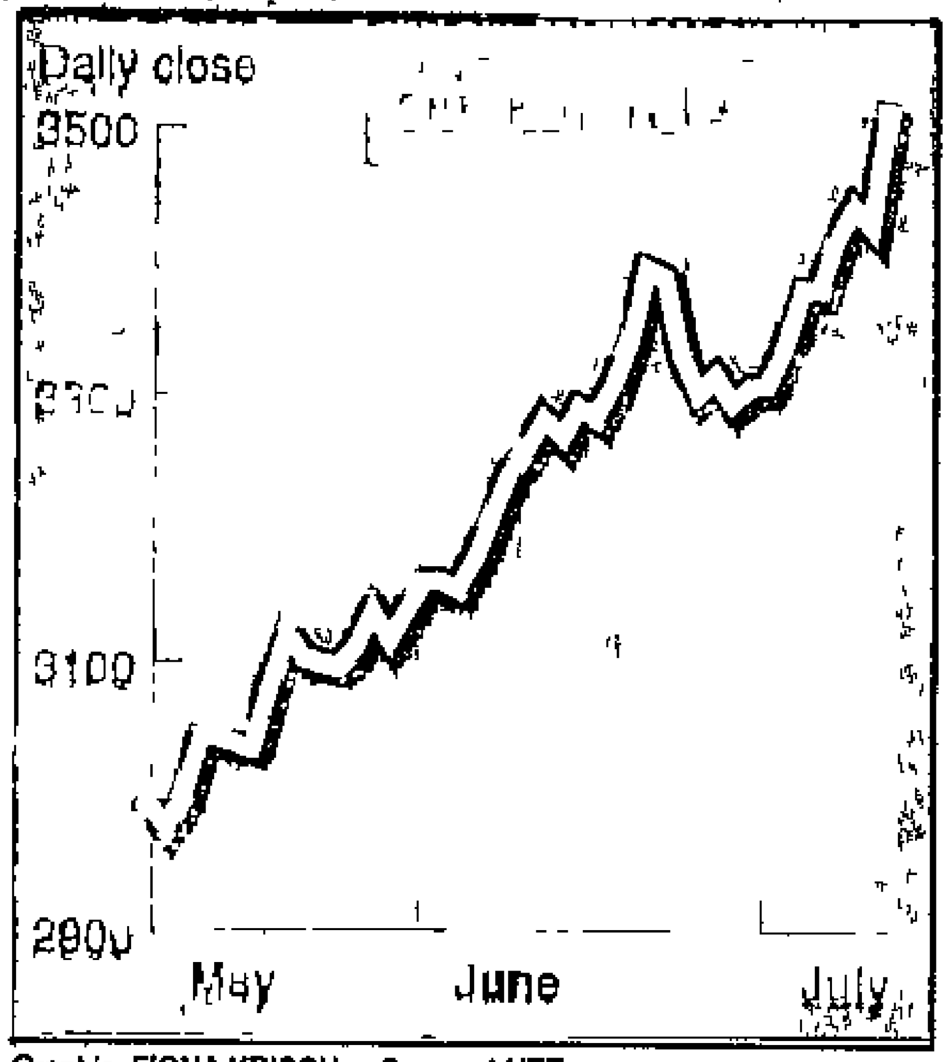
While some analysts were looking for a period of consolidation, a dealer added, "If the market can go this high, then it can go up even further "

Sentiment was boosted by indications that gold was gearing itself for a strong upward shift over the next few days. The all gold index firmed 19 points to 1 445 as good buying lifted gold just over $1 to close in London at $370,25 Dealers said bullish sentiment was boosted by news that Siberian gold miners were prepared to strike for higher pay

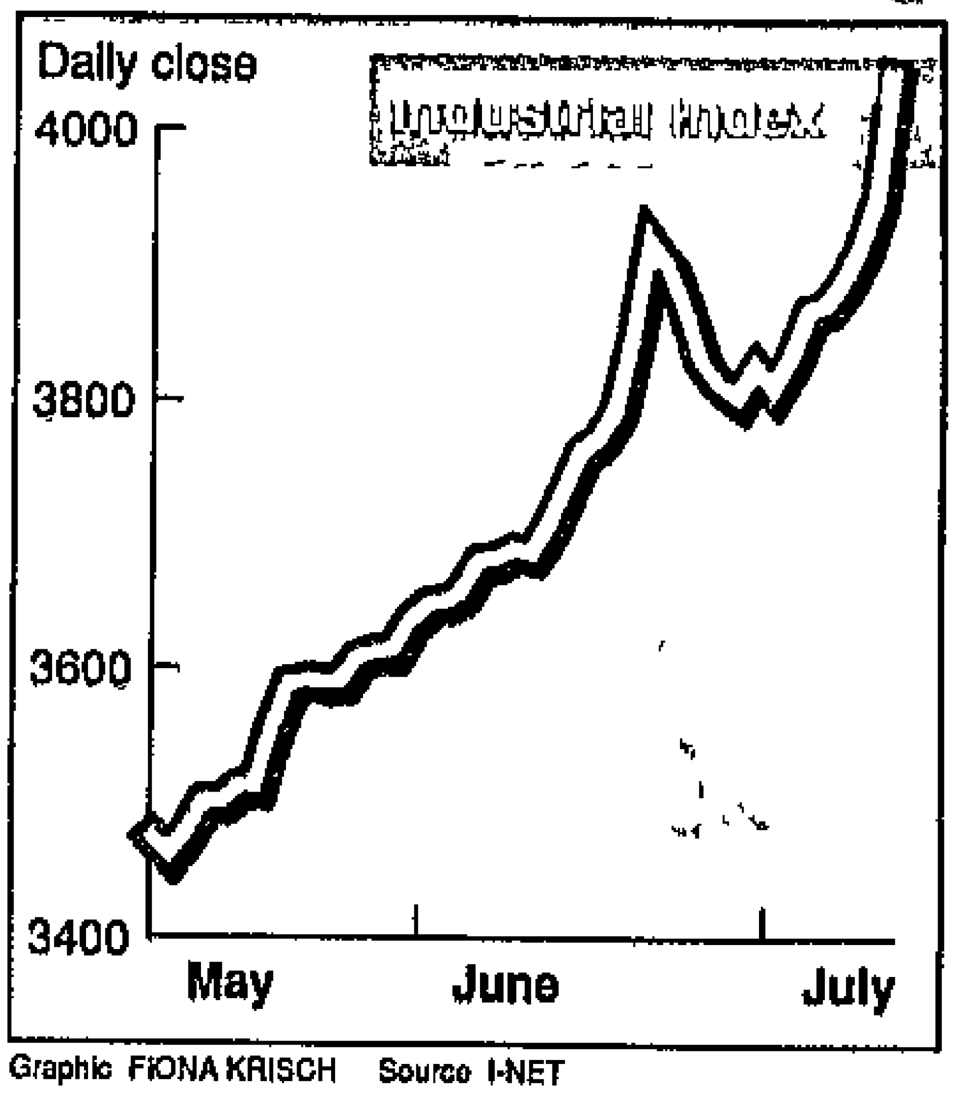
The strength of the overall market was reflected in De Beers and associate Anglos each rising 2,7% to R88,10 and R119,75 respectively, while several bank shares were at record highs

The euphoria was not limited to the JSE only, with bullish sentiment gaining momentum in the gilts market The market expects the lifting of the ban on US investment in SA to result in demand for SA gilts

The benchmark Eskom Loan E168 shed nine points yesterday to close at 15,95% — down from 16,22% a week ago Transnet's long-dated stock, popular with foreign investors, closed at the same level But central government gilts are still more than 30 points above the more popular stocks



Graphic FIONA KRISCH Source I-NET



Graphic FIONA KRISCH Source I-NET

Strong Fedgro declares first income distribution

Bday 11/7/91 (232)

LIZ ROUSE

FEDGRO Unit Trust showed strong growth in the June quarter, actively increased its equity portfolio and has declared its first income distribution.

Mirroring the market surge, Fedgro's total assets rose to R20m from R15,8m at the end of the March quarter Income distribution for the seven months to June is 7,14c a unit, an annualised yield of 11%

A combination of the high cash content of a new fund and high interest rates over the period enabled this above average distribution. Total growth, capital plus income, for the seven-months translates into an annualised return of more than 27%

Cautious

Holdings of all shares in the portfolio bar Sasol and Wooltru were increased during the quarter. Kloof, Anglovaal N, Toco and Nampak have been added Top five holdings are Richemont, Anglos, Fedsure, Rembrandt and SA Brews

Consistent with the formation of a new fund, the liquidity level was reduced substantially to 25% from 53% at the end of March

Fund manager Ian Fraser says a fairly cautious approach has been adopted in purchases of quality shares. Fedgro managers believe that prices of most of these shares are in high territory and they will seek to purchase at lower levels

They have also identified companies they perceive to have above-average growth potential and will continue to increase the fund's exposure in this sector

While Fedgro managers expect a correction for the current high prices in leading industrial shares, they would view this as a buying opportunity rather than cause for concern in the medium to long term

The current liquidity level places the fund in a good position to take advantage of opportunities as they arise

Fraser says economic conditions give some cause for cautious optimism Both the industrial and gold indices improved over the quarter despite uninspiring company results, stubbornly high inflation and a static international gold price (or, in rand terms, an increase of only 10%)

He says the SA stock market is not alone in this apparent contradiction International share markets, with the exception of Japan, have all been testing new highs despite discouraging economic statistics

He believes this reflects optimistic perceptions for economic growth later in 1991 and early in 1992.

There are fundamental indicators which serve to support this view In SA these include an expectation of lower interest rates, and an expressed official view that the current economic downturn will reach its low point before the year-end

Remgro 'uneasy' over mining

B/Day 11/7/91

BRENT VON MELVILLE

A BREAKDOWN of the divisional performances within the Rembrandt Group (Remgro) should serve to strengthen a growing suspicion on the market that some of its interests do not sit well with the Stellenbosch-based conglomerate

Market perception is that Remgro is still largely reliant on its traditional core businesses, and that its mining interests no longer fit in with the group

This year's annual report discloses that the trademark group, consisting largely of its tobacco and liquor interests, increased its contribution to R345m, or 40% of total net income of R865m, compared with 37% the previous year.

Conversely the contribution to net income from its mining interests fell from 33% to 29%, remaining virtually unchanged at R254m

Picking up the slack was the financial services sector, bannered by recently formed Amalgamated Banks of SA (Absa), which upped its contribution to R73,7m, or 17,7%, from 12,5%.

Chairman J A "Koos" Rupert said in his annual review that the formation of the Absa group had favourably influenced financial services, resulting in certain interests not previously accounted for being equity accounted into results

Rupert said the group's mining interests had been adversely affected by lower international commodity prices and local cost pressures.

The group's industrial interests, led by its holding in Huntcor, kicked in R153,2m, or 17,7% (17,5%) of total net income of R865,3m

During the year Remgro acquired a 28,4% stake in publishing group Perskor Beleggings

The annual report also disclosed the purchase of R35,9m worth of Standard Bank Investment Corporation (Stanbic) shares during the year, bringing the total interest to 11,3%

This was before the sale of 4,5-million shares in Stanbic to Liberty Life and the placing of a further 1,8-million Stanbic shares with third parties

Also subsequent to the year-end, Remgro followed its rights in the Huntcor rights issue, which arose from the rights issue of Rainbow Chicken, at a cost of R106,5m

While some market observers feel the deal may have been a little on the expensive side, others reckon the larger slice of Rainbow will prove to be the real pot of gold in the long term

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Wall Street's golden rule: No man became poor by taking profits

(232)

Star 11/7/91

By Jacques Magliolo

The bullish tone on the JSE brings to mind an old axiom, first noted by investment strategist Sir John Templeton.

He said that bull markets are born on pessimism, grow on scepticism, mature on optimism and die on euphoria.

South African investors should consider this statement carefully and ask themselves whether the JSE has become a sophisticated casino or is it, as JSE president Tony Norton says, a "fair and honest market?"

Instead of a clear distinction between the growth phases of a bull market, our exchange shows no pattern and holds all four stages true simultaneously.

Recession

This is clearly highlighted by

- Economists claim we are in a deep recession and businesses are showing the effects of unfavourable economic factors and prolonged labour disputes,
- Many businessmen remain pessimistic about a change in the status quo and are adopting a "wait and see" attitude,
- Overseas investors sceptically await the outcome of the New South Africa which SA politicians are optimistically hailing, even before negotiations have started, but
- The JSE is in a state of euphoria.

Sentiment

So where does the investor actually stand?

Analysts point out that the JSE is a leading indicator of investor sentiment by six to 12 months, which illustrates that last week's bullish sentiment reflects positive company results even see a mini boom "

But this sentiment is not shared by some businessmen

"Nothing fundamental has changed and we do not expect this to alter in the next 12 months," says Lenco Holdings financial director Stanley Stubbs

In difficulty

Other leading businessmen agree with Stubbs.

"Any company in financial difficulty today will be in greater trouble in 1992," a textile company director said.

And a footwear company director said he believed labour relations would worsen in future, "so we are adopting a mechanisation policy to reduce our labour force"

General fundamental factors certainly eradicate any real reason for last week's buying fever — predominant are unchanged economic factors such as high interest rates, negligible GDP, a weak rand-dollar exchange rate, government interference in business and growing labour and social unrest

Scrip shortage

All these factors continue to inhibit investor sentiment, and will remain negative despite institutional buying of shares

To add to the investors' dilemma, there is a shortage of scrip and, therefore, any future benefit of a continued bull trend will, to a large extent exlude, the small investor

What should the private investor do?

The answer is partly in Sir John's axiom

Whatever the state of our economy, the JSE industrial index has climbed by 57 percent between June 1990 and 1991 and is obviously in a state of euphoria

Foreign buying binge sends market soaring

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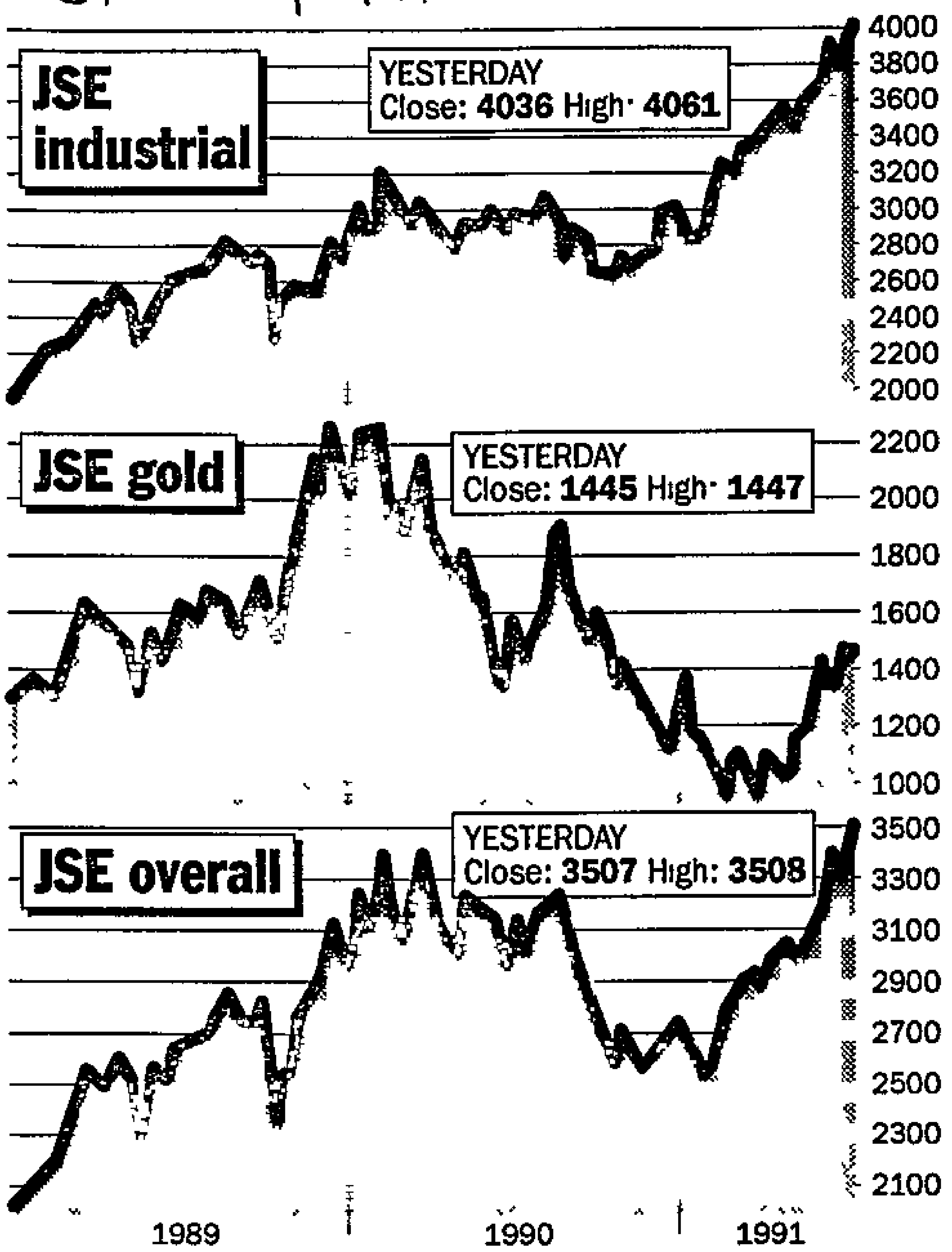
Star 11/7/91

By Jabulani Sikhakhane



Foreign investors piled into the JSE yesterday ahead of the lifting of sanctions by US president George Bush last night

John Taylor, analyst at London brokers James Capel reported a buying order for local industrials of £5 million (about R25 million) from German and UK funds.

US investors also reportedly woke up early yesterday to buy SA gold shares Mr Taylor said US funds were hoping to offload some of their holdings in expensive North American gold shares to pick up the cheaper South African ones

On the back of the buying binge, the JSE industrial index rose 112 points or 2,8 percent to set a record of 4061, before coming off slightly in late afternoon to close at 4036. It is up 34 percent from the beginning of the year

After a slow start to the day, gold shares picked up in late afternoon and this helped lift the gold index by 19 points to 1445

The all share index rose 76 points to 3507

Foreign investor interest was reflected in the strengthening of the financial rand to close at R3,175 to the US dollar

Shares attracting interest were food group Premier, steel producer Iscor and industrial holding Barlow Rand.

Premier chairman and chief executive Peter Wrighton and his deputy Gordon Utian returned from London last weekend, where it is believed they assured investors that there would be blocks of shares available for those interested

Barlows chairman Warren Clewlow was also in London recently to woo potential investors

In its July review James Capel recommended Driefontein and Freegold among golds and in mining houses Anglo American, Gencor and Gold Fields as good buys. In other minings De Beers and coal share Amcoal were also recommended

Among industrials Iscor, Barlow Rand, Premier, SA Breweries, Safren, Kersaf and Tongaat-Hullet were tipped as good investments

Mr Taylor says the best ploy now is to look at companies which stand to benefit most from the emergence of the "new" South Africa

These include companies in the building sector and those that are already active in developing trade with other sub-Saharan countries

Yesterday's strong JSE rise comes amid concerns in the local investment community that the market may be moving into expensive territory

Analysts caution that given the current state of world economies, nervous world markets, and the depressed local economy a considerable risk exists in the market.

The dividend of the industrial index has fallen below three percent. When this happened in 1969 and 1987, the JSE suffered severe setbacks

But Southern Life assistant general manager equity investments, Paul Beachyhead says one must consider both the dividend and earnings yields

"While the dividend yield for the industrial market is very low, the covers are quite high Since 1986 dividend covers have increased and as a result dividends are better covered by earnings"

To a foreign investor the local industrial market is still cheap compared with the industrial markets in London and Wall Street London is on price/earnings multiple of 13 and Wall Street is on 19, compared with 11 (through the financial rand) for the JSE industrial market.

Mr Beachyhead asks though how long it will take the JSE to rerate shares in line with major international stock markets

Mr Taylor adds that it would be shortsighted to evaluate the JSE on historical terms

"Literally and figuratively, the SA market is entering unchartered waters What is happening has never happened in the past.

"One cannot look into the past where there was apartheid (and its attendant problems of sanctions and lack of access to foreign capital) to value the current market"

He adds that there is a dawning view among most analysts in London that the commodity cycle should bottom by the end of this year into 1992

"Gold, platinum, coal, copper, uranium etc prices should rise and the rand is expected to slip further against the US dollar with a tremendous boost to the SA economy, following."

Two general funds better overall index

B/Day 12/7/91 (232)

ONLY two of the general equity funds — Momentum and Volkskas — performed better than the all share index over the second quarter, an analysis by Pretoria University's graduate school of management showed

Fund managers interviewed yesterday said a number of the funds climbed onto the gold counter bandwagon too late, which resulted in the poorer performance of the general funds

However, most of the specialist equity funds — which tend to underperform the general funds in the long-term — notched returns substantially higher than the all share's 15% increase between the first and second quarters

Gold shares saw foreign demand increase while the shortage of scrip also helped the gold index outpace the overall index in the second quarter

Association of Unit Trusts' chairman Clive Turner said the industry's drop in liquidity to 16% of assets from the first quarter's 24% indicated its confidence in the equity market

Most fund managers agreed the market was due for a correction and that it would not be dramatic

They planned to maintain their exposure to equities, with buying concentrated on bargain-hunting among second-liners and mining stocks Some mentioned the possibility of strong foreign buying underpinning the market

Sanlam's senior portfolio manager Stafford Thomas said he planned to increase Sanlam's portfolio holding in mining shares Sanlam's funds currently hold just over 50% of assets in industrial and financial services shares, with about 40% in

SEAN VAN ZYL

mining counters

Old Mutual's assistant GM investments Roland Schute said investment would probably swing more to mining and second-line industrial counters

Sage Capital Managers' director Dion Metcalfe said the lifting of sanctions would improve sentiment

Momentum's Asset Trust MD Peter du Toit expected a weakening rand to benefit the rand gold price and gold mining shares

Syfrets Unit Trust Funds' marketing manager Kevin Hinton said the funds would only buy counters offering above-average returns

UAL senior GM Michael Eustace said "while offshore buying had pushed the market ahead, prices could fall off just as quickly"

GENERAL EQUITY FUNDS	Quarterly returns (%)
All share Index	15 94
Allegro	6,99
BOE Growth	14,00
Fedgro	9,14
Guardbank Growth	12,26
Metfund	11,91
Momentun	16,92
NBS Hallmark	13,18
Norwich NBS	12,51
Old Mutual Investors'	14 24
Safegro	12 63
Sage Fund	11,48
Sanlam Index Trust	12,54
Sanlam Trust	13,38
Southern Equity	13,43
Standard Bank Mutual	11,58
Syfrets Growth Fund	10,78
UAL Unit Trusts	10,55
Volkskas	17,95

Source BFA

Standard's view of equities still cautious

B/Day 12/7/91

(232)

MERVYN HARRIS

STANDARD Bank Mutual Fund marginally increased its concentration in industrial and financial shares in the June quarter as investment managers continued to adopt a cautious approach to the equity market, which appeared fully priced

Total investment in equities increased from 57% in March to 59% in June with industrials comprising 46% and financials 23% of the portfolio

Total assets in the fund closed at a record R459m The investment return over the past year was 22,2% and the fund lifted its income distribution for the year by 17,6% to 38,83c a unit

The fund increased its holdings in Kloof, Amgold, Stanbic, Sasol and NEI Africa, with ABSA a new addition to tphe portfolio Five largest holdings are Liberty Life, Richemont, Liberty Holdings, Edgars and Gencor

The quarter was active for the Standard Bank Gold Fund as gold shpares topped the performance log with sentiment aided by the apparent bottoming of the dollar price of gold

This helped boost investment performance returns to 9% over the past five years

Although the one year return was marginally negative at minus 2%, this was ahead of the near 6% negative return of the JSE all gold index during the past year

The fund's income distribution declined 12,1% to 6c a unit

Holdings which were increased included Winkelhaak, Kloof, Vaal Reefs and Elandsrand with Dabi a new addition

Standard Bank Extra Income Fund performed well over the past year with the combination of high interest returns and capital gains on some convertible debentures taking the one year return to just over 20% However, the fund reduced its income distribution for the year by 6,81% to 3,42c a unit

Uncertainty

Investment managers said the fund's continued high weighting of assets in short-dated money market paper protected investors from the bearish climate in longer-dated investments

"Political uncertainty and higher-than-expected increases in the consumer price index adversely affected domestic and foreign investor confidence, leading to comparatively weak demand for long-term gilts during the past quarter"

Cash flood boosts unit trusts to record levels

232

By Sven Lunsche Star 12/7/91

The strong price performance of unit trusts saw sales in the June quarter surge to record levels.

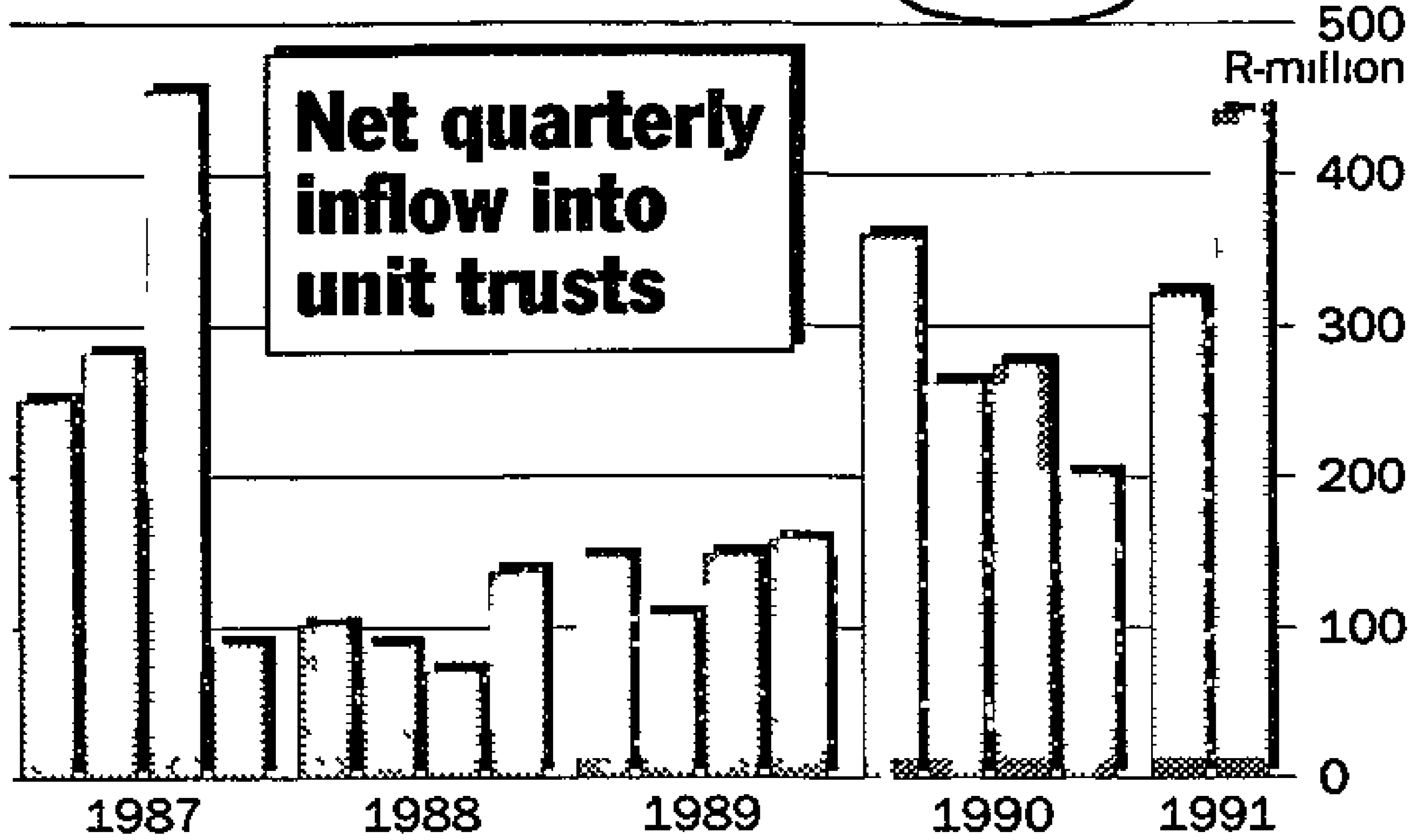
The Association of Unit Trusts said yesterday that investors had bought R735 million worth of new unit trusts in the three months, significantly higher than the previous record sale of R639 million in the March 1990 quarter

However, investors also cashed in on buoyant stock market conditions to sell R285 million worth of unit trusts in the three months, leaving a net inflow of R450 million — marginally below the record R453 million net inflow in the September 1987 quarter

"Over the past year the investing public's interest in unit trusts has been maintained at a record level and net sales have totalled almost R1,3 billion, which is the largest net inflow the industry has ever experienced," says Clive Turner, chairman of the association

The rising sales came on the back of good performances by most unit trusts

Over the past year the average total return for the 16 general equity trusts was 20,6 percent, ranging from a high of 29,6 percent to a low of 7,1 percent recorded



Over the same period the JSE overall index rose by only 11,69 percent

The top performer among general funds, says the association, was the Momentum Fund, which reported a rise in its repurchase price over the period of 29,6 percent

The largest unit trust, Old Mutual's Investors Fund, which has 271 000 unitholders and assets exceeding R2,76 billion, reported annual growth of 17 percent

However, measured over a period of five years, the fund still topped the list with average annual returns of 24,4 percent

Mr Turner says that the strong performance of the trusts can be traced to reduced liquidity levels over the past six months because they steadily committed funds to the equity market

"At the end of last year the general equity trusts held 76 percent in equities and 24 percent in liquid assets, against 82 percent in equities at the end of June and only 16 percent in cash"

A more detailed breakdown of the equity content shows that the funds held 42 percent of their investments in industrial shares, 16 percent in mining finance, 11 percent in other mining, nine percent in financials and four percent in golds

The five specialist equity trusts that traded five years ago achieved an average return of 16,8 percent over the period

Over the past year, however, returns have varied widely in the sector

The repurchase price of Old Mutual's Industrial Fund has soared by over 43 percent and that of Sanlam's Industrial Fund by over 39 percent

However, the repurchase price of Old Mutual's Gold Fund has dropped by 11,3 percent over the past 12 months at a time when the JSE's gold index has fallen by 5,62 percent

The six high-income funds, which invest mainly in liquid assets such as money and capital market instruments, remained popular in the high-interest rate environment and notched up an average return of 18,1 percent over the past 12 months

Most portfolio managers have said that key industrial shares seem over-valued and expect a slight correction over the next few weeks

However, Mr Turner says that although shares are looking relatively fully valued at present, the market could well continue in a buoyant mood because of a rising foreign demand in a market short of quality scrip

Total assets of 38 unit trusts at the end of June stood at R9,632 billion, compared with R7,58 billion just over a year ago and R8,33 billion at the end of March 1991

DE WITT, MORGAN FM 12/7/91

BREAKING RANKS (232)

The week-long suspension of broking firm De Witt, Morgan seems a harsher penalty than is usually meted out by the JSE when rules are broken, but president Tony Norton denies it indicates a tougher line

The Kahn investigation apparently has no bearing on the decision to enforce the letter of the law Norton describes the suspension as a "normal procedure" and says the sentence was decided by an experienced disciplinary committee after precedents were explored

Norton says the rules are clear and, indeed, De Witt, Morgan senior partner Philippus de Witt says he realises he was breaking the rules and even informed the JSE inspectorate about his action But De Witt says his own code of ethics left him with no choice Interestingly, the transgressions were heinous not because they put clients at risk, but because they infringed the JSE's line that brokers should charge fixed commissions and operate only as agents

The firm charged a lower brokerage by aggregating shares bought on different days It also sold shares to its client from its own stock account — though it made a loss in doing so

Says De Witt "I expect that if the market was not under its present cloud, we would have just received a reprimand The JSE has certainly sent a message to the market One must consider whether our action was dishonest The JSE has accepted that no client has been prejudiced"

As it happens, the firm's equity trading is not as significant to it as gilts or money market trading

De Witt says he is prepared to take the consequences, as the suspension was only a week, but says he might have to act against his conscience if the punishment were increased to two months in similar circumstances "A suspension punishes not only the firm but also its clients," he says "Our clients can either stop trading or go to another broker, and neither action is necessarily in their interest"

Norton argues that self-regulation is cost-effective and it works He points out that

FM 12/7/91 (232)

there have been at least 20 disciplinary hearings over the past 12 months

However, the decision is likely to put the exchange under renewed scrutiny by the Competition Board — it certainly should do so Board chairman Pierre Brooks says fixed commissions are contrary to competition law and the spirit of the free enterprise system "I find it puzzling that anybody can be punished for charging a lower commission," he says "A self-regulatory body should police ethics and not be concerned with fixing prices and fees"

Stephen Cranston

FM 12/7/91 (232) FOX

BROKERS' PORTFOLIOS

MID-YEAR CHANGES

When shares were selected late last year for the *FM*'s brokers' portfolio competition, few could have foreseen the strength of the bull market that has raged on many sectors of the JSE almost since January

Capital appreciation achieved for the seven entrants — six anonymous broking firms and the *FM* — by the end of June ranged between 27% and 50,9% and the average was 41,7% This contrasts sharply with performances seen in the gloomy market of last year, when the best result for the 12 months was an appreciation of 7,4% It also compares with the rise in the JSE Overall index of 20,5% in the first six months of this year

In line with the good profits still being seen from many companies exposed to these markets, there was a clear preference for consumer-based companies in portfolios selected at the beginning of the year Not surprisingly, considering the booming prices of many of these stocks, those choices generally paid off Some other selections — with shares in the financial sector prominent among them — also did very well As always, some of those included as wild cards turned out to be disappointing

But portfolios were comparatively easy to compile at the beginning of the year After the bearish market of 1990, it was not difficult to accept that many shares were looking cheap and offered value ahead of an upturn in the economy

At the mid-way stage, when entrants have the opportunity to change their portfolios, the choices are more difficult In a market driven primarily by sentiment, many shares have been pushed up to expensive territory, particularly the consumer-based counters Though some have opted to make few changes, others have reshuffled their portfolios extensively, often with greater emphasis on the mining or manufacturing sectors, which generally have been out of fashion for some time

Broker A, placed fifth with a gain of 39,5%, started out with a mixed portfolio Its best performers were Genrec, up 100%, Cashbuild, up 93%, LTA 10% conv prefs, Supalek, up 54%, and Waltons, up 44% — but prices of Rusfurn and OK Bazaars fell Broker A has decided to sell the entire port-

Continue →

FM 12/7/91 (232)

MID-YEAR RANKINGS

		Growth (%)
1	Broker C	50,9
2	FM	47,9
3	Broker F	45,1
4	Broker D	44,4
5	Broker A	39,5
6	Broker B	37,4
7	Broker E	27,0

folio and has again chosen a fairly mixed selection (see table)

Broker B is running sixth with a 37,4% gain Best performers were Perskor Beleggings, whose price doubled, Dalys, up 58%, Dimension Data, up 58%, Doornfontein, up 49%, and Concor, up 50% Laggards were Minorco, down 18%, and Rabie, up 9% All but Impala and Doorns have been sold Among new inclusions are two gold mines — Deelkraal and Randfontein — ferrochrome exporter CMI and Sappi

Broker C, in the lead with appreciation of 50,9%, started out with a portfolio that produced consistently good results Top choices were Genrec, up 100%, CNA Gallo, up 62%, Ellerine, up 61%, Suncrush, up 71%, Trencor, 51%, and ABI, 38% — there were no losers and the weakest result was a 13% gain from Engen Broker C has dropped only two shares — Engen and Wooltru — and substituted M-Net and Carlcor

Broker D was placed fourth with a gain of 44,4%, after a number of robust gainers offset two declines Siltek dropped by 12,5% and Laser by 31%, but Interleisure was up 100%, Chemical Services up 63%, Conshu up 47%, Clicks up 87%, Amrel up 52%, Publico up 50%, Mashold up 44% and Waltons up 44% Broker D decided to sell six shares and has bought Joel, Pepkor, Carlcor, De Beers, Bivec and Malhold

Broker E at this stage is trailing the pack, with an overall appreciation of 27% Its portfolio included one loser, TGH, down 29,6%, and several shares which did not appreciate enough to lift the average The strong gainers were African Life, up 77,8%, Liberty Investors, 68,8%, and Bidcorp, up 51,3% Three shares, Bidcorp, TGH and Profurn have been sold and replaced by Amgold, Haggie and Mid Wits

Broker F appears in third place, with appreciation of 45,1% The portfolio's growth was achieved by Foschini, up 98,7%, Holdains, up 66,7%, Amrel, up 52%, Malbak, up 56%, Murray & Roberts, up 45%, and Darling & Hodgson, up 53,4% There were no losers, but the three stocks from the mining sector, Anglo American, Amgold and Mid Wits pulled the overall result down All except Anglos and Amgold are being sold and the purchases are Dries, Randfontein, CMI, FIT, Richemont, De Beers, Tongaat and Lonrho

The *FM*'s selection is running second, with an overall appreciation of 47,9% Main runners in the portfolio were Smart Centre, up 129%, M-Net, up 115%, Medi-Clinic, up 68,7%, Momentum, 60%, and Impala, 33,6% The laggard was Karos, whose price dropped by 22,2% Six shares — SAB, Wooltru, Impala, Smart Centre, Bankorp, and Karos — have been dropped Replacements are Reggies, Clinics, Pepkor, TSI, Amgold and Keeley

On the whole, the participants have recognised that the investment environment could be quite different in the second half Considering all the changes to the portfolios and the difficulty of making selections in a market that has already risen so strongly, the rankings are also likely to be markedly different by year-end

☐ *Readers should note that all these shares are chosen as part of an equity portfolio game They should not be seen as recommendations or tips*

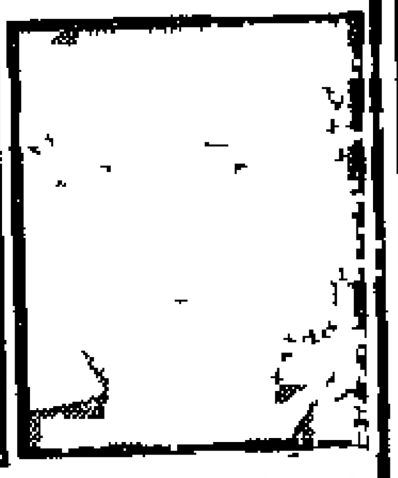
The good times roll for unit trusts

Star 13/7/91.

Money Matters

(232)

MAGNUS HEYSTEK



MOST unit trust investors — and there are currently an estimated 500 000 in the country today — must be feeling quite flush with the performance of their investments

Total assets of the unit trust industry are just a hair's breadth away from the magical R10 billion mark with unit sales in the June-quarter at R734,9 million — the highest ever.

Although the market boomed during the June quarter, stockbrokers say that the small investor kept away

This compares starkly with the months leading up to the Great Crash of 1987 when share-euphoria was at its highest.

A whole generation of investors badly burnt their fingers during that crash and are unlikely to go back in a hurry.

So it seems the small investor has clearly plumped for the unit trust route into the market.

And the reason is not hard to determine.

The dramatic rise in share values have mainly been in the so-called blue chip shares. But they are also very expensive and out of the reach of most small investors.

So, to participate in the spectacular growth of SAB, Liberty Life, De Beers and other blue chips, the smaller investor has no choice but to go the unit trust route.

Other alternatives are retirement annuites and/or endowment policies, but in this instance it is much more difficult to trace the performance of the investment

Another factor that could be keeping the small investor out of the market is the decision by the JSE to introduce a minimum brokerage fee of R30 a deal

As prices keep on rising, one will find that more and more investors will take the unit trust route. It's a fairly simple concept and has the attraction of being highly liquid — in other words, you can lay your hands on the money very quickly

Great discipline is needed not to take advantage of stock market rallies The prices of the unit trusts are published daily and it is quite simple to work out how much your units are worth I know I do it, but only under extreme necessity would I sell.

A much better option is to switch into an income fund This will serve to protect one's investment against a drop in capital values It's surprising how few people make use of this facility

As far as the performance of general equity funds during the last twelve months are concerned, all funds, with the exception of Allegro and UAL, managed to beat the inflation rate

For Allegro, launched with great fanfare last year, it turned out to be a disaster On a selling to repurchase basis the fund recorded negative growth of 0,86 percent.

This compares with the best performance, namely 20,84 percent recorded by Momentum

Even during the June quarter, when the all-share market rose by nearly 16 percent, Allegro managed only 7 percent Clearly something is wrong at Allegro which is a great pity, because it was pitched at the smaller investor with the entry-level of R25 a month the lowest in the industry

Share performance over the years

Star 13/7/91

232

QUOTED shares have over long periods proved to be excellent investments and an effective hedge against inflation.

Since 1960 an investment in industrial shares (excluding the better performing mining shares) has provided an average total return of some 20 percent per year compound — significantly superior to government stocks and bank/building society investments

Since the mid-seventies, returns have averaged 25-30 percent a year This is nearly four times that of fixed-interest bearing deposits and deposits at banks and building societies More importantly, it is comfortably in excess of the average inflation rate of 12 percent a year over that period

Over the five years period to mid-1991 the performance of shares has been even higher, notwithstanding the October 1987 collapse In the five years to end June 1991, the share market (as indicated by the All Share index) provided an everage capital and income return of 31,3 percent against an average inflation rate of 15,4 percent

Trend

This trend is not peculiar to South Africa as shares have proved to be one of the most reliable growth investments on a worldwide basis

In the major Western economies, the combined returns of shares have exceeded fixed interest stocks and deposits over extended periods — even in an environment of real returns

THIS is the second article in our series on the most common questions asked about the Johannesburg Stock Exchange, by ANDRE DU PLESSIS, head of private clients at stockbroking firm Ed Hern, Rudolph Inc.

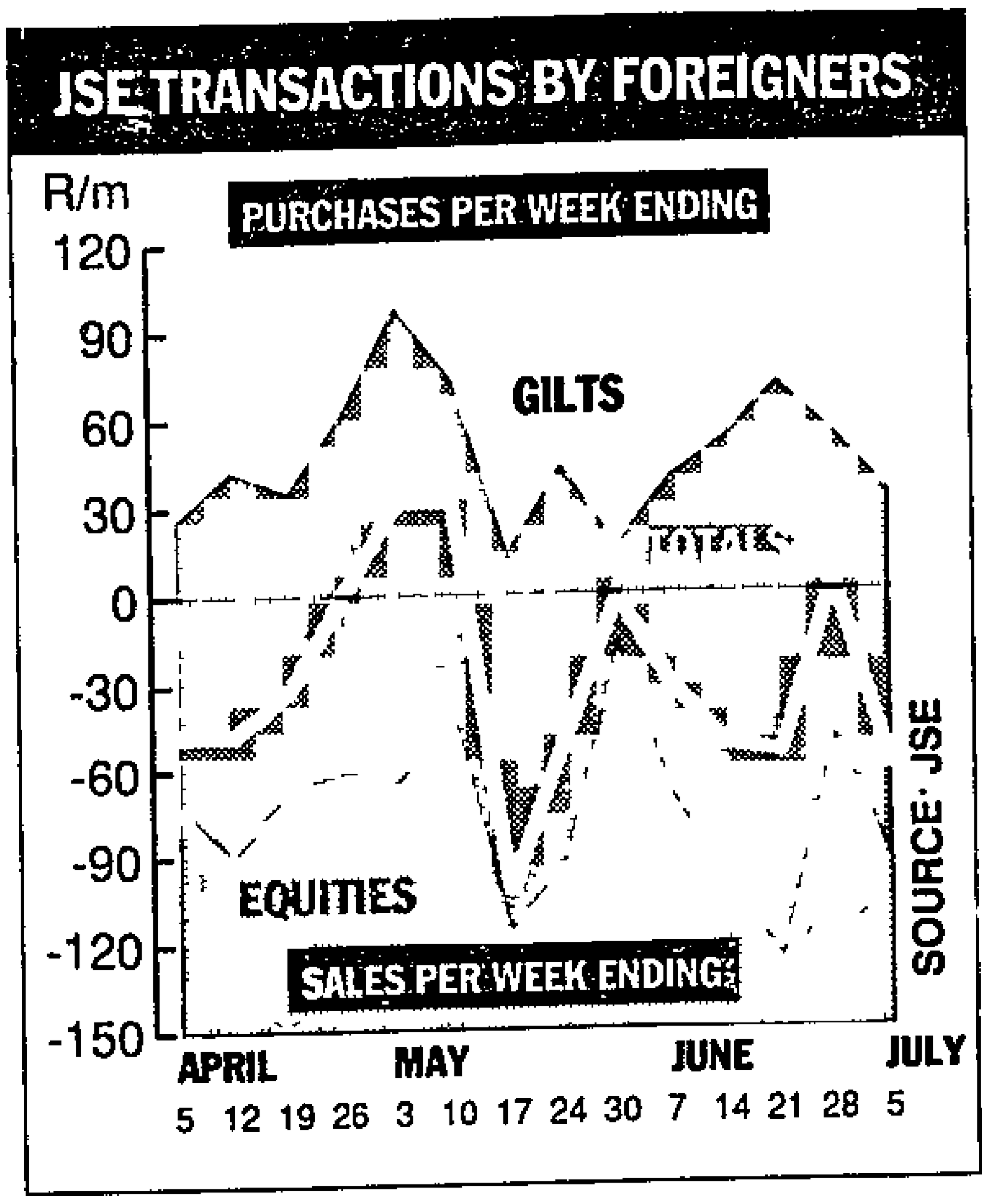
Understandably, the performance of property has varied enormously over the years depending on the type of property and its location etc Nevertheless, residential housing has maintained its value in real terms over long periods and enjoyed particularly strong growth in the early 70's and 80's

Quoted property trusts have generally also outpaced inflation and are indicative of the attractive performance of quality commercial and industrial property.

There is little evidence to refute the continuance of a highly inflationary environment in South Africa in the foreseeable future The history of and reasons for double-digit inflation since the early 70's suggests that endemic inflation will remain a major economic problem in this country

The need to provide protection against the ravages of inflation will clearly continue to be a major consideration for investors in the future

Furthermore, investors need to also counter the steady decline in the exchange rate of the rand



Foreigners carry on JSE selling

(232)

ST Times 14/7/91

Bus Times

By CURT VON KEYSERLINCK

FOREIGNERS continued to offload shares on the JSE this week in spite of crumbling sanctions.

From Monday to Thursday they were net sellers of shares worth R156,2-million. Indications are that the trend continued on Friday.

The figure is greater than net foreign sales of R92,9-million in the previous week.

For the year to July 11 foreigners sold a net R2 115-million of shares.

If gilt purchases are set off against their share sales, total disinvestment amounts to R21,9-million for the first four days of this week and R979-million for so far this year. This compares with a net sale of shares and gilts of R3 031-million last year.

The news that foreigners are still selling surprised those who thought that the shrinking gap between the the financial and commercial rands was a sign of renewed interest from abroad in the JSE.

But currency dealers say that volumes of finrands traded in the past week or so have been relatively low. The Finrand has strengthened largely because there are few sellers.

The commercial rand has weakened against the dollar. By Friday the discount had fallen to 6%.

"Many who bought finrands are not buying equities or gilts but putting the money on deposit," says one dealer. "Some are doing this because they are encouraged to put money into SA, but have not yet decided where. Others are speculating."

In spite of its narrowing discount, the finrand is unlikely to be abolished until SA once more has access to the International Monetary Fund (IMF), says United Bank chief economist Hans Falkena.

Threat

The move to a single currency could expose the foreign-currency reserves to a threat that could not be countered without IMF support.

If the finrand goes there is the risk that $6,6-billion of foreign debt held by the Public Investment Corporation (PIC) would flow out through the commercial rand. That would cause a corresponding drop in the reserves with disastrous effects for the exchange rate and inflation.

Foreign creditors are free to take out their money held by the PIC through the finrand. This poses no threat to the country's reserves because finrand transactions

☐ To Page 3

☐ From Page 1

JSE sales

(232)

are between non-resident holders of assets in SA that do not constitute part of the reserves. ST Times 14/7/91

"The IMF gives financing to countries that experience sudden outflows of funds and we would qualify for this support were the IMF not barred from helping us," says Mr Falkena. (Bus Times)

"Reserve Bank Governor Chris Stals must protect the currency and to do so he needs the reserves. But he cannot be sure of maintaining the reserves until he has an undertaking from the IMF to provide a loan if it is needed.

"At the same time Dr Stals would probably want a gentleman's agreement with foreign creditors not to take out their funds too quickly if the finrand were abolished."

Mr Falkena says there is a good chance this could happen next year.

Prefhold to spend R126m on growth

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ST Times (Bus Times) 14/7/91

By IAN SMITH

PRIVATE and public offers of shares in high-performing retail group Prefhold should leave about R126-million to fund an ambitious growth plan for its three operating divisions.

Details will not be available until the offer opens next Friday But the imaginative package of ordinary shares and convertible debentures has been well received by institutions

Prefhold is due to be listed in the JSE's wholesale and retail sector on August 21.

The offer aims to raise about R260-million, of which R188-million will be paid to the company

Consortium

About R70-million will be used to reduce the holding of a foreign consortium which backed the leveraged buyout of the Beares furniture chain in 1988

Executive chairman Terry Rosenberg, who led the buyout, has opted to expand the group by the equity route rather than loans.

Mr Rosenberg says "I lived through the problems of high interest rates during the buyout period "

In the first year after his team took control the average overdraft rate climbed from 13,7% to 17,7%, and in the next year it increased to nearly 21%

"This is one of the main reasons why we have decided to go for a listing," says Mr Rosenberg

After the listing the public will hold about 45% of Prefhold and SA directors about 17%

The offer will be made up of about a third ordinary shares and two-thirds convertible debentures The shares and debentures will be able to be traded seperately.

The debentures have been included largely to add appeal for pension funds and low taxpayers

The debentures will start to pay interest at about twice the dividend yield and this will be increased by about 2,5% points a year to a maximum of 25% They are convertible after six years at the option of the holders with compulsory conversion after 12 years

Mr Rosenberg says Prefcor has met its target of R72-million pre-tax profit for the year to June 30 and he is optimistic about growth plans

There is opportunity for organic growth in the Game discount store chain, which has 10 outlets There are only three branches in the Transvaal, which represents about 70% of the market

The infrastructure for a much larger group is in place and benefits will flow from spreading the advertising budget over more stores, says Mr Rosenberg

Game's expansion will take place between 1992 and 1995.

The furniture group, which has 195 stores, must also have room for expansion, particularly when it is compared with the opposition. Rusfurn has more than 400 outlets and Ellerine has about 320

Demand for furniture, which is running at high levels, is likely to increase as housing programmes get under way

Mr Rosenberg says 50 new locations have been identified

The Bee Gee clothing chain can also be expanded beyond its 62 stores

Gobblers

"This group has no outlets in the Cape and we know of about 30 areas we would like to move into," says Mr Rosenberg

There are also opportunities for growth by acquisition Several small family-owned firms look attractive

"But whatever we do we will do cautiously," says Mr Rosenberg

"We will not expand merely to chase turnover. We have an established group, but we have held back on growth while we put our systems and the right people in place"

The group's main businesses are often seen as "cash gobblers"

Growth can be a drain on resources, but Mr Rosenberg says Prefhold is fortunate in that its joint venture with First National Bank in Firstpref has worked well.

"Firstpref takes care of financing our book It means Prefhold's debt equity ratio is down to levels where we want to keep it"

It's risky at the top where bigger fish eat little fish

232

S/Times (Buss Times) 14/7/91

By DAVID CARTE

UNEASY lie the many heads that wear crowns after Senbank's sudden axeing of Rusfurn managing director Geoff Austin.

It was a chilling reminder that even big shots mostly have bosses above them and that a chief executive lets his company's share price trail the market at his peril

Even such power houses as Sol Kerzner, Rob Abrahamsen and the late Wim de Villiers were no match for institutional power

In the past year the City of London has been shocked to discover "shareholder governance"

Six chairmen and/or chief executives and one entire board have been fired by institutional oligarchs

Shareholder governance is a big issue in the US as well One of the best-selling business books is Power and Accountability by Robert Monks and Nell Minnow (Harper Business), consultants to US institutions They get clients to ask awkward questions at meetings, run for directorships and monitor managers

Less than a century ago, those who owned companies tended to manage them The joint stock company permitted owners to hand over to managers

The rise of pension funds and assurance companies has widened the gap between owners and managers

According to Monks and Minnow, the owners' wishes are seldom paramount — managers manage while shareholders absent mindedly collect dividends

This passivity, the Economist says in reviewing the book, has resulted in the corporate jet and the takeover bid either managers exploit shareholders' lack of interest or bidders do

Experts blame lack of governance for the poor competitiveness of American and British economies vis-a-vis those of Japan and Germany, where banks are sister companies and act like owners

Pursuit of better portfolio performance in highly competitive markets has heightened institutional activism in the US and the UK A decade ago, if companies flagged, institutions either suffered the blow or sold at a loss Now, much to the discomfort of managers, they are putting the boot in

In SA, where outright control of companies by institutions is common, the institutional boot has been around for years

Sanlam, Old Mutual and Liberty insist that they meddle only when absolutely necessary They claim to know insurance, not other areas of commerce and industry and leave managements to get on with it But all acknowledge that they climb in when there is trouble

Sanlam is the most hands-on institution It has numerous controlled interests in Sankorp Sanlam unseated Wim de Villiers as chairman of Gencor because it suspected him of conniving to move control to Rembrandt, an assertion heatedly denied by both accused and still resented by Rembrandt

A long line of chief executives has departed prematurely from Sanlam-controlled companies — Natie Kirsh from Tradegro, Gordon Utian from Checkers, Johan Moolman from Federale Volksbeleggings and Chris van Wyk from Trust-Bank and Bankorp, to name only a few Sanlam also thrusts greatness upon appointees such as Derek Keys of Gencor and Piet Liebenberg of Bankorp

Old Mutual is almost as coy about exercising control as Anglo American, whose benign neglect of companies, such as SA Associated Newspapers and LTA, almost led to their bankruptcy

Mutual was so embarrassed about getting 75% of Rennies that it hastily merged it with Safmarine It did so to dilute its holding in Safren beneath outright control

It was apparently thanks to Old Mutual's rectitude that Sol Kerzner was obliged to resign all his directorships in Kersaf after the Transkeian bribery accusation

Mutual was blushingly prevailed on by the Reserve Bank to rescue Nedbank and that necessitated bundling Rob Abrahamsen out of the door It suffered agonies over granting Piet Liebenberg, then running Nedcor, permission to acquire the Perm This entailed the unthinkable — converting the Perm into a proprietary company

When Bertie Lubner dropped executive responsibilities at PGSI recently, many wondered whether Liberty had wielded an axe But brother Ronnie denies it "Liberty played no role in our restructure at all," he says

But institutions do not find all company managements a pushover Executives have considerable power Meyer Kahn and the SA Breweries executive demonstrated that when they all threatened to walk out if JCI and Liberty did not rejig the deal by which Premier acquired effective control The managers won the day

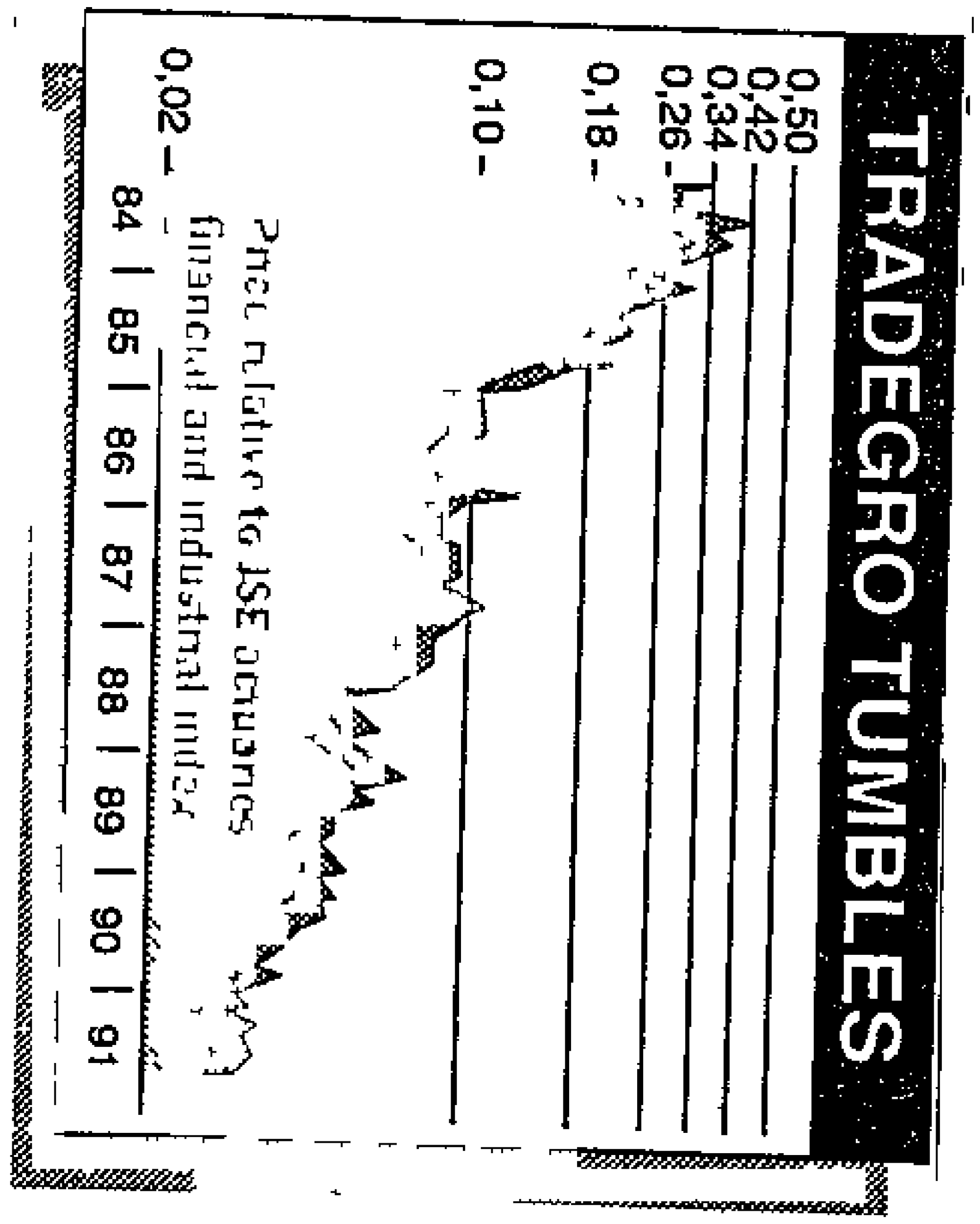
Anglo has tried for years to bring associate Gold Fields of SA to heel, but Robin Plumbridge and his band have kept it at bay and tweaked its tail occasionally

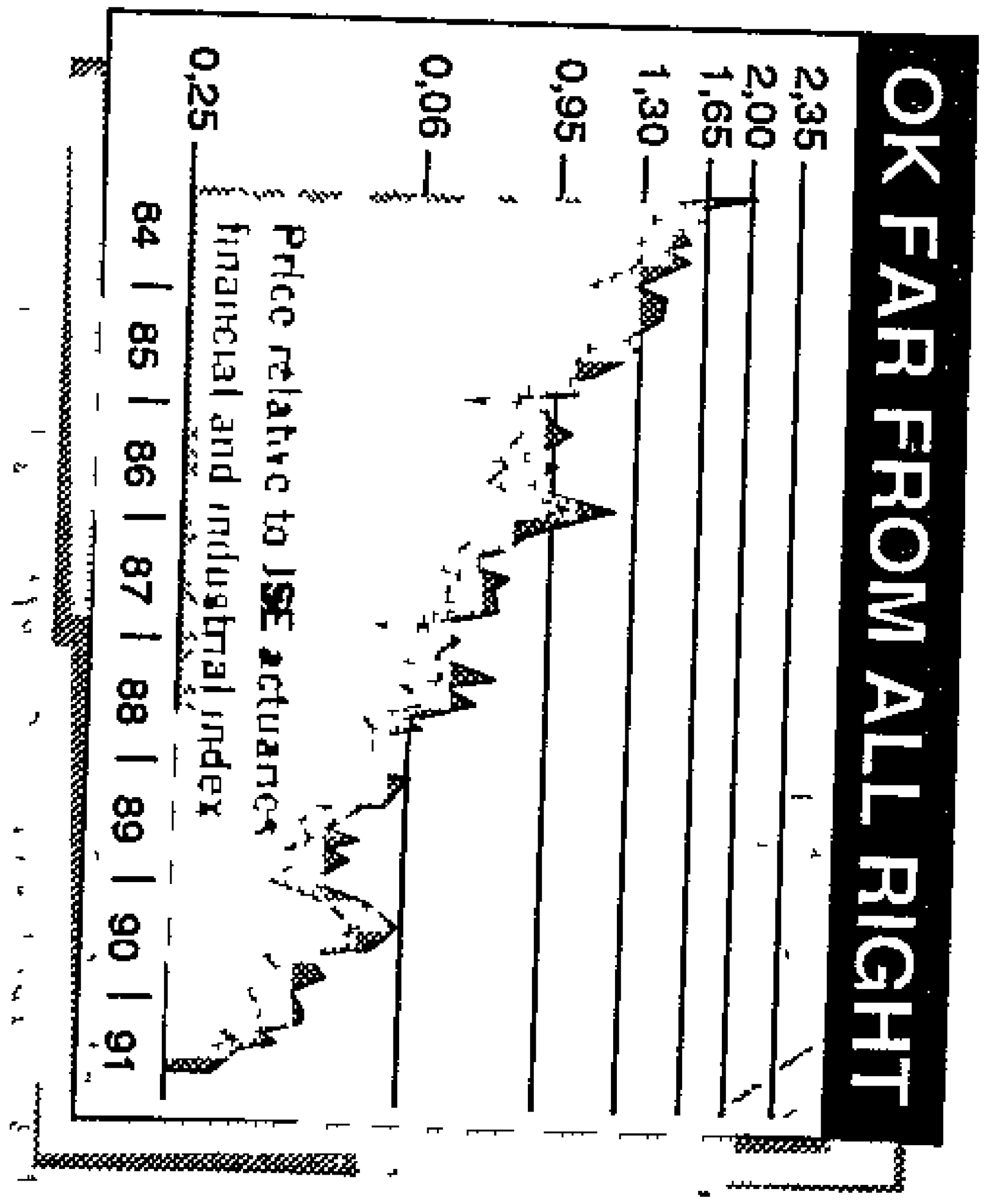
Another board that few institutions would attempt to push around would be Conrad Strauss's team at Standard Bank Investment Corp

Few would challenge Raymond Ackerman at Pick 'n Pay The best guarantee of management power is good performance

Good governance of companies by institutions may be good and healthy, but who governs the governors? Donald Gordon has his 50-50 partner Standard and his shareholders to answer to

Mike Levett, Marinus Daling and Pierre Steyn report to boards comprising non-executives who know little about their arcane business Their bosses, they would say, are the millions of policyholders How that huge constituency is to judge them and then to act on their judgment is another matter





End of US curbs 'to boost steel, coal'

(232)

B/Day 15/7/91

WILLIAM GILFILLAN

THE JSE's steel and coal sectors stand to reap the greatest benefits from the lifting of US trade sanctions, say market analysts

But they believe these benefits will be felt only after some time, when international steel and coal prices firm An increase in these prices is forecast in line with the economic recovery in major industrialised countries

One analyst said that as the steel and coal sectors bore the brunt of sanctions "it stands to reason they will benefit most"

Anglo American Corporation stands to benefit through subsidiaries Anglo American Coal and Highveld Steel

Barlows has substantial steel interests through Middelburg Steel & Alloys and it is exposed to the coal sector through Rand Mines' Witbank Colliery

Iscor will be a major beneficiary in time, and this is reflected by the rise in its price

But Fergusson Brothers' William Bowler cautions that benefits will not be immediate as "world steel markets are currently depressed and at present there is softness in world coal markets"

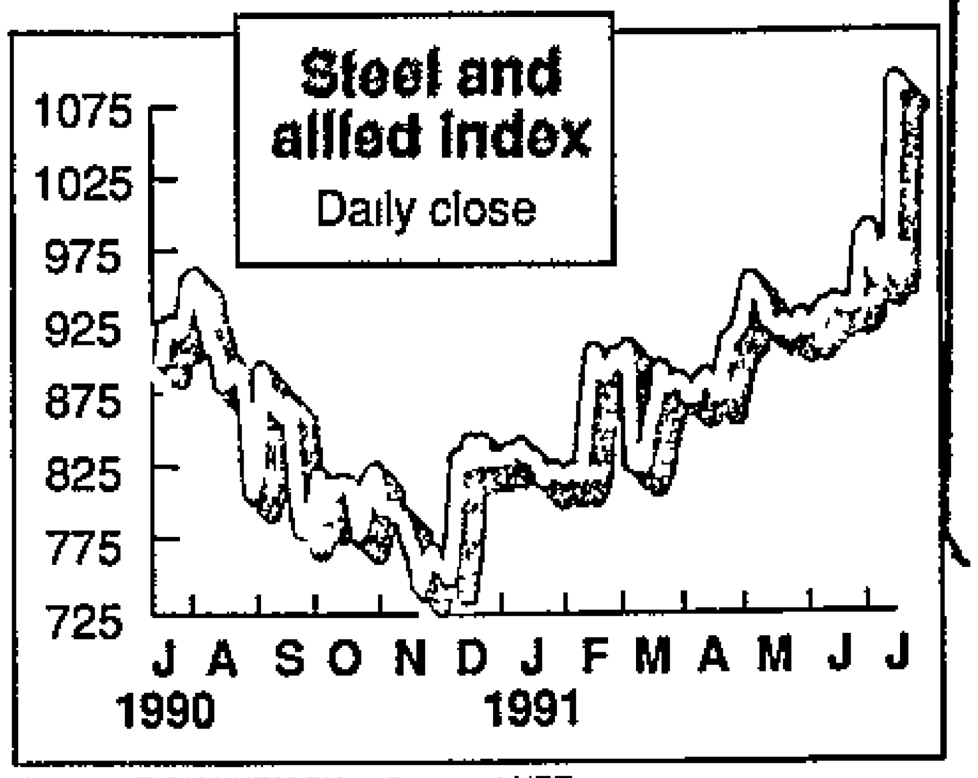
An indication of the depressed state of steel markets is the 65% slump in British Steel's pre-tax profits in the year to March

Analysts said the benefits in the coal sector would be through higher prices, as export capacity was constrained by the limitations of the Richards Bay terminal and inadequate rail transportation Coal exporters no longer had to take a political discount in price.

The Richards Bay terminal is being expanded, and capacity constraints are likely to be alleviated when railway extensions are completed

Analysts said it was often difficult to know to what extent lower exports were due to slowdowns in international economies or to sanctions

Sappi and Samancor were cited as groups affected largely by depressed international commodity prices



Graphic FIONA KRISCH Source I NET

Benefits will flow to shipping and transport companies through increased trade, said John Rogers of Edey Rogers Companies involved in trade finance, and wine and fruit exporters, should also do well Tourism would improve — if township violence abated

The lifting of US sanctions was not expected to have much effect on trade with Africa, as this had continued throughout the sanctions period Analysts also feel Africa could pose a payments problem for SA suppliers

The Premier Group is considered best placed to benefit from any increased trade with Africa, as it already has a substantial distribution infrastructure in the continent Tiger Oats could also do well.

Analysts said groups involved in basic commodities, especially foodstuffs, would prosper if trade with Africa picked up

Regarding the American market, a senior manager of trade insurer Credit Guarantee, Gernot Kruger, said it would take time for SA companies to regain lost market share

He gave the example of Namibia, which was struggling to increase exports One reason for this was that despite the country's independence, local authorities in the US still had sanctions legislation against Namibia on their books

Futures issue may be settled by August

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BDay 15/7/91

ROBERT GENTLE

THE Reserve Bank said yesterday it hoped to finalise the issue of allowing non-residents to trade futures on the SA Futures Exchange (Safex) before the end of August

Exchange control GM John Postmus said "We are tying up the last few loose ends and are looking at certain practical aspects We hope finality will be reached on our part before the end of August"

The news comes amid growing weariness among market participants at what they perceive to be the snail's pace at which the Reserve Bank has attended to the problem.

The sticking point is acknowledged to be the Bank's concern over the possibility of participants using differences between the finrand and the commercial rand to engage in forex irregularities.

Market impatience has grown because of the increasing interest shown in SA's financial markets by foreign clients and banks

Liquidity

A Greenwich Futures & Options trader said this new presence would add liquidity to the thinly traded market

First Financial Futures MD Derek Kreunen said even more must be done to ensure foreign participation was used to maximum benefit He proposed the introduction of a finrand futures contract which would enable foreigners to hedge the currency exposure on their underlying futures positions

Safex CE Stuart Rees said it was imperative that non-residents be allowed to trade futures soon as it would benefit the entire market

"It is common knowledge that investors are more inclined to use the underlying spot markets when they know they can hedge their exposure using futures or options," he said.

JSE president Tony Norton said the JSE would soon submit proposals to the Reserve Bank calling for foreigners to use the soon-to-be-launched Traded Options Market via the finrand

Absa: Major shareholders form group

(232) CIT 16/7/91.

From GRETA STEYN

JOHANNESBURG — Rembrandt, the Mines Pension Funds (MPF) and Sage Financial Services (SFS) have pooled their shareholding in Absa to form a new pyramid company in a move to protect their interests while giving them more investment flexibility

The company, Universa, holds about 30% of Absa and is to be listed on the JSE, according to the SFS annual report

MPF chairman Herc Hefer, who is also Absa chairman, said yesterday "The formation of the new company safeguards the interests of Absa's major shareholders An outsider would battle to gain control of Universa "

He indicated its formation would be the first step towards creating one listed vehicle for an investment in a number of financial services groups

The decision to list Universa was taken partly because of the MPF's policy to invest in listed companies As long as the major shareholders retained control of Universa, listing also gave them greater flexibility on investment strategies

According to the SFS annual report, an objective of the formation of Universa is "to rationalise the interests of common major shareholders in both the Sage and Absa groups and to achieve an ultimate structure consistent with JSE requirements "

Analysts are seeing this as an indication that Rembrandt and the MPF's shareholdings in Sage will eventually form part of Universa Rembrandt and the MPF are major shareholders of both Absa and Sage A Sage source said the two big shareholders wanted a "tidy" structure with one vehicle for their financial services investments

Sage chairman Louis Shill declined to comment, referring to the annual report's statement that "in-depth discussions between Sage and its fellow shareholders in Universa were taking place on rationalising common interests "

SFS holding 6,5% of Absa and the latter holding 49% of SFS's insurance interests The latter include life assurance, investment management, unit trusts, personal financial planning and a stake in Rand Merchant Bank

Sage's share price has recovered from the low of 625c reached last year to a peak of 1000c in June this year, but has slipped back to 920c It has yet to rise above the peaks reached a year and a half ago, before perceptions of difficulties in the US knocked it Analysts said a neater structure could encourage a better rating SFS rarely trades and was quoted at 410c yesterday

Individual players keep JSE buoyant

BIDay 16/7/91

ANDREW GILL (232)

PRIVATE investors are alive and well at the JSE — at least until February, when turnover was buoyed by private individuals' participation

Although individuals were registered as net sellers during February they accounted for 16,5% (about R290m) of purchases and 25% (R445m) of sales, according to the JSE's latest survey

February signalled the start of a rally that has seen industrial stocks soar to record highs

However, the past three surveys, in January and July last year and February this year, recorded private individuals offloading as net sellers

Institutions, as usual, were the largest players, accounting for 37% worth of purchases and 30% of sales but their participation dwindled from figures consistently above 45% for purchases Institutions includepension funds, insurance companies and mining houses

Own account

Intermediaries, banking institutions and trust companies also weighed in with a sizeable chunk of purchases at 18% compared with figures consistently below 10% in previous surveys The sector was responsible for 12% of sales.

JSE members and firms dealing on their own account climbed in February with 14,4% of shares traded bought by them and 15,6% sold.

In February, R1,8bn in shares changed hands, the best showing since August 1990's R3bn but sharply down on February 1990's R2,89bn

Shareholders pool their stake in Absa

232

BDay 16/7/91

GRETA STEYN

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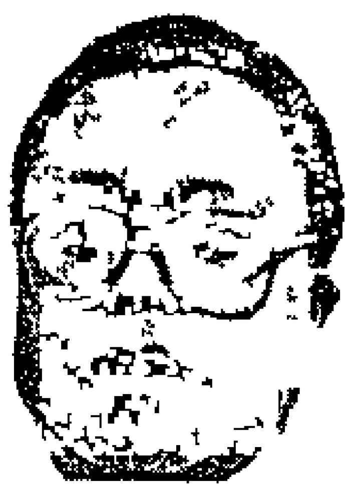
Enigma of JSE revealed

Sowetan 17/7/91 (232)

It's just an area where traders buy and sell



What is the Stock Exchange? What goes on behind those high glass walls in Johannesburg? Business Reporter JOSHUA RABOROKO went to probe the mystery

WHEN most people, especially black entrepreneurs, think of the Johannesburg Stock Exchange they see a glass palace that only the rich may enter

This is not true because the doors are open for ordinary people - both black and white - to enter the JSE, regarded by some as "a gambling den" for the rich to get richer

My visit to this "haven of the rich" proved that you do not have to have thousands of rands to invest in the JSE.

In fact, many people are not aware that their money participates in the exchange

For the ordinary people have you ever considered where the benefits of your endowment policy come from and what your pension fund does at this place?

Buzzword

To businessmen while black economic empowerment has been the buzzword at seminars for a long time, have you ever noticed the significant steps that you can take in achieving this dream?

Although for one reason or another one may labour under the impression that big business has an important role to play in this regard, black people will never get anywhere by shifting responsibility

For many years blacks have shunned economic education by refusing to take lessons in capitalism

Those who tried were resisted and suspected of ulterior motives

The stock exchange is a market. And the goods traded in this market are known as "securities"

Like any other product, securities can be bought and sold

Securities is a general term used to describe shares, gilts, debentures and other forms of tradeable financial instruments

Knowledge

Shares are issued by public companies

Gilts are stock issued by the Government, while semi-gilts are issued by quasi-Government bodies such as South African Transport Services, Eskom and the Post Office

This work requires extensive knowledge in economics, trading and dealing

In order to obtain these securities you need the services of a stockbroker - there are more than 2 000 of them - who charges a commission for trading on the JSE which is a beehive of activity

There are two floors for the trading shares and gilts

The bustling that takes place daily from Monday to Friday between 9 30am and 4pm may be viewed from the public gallery which overlooks the trading hall

The gallery is situated in the public relations department on the lower plaza level of the exchange in Diagonal Street, Johannesburg

Tours are held every weekday at 11am and 2 30pm at which members of the public are given the opportunity to view trading

Admission is free and bookings are required only for groups of 10 or more

"The black market needs a lot more looking at," JSE public relations Officer Mrs Anne Clark says

There is also a special list of brokers who deal in smaller amounts

Incidentally, few black entrepreneurs have their ventures listed on the JSE and those who have, have a long way to go

Helpful

Lebaka Bakery in Pietersburg and Yabeng Investment Holding Company in Bophuthatswana are two of them

To get a clear idea of the workings of the JSE, it might be helpful to imagine that you own a small business but would like to expand What do you need before anything else? Money

You need money for buildings, plant, material, wages and salaries - to meet all expenses before the new project can pay its way

To meet such needs, stock companies come into being Through them many people club together to subscribe the capital - which is divided into shares - for enterprises that are too large financially for individuals to handle

Investment in stocks and shares gives you a part ownership of the company whose shares you buy

If you buy ordinary shares you own part of the land, factories, machinery and plant of the company in which you invest.

As the value of money decreases - as it continues to do these days - so the value of these assets and your small share of them increases

Suppose you hold 100 shares in, let us say a big chainstore

Because you have to buy a new car or pay heavy medical expenses, you decide to sell these shares

You approach your broker and instruct him to sell

He goes into the market and tries to find another broker who wants to buy shares in the same chainstore

The stock exchange is merely a market place where buyers and sellers are brought together to exchange their shares at prices determined by free competition in an open market

When you want to withdraw your money from the market you offer your shares for sale There are always buyers for shares in sound companies

JSE president Tony Norton on the trading floor of the stock exchange in Johannesburg

Gospel

One would have expected institutions such as the African Bank, the Blackchains of this world and many enterprises that preach the gospel of "black economic empowerment" listed on the exchange, but unfortunately they are not

A notion of black businessmen that "we might find ourselves swept under the cover by big giants in the exchange" has been described as flimsy and lacking knowledge by brokers at the JSE.

From the gallery you will see brokers and their authorised clerks conducting a two-way oral auction

They call out the names of the shares in which they have orders to trade This attracts to them others in the market who wish to trade in the same shares

When a deal is concluded its price is recorded on the price board which occupies the whole of the front wall of the trading hall

Under the rules and directives of the exchange every sale price which differs from the last recorded price must be marked.

The price board also shows the buyers' and sellers' prices

In order to get a clear idea of the workings of the exchange it is imperative that one has knowledge, money and time

However, making the exchange more accessible to the man in the street is of prime importance

Education is essential But, JSE president Mr Tony Norton will tell you "one ounce of participation is worth a hundredweight of education"

In his presidential address he said "That is why the JSE has decided to do everything reasonable to enable companies to involve workers and other relevant stakeholders in their equity performance - be it as regards shares or profits"

Many employees of broking firms are responsible for processing stock exchange transactions, using defined settlement procedures

The value of business processed by a single firm in a day may amount to millions of rands

If it is not promptly and accurately settled, the finances of both the broking firm and the client may be affected

Brokers compete in terms of the quality and promptness of investment advice given to clients

As a result investment research has become an area of increased importance

The JSE was established 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 starting their own

The winds of change are blowing everywhere and many are beginning to realise the importance of capitalism

*** Tomorrow, the second and final part in this series will be published Among other things, we will show how the small man can enter the JSE**

FNB link a weapon for Prefhold

MARCIA KLEIN 232

PREFHOLD, which is about to come to the JSE in a R270m listing, said it had a "powerful weapon" for future development in its association with First National Bank (FNB), which will finance its furniture debtors' book.

Offers for shares in the Durban-based retail group open on Friday. Its subsidiaries include Game Discount World, furniture chain Beare group and Bee Gee clothing outlets

The group would have a turnover of nearly R1bn and estimated pre-tax profits of R72m in the year to end-June, and would be capitalised at R550m to R600m on listing

Executive chairman Terry Rosenberg said yesterday the agreement with FNB was "a powerful weapon for Prefhold".

He said valuable resources were tied up in hire purchase retailing. For every R100 of furniture that the group sold, R70 was locked into debt.

Realising that this could cripple the business in the long term, Firstpref was formed in November last year as "a separate, stand alone company through which HP furniture sales are made on behalf of Prefhold" BDay 17/7/91

This meant that Prefhold was at risk for only 25% of the funding of Firstpref's debtors and stock. Also, Prefhold had access to "meaningful medium-term finance" to fund its commitments The facility can extend to R450m over the next three years

Rentbel sells Metkor stake in R30m deal

BRENT VON MELVILLE 232

A SPECIAL bargain deal saw almost 12-million Metkor shares worth more than R30m change hands yesterday as investment holding company Rentmeesterbeleggings (Rentbel) hived off its entire 11% stake in the company

The sale, at 252c a share, was at a premium of more than 6% on yesterday's opening price of 235c It is understood that a financial institution was the buyer although that could not be confirmed yesterday The majority shareholder in Metkor is currently Remgro, with just under 50%.

Metkor's main asset is its controlling stake in engineering group Dorbyl.

A broker said the sale would provide an enormous boost to Rentbel, which posted an R8m loss in its last reported results for the half-year to December

Rentbel's stake in Metkor, held through Rentmeester Insurance, dates back almost 10 years, in which time its share price has shown substantial growth One broker said because the block was held through its life assurance arm, the profits from the sale might be significantly diluted

However analysts suggested the sale could boost Rentbel's net asset value to as much as R10 a share from its current level of 735c. Rentbel is currently trading at 525c

B/Day 17/7/91

Rentbel chairman Naude Bremer yesterday said the sale was part of the group's process of rationalisation, confirming intimations at the group's interim results stage by MD Joggie Vermooten that Rentbel might sell off some of its holdings to reduce its debt-load.

The interim results to December showed that interest charges brought the pre-tax loss to R11,2m Income from associates contributed R2,2m.

Rentbel directors would not make any forecast on its performance for the year to end-June, but analysts said it was unlikely there would be any dramatic turnaround. One analyst said there was unlikely to be a dividend return for at least another year.

Committed to ordinary people

Sowetan 18/7/91

232

This is the second and final part of our series on what goes on behind those high glass walls at the Johannesburg Stock Exchange. Today Business Reporter JOSHUA RABOROKO explains how "ordinary men and women" can get involved.

THE Johannesburg Stock Exchange is determined to attract as many small investors - "ordinary" people - as possible to its market

The past year has been characterised by hesitant markets reflecting high degrees of uncertainty in international and national developments

Factors such as the Gulf War have seen gold share markets strengthen for a while until they started slipping away to new lows Industrial shares reflected the deliberate slowing of the economy by the authorities and the general levels of uncertainty

In his 1991 report Mr Tony Norton president of the JSE says "Violence and the turmoil attendant on high social change has naturally given and added dimension of hesitancy

"In the second half of the year under review the market slipped in terms of activity from acceptable levels to dangerously low ones."

Promoting the JSE is no mean task Ask Mr or Mrs Average about the working of the stock market and listen to them "umm" and "aah".

For this reason the promotion of the exchange and an information service giving the man-in-the-street clues on how to become a player in this technical field are top priority.

Education is essential, says Norton and "this is why the JSE has decided to do everything reasonable to enable companies to involve workers and stareholders in their performance

Reform

"With political reform taking place, strong and wide economic reform is coming Many of the shackles of the past look like being removed Some new ones might be imposed by political compromise, but on balance we see better overall economics in the future than in the past."

He says "The politics of power are vastly different from the politics of opposition and our rulers of the future are going to need massive wealth as the cement for our future society.

"We have identified the popularisation of share investment as an important element in creating effective and positive common values and goals for South Africa"

While education about the merits of dealing in the share market is important, it is not enough even though the returns on your money are great if you are wise, he says

Investment in shares can deliver better profits than any other investment area It remains, however, a distant, technical and potentially hostile field for ordinary people

It is important for the ordinary man-in-the-street to understand how to buy shares at the JSE

JSE looks to the small investors

You may make your share purchase through your bank Later you may wish to approach a stockbroker. This may be done through a personal recommendation Alternatively, the Public Relations Department at the JSE may be contacted

Consideration should also be given to buying mutual funds

Need

One of the most fascinating aspects of the world of finance is the ingenuity with which new types of investments are developed to meet changing situations.

The need for a company specialising in investing money successfully in stocks and shares was recognised many years ago.

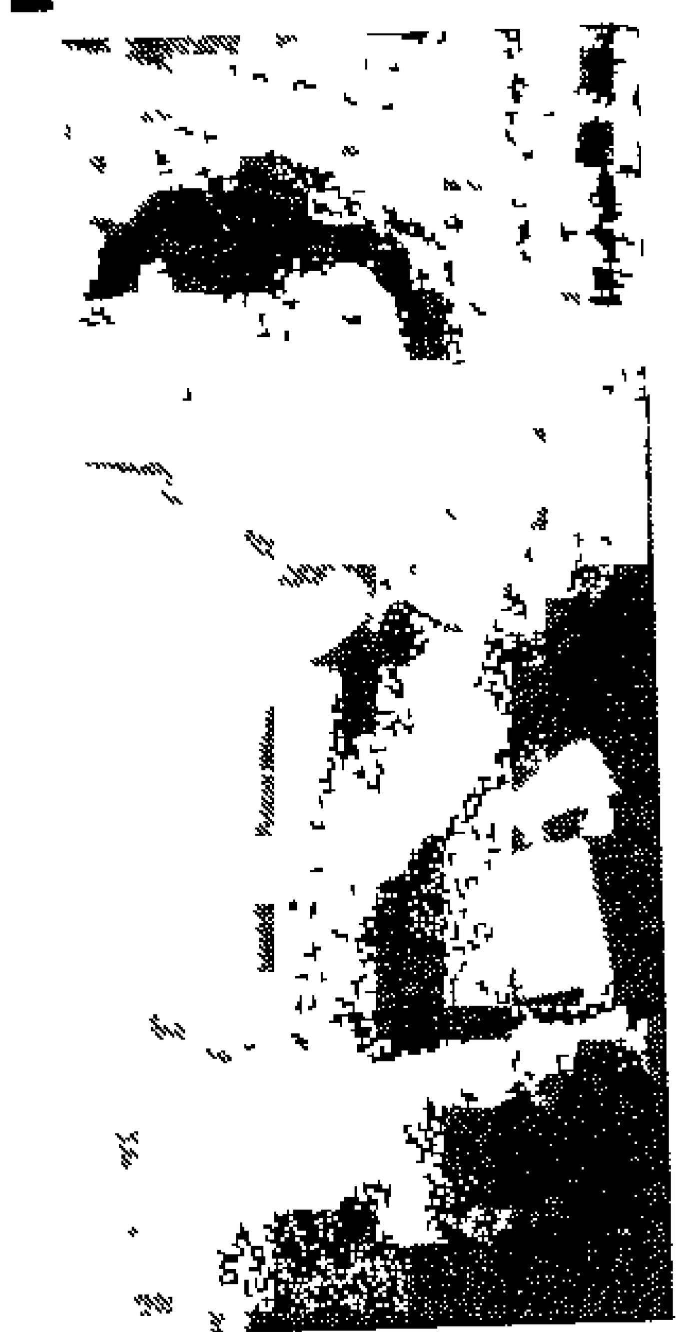
Such a company would use its funds to buy shares on the stock exchange and the success of its efforts would be reflected in the price of its own shares

Thus the investment company was born It was soon realised, however, that in bad times the investment company's shares would stand well below their intrinsic value - an unfortunate situation for the shareholder who must sell in what is usually described as a "poor market"

Could a system be devised whereby the shareholder would always obtain at least a fair price for his shares, based on the whole worth of the portfolio held by his company?

This was a challenge which was met by the development of mutual funds, or unit trusts, as they are termed here

The unit trust movement has developed at differing speeds in the countries in which stock exchanges exist



TONY NORTON.. president of the JSE

In South Africa since 1965 revised legislation has allowed the formation of these sophisticated trusts which offer an entirely new investment field.

Further details on unit trusts may be obtained from your stockbroker or bank

Norton says the involvement in the share market is the key to understanding The exchange will not object in principle to free or subsidised share issues to employees

However, wise companies will consult their unions and other relevant interests to render such an exercise meaningful.

The JSE might even see worker representatives reversing the initiative and approaching their employers about participation in the share market

Making the stock exchange more accessible to the man-in-the-street is of prime importance The enormous task of promoting it is undertaken by every member of the executive management team

Investment seminars are held every year for the public at which brokers speak on the different aspects of investment Special educational seminars are also held for financial journalists.

The JSE is committed to the highest standards of professionalism and customer service and will automate to the maximum possible extent - subject only to one overriding condition - that it uses technology sensibly

"Our aim is to be the best medium-sized national stock market in the world by 1995," Norton says.

Scramble to buy up NSB shares

232

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Sowetan 18/7/91

By JOSHUA RABOROKO

MORE THAN 90 percent of the 44 million shares in National Sorghum Breweries Limited have been snapped up by over 9 000 investors - exceeding expectations of the company's directors

The remaining block of less than 10 percent has been bought by the Industrial Development Corporation (IDC) - underwriters of the offer - and can be bought at R1 each until 12 noon on July 31

According to NSB's chief executive Mr Mohale Mahanyele "The company is the only one of its size that brings blacks and whites together, with blacks in a leading role

"It's mission is black economic empowerment

MAHANYELE

and this share offer is a cornerstone of this policy

"The entire offer was structured to enable black people to take advantage of a unique opportunity to participate meaningfully for the first time in the main stream of the South African economy

He said that 30 percent of the offer had been set aside for employees of NSB That, he claimed, was by far the largest stake to be owned by workers in any major company in South Africa, which was yet another first for NSB

The company made interest-free loans available to all employees to enable them to take up their share allocations Share allotments for employees favoured the lower level workers

Burial

In response to many requests from individuals, burial societies, black business and commerce, stokvels and others who pointed out that the offer had stretched over only one month-end and more time was needed to consult with members and arrange finances, the IDC has agreed to sell its shares to applicants at R1 each

Mahanyele said a particularly pleasing aspects of the offer was the evident success of the nationwide communications programme which NSB mounted to promote the offer.

Bond traders may opt for earlier settlement of deals

(232) B/Day 18/7/97

ROBERT GENTLE

THE Bond Market Association (BMA), which is working towards establishing a bond exchange, said yesterday it was considering sharply reducing the settlement period for bond transactions

Such a move, which could bring the present maximum of 11 working days down to about two, would bring SA into line with international norms and improve risk management

The BMA has 65 members — including the JSE's gilt trading firms — and represents virtually all participants in the bond market

The significance of a shorter settlement period stems from the fact that bond transactions are only paid for on the settlement date, at present up to only 11 days later

This has created a vibrant speculative market in which jobbers enter bond transactions at the start of the settlement period, reverse them just before the end and take their profits or losses They may never have to pay for their bonds upfront.

The downside is that one of the parties to the contract runs the risk of the market moving the wrong way, resulting in a credit squeeze which may cause non-payment on settlement day

BMA CE Graham Lund said in an interview that while a shorter settlement period was desirable, the BMA was not necessarily limiting itself to two days Once the proper systems were in place and the problem of a central scrip depository had been solved, he said, any settlement period could be chosen — even one day.

Reaction in the market was divided. Some traders welcomed the move, saying it would reduce brokers' risk between the time a deal was struck and the date it was settled

Another view in the market was that a shorter settlement period would cut liquidity because of the reduced opportunity for speculative deals, or jobbing.

A spokesman from the gilts division of stockbroking firm Ivor Jones Roy said the difficulty of speedily moving the underlying scrip — especially when non-residents were involved — would make earlier settlement difficult

SA Futures Exchange (Safex) CE Stuart Rees said the present long settlement period meant that buying bonds was often the same as buying bond futures, resulting in lower volumes in Safex's own bond futures "A reduced settlement period would therefore increase volumes in our bond futures," he said

Edgars' results point to real growth in 1992, says director

(232)

B/Day 18/7/91

MARCIA KLEIN

EDGARS seems set to fulfil its forecast of real growth for the 1992 financial year, judging by its results for the three months since the March year-end, financial director Mark Bower said at a presentation to analysts last night.

At the year-end, directors of the SA Breweries (SAB) subsidiary said they were budgeting for market share gains and for real growth in the current year, although not at the same rate as financial 1991, when Edgars increased its earnings by 22% to 296c a share on a 25% sales increase to R2,5bn

Bower said agreements had been signed to facilitate the sale of Edgars' debtors' book to the Advantage group, which was formed by SAB and Nedcor in November to provide financial products and services to the mass consumer market. This was "an exciting development for the group"

Executive director Fred Haupt said Edgars' large debtors' book would be sold once certain hitches were resolved, including some VAT implications. He believed SAB subsidiaries Amrel and the OK were to follow the same route.

The new arrangement would probably lead to a reduction in Edgars' 59% gearing.

CE and MD George Beeton said that over the past five years the group had achieved a compound sales growth of 27,1% and a compound earnings growth of 48,9%.

The Edgars division would add viable businesses to its portfolio as they presented themselves.

This strategy would not apply to Sales House, which would maintain a narrower base Beeton said directors had decided to anchor Sales House around footwear, which was a major part of its business.

The group had been trying to establish Jet for the past 20 years in order to grow the cash part of the business. He was confident that Jet would produce a "materially different performance" in two years

JSE is way ahead of the international pack

LIZ ROUSE

232

THE Johannesburg Stock Exchange is far outrunning world markets, behaving in an aberrant fashion given the current global economic depression.

At the beginning of July, the JSE all share index showed a gain of 29% on a year ago, compared with a gain of 2% for Sydney, 2,1% for New York and 3,7% for London. The Morgan Stanley Capital International world equity market index reflected a decline of 6,4% on a year ago and a fall of 14,1% from its record high, according to the Economist's weekly list of world equity market performances.

Hong Kong was the only other stock market to reflect a double digit year's gain — 12,4%.

Tokyo, rocked by scandals, recorded a 26% loss for the year, while economically depressed Italy shed 22%.

B/Day 19/7/91

German equities lost ground, resulting in an 18,2% drop in the all share market index, and the Paris bourse fell 13,9%. The Swiss did not escape the general European malaise — the Zurich index slid 10,5%. Belgium's market index was down 8,1%, and the Madrid index was off 7,6%.

The Canadian, Singapore and Swedish equity markets are starting to dip, while Dutch equities are just holding on to their levels of a year ago.

THE JSE

CRACKING THE WHIP

(232) FM 19/7/91

First major public pronouncement by the new JSE committee is a resolution requiring all brokers to convert to the exchange's new BDA broker/client accounting system Predictably, the ruling has been met with a mixture of acceptance and anger from brokers affected

Of the two main reasons given by JSE president Tony Norton — costs and surveillance — the latter is presented as being by far the more important It is an effective (and emotive) argument, which is difficult to counter That does not necessarily make it altogether plausible

As far as costs are concerned, having all brokers on the BDA system presents obvious advantages for the JSE, as well as for those firms which have already committed themselves to BDA The same may not apply to those who preferred to use an outside service

SPS Computer Systems started developing the latest version of the non-JSE system — known as MAS, or Management Accounting System for Stockbrokers — during the 1987 bull market It has been operating and tested over four years Until now, 13 of the JSE's 53 broking firms have chosen to use MAS

Many others have continued to use the JSE's old BCA system, which has been running since 1969 and is now considered outdated After the existing system proved unable to handle the large volumes needed during the 1987 market, the JSE embarked upon development of a new internal accounting system

Upwards of R8m has been invested in BDA over the past three years About half the equity trading by former BCA members are now on BDA Two firms use it full-time and five are running two systems parallel, of the firms represented on the committee, three are using it in parallel

Annual cost of running BDA (including depreciation and interest) is about R6m Roughly 90% of the costs are fixed, so throughput is critical to the unit costs for the exchange and for those who are using BDA The 13 firms who have switched to MAS account for about a third of the total value of deals done on the market

This, says Norton, means that some R2m is being paid for use of an outside system By requiring all to use BDA, about this amount, less any conversion costs, could be saved and help to improve the cost-effectiveness of the investment in BDA After all have converted to BDA — which is to be done "as soon as possible" — the component services within BDA are to be separated and charged for according to usage, so that cross-subsidisation will end

Norton says the question of whether accounting services should be contracted to outside parties is not being debated at present He argues that if the exchange is going to provide computer facilities for member firms, as it is now doing, then there must be sufficient capacity available to accommodate all BDA should have a system life-span of 10-15 years, and be able to handle all the members the JSE is likely to get over that period

But capacity and flexibility is part of the problem When launching its capital investment programme after the 1987 bull market, the JSE was budgeting for equity deals averaging about 4 000 a day Trading at this level has never materialised since then Last week, when the Overall and Industrial indices were breaching records, the daily trading levels were less than 3 300 On average they have been markedly less

Those who had converted to MAS say it is cheaper and offers a better service than was available from the JSE According to SPS partner Neville Olver, the present cost for each deal done through MAS is R2,30, and he says this can be maintained in real terms in future Norton contends the unit cost under MAS or BDA would be the same Some senior members have yet to be convinced of that

Olver says there were no discussions with his company before the announcement — he simply received a copy of the JSE's press release MAS represents about half the value of all work done by SPS, so the decision represents a "very serious threat" to the business Olver contends there would be no difficulty extending or changing the MAS system according to the JSE's requirements

That, apparently, would not be enough Norton says the real problem from the surveillance standpoint is that there is a fragmented approach, where brokers are using different systems With all on BDA, he contends, the alleged irregularities involving the Old Mutual would have been picked up more quickly

"With an outside system you have no knowledge of how that system is being operated," he says "You may have access to figures but you don't know the quality of the figures We have a system which you can access in many different ways The quality of the reports will be much quicker, they will be more effective and more searching It has been built around the rules of the exchange, so if anybody transgresses them, the system throws it out "

Norton concedes that he knows of no other major stock exchange which requires all broker/client accounting to be done by the market This, he argues, is one of the real pluses of this market, and emphasises the JSE's determination to ensure a high standard of surveillance "The real motive is to have a clean market," he says "And that is not negotiable "

Perhaps, but as one broker who is now on MAS points out, brokers in London and New York use different external systems — and doubts about effective surveillance have not been an issue in those markets

To be fair, almost anything the JSE committee or its management does is probably going to draw criticism and wrath from some brokers But that is at least partly a legacy of the record over a number of years, including cost overruns and budgets the exchange failed to meet

Brokers have incurred costs to go on to MAS, and they did so because they believed it to be a better, cheaper or less troublesome system than was available from the exchange For years, the JSE was content to see an outside system being used Now costs will be incurred in the conversion to BDA, and some brokers remain far from convinced that the new system will work as promised, or that further costs will not be incurred A sudden and peremptory decree such as this, without attempting to negotiate, does not help to inspire confidence ■

Prefhold launches record R263m share offer

B Day 19/7/91. (232)

MARCIA KLEIN

PREFCOR Holdings (Prefhold) today opens its offer of shares to raise R263m, which will result in the largest JSE listing this year

The retail group, which owns the Beare furniture group, Game Discount World stores and Clobea clothing division, intends to raise the R263m by way of an offer of ordinary shares and convertible debentures (CDs) at 500c each.

The offer, which will be underwritten by Investec Merchant Bank and Firstcorp, closes on August 9

Prefhold will acquire the retail businesses from Pref-Stores and the non-trading companies from Prefcor for R488m with effect from July 1 This will be settled by the issue of renounceable letters of allocation for R50m in senior CDs, about R213m in junior CDs, about R132m in ordinary shares, R31m in debentures and R62m in cash

The purpose of the offer is to strengthen the group's capital base, enhance public identity and give public and staff an opportunity to participate in its equity

Also, it will ensure that non-resident (Greystoke) percentage holding in Prefhold will be below 25%, and obtain a spread of shares in order to list

The offer is for 100 ordinary shares and 200 CDs, which will be linked for the offer and can be traded separately after listing

The public will be offered 600 000 ordinary shares and 1,2-million CDs, which will raise R9m. A preferential offer is being made to suppliers and business associates of 800 000 ordinary shares and 1,6-million CDs to raise R12m Institutions and the Prefhold share incentive scheme are being offered 16,1-million ordinary shares and 32,2-million CDs to raise R242m

Following the issue, the public and institutional investors will hold 43,1% of Prefhold, Greystoke 24,9%, management 22% and Fynbos Trust 10%

Executive chairman Terry Rosenberg said the package of ordinary shares and convertible debentures was devised by Investec Merchant Bank and Firstcorp "to satisfy the needs of SA's institution-dominated market"

"It was felt that an instrument which carries an attractive yield and converts into equity would appeal to the institutions"

He said that the CDs carried an initial yield of 12% a year and this will increase by 2,5% a year to a maximum of 25% a year over the 12-year life of the CDs Interest of 60c a debenture is expected for financial 1992

According to the pro forma income statement, turnover will rise by 27% to R1,27bn, (R1,0bn) in the year to end-June 1992 Operating income will rise by 44,5% to R167m (R115,6m), income before tax will be 15,1% up at R82,9m (R72m), and attributable income will increase by 14,6% to R42,4m (R37m)

Expand

Prefhold expects its pro forma dividend of financial 1991 to have been 18,8c a share and to rise to 30c in financial 1992 with a 3,6 times cover Pro forma earnings of 108,8c (67,7c) a share are forecast for the year to end-June 1992

In the Beare group, 52 locations have been identified into which the different furniture chains could expand over the next 30 months

Game intends to double its amount of stores to 20 by the end of financial 1995 Seven locations have already been identified

Clothing division Clobea has identified another 55 sites in SA Directors say growth by acquisition is also a possibility, and negotiations with regional chains with similar businesses to Clobea had already taken place

There are acquisition opportunities in all divisions, and directors say these will have to be closely associated with the current businesses and provide the group with significantly enhanced earnings potential

UNIT TRUSTS FM 19/7/91

CHASING EQUITIES (232)

The move into industrial shares by unit trusts, evident in the first quarter of this year, showed no signs of stopping in the June quarter

A total of R500m was added to the value of industrial shares in general equity funds, an increase of 18,5%, compared with a 12,1% increase in the Industrial index Industrials now represent 42% of the total value of general equity funds, up three percentage points from December and one point from last March

Unit trust managers now believe interest rates are set to decline, and equities will provide better yields Cash holdings have been reduced from 24% to 16% of portfolios since the beginning of the year

Moreover, according to Rowland Chute, portfolio manager of the Old Mutual Investors' Fund, the lifting of sanctions and the prospect of increased foreign interest in the SA market could give the present bull market an extra boost. But he says that the market will have to see a significant improvement in earnings next year to avoid disillusionment.

Safegro director Kevin Cockcroft says industrials look expensive on present earnings multiples, but on a forward projection of two to three years they look realistic. On the forward p.e for 1993, for instance, SA Breweries' multiple falls from 19 to about 12

But there are indications the market has peaked Metfund has moved out of industrials and doubled liquidity to 18%, arguing the market is expensive. It has sold Iscor, Barlows, JCI, Altech, Sappi and Wooltru Sage Investors Fund MD Bernard Nackan says industrials are trading on historically high territory, and should not improve on fundamentals until there is evidence of strong global growth

There was considerable disenchantment with Minorco which was sold by Safegro, Metfund, Norwich NBS and Syfrets Growth Fund — though it was bought by UAL and Mutual. Cockcroft says the attraction of rand hedges has dwindled, because of the lifting of sanctions and the convergence between the financial and commercial rand

There was some interest in food companies UAL acquired a new holding in Premier Group, and Momentum in Fedfood and Huntcor. Newly listed Absa was bought by a range of top-rated general funds such as Momentum, Old Mutual and Standard Bank Engen was also popular.

Opinions are sharply divided about gold shares, though there was selective buying Old Mutual Investors' Fund, the largest unit trust, bought Vaal Reefs for the first time. Standard Bank Mutual Fund increased holdings in Kloof, and GuardBank lifted holdings in Winkelhaak

The 41,4% increase in the All Gold index over the quarter was a boon for funds with a large exposure to gold Peter du Toit, MD of Momentum Fund Managers, says the fund has built up a 19% exposure to gold producers over the quarter, which was a major ingredient of its success The fund enjoyed a 29% return from capital appreciation and income in the first half of the year. Du Toit argues that the monetary value of gold must appreciate as the world becomes more commercially interdependent

A more sceptical Cockcroft says it is too early to go out on a limb with gold, though he adds that funds with minimal gold exposure should buy gold up to 5% of the fund's total value to achieve a correct balance Chute says there has been welcome rationalisation in the gold industry, but improvement in dollar gold prices is still needed

Unit Trusts remained a popular investment vehicle Net inflows of R450,2m were only marginally below the R453,8m inflow in the September 1987 quarter Clive Turner, chairman of the Association of Unit Trusts, says the average total return for the country's 16 general equity trusts over the past 12 months is 20,6% *Stephen Cranston*

FM 19/7/91 (232)

PREFCOR FM 19/7/91

AMBITIOUS PLAN (232)

It takes a brave company to seek a flotation at what looks like the top of the market Demand for furniture has fallen, and the furniture division — Beares and Savells — remains the principal contributor of both sales and earnings to Prefcor, which lists on August 21

Shares will be available to the public in packages of one ordinary share and two convertible debentures The debentures will have an opening interest rate of 12%, increasing by 2,5% a year up to 25% There will be the option to convert after five years, and conversion will be compulsory after 12 years Ordinary shares are projected to offer a dividend yield of 6% on June 1992 earnings, providing about the same return as the debentures to taxpayers Dividend cover will be fairly high at 3,6

Prefcor will be listed in the retailing sector, rather than in the more lowly rated furniture sector Group CE Terry Rosenberg argues that slightly more than half of operating profit is provided by nonfurniture items, whether appliances, housewares or clothing

Prefcor is looking for R260m from the public, who will be offered 45% of equity, and the issue price is expected to offer a forward p e of 4,6 Prefcor's accounting policy is conservative It makes a comprehensive provision for deferred tax, and its bad debt rate, which has never exceeded 2,7%, is down to less than 2%

Yet, while Prefcor is supposed to be conservatively run, its predictions seem far from conservative. Earnings have grown quickly under present management — operating profit has more than tripled over two years However, Rosenberg says Prefcor is still at the bottom of a growth cycle

Prefcor is predicting a 27% growth in turnover from R1bn in the year to June 1992, of which it says 13% of the growth will come from new stores which will not make a full contribution in 1991 Operating income, which increased by 121% last year, is predicted to grow by no less than 44% this year Detailed figures are not available until the prospectus appears on Friday — but at this stage the targets seem demanding

Rosenberg used to be a great punter for the advantages of staying unlisted, and not having to expose crucial financial information to competitors He says two things have recently changed. One is that the group has meaningful growth plans It has identified 30 sites in which to expand its Bee Gee clothing chain, it is expanding Game in the Transvaal and could triple numbers from the present 10 The furniture division could open 56 stores over the next two years on top of the present 195

"I want to finance the expansion through equity and not debt," says Rosenberg He also intends to give line management an equity stake in the business, and he does not expect them to mortgage their lives away for the privilege

Another reason for the listing, says Rosenberg, was that it gave Prefcor's foreign backers the opportunity to reduce their shareholding from 59% to less than 25% After the listing Prefcor will have cash in the bank, and scrip to offer for acquisitions

One of Prefcor's trump cards is Firstpref, a joint venture with First National Bank (FNB). Rosenberg reckons this is not a cosmetic joint finance company aimed at taking debt off the balance sheet, but a genuine sharing of risk. FNB has provided Prefcor with a R450m line of credit, with which it finances three-quarters of Prefcor's furniture book So far R150m has been used Prefcor's balance sheet still carries a quarter of the debt plus stock

FNB's Johan Meiring, now on Firstpref's board, says the profit on HP sales is split between Prefcor and FNB, with Prefcor taking the slightly larger return

"We have a medium-term financial package to finance medium-term commitments," says Rosenberg "This means we can plan the growth of our business within certain boundaries of the finance available But the arrangement has brought gearing down substantially "

FNB has the right to review the agreement after three years Prefcor has not insisted on exclusivity for this arrangement, but Meiring says it would be tailored to the requirements of credit retailers joining in such a venture Game's Prefercard is financed by a similar, though not identical, arrangement with the Perm *Stephen Cranston*

Putting your trust in property

Star 20/7/91

Money Matters
(232)
MAGNUS HEYSTEK

HAVE you ever wondered who owns all those big city buildings.

The answer is pension funds, life assurance companies, large corporations and property trusts.

Property trusts are often neglected by the average investor looking for stability and a steady flow of dividends, partly because they are a kind of hybrid, a cross between a unit trust and a quoted company on the Johannesburg Stock Exchange.

However for those, especially elderly people, looking for a high dividend income and who do not want to be buffeted by volatile stock markets, it is a good area to investigate.

While the overall return of property trusts have not matched the performance of shares on the JSE, they have outperformed other kinds of traditional investments and more importantly, the inflation rate.

Although property trusts, of which there are 17 listed on the JSE, are controlled by the Unit Trust Control Act, they differ in many respects from unit trusts.

Property trusts are closed-end companies, unlike unit trusts, in that the management companies are under no obligation to buy back units. Additional units can only be created by rights issues to existing unit-holders.

Property trusts are invested in industrial, commercial and in some cases residential properties. Unit-holders obtain an undivided share in the property portfolio of the trust and share proportionately in the income generated by the properties in the trust.

The income is paid out every six months, although there are some funds paying a dividend every three months.

It's important to remember that property trusts cannot gear their properties, unlike other kinds of property investments like property syndicates.

Property trusts also enjoy a favourable tax position for investors on low tax threshholds.

The dividends pass straight through the management company into the hands of the unit holders less the management fee, which is equivalent to 0,5 percent of the market capitalisation per annum.

The income is regarded as interest in the hands of the recipient (the unit holder). This is important to remember, as dividends paid by all other forms of companies on the JSE are tax-exempt.

In contrast to property syndicates, for instance, property trusts offer a greater degree of spread (and thus lower risk) as well as a higher degree of marketability than other kinds of property investments, making them more liquid.

There is at all times a very active secondary market for property trusts, which is an advantage.

Investors should be heartened by the fact that property trusts are tightly controlled by the authorities with regard to the type and spread of properties held in the portfolio.

This makes it a particularly safe investment.

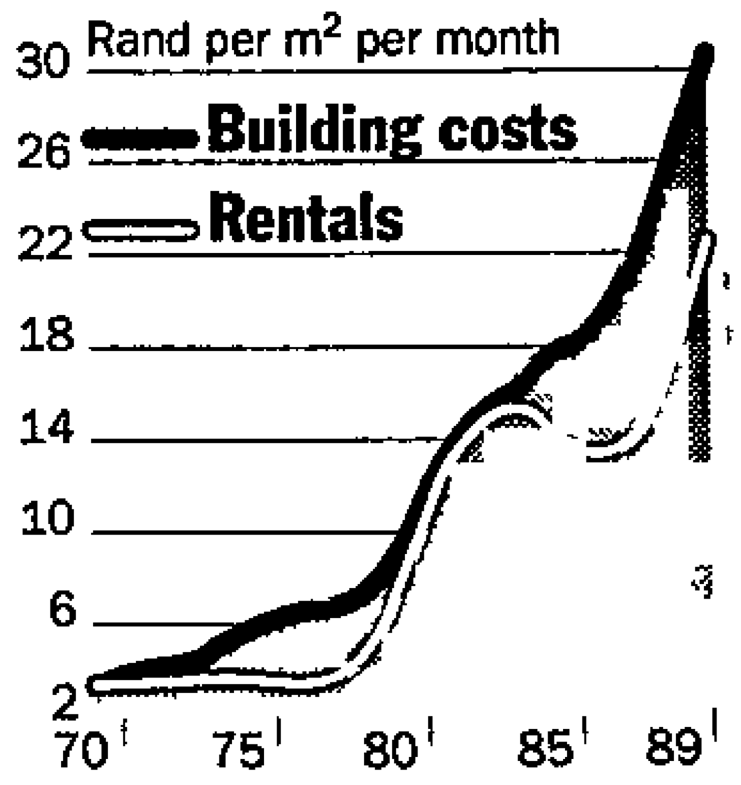
In terms of the Act, the management of each trust is governed by a trust deed in terms of which a trustee is appointed to ensure that the terms of the deed are adhered to. In most cases, the trustees tend to be banks and building societies.

The price of units, off course, is influenced by two main factors, the rentals received and the values of the properties.

Rentals are determined by several factors, the most important being the general level of economic activity in the country. In depressed times, one can expect rentals to lag behind the inflation rate. When economic activity increases, demand for office space — and hence rentals increase, sometimes at higher than the inflation rate.

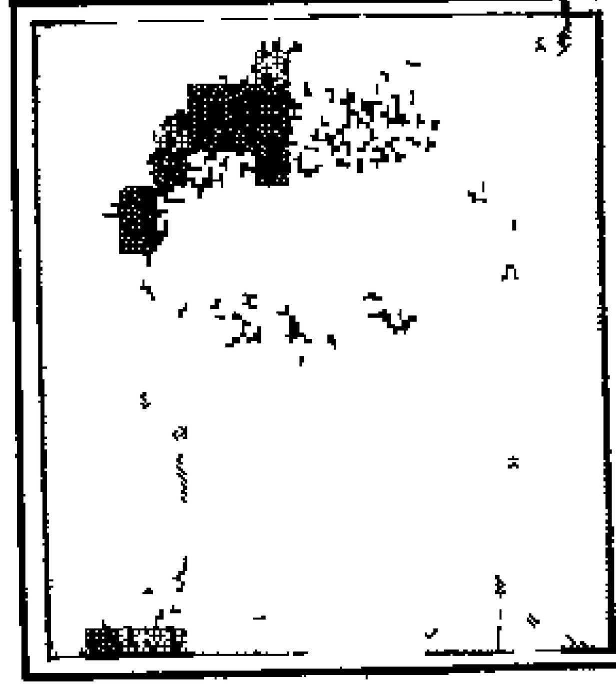
In the accompanying graph one can see the relationship between rentals and building costs. The gap between the two is slowly closing, suggesting they will eventually balance out.

● *THIS morning in the Allied World of Money at 10,53 on SABC-TV1 you can watch Young Money, a programme about the essentials of saving and budgeting from an early age*



Starting out on the Stock Exchange

Star 20/7/91



WE continue our series on the most often asked questions about investing on the JSE. The questions and answers have been supplied by ANDRE du PLESSIS, head of private clients at the stockbroking firm Ed Hern, Rudolp Inc.

Are the high returns from shares realistic?

While historical data provides convincing evidence in favour of shares, it uses market indices as a measurement basis In other words, it illustrates the significantly superior performance of shares even when they are acquired continuously and with no special effort to buy during periods of weakness rather than near the top of the market. Consequently, the astute management of a share portfolio can further enhance these returns.

But aren't shares risky?

In our notoriously volatile financial markets, investing in shares can be hazardous for those who do not have the required expertise and experience However, this need not be the case if one recognises the need for and benefits from specialist advice in what is after all a highly sophisticated complex environment.

Are you suggesting professional investment advice?

Surely it is not surprising that increasing numbers of individuals are turning to stockbrokers for advice in the management of their investments. (232)

Unless you are prepared to spend several hours per week studying the market trend and analysing the market, you simply don't have a chance as far as I'm concerned

In my experience the public becomes involved in the stock market only when the market has been rising for a long time, and by that time it's too late.

That's normally when the clever investors are taking their profits

What about unit trusts?

Unit trusts represent an excellent solution. Apart from providing long term income and capital growth, they provide investment diversification, quick encashment, as well as administrative convenience and peace of mind.

While the cost is relatively high, they are an ideal investment vehicle for many people especially those investing small sums on a monthly basis.

State pension funds will tip-toe into the markets

232

St Times (Bus Times) 21/7/91

By DAVID CARTE

STATE pension funds with assets of R40-billion and annual cash flow of more than R7-billion will tip-toe into the JSE, says Laurie Korsten, chairman of a committee investigating them.

"We are looking at funds the size of Old Mutual, which are entirely invested in government stock It will take 20 to 30 years to get the equity component up to acceptable levels."

Cord

Mr Korsten says the 440 State funds have R8-billion of cash. They will not chase share prices ever higher because that would reduce rather than enhance returns

The funds will also not be heavy sellers of government stock, thus depressing bond-market values The funds will be net buyers of government stock for many years.

The umbilical cord between the pension funds and the Cabinet will be cut. Independent trustees will oversee them and they will be run in a business-like manner

Mr Korsten says the trustees will look at benefits and contributions and report directly to members on the question of adjusting either

Recommendations for the rehabilitation of the funds were made five years ago, but because nobody knew what to do or whose responsibility they were, there has been inordinate delay. The funds have shifted between three State departments.

"But now we have the matter in hand. We were appointed only three months ago and the enabling legislation has been passed"

Mr Korsten says that if the late Andreas Wassenaar, former chairman of Sanlam and arch-critic of maladministration of State pension funds were still alive, he would applaud measures now being taken

Blame

The State funds had admitted actuarial shortfalls of R30,5-billion in March 1985. In addition, the Transnet fund has acknowledged a shortfall of more than R6-billion.

Shortly before he died, Dr Wassenaar told Business Times that he estimated the actuarial shortfall of the State and Transnet funds had grown to R42,6-billion.

He said the State's excuse that the funds were short because they had received low returns from government bonds over the years was "only half the story"

He apportioned a large part of the blame to the abnormal benefits of the funds. He was most scathing about the rule permitting public servants to buy back notional years of service on favourable terms, thus multiplying benefits

He also criticised the rule basing public servants' pensions on salary at date of retirement, and not on the average of the last two to three years' service, which is normal in the private sector. The rule enabled big promotions and pay increases in the last month of service — and a growing burden on the funds.

Fast

Buy-backs were not stopped But the terms were brought actuarially into line a few years ago. Other benefits exceed those of private-sector pension funds

To bring the funds back into the black, the State has channelled growing amounts of taxpayers' money their way In the year to October 1990 taxpayers contributed R6,6-billion to the funds

Finance Minister Barend du Plessis said in his Budget speech that SA could not afford the R1,5-billion cost of equalising black and white social pensions (for the civilian poor, not public servants). But he did steer another R1-billion to the State pension funds — so the cost to taxpayers is fast heading towards R8-billion a year.

In the private sector, employers normally contribute R1,50 for every rand from the employee. In the public sector, the employer (taxpayer) contributes R2,78 for every rand. In other words, while private sector employers contribute 12% of an employee's salary to the pension fund, the State pays 21% — a point not seized on by Opposition politicians yet.

And one that could be ignored now that Dr Wassenaar is no longer there to act as watchdog.

Cement cartel under spotlight

232

CT 22/7/91

Own Correspondent

JOHANNESBURG — The Competition Board has launched an investigation into the three-member cement cartel

Competition Board chairman Pierre Brooks confirmed that the board was to review the cartel's exemption, granted in 1988, from the Maintenance and Promotion of Competition Act.

Brooks said the board hoped the investigation would be complete by year-end

He said while there was no certainty the status quo would change, the board had decided that the circumstances surrounding the exemption had changed

The cement cartel — consisting of PPC, Anglo-Alpha and Blue Circle, represented by the SA Cement Producers' Association (Sacpa) — has been a controversial issue in the building and construction industry

Sacpa has come under fire for fuelling the rate of inflation in the construction industry and being arrogant and insensitive towards its customers.

Anglo-Alpha MD Johan Pretorius said as far as the producers understood the board had not officially stated its intention to embark on a full inquiry, "although the cartel would co-operate fully with any investigation"

The producers claim they require market stability which reduces the risk on the high capital expenditure required and allows the industry to accept a lower rate of return on investment

Sacpa argues that this results in lower prices, which is in the public interest.

But Concor Technicrete MD Peter Michau said the cartel should not consider itself unique as far as capital intensity was concerned He said there was a risk involved in putting up a steel or aluminium factory or a fertiliser plant.

"It is just a question of managing one's capital adequately rather than seeking protection," he said

A Sacpa positioning paper released on Friday claimed the cartel was in the best interests of the public

The paper pointed out that market forces kept selling prices down and that prices had been in line with the PPI and the building materials cost index despite a significant increase in plant replacement costs

Capital intensive

"The high capital intensivity of the industry was shown in the fact that an economically sized kiln cost about R500m at today's prices"

The document said that while comments were frequently made about the impact the price of cement had on the cost of a home, its research indicated that it was "surprisingly low" at 4% to 8%

It added that low-income housing had a higher cement content but was subject to vigorous competition from alternative building systems

The cartel said that in the US, anti-trust legislation has resulted in a number of adverse consequences for its cement industry

The US industry is characterised by little new investment and maintenance programmes have fallen behind

Capital market rates leap on fears of foreign sell-off

(232) CT 23/7/91

FEARS of a large scale sell-off by foreign investors in the wake of revelations about government's funding of Inkatha sent capital market rates to sharply higher levels yesterday.

Although the foreign dumping did not materialise, fresh buying dried up and rates remained high.

"The market was totally unnerved by the news and by what could still come out of the scandal," a dealer said.

Rates rocketed over 20 points with the benchmark Eskom 168 abandoning its mid-range of 16% to touch a high of 16,23% from its 16,02% close on Friday. It finished at 16,21%.

Government stock took an even bigger battering as some selling from Pretoria in the morning left the stock in an over-liquid position. Its RSA 150 stock climbed 26 points to 16,61%, its highest level since early Novemebr last year.

Indications had surfaced before the scandal erupted that foreign investment euphoria was subsiding and the latest news was compounding this.

Foreigners have been facing declining yields in the past few months as the discount between the financial and commercial rand narrows and local rates decline.

Another factor causing nervousness in the market was CPI data due for release today. If inflation, at 15,2% for May, showed an increase market rates could be expected to climb further.

However a drop to below 15% wasn't likely to have too significant an effect on rates because of generally poor sentiment

The scandal also rocked the financial rand market as the foreign investment unit fell back to R3,21 to the dollar from Friday's R3,18. However, dealers expected the move to be temporary.

● Meanwhile, the JSE drifted slightly lower in thin and nervous trading yesterday.

The JSE All-Gold Index ended the day lower at 1 410 versus Friday's 11433 close while the Industrial Index slipped slightly to 4 041 from Friday's record high 4 047 finish.

The All-Share index slipped back to 3 523 from Friday's record 3 541.

Among gold shares, Vaal Reefs lost R5 at 237 and Driefontein 50c easier at R44 despite relatively steady world bullion prices.

Diamonds had De Beers down 25c at R89 while mining financial leader Anglos shed R2,25 at 122 — Own Correspondent and Reuter

Premier share price runs ahead of forecast increase in earnings

(232)

By Derek Tommey

Star 23/7/91

Shares in Premier, one of SA's two major food producers, have risen more than 26 percent in the past two months

But those who have been buying the shares must be taking a fairly long-term view because the rise is far above the expected increase in earnings in the current year

Group chairman Peter Wrighton told the Investment Analysts Society in Johannesburg yesterday that times were difficult and the consumer was struggling

He expected earnings to rise by 10 to 15 percent in the current year, provided the economy did not deteriorate further

In the year to March Premier's attributable earnings rose 26 percent and earnings on the enlarged share capital grew by 17 percent

He said Premier had not caused price inflation in food The company was very worried about a claim to this effect and had invited representatives of the Housewives' League, the Consumer Council and of other consumer bodies to a meeting next week to discuss the matter

Norman Fowler, chairman of Premier Food Industries, told the analysts that in the year to March the overall price of a basket of Premier's food products rose had risen by 13,5 percent, against 10,8 percent previously

"I don't think we are contributing to inflation in the way people are talking about," he said

He said that it was not possible to compare increases in wholesale price indices (producer price indices) and retail price indices

The wholesale price index for flour was based on the bulk price, the retail price index was based on a small package and included the cost of packaging and transport — two items that had increased in price

Mr Fowler said there was also uncertainty about whether the consumer price indices were based on the prices charged by the OK, Pick 'n Pay or the corner cafe

Mr Wrighton said that the introduction of VAT later this year was expected to affect Premier's food sales because it would apply to all foods except brown bread and maize meal

He said consumers were under pressure. The Government had said it would provide R220 million in poor aid for half a year

Presumably it would be spent in the basic staples areas because that was how you helped the poor There might be some compensation in that, he said

Gordon Utian, the deputy chairman, said the acquisition of Metro would not result in any dilution of Premier's earnings this year

Metro should make a contribution to earnings next year and a substantial contribution in the third year, he said

Premier is to change its year-end from March to April. This is being done so that the Metro accounts are comparable

US futures firms interested in SA stake

ROBERT GENTLE

TWO US securities firms have expressed interest in taking a shareholding in local firm National Futures & Options (NFO) with a view to establishing a trading presence here.

NFO MD Brett Stacey said the inquiries, purely of an exploratory nature, had been received in the last month. He would not divulge the names of the firms

"Informal discussions have taken place but nothing further has materialised at this stage."

He said any interest shown by outside firms in the local futures market could only enhance its standing, and lead to higher liquidity and volumes.

"This is the most likely route overseas securities firms will take to set up a trading presence here," said Stacey. "Setting up an independent outfit without local expertise would be much more difficult."

First Financial Futures MD, Derek Kreunen, said he would welcome any tie-up with an offshore securities house. He said he continued to receive inquiries from overseas investors interested in trading on the SA Futures Exchange (Safex)

Safex CE Stuart Rees said the exchange had no problem with a foreign shareholder taking a stake in an SA-registered futures broking firm There was no limit on the size of the stake

Rees said Safex had previously received inquiries from overseas securities houses interested in offshore membership of the exchange — including one from Australia.

"We have told overseas firms that our rules do not yet cater for offshore membership, and that at this stage, a stake in an SA-registered broker was a better alternative"

There are foreign securities houses with agency agreements with local futures broking firms, although no shareholdings are involved

Last week, Greenwich Futures & Options concluded an agency agreement with London Metals Exchange member Billiton-Enthoven. London commodity broker Rudolf Wolff has a long-standing agency agreement with local firm Holcom Futures.

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Shares expected to climb

SEAN VAN ZYL

DESPITE views that the JSE is fully priced, brokers expect shares to climb even further once the Financial Services Board (FSB) increases the present equity investment allowances for pension and life funds.

Some brokers expect about R50m in new money — once the long-awaited changes to the prudential investment guidelines are published next month — to chase already scarce blue chip industrials

They said the present shortage of blue chip scrip could benefit mining and second-line industrials which, based on yields, were trading at bargain levels.

Brokers did not expect an immediate flood of institutional money to be withdrawn from the capital market and reinvested in equities when the new investment guidelines became official

JSE president Tony Norton said the expected investment guidelines changes could only benefit share prices He, too, did not foresee a flood of funds to the market short-term.

Frankel, Max Pollak & Vinderine's head of research Peter Davey said fund managers would be cautious about increasing equity exposure

Martin & Co's head of research Richard Jesse said blue chip companies could take advantage of the shortage of quality scrip and a number of rights issues had been announced for later this year.

Foreigners 'will push JSE to open'

BDay 24/1/91 (232)

ROBERT GENTLE

THE likelihood of foreign participation in local financial markets by US, UK and Japanese securities firms would increase pressure on the JSE to open itself to outside shareholders, market sources said yesterday.

They were reacting to news that Japanese securities house Yamaichi would soon be visiting SA and that two US securities firms had expressed an interest in building a stake in a local futures broker

The rationale for their view was that while foreign securities firms could establish a trading presence via shareholdings in local futures and bond broking firms, they were not allowed to do so with JSE brokers.

First Financial Futures MD Derek Kreunen said foreign participation would increase pressure on the JSE for change and would highlight even more the structural anomalies of the SA financial markets.

Foreign participation would make local markets more liquid and robust, and this might make authorities less likely to resist calls for change.

Finansbank deputy GM Luigi Colantoni said foreign securities firms might decide to gain exposure to the equity market by bypassing the JSE and acting as screen-based market-makers in key stocks.

Local dealers said foreign participants would not necessarily have an easy ride in SA markets — at least not initially. This was because of its peculiar quirks like low liquidity, high trading costs and a lack of divergent market views

Mining boards bear the brunt of fall

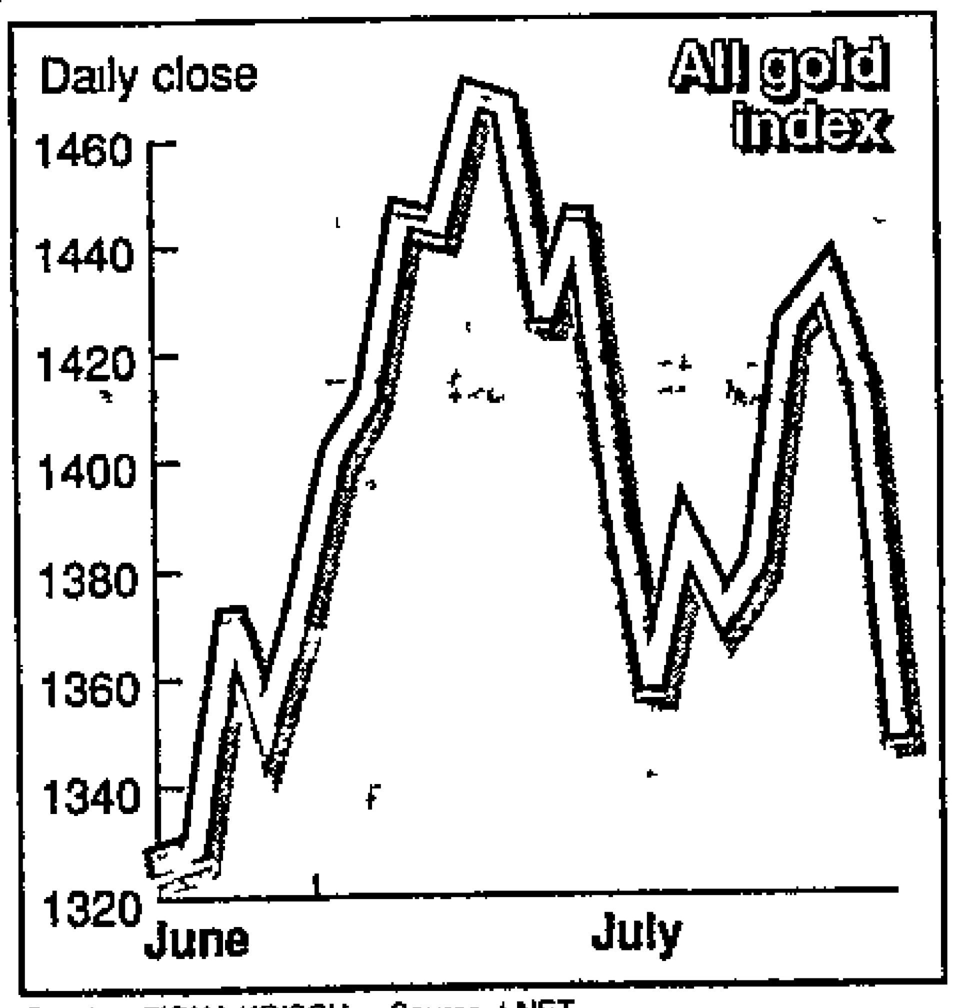
MERVYN HARRIS (232)

DIAGONAL Street was under renewed pressure yesterday as a lower gold price weighed on share prices after market sentiment had already been cooled by the slush fund political scandal

The combination of the two factors sent the JSE overall index down 2% or 71 points to 3 453, with the sapping of confidence reflected in losses outnumbering gains by 140 to 24 B/Day 24/7/91

The mining boards took the brunt of the fall The all gold index tumbled 4,4% or 62 points to 1 348, compared with the industrial index which fell 1,4% or 61 points to 3 981 — indicating the market was becoming more concerned over the direction of

☐ To Page 2



Graphic FIONA KRISCH Source I NET

Mining B/Day 24/7/91.

(232)

☐ From Page 1

gold than the political crisis

Analysts said that, in spite of the Inkatha funding row, government and the ANC had little option but to talk to each other

Most observers believed the current downtrend from recent highs would be more of a consolidation of share prices than any sustained downward correction

Trading on the JSE yesterday was slow and volumes thin in a similar pattern to other global stock markets where turnovers have declined to their lowest levels in weeks or, in some cases, in years

Gold closed $2 lower in London at $367,75, but was above Asian lows after Monday's overnight sell-off in New York

The market had opened firmer on demand from Middle East buyers operating out of London, but when this dried up, prices drifted lower with losses in an active silver market in New York contributing to the softer trend

Opinion is divided among analysts over the future direction of gold A Zurich dealer quoted by Reuter said he doubted whether the market had sufficient momentum on the downside to overcome heavy physical demand and test support at $365

But other traders said the market's underlying frustration with the inability of gold to break above $372 could result in the metal falling further

JSE nose-dives as foreigners ditch shares

Star 24/7/91

By Magnus Heystek
Finance Editor

232

A wave of foreign selling hit the Johannesburg Stock Exchange in a belated reaction to the Inkatha secret funding scandal yesterday

Even a sharp drop in the financial rand, from R3,17 to R3,22 to the US dollar, could not help to stem the tide and the overall market dropped by 71 points, or more than two percent, to 3 453

The reaction in the gold share market was even worse The index dropped by 63 points to 1 347, down 4,5 percent

However, no heavy selling was evident and the market turnover was R78 million, which is low when compared with trading volumes in recent weeks.

Disenchanted

Gold shares have shed 5,9 percent since Friday as investors have become disenchanted with the unimpressive behaviour of the price of the metal

The sell-off in gold shares was surprising, considering that gold dropped by only $2 an ounce to an afternoon fix of $367,40 an ounce.

However, the failure of the gold price to penetrate the $370 an ounce level decisively after numerous attempts in recent weeks, has greatly disillusioned investors in a nervous market

Gold shares have been discounting a much higher gold price and without any firming in the bullion price, further declines can be expected

Industrial shares, hit by a combination of political uncertainty and forecasts of weak earnings growth in the next year, declined by 61 points to 3981.

Alan McConnachie, analyst at stockbroking firm Ed Hern, Rudolph, said "For weeks the market has been looking for a reason to come down, as most commentators were unanimous that the market was too high

"The political turbulence created by the Inkatha-funding scandal proved to be the catalyst This could be the start of a major correction"

According to Mr McConnachie the spurt in the industrial shares in recent weeks has been overdone At current levels industrial shares have been discounting at least two years of earnings growth in excess of 30 percent

Monday's earnings forecast by the Premier Group, which indicated earnings growth of not much more than 15 percent in the current financial year, caught many investors by surprise

The dismal results of AECI, which reported a drop in earnings of more than 50 percent, also shocked the market

Eexpensive

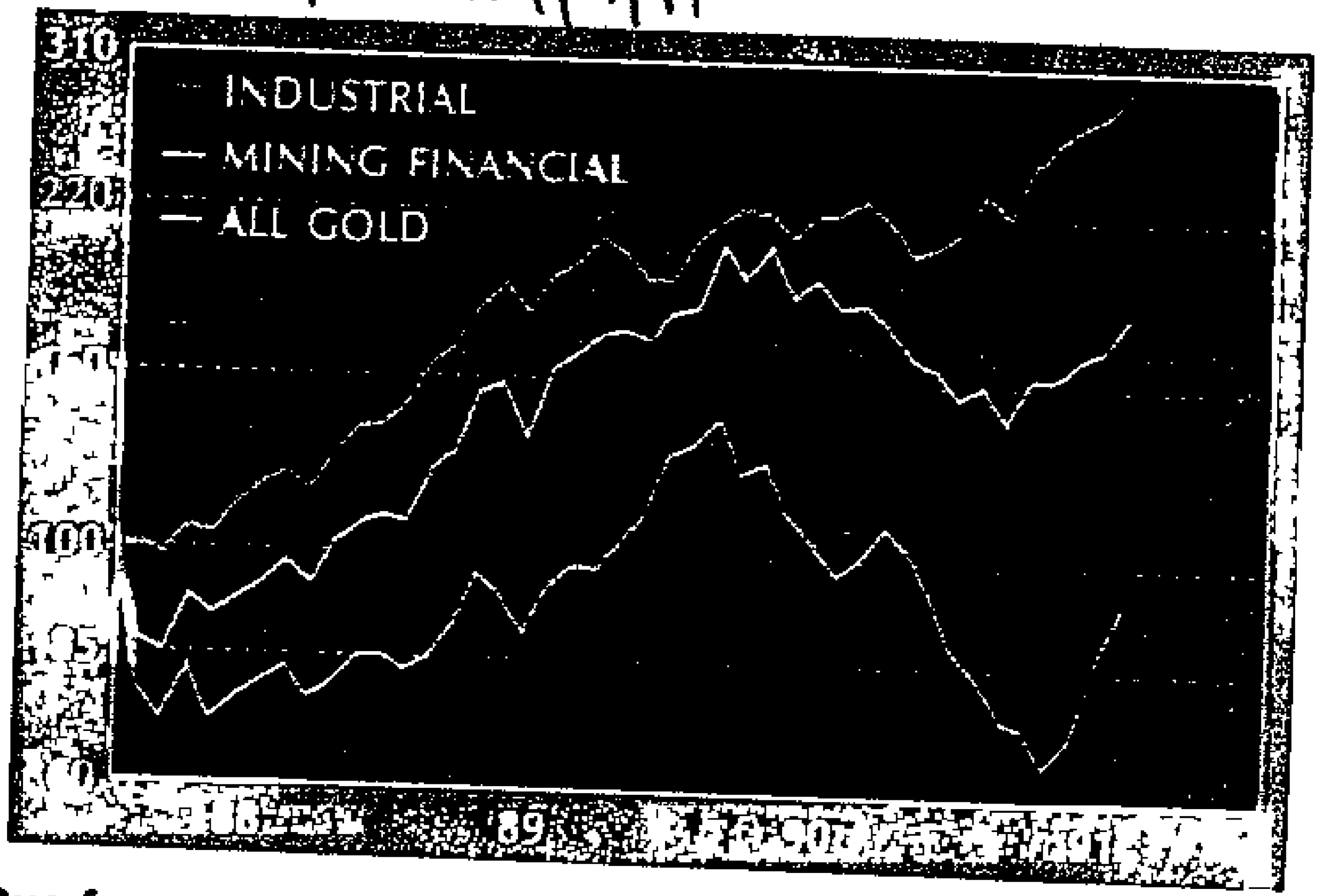
According to one analyst, this has taken the wind out of the sails of optimistic investors, who only last week were still confident of a solid performance from AECI.

"Industrial shares now suddenly look expensive," said David Meades of Meades and De Klerk

"The boom in industrial shares has been buoyed by the relative strength of the gold share market Any weakness in the gold share market will invariably exacerbate the expected correction in the industrial market"

The average dividend yield on industrial shares on the JSE has dropped to below three percent in recent weeks Only twice before has this happened — in May 1969 and in October 1987

This fact has further alarmed analysts who have been nervous about current market levels



Due for a correction? . . . the stock market has been rising strongly for months now, with both the overall and the industrial indices setting record levels. Analysts suggest yesterday's drop could herald the expected correction.

Unit trusts draw R14-m a week

Finance Staff

Old Mutual's five unit trusts attracted more than 47 000 new unitholders in the financial year to end-June

Releasing the annual results yesterday, assistant general manager Bastiaan van der Westhuizen said "Nearly R14 million is invested in unit trusts every week and a third of the money invested in the industry flows into our funds"

Old Mutual's Investors Fund, with assets of more than R2,76 billion, remained the major fund for investors with more than 270 000 opting for this general fund

Top performer was the Industrial Fund with a 43 percent return in the past 12 months

More than 9 500 unit holders invested in the fund and the total inflow of R41,9 million in the past 12 months was the largest among the specialist funds

Total value of the fund at the year-end was R69,8 million

IN BUSINESS

Business reporter Ali Mphaki with Mr Sheiks Makhado with the centre in the background.

Makhado's dream

Sowetan 25/7/91 232

By ALI MPHAKI

THERE is a distinct nostalgic fondness in Mr Sheiks Makhado's voice as he speaks about the soon-to-be-ready first-phase of the R7 million National African Federated Chamber of Commerce and Industry Management Leadership and Development Centre in Soshanguve.

Makhado, Nafcoc's education officer, sees the centre as a culmination of Nafcoc's dream of redressing the existing imbalances of skills between blacks and whites in the country.

It is also, Makhado explains, a move in line with Nafcoc's resolutions taken at their 6th summit conference in Venda last October

The summit strongly advocated far-reaching measures toward restructuring the formal economic sector in terms of black economic involvement in ownership, management and operational activities of the formal sector.

Among the resolutions adopted was that all companies listed on the Johannesburg Stock Exchange should have at least 30 percent of their board members from the black community, at least 40 percent of their total shareholding must be controlled blacks; and at least 60 percent of their top managerial and personnel must come from the black community

"At the moment blacks represent about four percent of management in South Africa. If by the year 2000 whites might be 10 percent of the population, how then do we expect to survive if our economy is hoisted by 10 percent of skills?

"Even when the ANC or PAC or Azapo comes into power, these organisations will not have the resources to sustain that freedom if we do not start investing on human capital now. We need to increase the capacity of growth by increasing the skills base," Makhado said.

The initial idea of this centre came around 1987 but due to problems of consultancy, construction was delayed. At the time, cost of the centre was estimated at R3 million

It has 20 working rooms which can accommodate 10 people each, four lecture rooms with a capacity to hold 35 people each and an auditorium which can accommodate about 150 people

Apart from servicing Nafcoc's own sectors, Makhado said, the centre would be open to the public. There will also be a library, whose books will be more economically inclined.

The centre will offer multi-dimensional courses. Firstly those at basic level on management - a critical aspect as more than 60 percent of black businessmen are illiterate - computer programming, an executive secretarial course, middle management courses and post-graduate studies.

Second phase of the centre will be residential, to facilitate the use of the centre for even people who are from far and would normally experience accommodation problems

Makhado said the centre would be opened in two months

off

"We feel our own black business people must not wait before the final uhuru to start making contacts and connections with other businessmen," Ramoshaba said

Ramoshaba, whose business premises have

UNIT TRUSTS

GENERAL EQUITY FUNDS

	Buyers	Sellers	Yield

COMPANIES

Unit trusts' market value now R9,6bn

Bday 25/7/91 (232)

LINDA ENSOR

CAPE TOWN — The total market value of all 38 unit trusts stood at R9,6bn at the end of June, a survey of the industry shows

The total assets of the general equity unit trusts increased by R1,043bn (15,65%) to R7,71bn in the quarter to end-June — the highest rand-value increase yet

The survey, compiled by Hugo Lambrechts of the Graduate School of Management, University of Pretoria, shows that the rand value of the general and specialist equity funds' total assets rose by R1,25bn, also the largest increase in their history

The total assets for specialist equity funds, which had an outstanding quarter, increased by 17,8% to R1,37bn, while their average liquidity fell 4% to 17,42%.

The total market value of the income and gilt funds rose 9,55% to R554m

The weighted average total rate of return of the general equity funds was about 12,8%, with 16 of the 19 general funds achieving double-figure rates of return The two gold funds achieved rates of return of between 20%-30%

According to the survey, average liquidity levels of the general funds dropped by a further 4% to 16,36% during the quarter

'Go-ahead for rights issue'

B Day 25/7/91 (232)

SEAN VAN ZYL

THE successful placing of 10-million Metropolitan Life shares by Sankorp with various financial institutions signalled the go-ahead for the insurance company's R190m rights issue, brokers said.

Metropolitan yesterday released the finer details of its 22-million share rights issue, pitched at 850c to raise approximately R190m.

It said the new shares were being made available at a "substantial discount" to the ruling price of 1 000c. The issue, based on 50 new shares for every 100 held by the close of business on August 2, would be underwritten by Sankorp which recently lowered its stake in Metropolitan via a private placing of shares.

Metropolitan, in its monthly newsletter said while the new shares would "rank equally" with the existing ordinary shares in issue, the former would not qualify for the special interim dividend of 18c a share declared on June 28 The special dividend on existing ordinary shares would be paid to shareholders registered by August 2

Analysts suggested the Sankorp placement was pitched at a discount to encourage buyers to take up additional shares through the rights issue.

Metropolitan's newsletter said 1-million Sankorp shares had been offered to Metropolitan shareholders at 950c — at a minimum subscription of 100 shares each.

Metropolitan directors said the primary reason for the Sankorp placement and the rights issue was to broaden the shareholding base and marketability of the share.

"The decision . . arose primarily ... to address the issue often raised by institutional investors that there was little point in them acquiring an interest in Metropolitan because of the limited number of shares available for trading on the JSE."

While analysts conceded that this was "part of the reason", they suggested Metropolitan was also showing the strain of funding new business growth. Metropolitan's new business growth in the 1990 financial year was about 26%, MD Marius Smith said yesterday. However, he added that the company was not experiencing any financial problems funding the new business.

Metropolitan chairman Willem Pretorius said in the company's July newsletter that the new capital raised would be ploughed into Metropolitan's investment fund pool

Star 25/7/91 (232)

JSE untouched by changes of '80s

Shares on the Johannesburg Stock Exchange have moved ahead strongly this year, helped in large measure by increasing foreign interest as the country gets to grips with international political rehabilitation

But, as many newcomers are discovering, the JSE is untouched by the changes which swept through most of the developed financial world in the 1980s

The debate about whether the JSE should have its own Big Bang is fierce The issue is being examined by the Financial Markets Advisory Board (FMAB), which is expected to make recommendations within two months

In its present structure, the JSE has three significant restrictions

- Brokers must act in a single capacity (as agents, not principals)
- Commissions are fixed
- Members have to accept unlimited liability, which excludes corporate membership.

Opponents of the status quo would like to see some, if not all, of these restrictions go

At the forefront of those opposing a Big Bang is Tony Norton, the JSE's president The balance of opinion on FMAB is understood to be against him

If Mr Norton has a trump card it probably lies in the political arena

South Africa, by common consent, has an unhealthy amount of economic concentration

Any move which accentuates this would be political dynamite, and few dispute that the capital required to run a dual-capacity market would inevitably come from those already considered too powerful

Controls

On the merits of the argument, Mr Norton says there is no international model for a good exchange He also adds "We're not an international market We're a country with exchange controls"

The balance of institutional opinion in South Africa is against dual capacity, but most would like negotiated commissions, especially on large orders

Roy McAlpine, of Liberty Asset Management, says "The ability to compete on price is a fundamental of the capitalist system"

The Competition Board, a statutory authority, has recommended that the rules should be deregulated to allow for a system of negotiated tariffs

One constituency seen to favour deregulation is the retail banks' pursuit of their ambition of offering a "one-stop" financial services package

But there are doubts as to whether the market justifies the effort

Alan McConnochie, banking analyst at stockbrokers Ed Hern Rudolph, says the 15 largest firms on the market make after-tax profits of about R30 million a year

He doubts whether this is large enough to justify the risks of big banks getting involved in unlimited liability business

An argument made in favour of a Big Bang is that the local bond market and futures exchange run without the restrictions that apply to the JSE

Mr Norton's reply is that the bond market is a trend market, dominated by professionals, that is easily surveyed.

The futures market, like the JSE, is volatile and illiquid and Mr Norton argues that single capacity is more appropriate in these circumstances for curbing conflicts of interest

Whatever reforms are eventually visited upon the JSE, urgent attention is needed to improve liquidity

Turnover at little more than four percent of market capitalisation compares poorly with 40 to 80 percent of most developed stock markets

There is a lack of good new companies coming to the market

Mr McAlpine says "A blue chip portfolio today comprises basically the same shares as 20 years ago"

Scrambling

At present the realisation of shares held for more than 10 years is tax free Mr Norton believes this should be reduced to two years.

South Africans dream of foreigners scrambling to get a bit of the local action

Should this happen, then the full force of international competition will blow through those restrictive practices which remain. — Financial Times.

Prefhold draws mixed reactions

B/Day 26/7/91 (232)

MARCIA KLEIN

PREFCOR Holdings (Prefhold), the largest new flotation on the JSE this year, has received mixed reactions from stockmarket analysts.

Prefhold, which includes the Beares furniture group, Game Discount World stores and the Clobea clothing division, is to be listed on August 21 after a R263m share offer.

After meeting directors this week, analysts said Prefhold's "big plus was Firstpref", a joint venture with First National Bank.

In terms of this arrangement some of Prefhold's debtor risk is shared with the bank. Prefhold also allows fully for deferred tax

But there were reservations about the sector in which the group was listing, the turnover and operating income growth forecast in the group's prospectus, and the fact that the group would have to pay 25% interest on debentures in 1996.

Prefcor is to be listed in the retailers' and wholesalers' sector although about 90% of its operating income is derived from furniture interests within the Beares group

Directors pointed out that if appliances and other non-furniture merchandise sold by Beares were excluded, its contribution fell to 48%

Analysts said the shares would be better rated in the retail and wholesale sector At the issue price of 500c, Prefhold was on a forward PE of 4,6 — considered cheap in terms of the retail sector but not the furniture sector. However, Game "could be a big winner", and retail operations could increase its contribution to group operating profits in the future

Analysts believe the huge sales growth and massive expansion in financial 1992, forecast in the group's prospectus, will be difficult to achieve. The pro forma income statement forecast turnover growth of 27% to R1,27bn in the year to end-June 1992 Operating income would increase 44,5% to R167m and attributable income 14,6% to R42,2m

Significant growth was forecast in all divisions, and directors said the group was well ahead of budget. An analyst said strong growth was possible in the Game division, and opening new stores would help increase turnover, but he felt that forecasts might have been "a bit optimistic"

The issue of convertible debentures, with interest opening at 12% and rising 2,5% a year until it reached 25%, offered a good return. But an analyst said it might be "quite a task to fund the interest at 25% in five years' time"

The share offer closes on August 9.

FM 26|7|91 (232)

PREFCOR FM 26|7|91

SMALL HELPING (232)

Prefcor is not taking any chances with its listing on August 21 The issue will be worth R263m, but just R9m worth of securities will be available to the public Of the rest, R12m worth will be taken by the share incentive scheme, a further R12m worth will be offered to suppliers and business associates and R230m will be taken by institutions in private placings

Financial director Bernard Gatter says the full amount of the private placing has been taken up No single institution has taken a dominant share, but "a number have taken R30m to R40m"

Securities are being offered in the ratio of one ordinary share to two convertible debentures They are linked only for the purpose of subscription, after listing they will trade separately Debentures will offer an initial interest rate of 12%, rising by 2,5% a year to a maximum 25% over five years Debenture interest payments will virtually double the interest bill and reduce interest cover from 2,7 to two

Certain features have attracted attention One is that the company is essentially a furniture retailer, 90% of turnover is accounted for by furniture and appliances, a far higher proportion than that of, say, Amrel (64%) Yet it will list in the retail and wholesale sector, which on average enjoys a far higher rating than the furniture sector

At R5, Prefcor will be trading on an historical p e of 7,4 and offer a dividend yield of 3,8% This is the same yield as Ellerines' — a company with no gearing and 40 years of successful trading behind it

Moreover, the pro forma EPS of 67,7c (for the year to June 1991) assumes the net proceeds of the listing of R126m had been invested throughout the year and generated an after-tax return of 13% Prefcor is also assuming its operating margin will increase from 11,5% to 13% — a tall order

But there is some positive feeling One analyst (not from the sponsoring brokers) says the debenture will be particularly attractive, especially to tax neutral institutions such as pension funds, and should trade at a premium of about R1,60 over the ordinary share price

Even so, investors would essentially be paying for their faith in the management and the goodwill attached to the Beares, Game and Bee Gee names Prefhold, the new holding company, will buy Prefcor from its existing shareholders, R172m is for goodwill and R195m for trademarks, with just R121m for the tangible assets

The group has significant financial backing in the form of the FirstPref arrangement (*FM* July 19), but furniture industry sources do not believe it is materially different from off-balance sheet arrangements such as Amretfin Prefcor chairman Terry Rosenberg is the former MD of Arthur Andersen He will probably steer the group away from chasing turnover Rusfurn-style Prefcor looks expensive and, with less than 2% of shares in public hands, could lack tradeability But with declining interest rates it could be worth holding for the debenture income alone

Stephen Cranston

NOT PRICEY BY WORLD STANDARDS

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Johannes van der Horst is GM Investments at Old Mutual

FM 26/7/91

***FM:* To what extent has foreign buying helped to push up prices on the JSE?**

Van der Horst: The interest being displayed in SA by foreign investors is surprisingly large — something that was unthinkable a year ago We are being visited by numerous foreigners, including some Japanese, all of whom are seeking information about SA conditions

There has been some concentrated buying in certain shares which, it seems, are being marked up almost indiscriminately for no apparent reason These are the blue chips which are now on relatively high multiples and are appearing over-bought But buying has not been broad The rise in prices smacks of overseas buying which is insensitive to price and which is directed at about half a dozen "blue chips" It only needs one or two buyers determined to invest R20m into the market today to influence prices of even our most marketable securities

At what point will prices represent poor value for overseas and local investors?

A snapshot of the industrial market shows average earnings multiples of more than 12 and a dividend yield of less than 3% Taking averages over the past 10 years, including the bombed out markets of 1982 and 1987, the market is certainly looking pricey in terms of its own history

But the index is composed of stocks weighted by market capitalisation and consists of a few big stocks in each category In saying that the market looks pricey is a reflection of these big-cap stocks — the ones that have been chased Dozens of second-tier stocks have not really moved and, at current prices, are not expensive

How does our market look relative to the international markets?

It is relatively expensive compared to the UK, which is reflecting the nasty recession there But by world standards we are about average and not expensive Many other markets — Germany, Switzerland and some of the recovering countries in the world — are on lower yields than ours

Why should foreigners invest in SA shares, in a potentially volatile market with a high risk profile? There are far safer havens offering better value.

Many international investors are playing in markets like Mexico, Chile, Thailand and India They are prepared to back investments in these places, even in Australia which has got itself into a lot of debt trouble, because on a relative value basis, the risks don't seem so bad

Most of these investors have, say, 90% of their assets in secure situations They are prepared to play with the other 10% in higher risk areas to maximise returns on that 10% SA has cleaned up its balance sheet by eliminating a lot of debt and we have been growing at the same time If you compare us with other Third-World countries — some of which have stock markets — and you relate the size of our debt burden to GNP compared with theirs, then on that analysis we are beginning to look very good

How important is the marketability of a share to a big institution?

Many of these second-tier stocks are not readily marketable in bigger lines But I don't mind owning an illiquid stock, provided I have confidence that profitability will hold up and that it represented good value when it was bought By implication, these stocks have more generous yields and lower multiples that indicate bigger downside risk Admittedly, if profits decline, then you are vulnerable because if you move the stock out the price could adjust in a free fall

This emphasises the basic point that you need to do a lot of homework before buying a share If you have large holdings of shares, you cannot readily change your position, even in the blue chips, without influencing the price

In these circumstances, how do you invest your large daily cash inflows?

Investing is a game that deals with relatives We are always driven by the need to invest, it then becomes a question of preference Would the people I represent be better served by holding cash, or by putting it into something else? Do you stay in the market, or out of the market? A few years ago, value in the market was easy to find Now you have to work hard to find it

How do you view the fundamental SA economic situation from the aspect of equity investment?

In the Eighties we suffered two very painful V-shaped recessions, in which private consumption expenditure just collapsed. We have now had a prolonged recession for the better part of two years, but it has been saucer shaped Company results on the mining and the manufacturing side have been poor But the consumer side, involving durables, semi-durables and food has, on the whole, held up well So it has been a very different recession Perhaps now the consumer is pulling in his belt, but it is almost a tail-end thing

This has been an inventory recession Retailers have run down stocks even while sales at the tills maintained momentum, hence the good results from some major retailers Inventories are low, so it should be expected the manufacturing sector will shortly start to pick up again, to bolster these

We reckon interest rates are in the down phase of the cycle, and are not nearly as pessimistic as the consensus view Exports should fare well Japan and Germany are pulling back, but off a very high rate of growth So there is still respectable growth occurring in the major economies It is not unrealistic for SA to resume real growth of 2,5%-3% and to sustain it for a few years

Our ability to finance this is good and will improve if we can again draw from the IMF. Company balance sheets are more sound than in 1985/1986 We are in a bottoming period and will see an improvement in earnings growth The stock market is telling me that scarcity of scrip is forcing investors to look further ahead than six to nine months It is just discounting this growth further ahead If it comes through, then those companies that look so expensive today will look considerably better value

Say, I want to be an owner of these shares three years out If I want to buy them a year from now, they could be even more expensive This comes back to the point of relative value It is elementary in principle, but very difficult to put into practice

State pension funds are soon to invest in equities for the first time. How will this affect the market?

These pension funds are very large players They are measured in tens of billions of rands They are not likely to try to channel all their available funds and their very large cash flows into the market at once It's probable there will be a phasing in period of 10 to 15 years But their entrance will certainly add to the scarcity value of acceptable real estate and equities

Gerald Hirshon

MARKET RATINGS

Dividend yields (%)*

New Zealand	7,8
Australia	5,2
Belgium	5,1
UK	5,0
Hong Kong	5,0
Netherlands	4,3
Spain	4,3
Ireland	3,7
France	3,7
Canada	3,4
SA	3,3
Italy	3,2
USA	3,2
Finland	2,9
Malaysia	2,6
Sweden	2,4
Germany	2,3
Switzerland	2,2
Singapore	2,1
Austria	1,7
Norway	1,6
Mexico	1,6
Denmark	1,5
Japan	0,7

* At July 2 Source Old Mutual

Fenix agrees to buy Lansdowne Textile for R12m

(232) B/Day 27/7/91

LESLEY LAMBERT

FENIX Industries, formerly Retco, has reached agreement in principle to buy the business and associated interests of provisionally liquidated Lansdowne Textile Industries for R12m

Lansdowne Textile Industries is SA's largest independent industrial commission dyer and finisher

The proposed transaction will be finalised within four weeks and effective from July 19. Felix's listing on the JSE will change from the property to the clothing, footwear and textiles sector.

Meanwhile, shareholders in Fenix and holding company Abbey are advised to be cautious in their dealings.

The transaction will be settled in cash and the issue of no more than one million Fenix ordinary shares of no par value.

In terms of the agreement, Fenix, or its nominee, will be entitled to propose a scheme of arrangement between Lansdowne Textile Industries and its creditors.

The transaction will alter a recent plan by Fenix to reduce its capital by R19,8m It was going to do so by distributing a portion (135c) in cash and the remaining 45c in the form of shares held in the Debonair Group However the cash component will be reduced

Details of the amended capital reduction plan will be announced shortly and the deadline for registration for the capital reduction will be deferred by about one month.

Rival exchanges may be permitted

Plan for JSE deregulation next year

(232)

B/Day 29/7/91

ROBERT GENTLE

THE Financial Services Board is to recommend to government the ending of stockbrokers' exclusive right to JSE membership, the scrapping of fixed commissions and the start of dual capacity trading in equities.

The board, which has been examining the future of the SA financial markets, will seek to achieve these changes during the 1992 parliamentary session through the amendment of the Stock Exchanges Control Act

These disclosures were made at the weekend by board CEO Piet Badenhorst during an interview on possible changes to the JSE in the light of increased interest in the SA financial markets by overseas securities firms

● BADENHORST

Welcoming the capital, expertise and increased liquidity such foreign firms could bring, he said the amended legislation could see legal persons being licensed as an exchange to compete with the JSE

This would mean that banks and corporations could approach the regulatory authorities for permission to start a rival stock exchange

Badenhorst said that after consultation with the JSE and the Financial Markets Advisory Board, he had decided to recommend to government that it "amend the existing Stock Exchanges Control Act with a view to deleting those provisions that may be perceived to limit competition"

These provisions, Badenhorts said, applied to fixed commissions, single capacity trading (in which stockbrokers are allowed to act only as agent, not principal) and limitation of membership to natural persons (individuals)

"The consequence of this will be that the legislation for controlling the activities of stock exchanges will be neutral legislation Aspects dealing with the capacity to trade and the remuneration of members will be have to be addressed by the rules of a specific financial market," he said

These rules would be compiled by the members and approved by the authorities with respect to issues as price integrity and security, he added

At present it was "prohibited and an offence" for listed equities to be traded off market, Badenhorst said, alluding to remarks by a merchant banker last week that foreign securities firms might choose to by-pass the JSE and set up a screen-based market in key stocks if they were denied exchange membership

The local market suffered from low liquidity, low volumes and high operating costs, he said Increased involvement by foreign securities firms would alleviate some of these constraints and would "obviously be in the interests of our markets"

However, he did not share the view that

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JSE

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(232)

☐ From Page 1

competitive distortions would arise if foreign firms were allowed to take shareholdings in non-JSE futures and gilts broking firms, but not in JSE broking firms

This view, expressed last week by futures brokers, is based on the observation that futures, bonds and equities are part of a financial market triad, and that exclusion from one leg of that triad — in this case equities — necessarily creates competitive imbalances

Officials from the JSE could not be reached for comment at the weekend However, JSE president Tony Norton, in an interview last week, said corporations and non-residents were not allowed membership of the JSE, which was only open to private individual SA citizens

While the JSE welcomed the interest shown by foreign securities firms and the positive effects it could bring, he said the JSE had no plans to amend its rules to allow them to take up shareholdings in its broking firms

Banks scrutinise moves over JSE

(232)

BI 5003

30/7/91

ROBERT GENTLE

BANKERS are poised to exploit the legislative door opened by Pretoria at the weekend and are considering what role they could play in an open share market without barriers to entry or membership restrictions.

This emerged yesterday following moves by Financial Services Board head Piet Badenhorst to propose to government the amendment of the Stock Exchanges Control Act to produce a competitively neutral playing field.

"We will now be studying developments very carefully," said Rand Merchant Bank (RMB) MD Laurie Dippenaar, who like most people canvassed yesterday was surprised at Pretoria's move.

He expressed caution over rushing headlong into the JSE or even starting a rival exchange.

"The issue needs to be examined carefully because of the limited size of our market and the lessons of the London Big Bang."

Finansbank assistant GM Luigi Colantoni said certain merchant banks had already started looking into the implications of a competitively neutral equities market.

Commenting on the apparently subdued nature of the JSE's response, Colantoni said: "They appear to have accepted the inevitable."

First National Bank assistant treasurer Mike Law said: "Our view has been that we would not rush out to take a stake in JSE stockbrokers because we always believed the market would be deregulated anyway, which would allow us to set up our own operation if we so wished. That view still holds."

Commenting on the likely future form of the SA equity market, he spoke of the possibility of banks using the latest in screen and computer technology to take over a portion of the overall equity business.

The Bond Market Association, which is working towards the establishment of a formal bond exchange, welcomed the move as "equitable and fair". CE Graham Lund said, "In this day and age, people should have access to each other's markets as long as proper risk management and integrity are ensured."

SA Futures Exchange (Safex) CE Stuart Rees said anything which led to increased liquidity in the underlying spot markets could only be good news for derivatives.

Finrand dives as foreigners offload holdings

By Sven Lunsche Sowetan 30/7/91

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Just two weeks after hitting a record high the financial rand plunged 4,4 percent yesterday on substantial selling by foreign investors.

It traded at a year's low of R3,44 to the US dollar before recovering slightly to close at R3,36, against R3,22 on Friday.

The discount between the finrand and the commercial rand consequently widened to 14,5 percent from 12 percent last week.

Market rumours were that a foreign bank had dumped more than R50 million of financial rands on the market. Another sell order of about R50 million was received during the day.

Analysts believe that foreign institutional investors feared that President F W de Klerk's reaction today to the "Inkathagate" scandal would not be firm enough to restore confidence in the South Africa market.

The demotion of two senior ministers, implicated in the recent scandals, came too late to affect the market.

However, the decline of the finrand in early trading offered foreigners a cheap entry into the local stock and capital markets and many offshore investors took that opportunity.

The effect was a slight recovery of the finrand and a substantial rise in gold share prices on the JSE.

Gold shares rose 3,4 percent in value yesterday, while the overall index firmed by nearly two percent.

However, gold shares are likely to come under pressure today after the gold price fell by $2,50 to a close of $363,40 in New York last night.

Reichmans shareholders accept Investec offer

Star 30/7/91

By Derek Tommey 232

Holders of shares in the troubled trade financing company Reichmans have agreed to a scheme of arrangement which will result in their company becoming a wholly-owned subsidiary of the Investec banking group

Reichmans shareholders will receive one 13,5 percent 140c preference share to be redeemed at 140c a share on December 31 1995

Alternatively they will be able to choose to receive a cash payment of 105c for each preference share

Reichmans did well until 1990 when it received several setbacks These included a R12 million exposure to a liquidated client, an extraordinary loss of R5,25 million arising from a disputed fire claim, a R1 million loss incurred by an associated company and a R12 million exposure to a television manufacturer

Subject to Supreme Court approval of the scheme on August 6, Reichmans' ordinary shares will be delisted on August 9 and the preference shares listed on August 12

Old Mutual trust goes international

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B/Day 31/7/91

LINDA ENSOR

CAPE TOWN — Old Mutual is to launch a Channel Islands-based investment trust concentrating on SA equities — the first of its kind to be listed on the international stock exchange in London

The listing of the fund, developed in a swift response to the changed international political climate after the easing of sanctions, is expected to take place soon

Institutional response in the UK to the project has been encouraging and it is possible that the listing will generate an income of more than $50m

The amounts raised will be invested through the financial rand in SA equities during the course of this year

Sponsoring brokers and underwriters of the fund, to be called the Old Mutual South Africa Fund, are Smith New Court Securities

This is an associate of N M Rothschild & Sons of London, who are the leading market makers in SA equities in London and New York

Disclosing details of the new US dollar denominated, closed-end trust, Old Mutual chief operating officer Gerhard van Niekerk said yesterday it was intended to offer international institutional investors a shop window for SA equities

"The step augurs well for the SA equities market as there will be more buying of shares and it could be a forerunner of direct foreign investment in the country," Van Niekerk said

He added that SA shares would become better known to international investors

"Currently, apart from De Beers and our leading gold and mining financial heavyweights, few SA shares have received much attention in the US or Europe" he said

"There is little doubt that the trust will mark the start of a new chapter in terms of SA's appeal to foreign investors and our return to the international financial arena

Unrepresented

"The JSE is one of the 10 largest stock exchanges in the world in terms of market capitalisation and will come into its own as investment restrictions internally and externally are removed"

Van Niekerk did not think abolition of the financial rand would undermine the viability of the trust.

He said SA was unrepresented in institutional portfolios overseas which normally represented most countries in the world, and with a rerating SA shares could offer high returns.

Old Mutual will manage the portfolio from SA, offering its expertise and knowledge of the SA market to foreign buyers

COMPANIES

Cafca prospers despite export slump

B/Day 31/7/91

ROBERT LAING

CENTRAL African Cables (Cafca), the Zimbabwean electrical cable company listed on the JSE's electronics sector, continued its strong growth in the six months to end-June despite a drop in exports

The company's after-tax profit grew 39% to Z$8,7m compared with Z$6,2m in the last interim period, down from 1990's growth of 56%.

Cafca held its dividend cover at 4,1, paying an interim dividend of 7 Zimbabwean cents on earings of 28,4c a share. The number of shares in issue was increased to 30,6-million from 5,1-million in March

After last year's 80% increase in exports, sales to SA and other neighbouring countries dropped 15% to Z$6m

The drop in exports was offset by a 33% increase in domestic sales, boosting turnover 25% to Z$55m compared with Z$44m in the last interim period

Directors said plans were in place to improve export sales in the second half "During the half-year exports were impacted by recession and settlement problems in a major market."

Aluminium cable sales increased substantially while copper cable sales remained steady.

Directors said cable prices, which were reduced in January because of low copper prices, had to be increased in June because of the cost of other materials.

Additional plant scheduled to come on stream later this year would not affect second-half earnings, which should be similar to those in the first half, directors said

Sun Couriers' troubles will affect results, says Uniserv

B/Day 31/7/91

MARC HASENFUSS

COURIER, freight and forwarding group United Service Technologies (Uniserv) has warned of a "significant drop" in interim earnings, caused largely by the underperformance of subsidiary Sun Couriers.

Uniserv chairman Tiger Wessels said yesterday that a spate of union troubles had plagued Sun Couriers for almost a year During the past month the company had been unable to reach an agreement with the Transport and General Workers Union, he said.

"This instability is having a direct bearing on our performance

"This is particularly sensitive in our service industry, where commitment by people determines performance standards."

He said Uniserv's interim results would be published in early October.

Uniserv managed a 2% increase in earnings to R12,2m (R12m) for the year to February 1991 as improved contributions from Sun Couriers and Burlington Air Express were offset by poor performance in the group's export division

Wessels said the courier sector was sensitive to drops in overall economic activity, and the current recession had also had a negative effect and sharpened competition

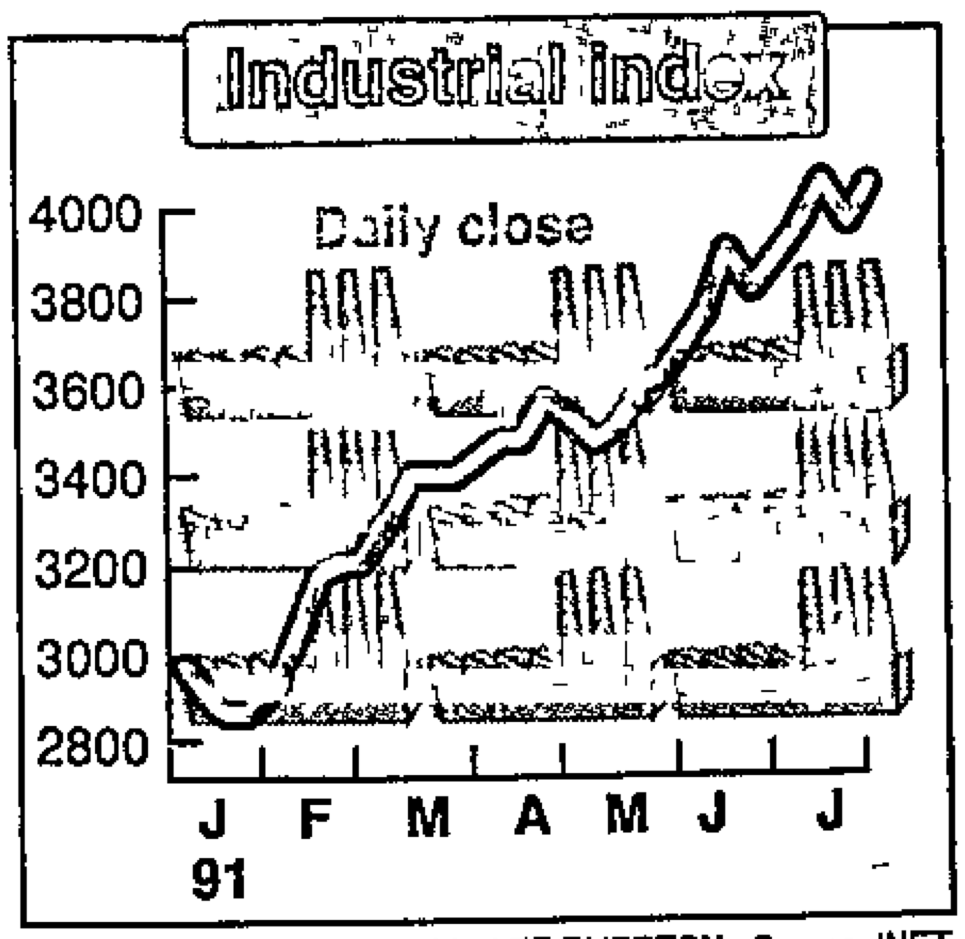
Union demands, labour instability and a sharp drop in productivity during a protracted dispute had compounded the situation, he said.

"We hope the current deadlock will soon be broken, common sense will prevail and Sun Couriers and Uniserv will get back on track

"We are certainly hoping for an improved level of earnings and overall performance in the second half of the year"

The group recently acquired R&M Global Tours and Overnight Express for undisclosed sums, which is in line with Uniserv's policy of growth by acquisition

Uniserv's shares have recently seen renewed investor interest. The share was untraded yesterday at 135c, after several large deals pushed the share to its 140c peak earlier this month. The share was at a 107c low in December.



Graphic LEE EMERTON Source INET

FW puts markets on positive track

232

MERVYN HARRIS

A NOD of approval by the foreign and domestic investment community for President F W de Klerk's stance on the slush fund scandal put Diagonal Street back on a positive track yesterday

Improved sentiment was reflected in the JSE industrial index surging 1% or 43 points to scale a fresh peak of 4 084 and surpass the previous high of 4 061 set on July 10 when the US scrapped sanctions against SA B/Day 1/8/91.

Yesterday's uptrend came despite a strong rally by the finrand investment unit, indicating that share prices were higher in dollar as well as in rand terms

The 1,6% rise in the finrand to R3,24 to the dollar means that the unit has recovered all of its heavy losses sustained earlier in the week on the back of big divestment deals

"The President's remarks at his Press conference in Pretoria went down exceedingly well in London where the speech was accepted in the spirit in which it was put across," a dealer said

The strength of the market was reflected in the overall index rising 35 points to 3 491 in a broad-based rally with the all gold index rising 28 points to 1 327

With politics no longer a dominant factor, the market was switching its attention to the gold price, which closed 65c up in London at \$363,25 after moving in a narrow range in quiet trading for most of the day It closed at the same price in Zurich

There was also concern over the weak platinum price The metal firmed in London trading yesterday but pared some of its gains towards the close to end below gold at \$361,88

GDM bucks recessionary trend

Star 1/8/91

By Derek Tommey 232

It is a paradox of the local investment scene that while many companies are doing badly in today's conditions, there are some, especially those in niche markets, which are doing exceptionally well

One of these is GDM Finance, which provides trade finance, and acts as a confirming house

Pre-tax profit in the year to April rose 22,1 percent to R12,0 million, while taxed profit rose 25,2 percent to R9,5 million

The return on average shareholders' equity was 31,3 percent

However, this was a little below the 33,3 percent achieved a year ago

Earnings attributable to ordinary shareholders, however, increased by only 15 percent to R8,6 million

The discrepancy between the rise in taxed earnings and earnings for ordinary shareholders is partly the result of a jump in preference share payments from R79 100 to R400 000 and a rise in outside shareholders' share of profits from R42 000 to R513 000

This appears to be the result of buying a 64 percent stake in African Shippers

Earnings a share rose 15 percent to 33,7c and dividend payments 12,5 percent to 13,5c

The high level of profit retention helped strengthen the capital base At April 30 ordinary shareholders' funds were R30,3 million (R24,8 million previously)

This is not bad going for a company started in 1952 with shareholders' funds of R50 000

Chairman Michael Waring is confident of further growth in the current year

He says that with South Africa being welcomed back into the international community and world trade, new opportunities will open up

However, he warns that there is little evidence of any economic upturn at the moment and that prevailing political uncertainties could undermine confidence for some time to come

FINANCIAL MARKETS (232)

More competition FM 2\8\91.

Financial Services Board executive officer Piet Badenhorst will recommend the deletion of three clauses in the Stock Exchanges Control Act which appear to limit competition

They relate to fixed commissions, single capacity trading and the limitation of membership to natural persons The aim, he says, is neutral legislation under which the controlling body of an exchange may set its own regulations after convincing the board and other interested parties that the regulations are in the public interest

Badenhorst

So it does not follow, Badenhorst adds, that fixed commissions will definitely fall away or that dual capacity trading will commence

Nor need it follow that the JSE will allow legal persons (not only natural persons) to become members Badenhorst hurriedly issued a press release disclaiming that interpretation

If government accepts the proposals it will allow for further deregulation, enabling institutions (including foreign ones) to trade in derivative markets It could also facilitate the establishment of other markets

By making the legislation neutral, Badenhorst says, aspects such as the capacity to trade and the remuneration of members of an exchange will have to be addressed in the rules of a specific financial market These rules are compiled by the members after the authorities are satisfied on issues such as price integrity and investor security

If it enables foreign players to use SA markets, this should be welcomed, Badenhorst adds Their capital and expertise would increase liquidity and lower trading costs ■

Prefcor confident in run-up to listing

BDay 2/8/91

MARCIA KLEIN

PREFCOR Holdings (Prefhold) directors are confident of significant future growth opportunities, and expect that the group will meet its forecasts for financial 1992.

Executive chairman Terry Rosenberg told a media meeting yesterday that Prefhold, including Game Discount World, the Beare furniture group and the Clobea clothing division, was part of the major emerging market in SA

The group will come to the JSE on August 21 in the largest new flotation this year after a R263m offer which closes on August 9

Rosenberg said Prefcor differed from other retailers in the way that it financed its book Prefhold had formed an association with First National Bank through Firstpref, in which the risk on its debtors would be shared with the bank

Rosenberg said Firstpref would also act as an outside agency to observe Prefhold's business

Prefhold hoped to collect cash of about R126m from the "old" debtor's book prior to the Firstpref deal, and this would "would be put into use", Rosenberg said

Another factor which set the group apart was that its staff and executives represented "some of the best retailers in SA" These included Game executive chairman Clive Weil and Prefhold executive deputy chairman and Beares executive chairman Hymie Sibul.

The group was completely decentralised with each division having its autonomy It had a small head office and only four executives

Rosenberg said forecasts of an increase in margins were justified due to a major turnaround in Game and the smooth integration of Price into the group's infrastructure

Forecast turnover figures were not high, as 13% of the turnover growth would be from the new stores which the group had opened last year, and the group would just make the inflationary increase.

The Beare Group had reduced its bad debt write-offs from 3,32% in 1985 (of a book of R187m) to 2,3% of 1991's R512m book and a forecast 2,46% of the R733m book in 1992

The Game division had reintroduced brand names, improved its service and contained shrinkage to 0,97% in 1991 The group hoped to open about three Game stores a year, bringing the total to 20 by 1995

Clobea had 62 stores in SA and none in the Cape Rosenberg said there was acquisition potential in this group. Any acquisitions would be for smaller regional chains

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Small firms in cash crunch

GERALD REILLY

PRETORIA — Latest Central Statistical Service figures paint a gloomy picture of the economy and of the plight of many small and medium sized businesses according to the Information Trust Corporation (ITC) B Day 2/8/91

ITC CE Tony Leng said yesterday judgments against businesses involved average sums of about R5 000 for the first four months of the year By May this figure had grown to an average of R10 000

The number of judgments against businesses in May totalled 3 775, for R40,2m — the largest sum yet recorded by CSS in one month

Leng said the figures reflected the crunch facing small- and medium-sized businesses Greater care would have to be taken in managing credit risk to avoid a further worsening the situation 232

Leng said the value of rent judgments for May showed a 48% increase over May last year

The average value of such judgments increased to about R3 500 against an average of R2 000 in the first four months of the year Landlords were apparently taking a tougher line against tenants in suing for retrospective debt

However there were signs of an economic turnaround

JSE industrials recover

232

Finance Staff Star 21/8/91

Industrial share prices on the JSE recovered strongly yesterday after slumping by about four percent on Monday in the immediate aftermath of the coup in the Soviet Union

Share markets around the world calmed down yesterday, but investors were carefully monitoring events in the Soviet Union

The JSE's overall index ended the day 76 points higher at 3 369 after Monday's 182-point fall to 3 293, while the industrial index rallied by 118 points to 4 013 after a 227-point plunge to 3 895

But the gold index slid by 44 points to 1 225 as world gold prices slumped by $7 to around $353 on US-inspired selling

On the currency markets the rand recovered against the dollar yesterday as the US unit lost ground against other currencies after Monday's sharp gains

The rand closed yesterday at R2,909 to the dollar after it sank to almost R2,93 on Monday

Currency dealers told Sapa-Reuter that buying interest in the dollar as a safe haven continued to be the driving force in foreign exchange trading, but added that gains were capped by concerted central bank interventions

The dollar closed at Dm1,804 in Europe after rising as high as Dm1,83 on Monday

Stock prices on international markets improved slightly yesterday

Sapa-AP reports that Wall Street's Dow Jones average closed 15,66 points up at 2913,69

On Monday the Dow posted its steepest drop in 10 months, closing 69,99 points down

The US markets were lifted after a general improvement worldwide, which began in Tokyo where the Nikkei index closed 1,07 percent up

The Nikkei added another 675 points to 22 362,56 in early afternoon trading today

The improvement helped strengthen markets in Europe The London FTSE 100-share index rose 14 points to 2 554,5, while Germany's 30-share DAX index closed up two percent after Monday's ten percent plunge

PROPERTY FM 2/8/91 232

They have, however, been encumbered by a complex web of leases entered into before the sequestration of the club hotel *(Property* July 19)

The nub of the problem for creditors is that, though the club hotel owns the freehold, in April last year it entered into an unregistered 99-year lease agreement at a nominal rental with Halyards Share Block Ltd over the 37 apartments The share block company then sold 28% of its interests in the form of timeshare through the Ovland timeshare and marketing organisation

Halyards Share Block lawyers are adamant that the lease is unassailable under the Insolvencies and Companies Acts but counsel for the creditors believes that a valid lease can be broken if the property is offered for sale twice, once subject to the lease and then without it They maintain that if the bid for the property without the lease is the higher — as was the case with the club hotel sale — then the liquidator is empowered to cancel the 99-year agreement.

Les Cohen of liquidators Westrust says: "We've consulted with senior counsel and are satisfied that we must sell with the lease and without it The only offer received with the lease was R50 000, which was rejected out of hand We then put up the property without the lease and the highest bid was for R2,3m, subject to acceptance within seven days That is the bid which is exercising our minds at present, even though there is a substantial shortfall between the offer and the amount owed the bondholders "

Cohen says it is up to the buyers to decide whether to negotiate an agreement with Halyards for the purchase or lease of the adjoining hotel facilities In the event of the 99-year lease being cancelled, he says the timeshare owners might have a claim against Halyards Share Block Ltd "One of the difficulties for the timesharers is that they have no protection where there is a bond over a property The bondholder has first bite Perhaps legislation should be brought in to give them better protection " ■

DEVELOPMENT

A change of tack

The Board of Executors (BoE) has rescheduled plans for a R150m commercial and office development in Cape Town's CBD in reaction to a delay in the economic upswing

BoE now plans to syndicate the R21,5m site it has assembled for the development It intends embarking on an aggressive marketing drive throughout the country and is hoping the syndication will raise R27m BoE Properties MD Peter Meakin says the campaign will be formally launched in Cape Town next week

The development, known as The Adderley, was to have started last month with the demolition of several buildings in the block bounded by Adderley, Longmarket and Parliament streets The facades of historically significant structures were to have been saved Construction work was scheduled to begin early next year

The initial plan was for a 17-storey building with 23 000 m^2 of offices and street-level shops The developers spent more than two years assembling the 3 000 m^2 site and, some time ago, tenants were given notice to vacate A number have already done so

However, Meakin says market research has now shown that the best time for The

LIQUIDATIONS FM 2/8/91

Bare bones

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Liquidators of the Royal Alfred Marina Club Hotel are considering an offer of R2,3m for an apartment complex linked to Port

FM 2/8/91 232

Alfred's luxury Halyards Hotel — even though it is well below the estimated R8m owed to creditors

At an extraordinary event in Johannesburg last week the property was put up for sale twice at the same auction — once encumbered by a 99-year lease and a second time without it

The liquidators rejected out of hand an offer of R50 000 for the 37 luxury apartments offered subject to the lease They are considering a second offer of R2,3m, made by a consortium, when the property was offered without the lease

If the higher offer is accepted, it will be subject to the courts overturning the 99-year lease over the property If that happens people who bought timeshare at the East Cape resort could well lose their investments

The accommodation, largely owned and controlled by hotelier Kevin King, appears to be a substantial asset King's company, the Royal Alfred Marina Club Hotel, was provisionally liquidated in the Rand Supreme Court in May *(FM* May 5)

It is linked to the Halyards Hotel but the 37 apartments are a separate freehold entity

continue →

Metpol share disclaimer

232

S Times (Bus Times) 4/8/91

MARIUS SMITH, chairman of Metropolitan Life, disputes Business Times' headline last week, which read, "Metpol policyholders lose out in share deal", as well as one point in the story

Business Times contended erroneously that policyholders who paid 950c to Sankorp for Metropolitan shares "lost out" because shares were made available in a later rights issue at 850c

Mr Smith says "The steps (to widen the stakeholder spread in the group) started with a private placing with institutional investors of 10-million shares held by Sankorp, controlling shareholder in Metropolitan

"Metropolitan's policyholders and employees were also afforded an opportunity to participate in this private placing by purchasing shares at a discount to which they were being traded on the open market.

"It was stressed that should there be a good reception to this private placing, there would be a rights issue in which they would, as registered shareholders, be entitled to take up their rights

"The reality, therefore, is that policyholders were offered beneficial terms to become stakeholders in Metropolitan in advance of the details of the rights issue being announced The final issue price of 850c a share was in fact only decided last Wednesday Thus it is patently untrue that policyholders lost out, as the headline declared"

Mr Smith contests another element of the report

Damaging

"Contrary to (what is stated) in the third paragraph, Metropolitan's share price has performed as well and in tandem with its competitors in the insurance sector What was stated was that the price reflected an under-rating of the group's investment performance

"We are left with a potentially damaging report which could impact very negatively on the perceptions of many of Metropolitan's policyholders and trust that you will take the necessary steps to remedy the situation"

Business Times accepts that Sankorp offered shares to policyholders at an acceptable discount to the market price and that those who paid 950c for their shares actually gained further in being able to follow their rights at 850c while the market price has exceeded 1 000c The rights offer discount to the market price was greater than the discount granted by Sankorp because of the size of the issue (one for two) Business Times apologises for the error

Safegro shines

(232)

S/Times (Business Times)

SAFEGRO Unit Trust has outperformed the JSE Actuaries all-share index It grew from R1-million in June 1990 when it was formed to R24-million on March 31 this year 4/8/91

Safegro chairman Michael Lewis says in the annual report that the general equity fund has invested more in export-oriented industrial companies than in gold mining — the backbone of SA in the past.

Mr Lewis queries whether in a stable world scenario, gold still has a larger role to play than being a pure jewellery and fabrication commodity

"This coupled with the high cost of deep-level mining has necessitated portfolio managers to hold these investments as 'insurance policies' only "

Mr Lewis says the market will continue to be volatile in 1991 These swings allow for the enhancement of the portfolio and make opportunities for the public to acquire units at lower prices

Gag for unit trust quarterly figures

By DIRK TIEMANN

S/Times (Bus Times)

UNIT trust quarterly figures will no longer be available from September

Chairman of the Unit Trust Association Clive Turner says the decision was taken because "highlighting quarterly performances is counter-productive to unit holders in the long term"

Mr Turner says investment managers are subjected to intense pressure when they know their quarterly performance will come under review 4/8/91

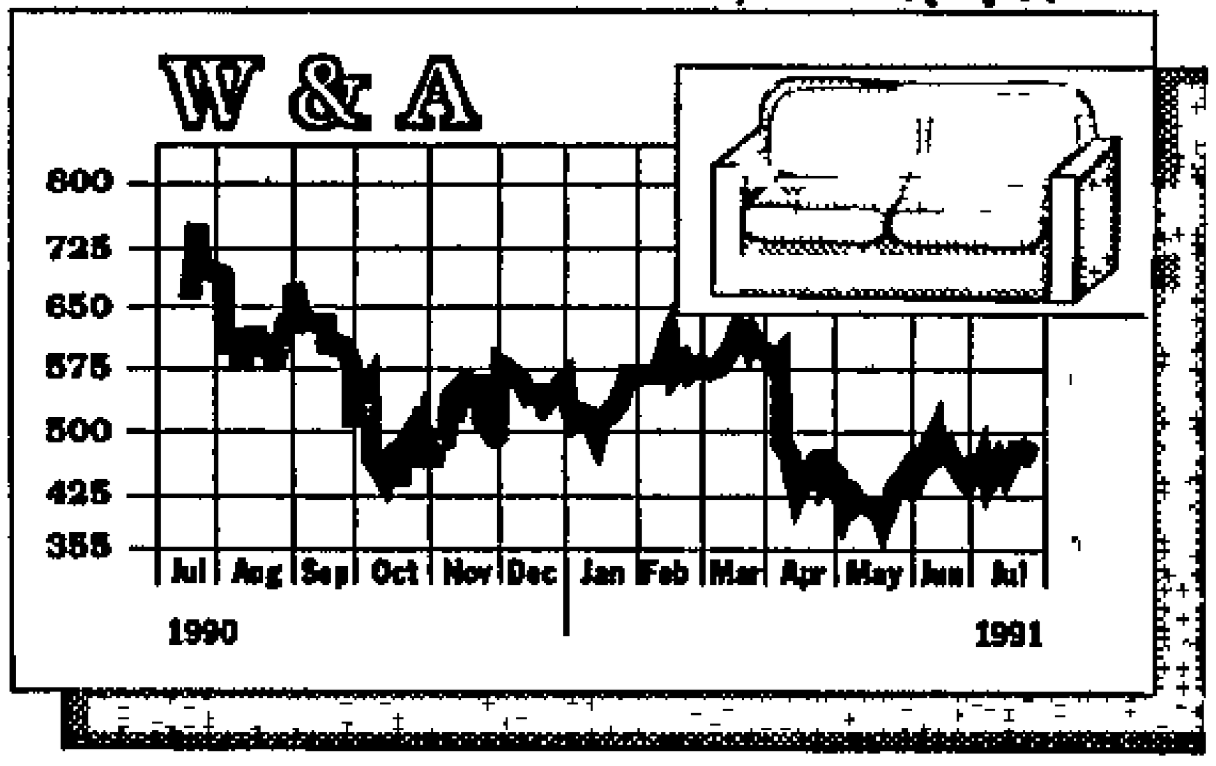
"This means that they could make investment decisions contrary to the unit holders' long-term interests. Instead of quarterly figures we will have a 12-month moving figure" (232)

Another argument against quarterly figures is that small funds are more agile in moving funds around in the short term Mr Turner says this could make the quarterly perfomance look better than funds worth more than R1-billion and which are less flexible

Hennie's happy on the other side of the table

232

S/Times (Buss Times) 4/8/91



HENNIE VAN DER MERWE

A MONTH into the new job of joint deputy chairman at FSI and Hennie van der Merwe says he is impressed with the group.

"The administration and management information systems are excellent," he says as he consults his time management diary

"It's one of the advantages of having all these accountants around"

In spite of uncertainty about the group in the market, it has not been a matter of firefighting since he took up the post of joint deputy chairman of FSI, whose operations are housed in W&A

"I am dealing with strategic issues, but I see that there are certain misconceptions about W&A in the market. The main one is gearing"

In June, Mr Van der Merwe would have spoken about gearing — borrowings of R892-million on shareholders' funds of R1 863-million after an independent evaluation of plant and machinery — while wearing the hat of one of the bankers to the group

Now, he is in the seat of the borrower, but still feels comfortable at the other side of the table

The share price has had its ups and downs A year ago, W&A was more than R8 Since then it has been to 380c, but recently rallied to R5 At this price the dividend yield exceeds 8%, whereas those of other industrial conglomerates are closer to 3%

A JSE dealer observed to me two months ago that either W&A was going out of business or was the best buy on the market

Mr Van der Merwe took pains to explain why in the first place, group gearing is not alarming, and second, how it will be brought down

Historically, SA's furniture retailers have sold on credit and built up their own debtors' book because banks were unwilling to take on the business directly

Collections of instalments by banks were seen as difficult and furniture cannot be repossessed as readily as can licensed motor vehicles There is a high risk of bad debt.

Mr Van der Merwe says that as a banker he believed a partnership between banks and furniture retailers where their respective roles of credit granting and trading were married in a correct structure would be the ideal solution.

He thinks W&A's JD Group should put in place such a partnership with the banks.

The key to success hinges on getting customers to pay instalments at the stores so they can continue to buy on credit while getting banks to handle the risk The shops could do the physical management of the business for a fee Such a marriage for the JD group is imminent

Setting up this furniture bank would make a big difference to W&A's gearing

Another smaller but significant deal is in the offing which will also help to reduce borrowings

But comparing apples with apples, W&A's gearing is comparable to that of similar large groups

I asked what level of gearing would satisfy the cynics that W&A is okay Mr Van der Merwe says he sees no need for it to be lower than anybody else's

For the immediate future, focus will be on the development of the group's core businesses to enhance exports and cash flow These steps, the sale of the furniture debtors' book and one or two disposals of non-core assets will reduce gearing

Maybe another option arises through joint ventures, with foreign partners bringing equity and technology in return for the group's strategic markets in Africa

Mr Van der Merwe says this is highly speculative talk, but cannot deny its logic The group has significant interests abroad and would not be starting from scratch to make contacts.

He scotches a notion doing the rounds "Lots of people think Senbank sent me here It's absolutely untrue I made a permanent career change to get closer to the action and chose W&A because of its entrepreneurial approach and upside potential"

He modestly draws a parallel between his own departure from banking and that of the late Albert Wessels, who at the age of 52 gave up his secure institutional career and bought the Toyota franchise

Dr Wessels said he would not have seen retirement age in banking, but would have died from boredom sooner He died two weeks ago 82 years young

Mr Van der Merwe says "I fancied being a client for a change" His immediate task is to focus the thinking on strategy and corresponding funding structures

He is convinced that W&A and shares in the FSI triple-pyramid structure have found their own level on the JSE "How would we be able to plan if our strategy were based on an artificial share price?"

The uptick in group members' share prices reflects a market view that it is the only decent company still offering value Results should be held at an acceptable value and the dividend maintained

If the economy does pick up fairly soon, investors who have ridden the imagined storm at W&A will be well rewarded

Platinum's silver lining

S/Times (Buss Times) 4/8/91

PLATINUM's price weakness might have a silver lining if demand for jewellery can be stimulated.

Its price has fallen from above $500 to $360 ~~/oz in a~~ year and now trades at a discount to gold Producers say short-term weakness is a result of the world recession, the view that Russia is selling to raise foreign currency, news that the metal could be substituted with others in autocatalysts and overproduction from SA

Forecasts are not always met — witness Barplats. The other shares also weakened this week.

Iscor shares peak as steel sales rally in SA

S/Times (Bus Times) (232) ~~(260)~~ 4/8/91

By DAVID CARTE

DOMESTIC demand for Iscor steel had held up better than feared, managing director Willem van Wyk reported this week as the share price hit a high of 250c

Only six months ago the share was at 170c — 15% below its listing price of 200c The increase has been nearly 50%

Mr Van Wyk says SA demand hit a low in February and March, but picked up slightly in May, June and July Although demand is still weak, it is better than he feared

Stockbrokers report strong buying interest from abroad after a favourable report on Iscor by London broker Cazenove It found Iscor to be an extraordinarily low-cost producer

Cazenove made its recommendation even though British Steel profits were down 60%

Another London broker, Williams de Broe, says world steel will remain sick and British Steel will lose £125-million this year

A Johannesburg broker speculates that the formation by Old Mutual of a unit trust in the Channel Islands specialising in SA shares could have led to orders

Old Mutual, he says, is a big holder of Iscor shares

Although the depressed SA economy is likely to dent earnings this year, Iscor looks good in this week's Fortune Global 500 companies It ranks 290th biggest company in the world by sales ($4,7-billion)

The SA steel major ranks 25th in the world among metals producers Thanks to its low costs, it boasts the best return on assets in world metals — and the second best on sales

Longer

An analyst says that because of the depressed economy, SA sales would have declined from well above 60% of Iscor's total to slightly more than 50%

"Margins are far better on domestic sales, so this trend will result in poor earnings I would not expect more than 30c to 35c a share compared with 50c last year But we are advising institutions to take a longer view

"When Iscor is selling 70% of its production to the SA market — as it will in better conditions — it will be extremely profitable In the meantime, any dollar price increase and any weakness in the rand will help

"The company will obviously push higher-value products in foreign markets to maximise profits"

The high cost of transporting steel to the coast and then shipping it to foreign markets is the main reason SA margins are so much better

The Wire Converters Association is getting restless and wants to import cheap foreign steel, but Iscor says it receives tariff protection of only about 5%

It claims steel is being dumped internationally and this level of protection is hardly adequate

A spokesman for the Rolled Steel Producers Association says the cost of transporting a ton of steel to Europe is R200, or roughly $70

But the current value of a ton of steel is $300 Sixty percent of the transport cost is railage to the coast.

An Iscor spokesman says the corporation cannot immediately benefit from the lifting of sanctions It is already selling every ton of steel it can make

Mr Van Wyk will not be drawn on upcoming earnings or dividends, but he thinks the one to two-year view has brightened

"I see Dr Bruggemans of First National Bank says the local economy is bottoming Everyone is looking for an upturn overseas

"I can state that everything here is working well and that our performance will be determined entirely by economic performance

Upturn

"The R3,3-billion we have spent on upgrading plant and adding value to product is all working well All units are operating smoothly and our production is running at 640 000 tons a month, which is 8-million tons a year, a good increase on last year's 7-million tons

"We are about to cut back sharply on capital spending"

Mr Van Wyk says Iscor will feel any upturn here or abroad immediately because high-value-added products, such as tinplate for canning and rolled steel for white goods and the motor industry, will react nearly instantaneously to an uptick

By JULIE WALKER

PRECIOUS little good news came at the end of an unsettled week on the JSE (~~222~~)

Platinum shares took a pasting on a variety of doom-ridden views of oversupply and lower demand Rusplat gave up R5,50 to R66,50 and Impala 730c to R55 Lebowa Plats shed 40c to 420c and Messina 80c to R7 (232

Talk in the market is that Impala will pay Rand Mines 571c a share for Barplats and that Barmine will be delisted S/Times (Bus Times)

After a weak finrand gave golds a start early in the week, counters sank because gold dipped below $365

Kloof peaked at R35, closed at R32,25 Driefontein was at 43,50, falling to R40,75 Vaal Reefs lost R12 to R223

The finrand dropped 14c to 339c to the dollar, but regained its original position after President De Klerk's Tuesday speech 4/8/91

Mining financials eased, but not drastically Anglo American closed R2 ahead of the start on Monday, but was 325c away from the week's peak Gencor lost 10c to R13,75

De Beers did not lose ground when the finrand rallied It added a net 225c to R89,75

On the brighter side, industrials held their high territory Richemont reached R31,60, Remgro added 100c to R24,50 and SA Breweries 325c to R57

Banks featured Absa gained 30c to 975c, First National 75c to R45, Nedcor 75c to R14,75 and Bankorp 10c to 295c

Watch for sudden fall in share prices

232

Sowetan 6/8/91

MONEY TALK

MILLIONS of rands are being invested by blacks in the flourishing unit trust industry in South Africa, according to a spokesman from the Old Mutual

Even stokvels are investing on behalf of their members

The returns since the beginning of the year on these investments have been quite spectacular.

Yet it is important to bear in mind that the main investments of mutual funds (except the fixed income funds) are in the shares of companies listed on the Johannesburg Stock Exchange Prices of these shares have risen because of the expectation of a strong upswing in the economy next year.

Should this growth fail to materialise, share prices can drop within a short period of time, causing the profits on paper to disappear overnight

A point that should be emphasised is that if one owns a stake in the great mining and industrial companies of South Africa via the unit trusts, one must accept the risk inherent in stock market investment

The real service the mutual funds render to the small investor is to provide him with expert management of investment money – but not protection against market setbacks.

History has proved that, over the long term, the successful mining and industrial companies create wealth for their shareholders. So if you are prepared to wait say five years after your initial investment, you can expect to show growth But if you are worried about the short term, I would advise that you convert at least part of your profits into cash and invest it in a fixed income trust, or in a savings account

THE MONEY MARKETS by Andrew Gill

BIDay 5/8/91. 232

Bears are out in force as lethargy in rates takes its toll

THE bears were out in force in the market towards the end of last week as the continuing lethargy in rates took its toll at a time when liquidity levels were stronger than they had been for some time

Reserve Bank Governor Chris Stals's effective squashing of hopes of a rate cut to counteract the effects of VAT gave the market more insight into his determination to fight the inflation bogey

While the market realises the intention it questions the effect of the policy Inflation is refusing to come down despite the most stringent attempts at getting it under control

People are loathe to venture suggestions as to how to balance monetary policy on the one hand and give the economy a margin for survival on the other, but they point out that business is suffering more now than it has in years

Overkill hasn't been mentioned much yet but if comments from businessmen earlier in the week are anything to go by, statistics for the past couple of months are going to show a dramatic weakening in economic activity

Sectors that showed resilience last year are now falling victim to high interest rates and stubborn inflation, thousands of jobs are falling by the wayside and the bottom line is looking decidedly red

The market has been forced to balance Stals's obvious determination in the face of crumbling activity and a tantalisingly liquid system that would normally see rates tumble

Despite taking a large R800m out of the market on Thursday the shortage dipped R240m, meaning some R1,04bn crept into the system that day

Where it was coming from could be ascribed only partly to the usual homeland and government expenditure Analysts suggest that expenditure usually amounts to about R500 to R600m, so where did the other R500m come from?

Hard evidence of more government expenditure hasn't surfaced but it could easily be a factor and the Bank has been struggling to keep control of strong forex inflows which are playing a large part in the excess liquidity

Friday saw another tender, this time for R500m, which should see the shortage climb to R1,8bn barring any further large inflows With a fair amount of dollar swaps still to mature, speculation is that the market is in a surplus position similar to that at end-June

Small investor a notable absentee from the market

Star 5/8/91

232

A conspicuous absentee in the current stock market bull-run has been the porverbial "small investor"

Although the Johannesburg Stock Exchange overall index has soared by more than 50 percent since it bottomed out in July last year, the smaller investor has been notably absent from the market

Share traders will confirm that, apart from the odd flutter on some gold share, smaller investors now predominantly make use of unit trusts for their equity-investments

At end-June the total assets of the unit trusts industry was just below R10 billion and was rising very rapidly

Total unit trusts accounts — as opposed to investors, it must be noted — is in excess of 800 000

Informed estimates put the total amount of unit trusts investors at somewhere between 400 000 and 500 000

The reason for this apparent dichotomy is that many people operate more than one unit trust account, preferring to spread their risk by investing in several funds

There are several reasons for this development

The sharp rise in the prices of the best performing stocks has put even a modest investment of 100 blue chips beyond the reach of most investors

For instance, 100 De Beers will cost more than R9 000 when the brokerage charges are included

For the same price an investor can get a spread of excellent blue chip shares in any general equity unit trust with much lower risk

The rise in the stock market has been concentrated in the top 20 odd leading companies in terms of market capitalisation

With the second-tier stocks not yet showing any signs of improvement, smaller investors had to wend their way to unit trusts to participate in the stock market boom

For smaller investors with only limited funds to invest on a regular basis, there is no substitute for unit trusts

From amounts from R25 upwards — although most funds insist on a minimum of R50 per month — a regular investment can be made into the stock market

The price of unit trusts makes it a very visible investment

An investor can track the behaviour of his/her investment on a daily basis, unlike endowment policies and annuities, which do not offer the same facility

But while the greater degree of liquidity offered by unit trusts is a great advantage, it can also be a source of temptation to an undisciplined investor

Many people are tempted to cash in units after a spectacular run — like the recent surge — but instead of investing the many elsewhere, the money is spent on luxury items

For someone easily tempted, the advice is, tie up your money, otherwise you'll spend it

In recent years unit trust investors have become very aware of the short term performance figures of the funds

Quarter-on-quarter comparisions are no clear guide to investment performance

Fund managers have for a long time been worried by the trend of investors to change from one fund to another, based purely on quarterly figures

For this reason the Association of Unit Trusts has decided to publish on 12 month-moving figures in future

The general equity funds have proved to be excellent hedges against inflation in the past (refer to tables)

On a long-term basis general equity funds have far outperformed the inflation rate — making many investors rich in the process

It should, however, be noted that while several funds have been consistently better than most other funds — Old Mutual Investors, Guardbank and Sanlam Index — it does mean that they will continue to outperform the other funds

But past performance remains the most accurate yardstick of future performance

PERFORMANCE TO 30 JUNE 1991

ONE YEAR (SELLING TO REPURCHASE)	%
Old Mutual Industrial Fund	32,8
Sanlam Industrial Trust	29,6
Sanlam Dividend Trust	23 6
UAL Selected Opportunities Trust	22,7
All Share	12
All Gold	-6
Industrial	33
Rate of Inflation	15

THREE YEARS	%
Syfrets Growt Fund	33,7
Momentum Unit Trust	30,8
Guardbank Growth Fund	29,2
Sanlam Industrial Trust	28,7
All Share	28
All Gold	7
Industrial	38
Rate of Inflation	15

Early detection is the key to rescuing ailing enterprises

B|Day 6/8/91

TOM GRIEVE (232) (180)

WITH liquidations in the year to date running at some 15% higher than the corresponding figure for 1990, companies exposed to financial loss must consider ways of safeguarding their investments.

This is beneficial to the borrower as well as to the creditor because early detection of financial problems can substantially reduce the threat of liquidation

Internationally, there has been a marked change in the manner in which lenders react to the cash flow problems of borrowers A number of years ago, insolvency would often have followed on the heels of a cash flow crisis because the symptoms of a borrower's financial difficulties were recognised too late to mount a rescue programme

Nowadays the early detection of problems has led to a higher proportion of ailing companies being turned around

The rate of liquidations in SA (in May alone of this year they were 56% higher than the same month last year) indicates that local businessmen have not yet learned the lessons being applied abroad

The problem for investors is to know what signs of failure to look for The balance sheet is the most obvious source, but often, this can be misleading Classical indicators such as acid test, capital structure, cash flow and forecasts tell an historical picture of the company at a particular point in time Well publicised failures, both in SA and abroad, have occurred soon after the publication of financial statements that appeared to give a green light

How can the concerned investor detect warning signs? Are there any reliable indicators?

Numerous failure prediction models have been produced over the last decade or so These purport to provide a template which is imposed on certain known aspects of the company

The resulting score of these predictors is supposed to indicate the current health of the firm While these are useful in identifying some of the signs of failure, they have not been particularly successful in practice Post-failure tests to see if they would have worked have, generally, been disappointing

There is evidence that failing companies do exhibit some common signs and investors should familiarise themselves with these and use them as a basis for their judgement and subsequent action

They can be divided into four categories

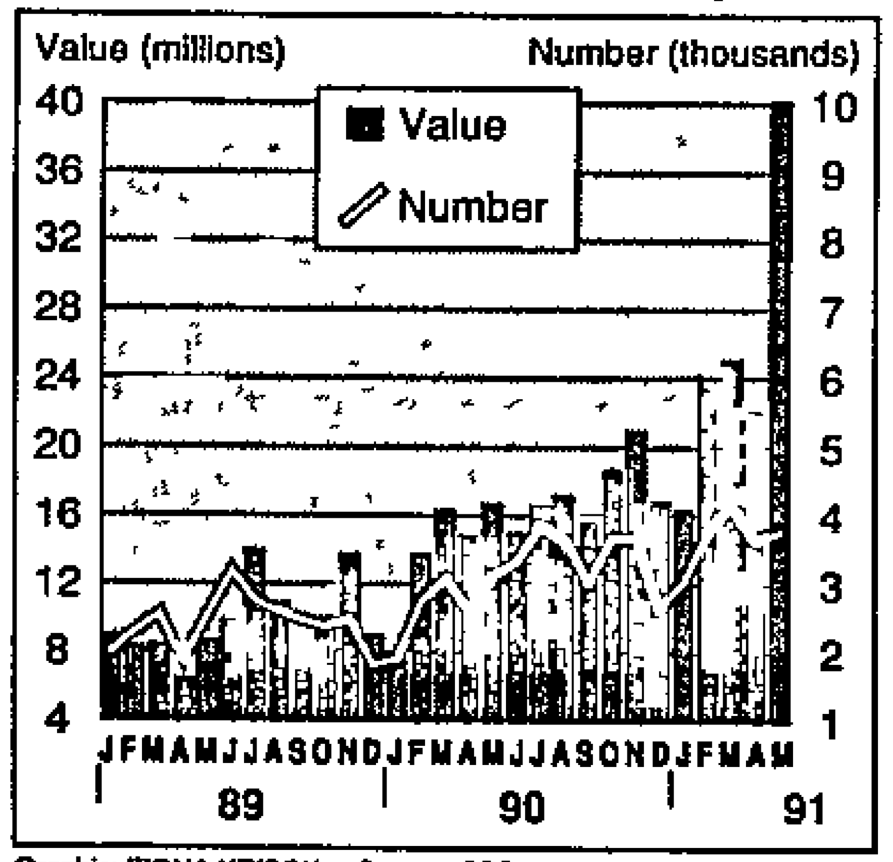
☐ Performance This refers to the company's performance in the marketplace Are sales falling, orderbooks diminishing, deliveries lengthening, products being rejected and returned? Is the market becoming more competitive with share being lost to newer and more vital entrants to the market? Conversely, some major firms have failed through growth that was too rapid Have sales been increasing by large annual percentages, or doubled in the last year?

☐ Financial· Is the firm overborrowed, are creditor days rising and the debtors' book extending? Cash flow remains a critical determinant of success and failure Is it healthy? Does the company have and apply realistic costing systems?

☐ Physical Are there plans to build, or has the firm recently moved into lavish new buildings? Are the published financial statements nonstandard and extravagantly produced? Does the number and price range of company cars conform to the profile of the firm? and,

☐ Human Is the CEO also the chairman and is he autocratic? Are executives spending undue time overseas? Have there recently been boardroom defections or resignations?

Civil cases: default and consent judgments - business enterprises



Graphic: FIONA KRISCH Source CSS

In addition investors should listen careful for rumours and keep abreast of court listings to spot writs and summonses

From a lender perspective it is necessary not only to understand the causes of a company's problems but also to assess its prospects for survival and return to profitability. Without realistic prospects, the merits of continuing to trade must be limited

The lender should review the borrower's trading forecasts These may cover only the very near future, or they may cover a period of up to a year or more He should concentrate on those areas of the forecast that have a major impact on cash flow

Where short-term liquidity is limited, a review should be done of the immediate cash flow requirements of the business — if necessary, on a day to day basis — to ensure that it can survive while its prospects are being evaluated

If the prospects of the business appear reasonable, a recovery plan should be developed that will preserve the business Of course sometimes the extent of the risk is too great and insolvency is the only realistic way forward

The terms on which further support by the lender may be provided are often affected by the extent of the security available

During a financial crisis it is important to keep the morale of the organisation as high as possible This is easier said than done when expenses and head counts are being cut and, possibly, parts of the business are being sold The importance of having a clear recovery plan and communicating it to all staff with honesty cannot be underestimated

The resolution of cash flow difficulties may involve both the operational and the financial restructuring of a company In such cases, different interest groups such as lenders, shareholders and suppliers need to negotiate a satisfactory basis on which to proceed These negotiations may take place either within the framework of a formal scheme of arrangement or, informally and therefore with less publicity

The effective implementation of the recovery plan is central to the success of a rescue programme Frequently, the steps considered necessary to restore the company to financial health can be taken by the borrower's own management with outside assistance In more complex circumstances it may be appropriate to engage the services of specialist consultancy teams

Companies will continue to go under and investors will burn their fingers But information is available to permit a better understanding of the cause of failure, the symptoms of the pending problem and the steps that can be taken to turn around the failing company

☐ **Grieve is a senior partner with KPMG Aiken & Peat and MD of KPMG Management Consultants.**

☐ **Simon Barber's column will not appear this week.**

Safex 'rides out' trading recession

ROBERT GENTLE

THE SA Futures Exchange (Safex), trading well above break-even levels, has notched up its fourth successive monthly increase in volumes and appears to have ridden out the trading recession

A total of 69 967 contracts traded in July, an increase of 2,8% over the previous month and a rise of 7% over the same period last year. B/Day 6/8/91

Safex CE Stuart Rees said the 2,8% increase was good given the fact that the previous month's figure had been inflated because of a close out

The exchange was running at about 3 000 contracts a day, Rees said, well above the 2 000 break-even level budgeted for

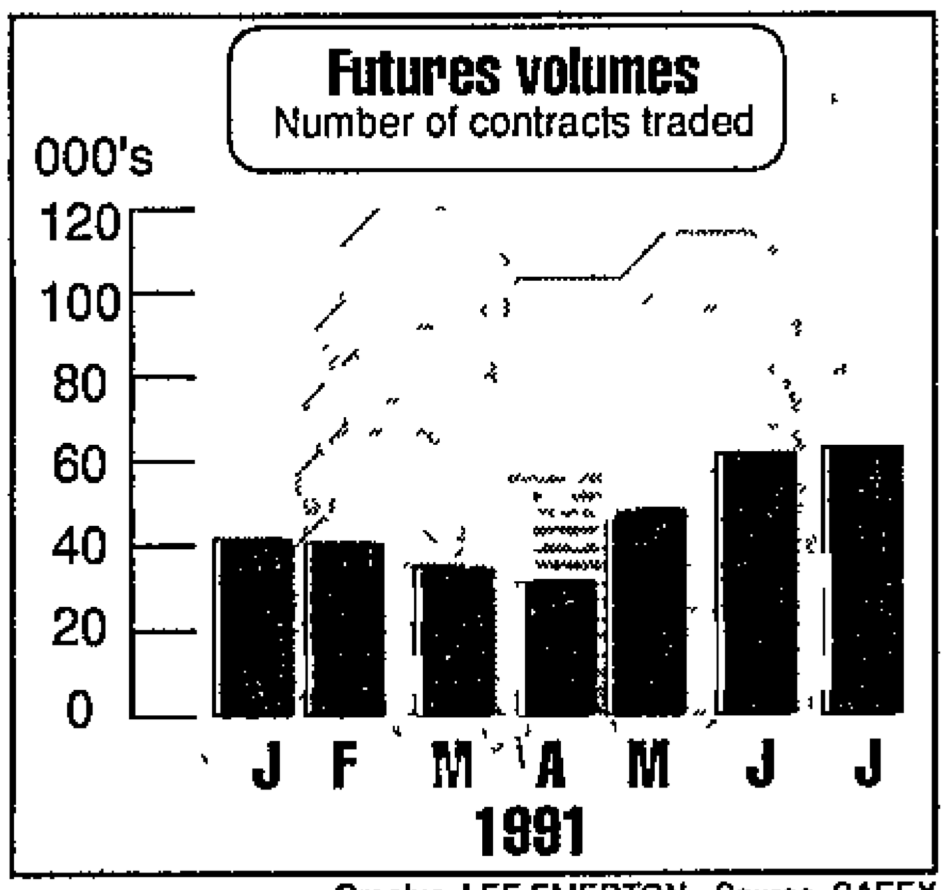
On the operational front, he attributed the reasons for the continued good volumes to volatility in the gold price, strong movement in the industrial index and a steady increase in institutional participation in futures

On a general level, Rees said the market was slowly maturing and its credibility had now been restored among the public

The present level of business, which spelled better-than-expected revenue for the exchange, meant that it would soon be possible to consider loosening its tight operating regime (232)

Such measures could include revising the budget upwards, expansion and increasing the amount of interest paid on clients' margin money

"However, we first want to be absolutely sure that the present upwards trend in volumes has been firmly established," Rees said



Graphic LEE EMERTON Source SAFEX

Prefhold has set tough growth targets

BDay 7/8/91 (30) (232)

MARCIA KLEIN

PREFCOR Holdings (Prefhold), whose R263m share offer closes at noon on Friday, hopes to achieve real growth through expansion, acquisition and business partnerships, directors have said

It is believed that the R12m offer to suppliers and business associates and the R242m offer to institutions and the Prefhold share incentive scheme have been taken up.

Prefhold has also made an offer to the public of 600 000 ordinary shares and 1,2-million convertible debentures at 500c each to raise R9m.

The retail group, which controls the Beares Group, Game Discount World and the Bee Gee clothing chain, hopes to list on the retail and wholesale sector of the JSE on August 21

Prefhold aimed "to achieve real growth by accelerating the development of its existing businesses, by establishing or acquiring businesses with long term potential and by entering into business relationships with reputable companies", executive chairman Terry Rosenberg said.

It hoped for a 27% turnover growth to R1,27bn and a 44,5% rise in operating income to R167m in the year ~~to end~~ June 1992 Attributable income would increase by 14,6% to R42,4m for the period.

Rosenberg said although the group had set itself tough targets, "our businesses are well positioned to grow with the expanding SA economy"

State spending masks recession

BDay 7/8/91. (232)

SHARON WOOD

GOVERNMENT spending is halting a slide into deep recession and disguising the battering the private sector has received.

Private sector economic activity plunged by 5,2% in the first quarter of the year — far worse than the relatively mild 0,9% fall in total economic activity reported in the Reserve Bank Quarterly Report

Private sector activity is calculated by excluding government consumption expenditure from the Reserve Bank figures measuring economic performance. It includes fixed investment, exports, private consumption expenditure and inventories

The reason for the large disparity between performance in the overall economy and the private sector was a large 19,5% rise in government consumption expenditure in quarter one

Private sector activity was depressed by a 21,7% fall in exports and a 3,5% drop in gross domestic fixed investment in the first quarter

All rates of change are quarter-on-quarter (seasonally adjusted and annualised) and measured in constant 1985 prices.

The recession in the private sector has been consistently deeper than the general economic recession since mid-1990.

Private sector activity fell by 2,4% in quarter three as opposed to an overall 1,5% drop, and by 3,6% in quarter four compared with a slight 0,3% fall in the overall economy

Government will probably underpin economic activity again during the second quarter Statistics released by the exchequer recently show a 21% rise in government expenditure in the second quarter, well above the budgeted 13,7%.

Economists are divided on the state of the economy. Some say it turned at mid-year, while others believe the turning point will only occur towards year-end or next year.

Statistically this recession is relatively mild when compared with previous recessions, but economists say some sectors have been particulary hard hit

Compulsory company liquidations rose by 21% in the first half of this year from the same period last year

Credit Guarantee senior economist Luke Doig says the figures reveal the wholesale and retail trade sectors are faring the worst

"These figures dovetail perfectly with the stringent monetary policy and the regime of high interest rates which has endured for longer than expected," he says.

But growing calls for lower interest rates to ease the burden on the private sector are unlikely to be answered Reserve Bank governor Chris Stals remains firm in his commitment to maintain the high level of interest rates despite a seemingly expansionary fiscal policy.

Sinclair changes its focus to car retailing

B Day 7/8/91 232

SHARON WOOD

SINCLAIR Holdings is to refocus its operations on motor retailing and will acquire a R13,1m interest in certain motor franchises next month, according to a statement released today

In order to reflect the operations conducted by the group, the board of directors of Sinclair Holdings has proposed a change in the company's name to Urquhart Motor Group. It has applied to the JSE to transfer the company's listing from the industrial holding to the motor sector

The subsidiaries of Sinclair Holdings will conduct the business of motor retailing and the ownership of motor dealership properties

A special dividend of about R24,1m in aggregate will be declared by the company, which translates into R93,50 for every 100 shares held by shareholders

The board of directors has proposed an increase in the company's authorised share capital by the creation of 10-million preferred ordinary shares of 70c each.

COMPANIES

Tollgate Holdings sells off Gants

232

LINDA ENSOR

CAPE TOWN — Diversified industrial holdings group Tollgate Holdings this week sold its Gants subsidiary for R80m and is presently negotiating with the authorities for the sale of City Tramways, its public transport operation in the Western Cape

The deciduous fruit processing, meat and vegetable divisions of Gants were sold at roughly equal prices, with Langeberg buying the fruit division and two separate buyers the other divisions

City Tramways has 1 100 buses valued at R8 000 each, so the sale could bring in an estimated R88m B|Day 7/8/91

The Autolease subsidiary has been sold for between R10m-15m reducing the off-balance sheet exposure of Tollgate in a joint finance company with Senbank by R65m, chairman Julian Askin said at Tollgate's agm yesterday

Askin also announced the group had returned to profitability in the six months to end-June and would be paying a dividend at the year-end Last year Tollgate lost 119,8c a share on a turnover of R599m

"Each subsidiary is trading profitably and we will see a turnaround in group profits," said Askin, who together with a consortium of Mervyn Key and Hugo Biermann bought a majority stake in Tollgate last March

Askin said an announcement would be made in September about the purchase of a distribution and services company in Britain, which would be the first step in the development of the group as an international industrial holding company with a considerable offshore base of earnings.

"We intend to build a group with about 50% of its earnings coming from non-rand currencies in about two to three years," Askin said The first acquisition would be financed with facilities in Britain

Askin said after City Tramways was removed from the group, hopefully within the next six months, Tollgate would have finished pruning off the loss-making and highly geared businesses and would be ready to launch other projects

The Empangeni bus operation is also to be sold shortly.

The effect of the disposals will be to reduce gearing considerably Borrowings at year-end stood at R204m, giving a gearing, excluding convertible debentures, of 215% This was about half the debt owed when the consortium took over the group

Askin said borrowings would shortly be reduced to a level required only to cover working capital needs. The year-end should also see a dramatic improvement in the liquidity position.

He said the Swaziland grapefruit and pineapple business had turned around and should be profitable this year.

Other disposals disclosed by Askin in the annual report for the year to end-December were the sale of the Transvaal and Port Elizabeth bus operations which were significant loss makers, as well as Norths and Arwa

More companies and people going broke

232

By Sven Lunsche Star 7/8/91

Liquidations, insolvencies and the level of civil debt continued to surge in recent months as the high level of interest rates took their toll

"The rising liquidations dovetail perfectly with the stringent monetary policy and the regime of higher interest rates, which has endured for longer than expected," says Credit Guarantee economist Luke Doig

He believes the economy will get worse, as the indications are that most sectors of the economy are labouring under high interest rates

Central Statistical Service figures show that in the second quarter of this year liquidations rose to 482 from 399 in the preceeding quarter and 355 in the last three months of 1990

However, the monthly June figure of 150 liquidations was down on the May figure of 182 liquidations

Civil debt

Mr Doig says companies in the retail and wholesale sector had been particularly hard hit by the stringent monetary policy

A similar trend was reflected in the level of civil debt, which had risen to record level in the first five months of this year, with a total of R236 million and R216 million in April and May respectively

With regard to insolvencies Mr Doig says that the preliminary figure for May this year of 283 was above the 267 insolvencies recorded in May last year but marginally down on April 1991's 295

The three months figure to May this year of 869 was 25 percent higher than the number of insolvencies recorded in the three months to end-February

Tollgate sells off Gants

Star 7/8/91

By Blaise Hopkinson

CAPE TOWN — Back-in-the-black Tollgate has sold its loss-making Gants operation for R80 million to three parties including former major rival Langeberg.

Chairman Julian Askin told the group's annual meeting yesterday the sale would greatly reduce the group's debt pressure and was a prelude to an announcement to be made next month about a major offshore acquisition.

Langeberg, the Bellville-based R600 million a year canner, bought the deciduous fruit operations of Gants for roughly R30 million while Spekenham bought the meat canning business and private investor Gary Watson the vegetable canning arm.

Tollgate took out the Gants minorities earlier this year for about 60c a share, about the same as it made from the R80 million sell-off.

The group has retained the Swazi Can operation which it hopes will be returned to significant profits this year.

Mr Askin said Tollgate would report its interim figures for the six months to June next month and these would show "a significant turnaround" which saw the company firmly back in the black.

In a sometimes ruthless programme Tollgate, under Mr Askin's stewardship, has disposed of all non-performing assets and he said today all divisions were now contributing profits.

Debt is almost half — at about R200 million — what it was when the Askin-led consortium bought control and injected more than R70 million of their own cash into the business.

In response to a question from Issy Goldberg, chairman of the Shareholders' Association of SA, Mr Askin said negotiations "with the authorities" were well underway for the eventual change of control of subsidiary City Tramways.

Mr Askin added the recent "taxi wars" had meant a large number of passengers had returned to using the City Tramways services which had also allowed the company to defer a price hike for two months.

In the year to December the restructured group reported after-taxes losses of R34,7 million on a turnover of R598 million.

Mr Askin would not say whatUK acquisition was planned but indicated it was in the distribution and service related sectors.

(232)

COMPANIES

W & A share takes a dip

B/Day 8/8/91 (232)

BRENT VON MELVILLE

ASSURANCES by W & A Investment Corporation directors of better things to come failed to impress the market yesterday and the group's share price lost some of its recent resilience to dip 3% to 475c.

At yesterday's general meeting in Johannesburg deputy chairman Terry Rolfe told shareholders W & A's fortunes would improve as global economic conditions warmed up

"Our companies are well placed both domestically, where they are major players in their markets, and internationally, where our companies have gained recognition and substantial market shares in spite of the sanctions environment"

Rolfe said while W & A companies had traded well in the historically anti-SA world markets, now that barriers to trade were disappearing, the group would compete even more aggressively and profitably

He said W & A should increase its attributable profits and maintain its 42c a share dividend for the year to end-December 31 "In the medium term the group is well placed to benefit from any improvement in local and global economic conditions"

Conversely he warned that the increase in W & A's permanent capital which came into effect as a result of last year's restructuring would have the effect of reducing earnings a share for the first half and full year

"Current indications are that this dilution in earnings per share should be of the order of 10% at year end

"Having said that, we do expect to maintain the dividend for the year at 42c a share," he said

Rolfe added that the benefits of the steps W & A took last year to develop and add value to the group's core businesses and to improve the quality of the group's earnings was beginning to flow through and would accelerate as the economy recovered

More firms going into liquidation

232

Sowetan 8/8/91

THE upward trend in insolvencies, liquidations and civil debt has continued during the first five months of 1991, figures released by the Central Statistical Services have shown.

And, says Mr Luke Doig, senior economist for Credit Guarantee, hardest hit has been the retail and wholesale sector.

Doig says that an analysis of the figures shows the upward trend in liquidations slowed in June after growth in the five months to May, when the figure fell slightly to 150 liquidations from May's 182.

He says the figure for the fourth quarter of 1990 was 355 liquidations, then rose to 399 in the first quarter of this year before registering 482 for the June quarter.

Doig adds the trend is also reflected by the level of civil debt, which has risen to record levels for the first five months of the year with a total of R236 million in April and R216 million in May alone.

Insolvencies at 869 showed a hefty increase of 25 percent in the three months to May on the three months to February's 652. - *Sapa.*

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FM. 9/8/91

SECHOLD FM 9/8/91

Shareholders' prize

Sechold emphasises return on average shareholders' funds rather than on average total assets. In the financial year to June 30, the return on shareholders' funds was 31%, the highest in the banking sector — a notable achievement in a year when shareholders' funds rose 24,7%

MD Arthur Kelly says this measurement is "more pertinent to the business." As the group concentrates on trading various financial instruments, total assets are volatile and have no direct link to profitability.

Shareholders' funds rose to R50,9m, mainly as a result of the purchase of 70% of District Securities Bank and the remaining shares of subsidiaries Interbank and NDH Bank. By buying companies at a discount to net asset value, Sechold managed to increase shareholders' funds without issuing new shares. And net income increased more significantly than it otherwise would have done Compound growth of shareholders' funds over the past six years, boosted by R9m share capital from the 1987 listing, is 47%.

Sechold restructured the capital bases of the operating banks, except District Securities Bank It used some of Securities Investment Bank's capital to recapitalise NDH Bank by R3m. All its deposit-taking institutions (DTIs) are adequately capitalised in terms of the DTI Act requirement of 4,5% by end-1991 Interbank has a capital adequacy ratio of 15%, NDH 9,8%, District Securities Bank 5,8%, and Securities Investment Bank 5,2%. Kelly sees no need for rights issues to meet the 8% requirement by 1995.

Net income after tax rose 20% to R14,4m despite what Kelly calls limiting factors "Adverse conditions were caused by an inverse yield curve, high interest rates, negative perceptions towards small banks and lack of interest rate volatility."

Kelly

Unlike other financial institutions, which have changed their DTIs to divisions, Sechold has kept its banking subsidiaries as separate DTIs.

Others have divisionalised to avoid paying VAT on inter-company fees, among other reasons. But Kelly says Sechold does not have these fees and indications are that merchant banks and trading operations will be treated differently from commercial banks for VAT purposes Though functions overlap in many instances, he says it's important for each bank to have its own identity.

Sechold's four DTIs are Securities Investment Bank, Interbank, NDH Bank and District Securities Bank. The status of the first three as discount houses was removed by the DTI Act in February, their names were changed to reflect this

Kelly says the change has been favourable as capital and liquid asset requirements are less onerous than under the old Act

Securities Investment Bank is the largest profit source, contributing 37,6% to the total, Interbank 22,9%, NDH 22,3% and new acquisition District Securities Bank 4,9%.

The remaining 10,3% is categorised as "other." The rest of the group includes a portfolio management company, a property arm and administration companies

Kelly says the aim is growth of 15%-20% a year He says new opportunities arise from being classed as DTIs rather than discount houses One opportunity Sechold intends exploiting is the home loan market. ■

TOLLGATE HOLDINGS

FM 9/8/91

Cleaning up

(232)

For the first time since 1989, there is more than mere hope to substantiate Tollgate Holdings (TGH)'s return to profitability

Gants has now been sold (*Fox* June 28) By the time the deal is completed at the end of this month, its three components will realise about R79m The equity of the deciduous fruit and canning operation, including Helderberg Peas, has been sold to Langeberg for R7m Spekenam has bought the meat section, while Gary Watson (of the Watson family that controlled All Gold) has bought the vegetable canning operation. Together, they realised R12m

To this total of R19m must be added proceeds from the stock and debtors of each, which is expected to realise about R60m This information was divulged at the Tollgate Holdings' AGM on Tuesday by chairman Julian Askin

Interest-bearing debt, excluding compulsorily convertible debentures, in the end-1990 balance sheet amounted to R205m When TGH bought out Gants, Norths Industries and Entercor minorities, this was extended to R240m

The Gants sale will thus cut interest-bearing debt to about R160m The cost of finance will fall and profitability rise as a result

In addition, car-leasing operation Budget Autolease has been sold for a nominal sum This will not alter balance sheet debt exposure, but does eliminate R65m of off-balance sheet contingent liabilities

Questioned about the value of the buses, Askin disclosed that each of the 1 100 owned in the Cape is worth at least R72 000 — the price received by TGH when buses in the eastern Cape were sold to the authorities

continue →

FOX

FM 9/8/91 (232)

there Askin assured the meeting that there is no intention of selling off the buses in a Putco-like scheme, though he intimated that negotiations are proceeding with an undisclosed party Should Tramways be sold, the organisation will have no debt

But the most significant point is that all remaining TGH operations are running profitably and producing positive cash flows It is the first time that Askin has been unequivocally optimistic about activities Just as encouraging is his statement that "things are looking good for the future " He added that an offshore acquisition is likely to be announced in September

In recent weeks, the share price has hardened to 500c on small volumes The share has been heavily discounted for some time and is probably firmly held (the directors' consortium holds about 32%) If the overall market remains firm and a determined buyer appears, the price could appreciate in leaps and bounds as investors begin to realise that TGH may have good earnings potential, especially with the debt burden minimised

Gerald Hirshon

UNIT TRUSTS FM 9/8/91

Longer-term view (232)

Unit trusts will no longer publish price performance comparisons between a quarter and the previous quarter The University of Pretoria Graduate School of Management has also agreed to stop publishing such information The Association of Unit Trusts (AUT) believes such comparisons give fund managers the wrong motivation

Says chairman Clive Turner "Unit trusts should be a medium- to long-term investment, so it would be wrong to have fund managers driven by the need to maximise performance over one quarter This may not be in unitholders' interests longer term."

In the US, portfolio managers' jobs often

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depend on quarterly performance, and the AUT hopes this view will not develop here The AUT will continue to publish rolling 12-month and five-year performance tables, which Turner says are useful indicators

Turner points out that sufficient information will still be available to measure short-term performance but the association will discourage investors from drawing significant conclusions from this

Sage Fund MD Bernard Nackan is right behind the move, saying short-term performance should not be a factor in choosing funds Safegro's Kevin Cockcroft argues that smaller funds have the advantage that they can move in and out of investments faster, so often outdo larger funds on quarterly performance Some brokers already switch funds on these results

The *FM* will continue to publish the prices of unit trusts each quarter along with those at the previous quarter-end, as well as one- and five-year trends Short-term performance should not be a decisive consideration, but it is in the public interest to have an early warning signal if a fund underperforms ■

Tradegro shares suspended after court 'hiccup'

232 MARCIA KLEIN

TRADEGRO and holding company Tradehold shares were yesterday suspended on the JSE at the companies' request.

The move follows news of pending court proceedings following a minority shareholder's objections to the group's unbundling, which was first proposed in March.

Sources said yesterday the unbundling plans had been seriously hampered by the minority shareholder, who was said to hold no more than 1 000 shares.

The shares were suspended at 150c and 90c respectively. Tradegro and Tradehold will be relisted on the JSE at the start of trading on Monday.

The unbundling exercise, originally expected to be completed by the end of July, could become "a drawn-out affair", a source said yesterday.

On July 23 an objection was made in Rand Supreme Court to the sanctioning of the scheme of arrangement between Tradegro and its shareholders. In terms of the scheme, Tradegro would distribute its shares in the Metro Group, Cashbuild and the Premier Group to Tradegro and Tradehold shareholders. Also, all convertible instruments would be converted into ordinary shares. B\Day 9\8\91

A source close to the group said the objection had caused "a serious hiccup" in ultimate holding company Sankorp's plans to unbundle the Tradegro group.

It also meant that the sale of Checkers, through its holding company Tradehold, would be delayed at least until the matter was cleared up in court.

Sankorp GM investments Etienne le Roux said yesterday that Tradehold would not be sold until the scheme was finalised.

The hearing for the sanctioning of the scheme, postponed to August 13, was likely to be postponed again so that Sankorp could submit its replying affidavits, Le Roux said.

In a statement yesterday the company said it was now expected that the hearing would be considered by the Supreme Court on September 24.

Le Roux said it could not be assumed from the suspension of the shares that Sankorp was expecting the court not to sanction the scheme.

FM 9/8/91

FIXED INVESTMENT

Opportunity knocks

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When the JSE booms, can real growth be far behind?

The JSE Industrial index is pointing an urgent finger upward With corporate profits still falling and economic activity at low levels, it has risen 35% since the start of the year and more than 50% since October (see graph) This surge has sent the average p e ratio to around 13

A study of international p e ratios over the past five years, says Martin & Co's Carmen Maynard, shows a close correlation with economic prospects "In low-growth, high-inflation countries, such as Argentina and Mexico, you get p e ratios in single digits In high-growth, high-inflation economies like Chile and Turkey, the ratios rise into the early teens And, in southeast Asia, where there is high growth and low inflation, this ratio is over 20" After two decades in the first category, market ratings seem to be telling us that SA is moving to the second

Is the JSE telling us, then, that we are on the threshhold of a post-apartheid boom?

The answer depends on how activity on a stock exchange is interpreted From a socialist perspective it is nothing more than a pointless paper chase, with little relationship to events in the real economy And at times there are certainly elements of truth in this description — when the vital link between capital raising and investment in productive assets is broken or damaged It could be argued that this is a case in point exchange control is keeping funds bottled up in the country, inflationary expectations are directing them into equity and a serious loss of confidence inhibits real investment

But this situation belongs to the past Having shed the shackles of apartheid, we are rapidly moving into an unknown future What we make of that future may depend on whether entrepreneurs take the opportunity offered now, to raise money at an after-tax cost of 7%-8% and invest it in future growth

This opportunity must be viewed against a backdrop of ageing capital stock and a level of fixed investment that barely exceeds net depreciation

For a decade, South Africans have stubbornly consumed their seedcorn The ratio of total real gross domestic fixed investment to GDP dropped from 28% in 1982 to 18,2% in 1987 It recovered to 19,1%, 19,7% and 19,6% in subsequent years — dismally low levels In 1990, total real fixed investment was only 76% of the level nine years earlier

Says the Bank of Lisbon's *Economic Focus* "Net investment, which excludes provisions for depreciation, has shown an even more dramatic drop from around 18% of GDP in 1980-1981 to around 5% or less, over the three years to 1990"

The sector, outside of agriculture, that has experienced the most serious erosion of capital stock is manufacturing Fixed capital stock fell from R47,9bn in 1983 to R47,2bn in 1990 As a result, the average age of equipment in private manufacturing has increased by nearly 30% since 1984

When the long-awaited upturn takes place and distributors attempt to restock their sharply depleted inventories, they will be ill-equipped to meet demand

Capacity utilisation in manufacturing is presently around 82% — not excessively low compared with the Eighties Since 1983, it has been higher only three times — 84,5% in 1989, 83,6% in 1988 and 82,8% in 1984 Moreover, much of the plant is outdated and tives, says Ernst & Young's Ray Eskinazi "Incentives create as many problems as they solve, they involve discretion, which is undesirable, and they benefit one sector at the expense of the others It has been found the simplest way to stimulate investment is a lower tax rate" At 48%, SA has a significantly higher nominal tax rate than countries with which it competes

This fact and the inflationary environment are the biggest constraints on profitability and, consequently, on further investment

Fortunately, we may no longer be helplessly trapped in spiralling inflation Though the old bugbear of government's increasing share of the economy remains, the trap may have been sprung by an agreement negotiated with the National Union of Mineworkers By accepting the principle that wage increases should correlate with wealth created, a major trade union is assisting in creating an environment in which non-inflationary growth can take place (Nominal growth can be achieved easily enough — by the kickstart strenuously advocated in many quarters And inflation can be controlled via the money supply The trick is to achieve both)

If this sets the tone for settlements in other industries, the next economic recovery will not immediately self-destruct under the pressure of inflation Fixed investment can surge ahead.

Still to be resolved is the rate of taxation

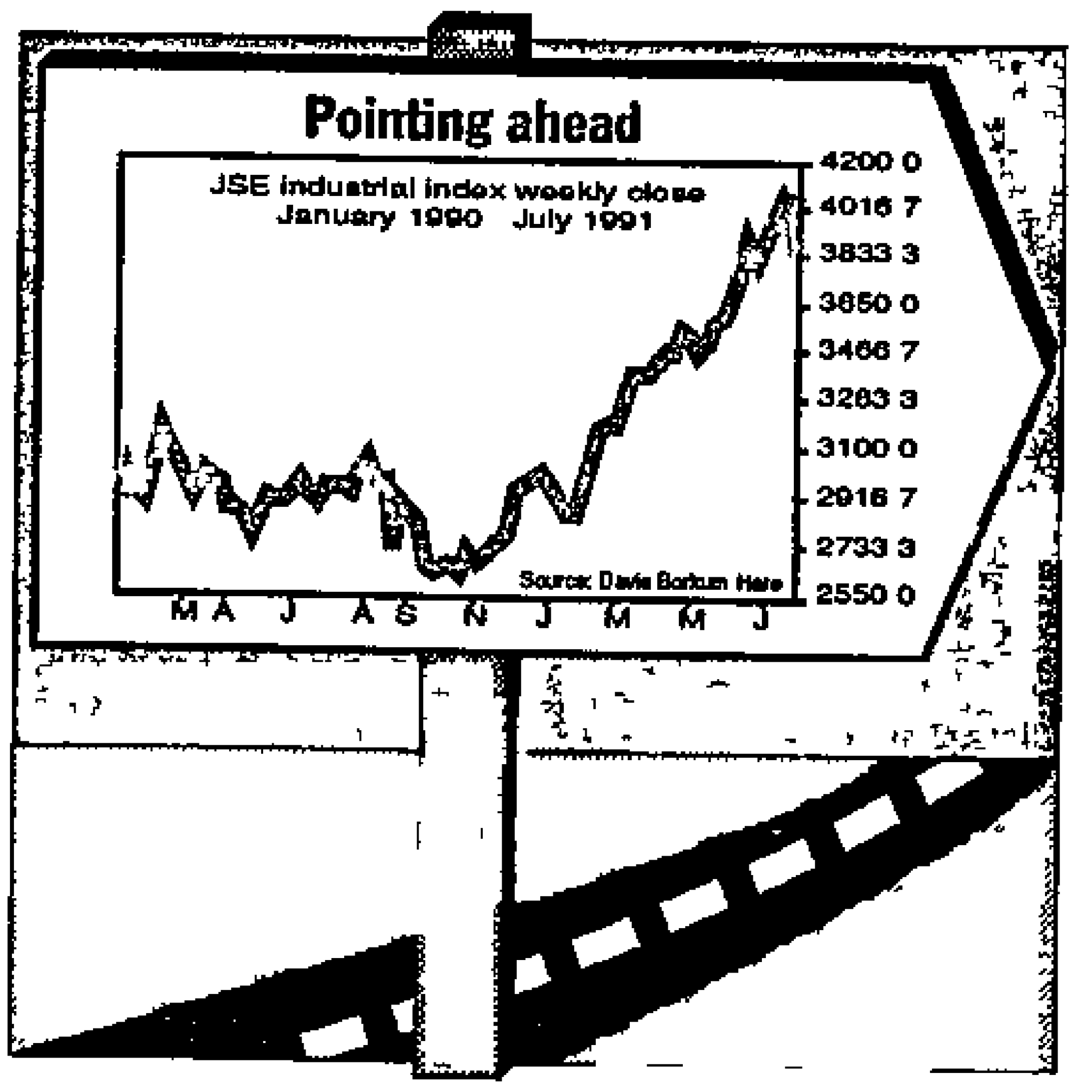
It is tempting, when faced with enormous shortfalls in areas such as education, housing and health, to fall back on what seems an obvious solution — taking, in various ways, from the rich to give to those disadvantaged by apartheid That would appear to be the equitable way to run the new SA

But life has never been fair and, if the solution to poverty was that simple, it would have been eradicated in socialist countries Legislation may be introduced to redistribute wealth — but no government can enforce wealth-creation Capital and initiative are needed and these will flow where opportunities offer If the economy is to grow, we must allow capitalists those opportunities

Government has a role to play in providing certain social and economic infrastructure All it needs to fulfil this role is sufficient funding Experience in other countries has shown it is more effective to raise these funds via a moderate tax rate over a broad base of thriving businesses and individuals than to extort it from a shrinking tax base

It is possible for government spending to increase while the proportion of government spending to GDP shrinks — if the economy grows fast enough This should be the goal of present and future economic policymakers

Emerging politicians must not waste time tilting at the ghosts of the colonial past After 10 years of turmoil, SA business must be well aware that if workers are alienated from their environment and disaffected from the system, they will undermine it And if they are inadequately housed, fed and educated they will be unproductive And as the labour force is largely responsible for consuming the product — exports account for only 25% of GDP — business has a vested interest in the wellbeing of the workers



With the experience of others to guide us, we have all the benefits of hindsight Forcible redistribution of wealth — through nationalising productive resources or excessive corporate and marginal taxes — is counterproductive and unnecessary The dynamic growth of a market economy will do it more effectively

What is needed now is not so much a leap of faith as a leap of logic ■

By DIRK TIEMANN

FOREIGN shedding of South African equities continued with net sales of about R116-million

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But some industrials did well

The all-share index was up 58 points at 3 490 SA Brews closed at R59 after starting at R56,50 Barlows rose 25c to close at R47,25 Iscor added 7c to 252c S\Times

Poor results by Amic were discounted and did not affect the share price, which closed at R90, unchanged since Monday (Bus Times)

Mining houses were firm, Anglo American adding 650c to close at R122,25

De Beers was steady, adding 50c to R89,75

Golds were firmer across the board on Friday, although the slightly stronger finrand inhibited gains The all-gold index gained 332 points to 1 285 11\8\91

Vaal Reefs gained 400c to R220 Driefontein was steady, adding 50c to close at R41 Kloof added 175c to R34

Platinums rallied after the manganese motor catalyst scare Rustenburg added 475c to R71,75 and Impala 250c to R58

Banks were firm Standard Bank Investment Corporation's excellent interim results helped to lift the share price 140c to R48 Absa was unchanged at 950c First National gained 125c to R46,25

Unidev group is looking for R36-million from two rights issues to be offered through subsidiaries Unicon and Unidev Unidev closed at 25c — unchanged on the week

Safex objects to investment firm's name

B Day 12/8/91.

ROBERT GENTLE

THE SA Futures Exchange (Safex) said on Friday it had alerted the office of the Registrar of Financial Markets about a company which was seeking funds from the public for investment purposes

Safex CE Stuart Rees said in an interview that the name of the company — Investment and Derivatives Exchange (IDE) — could lead people to think it was a registered financial exchange

This was a contravention of the Financial Markets Control Act under which exchanges like Safex operated

Rees said the word "derivatives" in the company's name, as well as its stated intention of investing funds in the futures market, could convey the impression that the company was a member of Safex — which it was not

(232)

"We are only seeking to ~~protect the~~ good image of the futures industry," Rees said.

A brochure circulated on behalf of IDE and obtained by Business Day said the money it sought would be invested in equities, bonds and derivatives

☐ To Page 2

Safex

B Day 12/8/91

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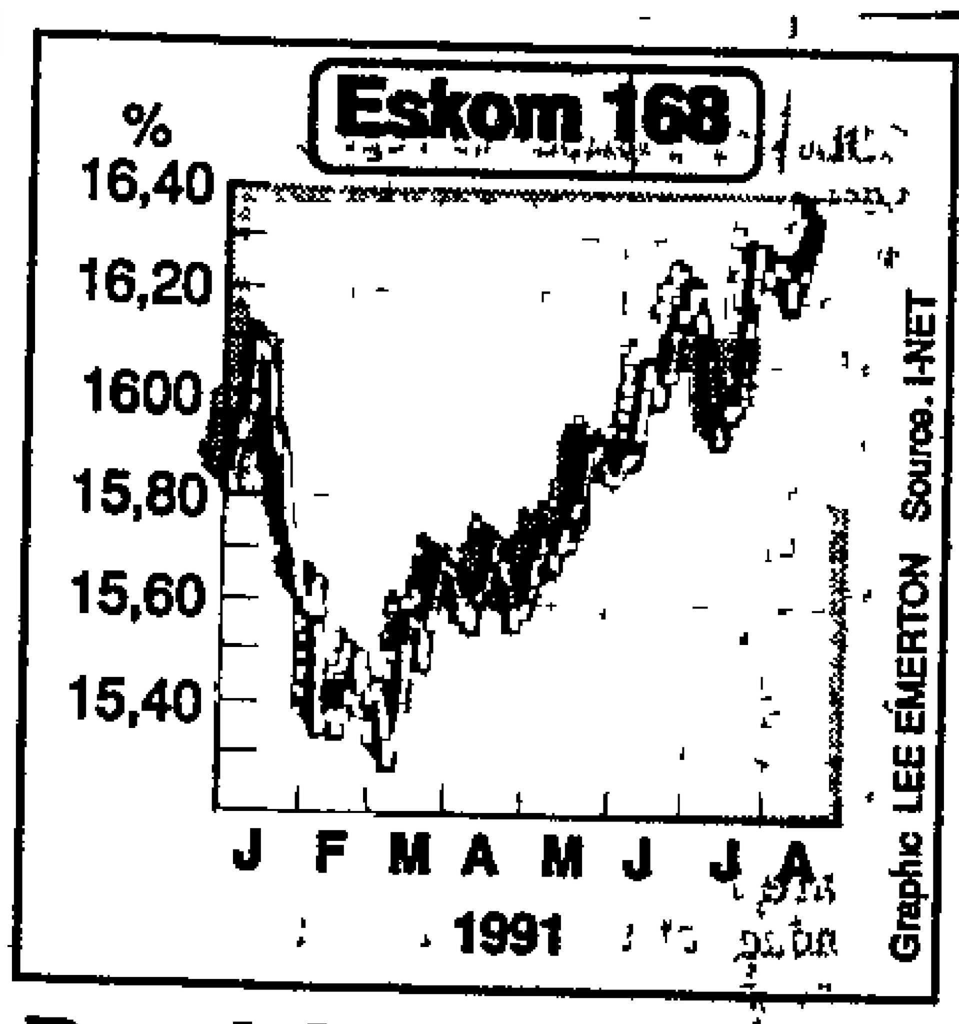
☐ From Page 1

It said R10 000 invested in one of the company's portfolios in 1987 was worth R98 000 in 1991

Approached for comment, IDE director George Richter said he was satisfied that the matter regarding the name would be resolved as soon as he had got word back from the office of the Registrar

He said the example of high returns cited in the brochure was from a real portfolio the company had managed, but conceded others had not done as well

Richter would not divulge what funds the company had under management, or how many clients it had



Bearish upturn for capital market rates

B/Day 13/8/91

ANDREW GILL and MERVYN HARRIS

CAPITAL market rates took a bearish upturn yesterday as the weekend's violence at Ventersdorp was compounded by a producer inflation figure that killed hope of a cut in official interest rates. 232

The benchmark Eskom 168 stock rose to 16,36% from Friday's 16,22% as slowly recovering sentiment suffered what market analysts said could be a fatal short-term knock. Government's R150 stock suffered a similar fate as it hardened to 16,745% from 16,62%.

Dealers said sentiment, especially among foreigners, had turned sour as a result of the violence in Ventersdorp. The release of July PPI figures was sufficient to see rates harden further.

Also, a meeting between the Reserve Bank and commercial banks late last week had been interpreted poorly by the market, pushing forecasts of an interest rate cut even further back.

The violence also took its toll on the finrand, which lost 3c to R3,22 to the dollar. Although not a major move, it reflected the dearth of buying on the market.

The prospect of almost no buying of capital market stock by foreigners has been a major cause of bearish sentiment.

The weaker finrand did help the JSE, as investors shrugged off the Ventersdorp violence. Gains on the overall market outnumbered losses by two to one as the weaker finrand helped support gold and other currency-linked shares.

The overall index gained 18 points to 3 508 and the industrial index climbed 13 points to a new high of 4 120.

JSE has potential to beat most markets

Star 13/8/91

By Derek Tommey (232)

The Johannesburg Stock Exchange could outperform many of the world's major markets in the coming five years, says Dr Kevin Carter, group investment director of Providence Capital, the Old Mutual's London-based assurer

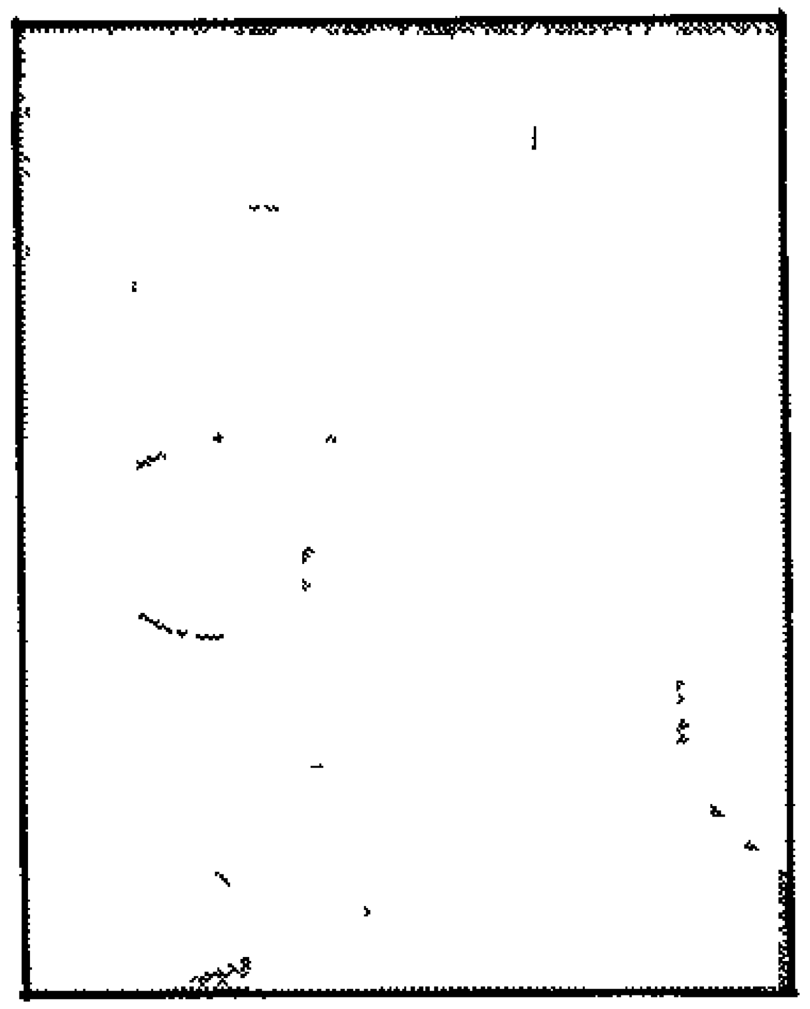
He added that current setbacks such as "Inkathagate" and the happenings at Venterdorp had little effect on long-term foreign investors

Dr Carter told a conference in Johannesburg yesterday that investors in New York, London and Tokyo would probably find it more profitable in the next five years to put their money in bonds rather than in equities

He said world economic growth could be modest in this period Governments would try to improve their over-geared balance sheets through higher taxation, tighter regulations on bank lending and increased personal savings and this would affect the performances of many stock exchanges

But he saw a very different scenario for South Africa

In this country equities could continue to remain the most sought after investment yielding superior returns



Kevin Carter "amazing amount of goodwill towards South Africa among the investment community overseas"

The continued high levels of inflation in this country, the much discussed reorientation towards an export-based economy and South Africa's position in Africa would help boost share prices

South African equities were driven by a number of fundamentals very different from those in other major world markets

In addition, South Africa was at the threshhold of a very strong period of wealth creation South Africa had a great undergeared balance sheet which would attract foreign borrowings and foreign investment

"South Africa has world class businesses, financial services, capital market structures, manufacturing management and infrastructures There is no reason why it cannot deliver a very strong period of growth I think the prices on the JSE are discounting the very strong corporate profit growth that will happen in the next few years"

There were risks such as inflation and politics, but one could make a strong case for believing that South Africa should overcome these

There was an amazing amount of goodwill towards South Africa among the investment community overseas

"I think that nobody there is naive enough to think the process (the move to a new South Africa) goes smoothly at all times There are going to periods of regression But in the long run people believe that the train is inexorably moving and the other things ultimately become details which are happily more or less overlooked."

Dr Carter said that apart from the fundamentals there were four reasons why a foreign investor could put money in South Africa

One was if they viewed the market as being undervalued in terms of its history, and in relation to other opportunities At the moment the South African market on an historical basis was overvalued But it was cheaper to invest in it than in markets in Far East, such as in Korea, Taiwan and Malaysia, but more expensive than the New Zealand, Brazilian and Argentinian market

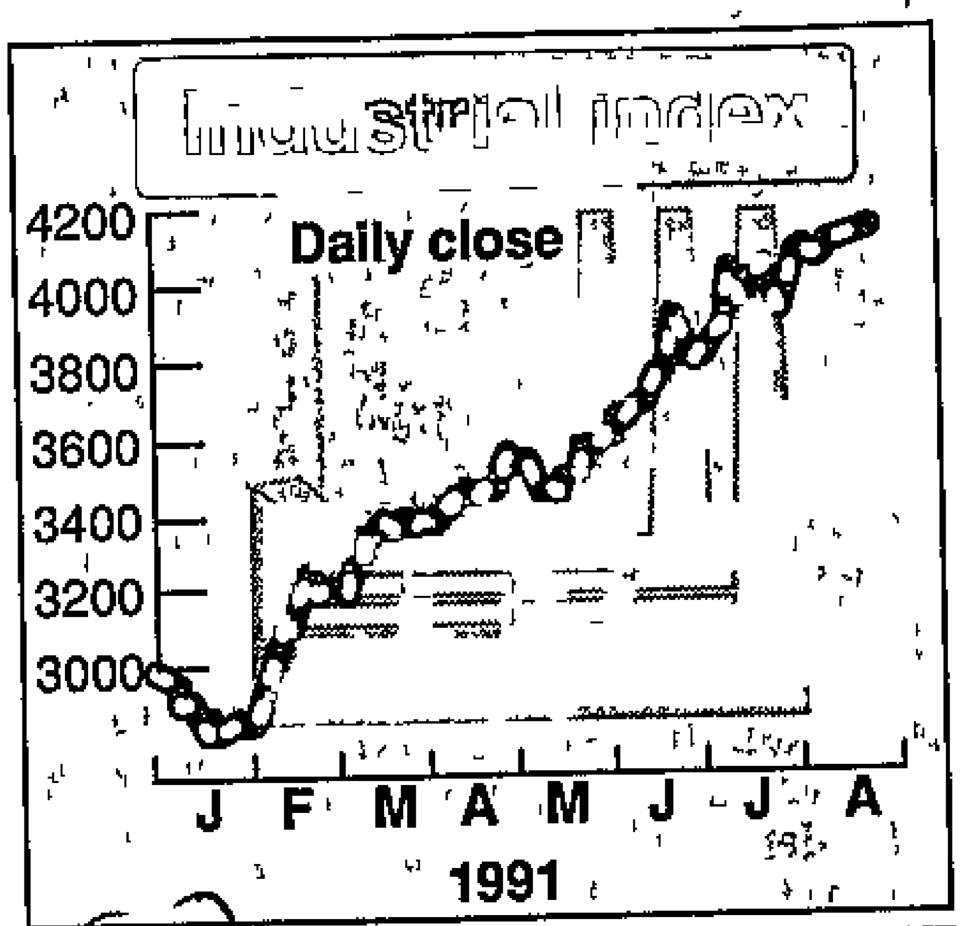
Foreigners might also invest in the JSE if they were underweight in South African shares which they were "They have been sellers for the past five years and many do not have any at all"

Thirdly they may buy if they perceive a bullish story unfolding "I think that with the thawing of the political and economic ice pack there is no doubt that South Africa qualifies on that score

"The fourth reason, and perhaps the most cynical, but true, is if the market is going up — especially if they do not have shares in that market This year, measured in dollar terms, South Africa has been one of the best markets in the world

"There are a number of reason why I think investors will move to get some exposure in the South African market.

"The Old Mutual South African Fund, which is to be launched overseas in the next few weeks, is designed to capture that interest"



Graphic: LEE EMERTON Source INET

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Industrial index keeps on rising

B/Day 14/8/91

MERVYN HARRIS and ANDREW GILL

LEADING blue chip shares forged ahead on Diagonal Street yesterday to sweep the JSE industrial index to a record high for the third successive session

The 22-point rise in the index to a new high of 4 142 came as foreign and domestic demand for selected industrial leaders showed no signs of abating in spite of lower precious metal prices which dampened interest on the mining boards.

Gold was under pressure on bullion markets from a weaker platinum price, which slid $4,50 to $351 in London yesterday afternoon Dealers said while platinum's losses were modest and the metal held above key support at $350, it had a disproportionate influence in a thin market.

Weighed down by the losses in platinum, gold eased $1,30 to close in London at $357, dashing hopes that it would start edging back to the $360 level after its recent fall.

The easier price of the metal put gold shares under some pressure on the JSE but a softening in the finrand to R3,24 to the dollar from R3,22 gave support to currency-linked shares

The JSE all gold index declined 21 points to 1 266 to help bring down the overall index two points to 3 506 in another slow and featureless session of trading

Capital market rates climbed a further five points earlier in the day

The key Eskom 168 stock climbed to 16,41% earlier in the day but came back later to end at 16,38%

Huge increase in debt judgments

(232)

B/Day 14/8/91

GERALD REILLY

PRETORIA — Debt judgments had reached the highest level in four years and there were few signs that improvement was imminent, KreditInform MD Ivor Jones said yesterday

Court judgments involving business debts were up by 67% in the first four months of the year and involved a total of R87m — compared with R52m for the same period last year

Jones said record credit levels were being investigated in the commercial and industrial sectors KreditInform figures showed this was not necessarily a move towards an economic upturn, and tough times lay ahead as demonstrated by liquidation and consumer judgment statistics

Kreditinform has provided figures showing a record level of R250m in credit extended to customers in July alone This was an increase of 15% in the number of reports handled in the same month last year and a 25% increase in rand value

The business liquidation level for May, again the highest in four years, was a knock-on effect from the high level of business judgments in 1990, when the value reached R21m in November alone

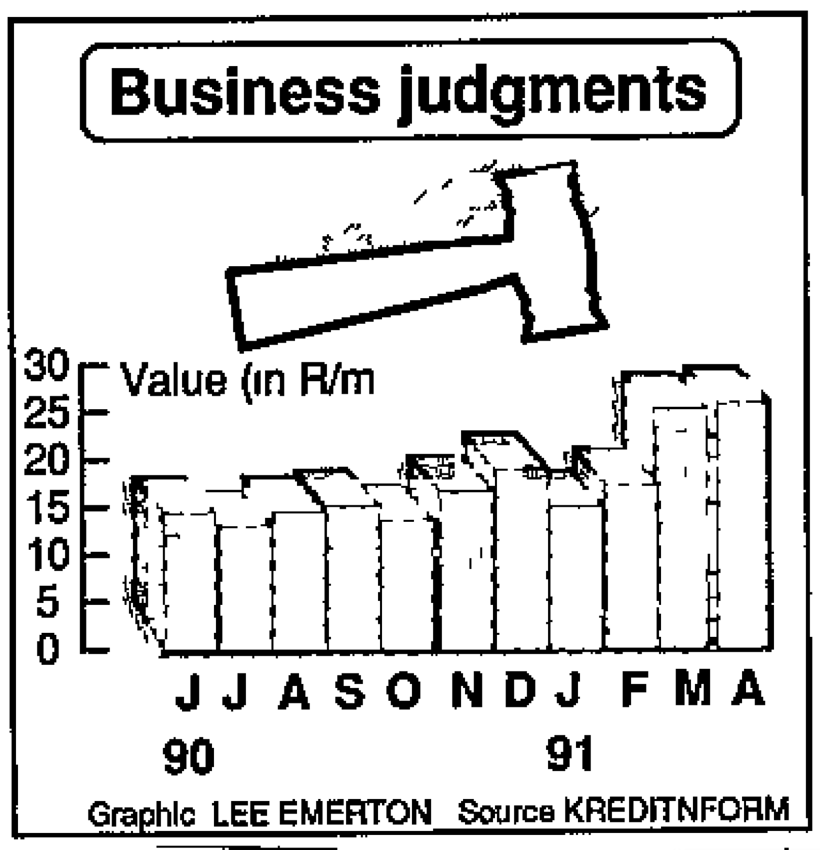
"These key economic indicators suggest there is still a lack of liquidity in the SA economy and that recovery is not yet imminent"

Jones said because of a slump in sales, many companies were taking risks they would not take under more normal economic conditions

Some were chasing sales without sufficient probes into the financial backgrounds of risk clients

Kreditinform's information sharing system (Kiss) showed turnovers from sales in the manufacturing sector were down, in some cases by more than 25%

Kiss processed in excess of R883m a month in credit granted by members in building and construction, textiles, and the radio, TV and appliances industries



Graphic LEE EMERTON Source KREDITINFORM

Debt cases highest in four years

CT 14/8/91

(232)

Own Correspondent

PRETORIA — Debt judgments had reached the highest level in four years and there were few signs that improvement was imminent, KreditInform MD Mr Ivor Jones said yesterday

Court judgments involving business debts were up by 67% in the first four months of the year and involved a total of R87 million — compared with R52m for the same period last year

Mr Jones said record credit levels were being investigated in the commercial and industrial sectors. KreditInform figures showed this was not necessarily a move towards an economic upturn and tough times lay ahead

This was demonstrated by liquidation and consumer judgment statistics.

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The business liquidation level for May, again the highest in four years, was a hangover and knock-on effect from the high level of business judgments in 1990, when the value reached R21m in November alone

"In spite of growing optimism about an upswing, these key economic indicators suggest there is still a lack of liquidity in the South African economy and that there is not yet a recovery"

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NATRUST

Quality portfolio

Few investment trusts have been listed in recent years, so the flotation of Natrust this week merits attention It has a high quality portfolio of equities and offers an interesting alternative to unit trusts

As a closed-end trust, the number of shares in issue will remain constant, subject only to possible but infrequent events such as rights or capitalisation issues Unit trusts, in contrast, are open ended, so their number of units fluctuates with supply and demand Unit trusts tend to have a regular inflow of funds to invest, but that can be a disadvantage in a market such as the JSE, where first-line shares are difficult to obtain at attractive prices

The unit trusts are also subject to the Unit Trust Act, whose requirements are intended as safeguards for investors, but can be inhibiting for portfolio managers They may not hold more than 5% of their assets in any one company's assets at the time of purchase, no more than 5% of a particular class of shares may be held, and at least 5% of the assets must be in liquid assets Also, the cost of entry into a unit trust is relatively high, at about 5%

These restrictions can result in unit trusts holding an increasingly wide spread of shares, making it difficult for them to outperform the market Natrust, however, is being listed with an existing portfolio of 28 shares, of which most are blue chips Roughly half are rand hedges

A report by broker Simpson McKie shows that at August 2 — when the market value of the portfolio was R101,5m — 10 investments accounted for some 84% of the total These were Richemont (21%), Rembrandt Controlling and Rembrandt Group (18,3%), Pepgro and Pepkor (10,6%), Gencor Beherend and Gencor (8,4%), Anglovaal (5,7%), SA Breweries (5,6%), De Beers (4,4%), Barlow Rand (4,4%), Tiger Oats (3,5%) and Murray & Roberts (2,3%)

Growth in Natrust's NAV has easily outpaced the JSE Overall index since the beginning of 1988 According to the prelisting statement, increases over the five years from 1986-1990 in EPS, dividends and NAV, with investments at market values, show compound annual growth rates of 18,7%, 16,6% and 28% respectively These compare favourably with the compound growth rate of 15,5% in the JSE Overall index over the same period

Natrust was formed in 1960, to enable shareholders in Bonuskor to re-invest their dividends in a portfolio of listed equities Re-investment of Bonuskor dividends ended in 1973, when Natrust became a closed-end trust and shortly afterwards Senbank acquired 23,5% and took over management Market value was then R4,4m

Three institutions now hold nearly three quarters of the 27,6m issued shares Senbank has about 26%, Sanlam about 25% and Volkskas about 23% The rest are held by

FM 16/8/91 (232)

2 347 smaller investors, each with more than 2 000 shares Chairman Rob Wood reckons the portfolio has reached a size that justifies a listing, which should make trading easier for existing holders and, it is hoped, attract others

About 75%-85% of income will be distributed, unit trusts must distribute all their income With its present size and marketability, the counter will not be an investment for institutions, but it's expected that enough shares will become available to provide a market for individuals

Investment trusts invariably trade at a discount to NAV, but management is assuming that the discount will be fairly small Simpson McKie is suggesting a discount of around 10% to the 371c NAV of earlier this month That would give a price of about 330c, which looks fair value in this market Once a market value and an image has been established, the board may take steps to increase marketability, such as a cap issue

Andrew McNulty

DEREGULATION OF THE JSE FM 16/8/91 (232)

Unshackling the market

Fears of disruption are overstated — legal barriers to entry must be cut

A healthy stock market is central to the free enterprise system The efficiency of the market and the esteem in which it is held are pivotal to ensuring a working and growing economy

All that has long been a part of capitalist dogma — which regards equity markets as efficient mechanisms for raising productive capital — and there is no reason why it should not apply right here at home If markets are to function as they should, they must be allowed by regulators and lawmakers to work efficiently and without restraints that essentially serve to protect vested interests

Yet several fundamental restrictions on the operations of the stock exchange are enshrined in statutory law This means that while a debate over whether Diagonal Street should move towards its own version of a "Big Bang" has droned on for years, as things stand the Stock Exchanges Control Act does not allow the option of dropping restrictive practices

Moves to eliminate these legal barriers to entry should be encouraged, not hindered That is not the same as saying that SA should rush into a market revolution by diktat — risking all the adverse consequences that occurred in London — nor is this what the authorities intend

Piet Badenhorst, Registrar of Stock Exchanges, is to recommend that government amend the Act by eliminating three key clauses and substituting "neutral" legislation These amendments would result in an end to the statutory requirements of fixed commissions, single capacity trading and the limitation of membership of the JSE to natural persons It is hoped this will be done during the 1992 parliamentary session and it would be a big step towards opening up the equity markets — at least from a legal standpoint

Deletion of these clauses would not in itself open up the game immediately The JSE would remain a self-regulating body Barring further developments, such as a more assertive stance by the Competition Board, the JSE would be entitled to continue to enforce these restrictions on its own members

Indications so far are that this is what the JSE committee wants to do Badenhorst decided to recommend the changes only after the matter was investigated and considered by the Financial Services Advisory Board (FSAB) Only two of the board's 11 members voted against the changes — JSE president Tony Norton and the past committee chairman Peter Redman

Other members of the FSAB are Reserve Bank Deputy Governor Chris de Swardt (chairman), Rand Merchant Bank chairman "GT" Ferreira, Standard Bank of SA MD Mike Vosloo, Safex chairman Colin Dunn, Absa economist Hans Falkena, independent economist Pierre Faure, Eskom treasury manager Willem Kok, Southern Life CE Jan Calitz — and Badenhorst

These, of course, include clients and potential competitors of stockbrokers It would be difficult, perhaps impossible, in this small community to put together any committee of experts on financial markets which is patently free of all vested interests It may be argued that other members of the board are no more disinterested than are Norton and Redman, presumably, too, they would think it is in their interests to improve rather than harm the market mechanism

Change in the legal framework under which the JSE operates would follow the broader development of the regulation of local financial markets over the past five years As shown in the chart, these markets are now subject to two separate Acts The Stock Exchanges Control Act (1985) controls equity trading on the JSE, while the Financial Markets Control Act (1989) controls gilt trading by members of the Bond Markets Association (BMA) as well as trading in futures and options by members of the SA Futures Exchange (Safex)

Though the Stock Exchanges Control Act was amended in 1985, it remains a much older body of legislation than its 1989 financial markets counterpart On the BMA and Safex, corporate membership and dual capacity trading is allowed, on the equity market, only individuals (or partnerships) may become members and dual capacity trading is prohibited

These restrictions are rooted partly in the historical development of the JSE Their defenders will also cite the special characteristics of the local financial system — such as oligopolistic structures, limited foreign competition, strict exchange control regulations and the low liquidity of the JSE

But this fragmented legal structure, as well as the restrictions on equity trading, differ from thinking elsewhere Following its investigation after the 1987 Crash, the Brady Commission in the US recommended a single regulatory authority for related financial markets in the US, including equities

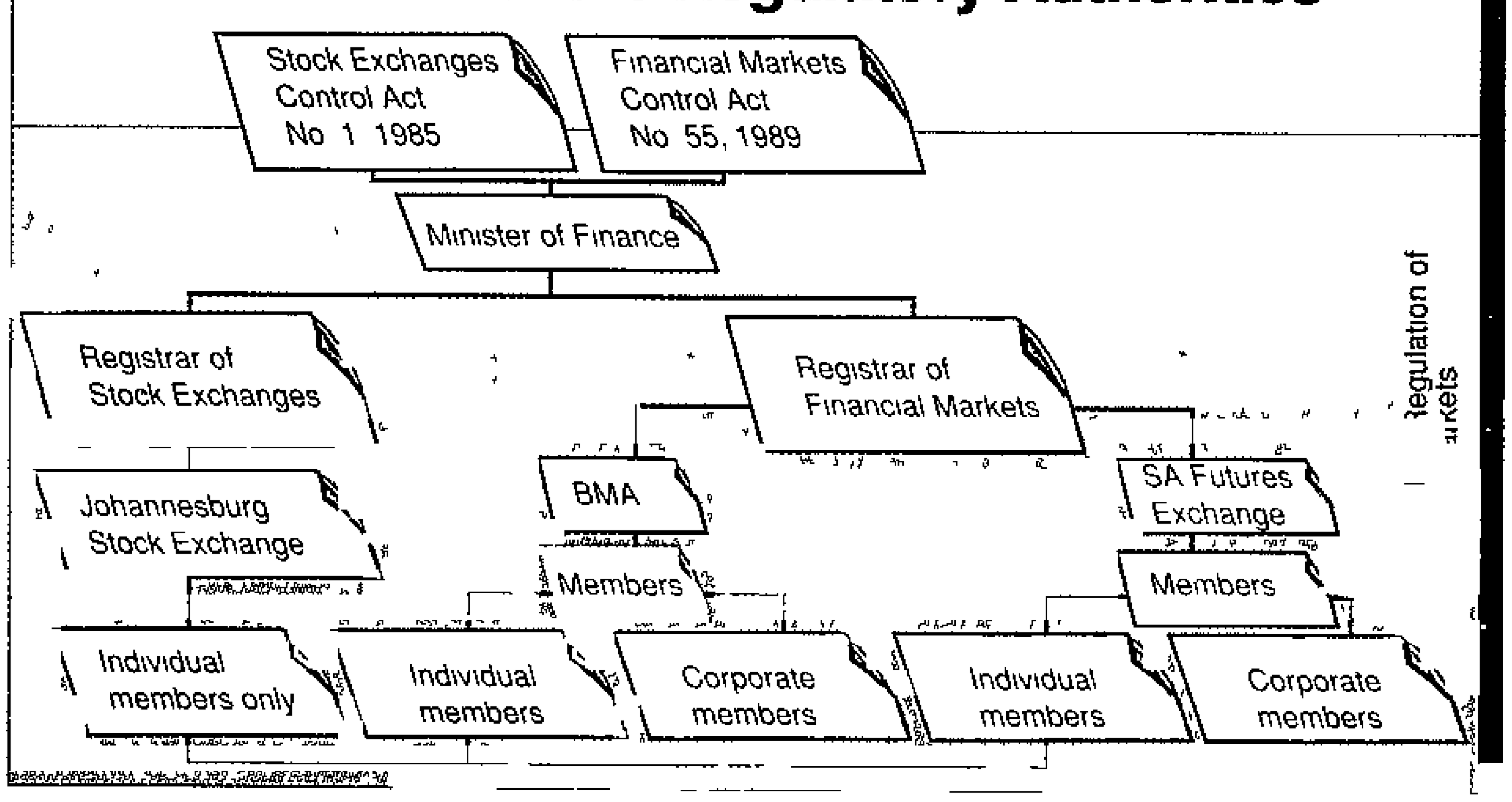
The JSE is one of the few major markets in the world that trades only by open outcry Tokyo is apparently the only other major market where brokers work on fixed commissions

Events elsewhere have taught that the changes feared by Diagonal Street's brokers are not necessarily beneficial London's experience since its Big Bang in October 1986 has been miserable, as owners and employees, past and present, of many loss-making or closed broking firms would attest

Perhaps the biggest error of the London market's regulators was to decree that fundamental changes be made at a single stroke Negotiable commission charges were introduced, security houses, banks and institutional investors were allowed to become members of the exchange, foreign participa-

How regulation has evolved

Stucture of the Regulatory Authorities



tion was encouraged, dual capacity (the right to trade as principal rather than just as an agent for clients) was open to all members, and an electronic screen-based trading system was run in tandem with the open outcry floor

In the atmosphere of an international bull market and with the "globalisation" of financial markets a canon of faith, banks and other institutions rushed for a slice of a market that was not big enough for all Administrative and surveillance costs soared Whereas jobbing or market-making had previously been a niche for only a few specialist firms in London, brokers moved swiftly into dual capacity trading

In theory, the market-makers improve liquidity by standing ready to quote a price in a stock at all times As was shown in late 1987, when the market is going badly against them it may be beyond their power to do so — they simply get wiped out trying

A more important concern is the conflict of interests that can arise when brokers trade in dual capacity Will the buyer or seller of equities feel comfortable that the broker is not trading against his customer? Even with elaborate new regulations, such as Chinese Walls or limitations on when a broker may act as agent or principal (different days of the week, for example), it may be impossible to avoid suspicions or, perhaps, the practice, of front-running

Part of the problem is that these issues are interrelated The concern is that a determined move to negotiated commissions on the JSE may hasten the arrival of corporate membership because independent broking firms would no longer have enough capital Corporate membership, the argument runs, would ensure the advent of electronic trading and dual capacity

Dual capacity is a worrying prospect even for the JSE's more successful broking firms As Ivor Jones, senior partner of Ivor Jones, Roy, puts it "Dual capacity is a bad business If that happens here then we will have to consider whether we want to remain in this business at all "

Nobody should underestimate the risks involved in changing the regulatory structure of the equity market In fact, few if any of the banks or assurance companies have been showing great enthusiasm about going into the stockbroking business themselves Nor does there appear to be much criticism about the present level of brokers' commissions

But the indefensible aspect of their com-

Registrar Badenhorst *revolution through 'neutrality'*

missions is that they are a fixed price, not subject to competition Price cartels have been attacked by government in other industries, yet a blind eye is turned to the stockbroking business — where brokers can't compete on price even if they want to

There is no reason now to assume that elimination of these restrictions from the Act would result in revolutionary change Immediate effects would be to encourage the JSE committee to remove related curbs from the exchange's rules, while other parties would be able to apply to the Registrar for permission to establish a new stock market It should send a message to the committee consider taking a proactive stance and open up the club, because blind adherence to the status quo could result in the JSE becoming irrelevant

However, the JSE has not supported the proposed change to the legislation and it will not be under any direct pressure from the Registrar's office to drop its own restrictions Nor does the option of a new stock exchange seem a particularly practical proposition

Badenhorst points out that the Act stipulates a minimum of 30 members are needed to establish an exchange (though the Registrar has some discretion in this) Should such an application be made, the Registrar would have to consider whether a new exchange would be in the public interest and it would be evaluated according to specified criteria such as efficiency, price integrity and surveillance Effects on the existing market and on small investors would also be considered

Should the Registrar be satisfied on the relevant criteria, he would not have the discretion to refuse such an application On the other hand, provided these requirements were being met by the JSE, he would not interfere in the event of, say, an applicant for corporate membership being turned down by the JSE

That may not rule out the direct intervention of the Competition Board Last year, after the JSE asked the Registrar for permission to increase the brokers' basic charge from R25 to R30 (the first such increase in 29 years), the board was among the bodies that Badenhorst consulted It concluded that "in view of government's policy of deregulation and free competition," it was time the JSE moved to a system of negotiated commissions

This led to the investigation by the FSAB and the proposed legislative changes The board could insist on more open markets, should complaints be received in a freer legal environment That may not be altogether a bad thing — though a further slide into a legalistic rather than economic approach to regulation should be avoided

If the approach of the Registrar's office is to knock down legal barriers to entry and then let the markets take their course, it is a move in the right direction It remains to be seen whether the present moves will go far enough However, the regulators should not make the mistake of decreeing the system to be adopted in future

If dual capacity trading is a bad business and if electronic trading is too visible or eliminates the intuitive trader from the market, or does not justify the investment, nobody should be forced to go into it If the investing institutions want to ensure the survival of agency brokers, that should be their choice

But there is no reason why stockbrokers should be protected from competition There are no barriers to entry in the beer industry, yet SA Breweries wisely and very effectively works on the assumption that strong competition could appear at any time That is what free markets are about It is a misconception that the equity market should be less free than the markets in which the widget-makers must operate ■

EXECUTIVE PAY

In the table accompanying last week's cover story on executive pay, two important figures were transposed "Total cash package" for SA executives should read R305 000 and "Basic salary" should read R247 000

COSTLY LEARNING

The costs of private schooling and university education have become a significant element in personal financial planning *Personal Wealth*, a new quarterly *Financial Mail* publication available from next week, goes into the costs of education in detail — and discusses how you can provide for it It also includes a two-page table of private school fees

Edited by Tony Koenderman, *Personal Wealth* will provide an ongoing guide to personal finances every three months It will cover how to make, save, spend and enjoy your money

The publication will be distributed free to subscribers of the *FM* and of MIMs, the monthly medical directory owned by Times Media Ltd It will not be included with casual sales of the *FM*, but will be on sale separately for R5 a copy

Industrials' record run comes to a halt

232

Star 16/8/91

By Jabulani Sikhakhane

A firmer financial rand and a negative view on the rise in German interest rates took the edge off the industrial market yesterday after five record breaking days

The index fell by 56 points or 1,3 percent to 41 11, but rebounded to close the day at 4 128

Analysts said that the industrial market had run too fast too far and needed a reason to correct, which was provided by the rise in German rates and the firmer finrand

The Bundesbank, the German central bank, announced yesterday that its discount rate would increase from 6,5 percent to 7,5 percent

Analysts said the recent sharp gains in the industrial market had been discounting an anticipated drop in local interest rates

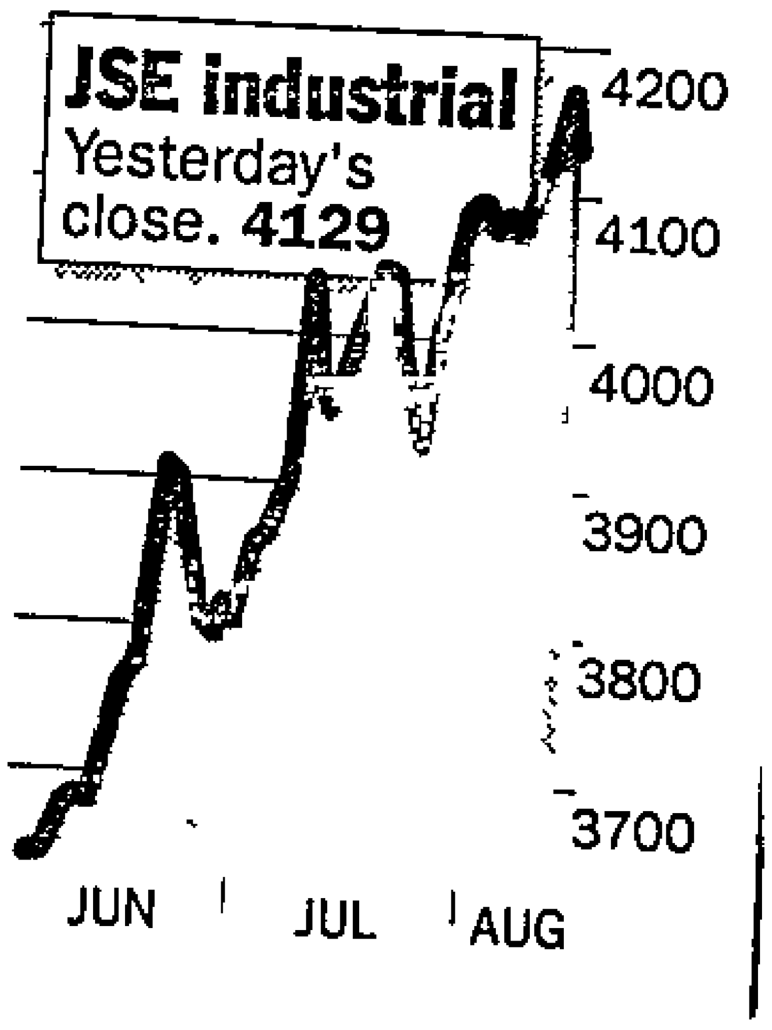
However the increase in German interest rates had dampened those expectations

Tony Twine of the Econometrix think-tank said that most of SA's trade is with European countries whose currencies tended to follow movements in the Deutschemark which is expected to strengthen against the rand

"The majority of our imports will become more expensive Most of our exports are US dollar denominated and if the rand strengthens against the dollar, our export earnings will decrease in rand terms"

But the rand showed no reaction yesterday, closing unchanged at R2,87 to the US dollar

Frankel Max Pollak Vinderine analyst Mike Haworth added that higher import costs and reduced export revenue would affect the country's balance of payments, inducing the Reserve Bank to mantain interest rates at current levels



It's boom or bust on the industrial market

(232)

Star 17/8/91

DEREK TOMMEY

ANYONE who bought industrial shares or invested in a general equity unit trust this year should be a happy person today

Since the beginning of this year industrial share prices on the Johannesburg Stock Exchange have soared and increased the wealth of investors by hundreds of millions of rands

Since December the industrial index has risen by about 37 percent making the JSE one of the world's top performers

But there is an increasing concern in the market about whether these prices are justified in current tight money and world recessionary conditions

Profit expectation

The majority of market analysts seem to believe that current share values are pretty solid as they reflect the 'weight of money" seeking investment in shares and the expectation that business profits will start improving next year

But there are others who feel that industrial share prices have risen far too fast, and are outrunning profit expectations

If the economy does not start picking up soon, share prices could start retreating, they say

Those supporting the "weight of money" theory refer to the proposals to allow life offices and pension funds to increase their holdings of shares from 65 percent to 75 percent of their portfolios

Reserve Bank figures show this would enable the life offices, which at present have R45 billion shares, to invest some R85 billion in the market, while pension fund investments could go from R19 billion to R41 billion

In addition to these sources of funds the state pension fund is also considering investing in the share market.

However, neither the life offices nor the pensions are anywhere near their present maximum limit of 65 percent, and it is regarded as highly unlikely that they will increase their investments in shares to anywhere near 75 percent when the regulations are changed

But the proposals do indicate that substantially more institutional money will be invested in shares

In fact much of the latest rise in industrial shares is believed to be the result of institutions and pension funds buying ahead of this expected greatly increased inflow into the market.

This led a broker to comment that the market is not based on value but simply on the level of funds available for investment.

Supporters of the "weight of funds" theory say that the industrial market is not really overvalued The current tight money conditions are forming a firm base for a major take-off in the economy, and industrial earnings in the next three or four years could easily average 15 percent a year compounded

"The market is just discounting further ahead than it normally does," was one comment.

But other analysts point out that share earnings have not increased anywhere near the increase in share prices

Given the collapse in the world commodity markets, there is also little sign of a strong rise in earnings for some time to come.

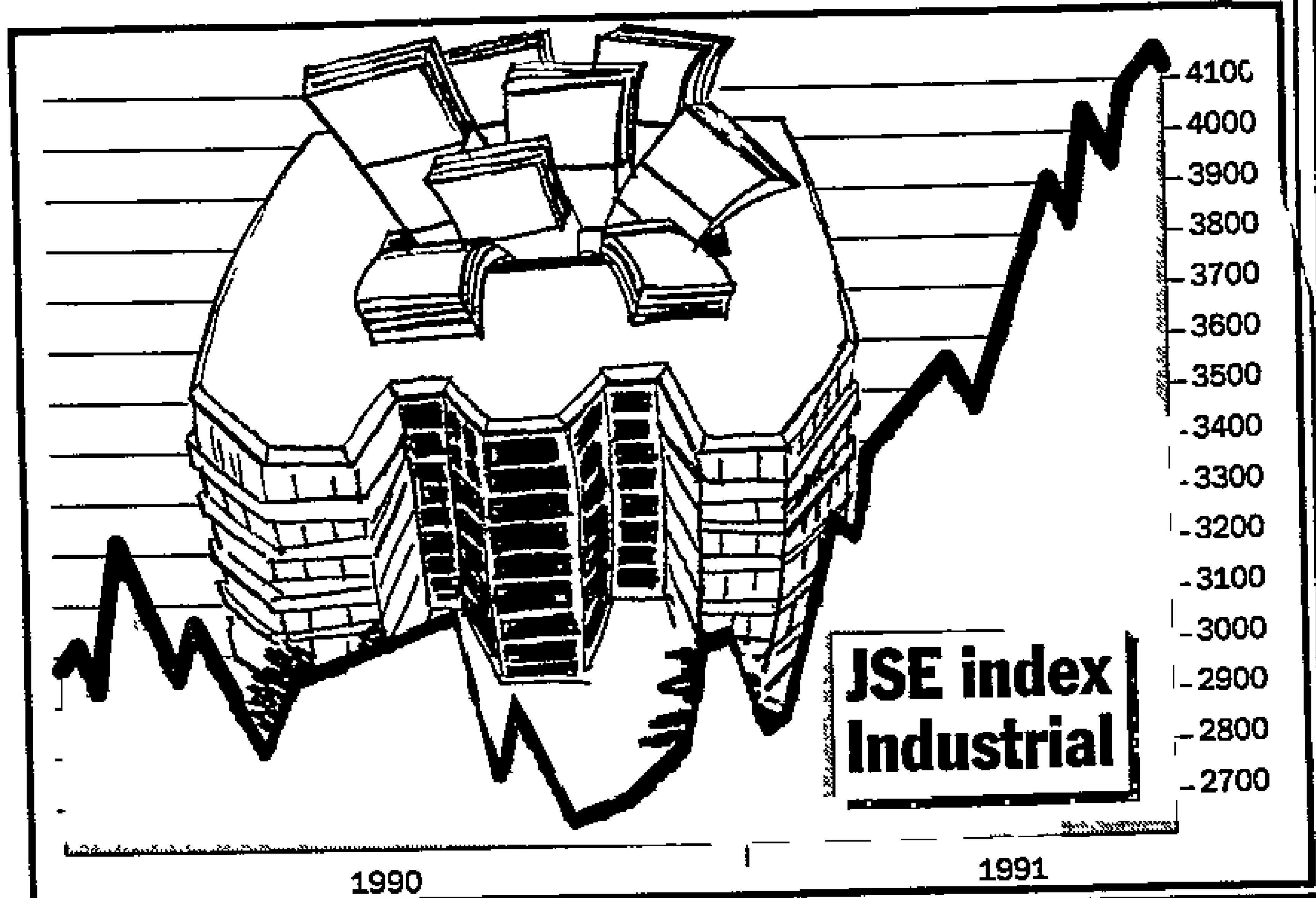
Although the industrial index has risen around 37 percent since December, industrial earnings are about 5 percent lower than in December, according to JSE figures

An analysis of 22 industrial and semi-industrial sectors (see table) shows that earnings in 14 have dropped since December, while the greatest increase in earnings in the other eight was only nine percent.

Looking ahead, there is also considerable concern about the effect of the slide in commodity prices on the South African economy

While these low commodity prices could help the world economy pick up fairly quickly, it will be a "low inflation" revival

This means that South Africa could miss the recovery unless its 15 percent inflation rate is reduced to international levels And this suggests that the Reserve Bank's tight money policy is likely to continue for some time — and therefore company profits might not show the growth expected, say these analysts



Changes since December 31

INDEX	PRICE %	EARNINGS %
Motor	108	6
Tobacco	65	8,4
Pharmaceuticals	62,6	-13,8
Transport	54,4	3,2
Building	50,2	-3,7
Insurance	49,6	-0,3
Bev and Hotels	44,7	9,6
Printing and Publishing	42,7	-12
Stores	42,5	5,8
Paper and Packaging	42,1	-9,3
Industrial holdings	39,6	-4,5
Banks	38,2	9,3
Engineering	37,1	-110,3
Industrial	36,8	-5,3
Sugar	34	-5,8
Property	30	5,1
Steel	30	-21,5
Food	26,2	-0,4
Chemical and Oil	16,2	-1,5
Clothing and Footwear	7	-32,2
Furniture	0	4,4
Fishing	-2,2	-18
Electronics	-12,4	3,7

JSE jitters as blue chips get shakes

S/Times (Bus/T) 18/8/91 (232)

By DAVID CARTE

INVESTORS caught their breath on Thursday when, after reaching all-time highs on Tuesday and Wednesday, leading shares cracked

Anglo American surged to R123, then dropped to R120 in 30 minutes as buyers pulled out

SA Breweries dropped to R58 from a record R60 and Remgro moved equally suddenly off its high of R25,10c to R24 All three held lower levels on Friday

A stockbroker's analyst says "There's quite a lot of anxiety On the one hand we have brightening fundamentals The accord reached between the Government, the ANC and Inkatha at Barlow Park did something to assuage concern about Ventersdorp

"Domestic and foreign economies seem to be at the beginning of an improvement — and there's still a desperate scrip shortage

"But the dividend yield is under 3% for the first time since the crash of 1987 — and before that 1969"

Doyen

Broking doyen Max Borkum says "I like this market Some really big lines are trading and volumes beat R115-million twice this week Brokers are making a living again The market can't be overvalued The small man is not there and there have been no big rights issues yet"

A fund manager for one of the Big Three banks says "The market is ridiculously stretched It's got to the realm of madness You get bad results from Amic, Barlows and De Beers and the share prices move up

"The 1987 crash happened after the Bundesbank lifted interest rates and it put rates up this week Everyone forgets what might happen if the finrand goes or if the Reserve Bank permits foreign investment"

Another broker's analyst says the market has got ahead of itself and it will take time for the fundamentals and the real economy to catch up

"I know the average dividend yield is under 3% — but dividend cover these days is better The average PE is 13, compared with 30 in 1969 and 15 in the booms of 1963-64, 1972-73 and 1986-87

"Our firm believes earnings on average will grow by 12% in the year ahead If prices remain stagnant, therefore, the PE one year out will be under 11 With the real economy improving and earnings rising on average by at least 20% in 1993, on a two-year view, we are looking at an average PE of less than 10 That's not demanding

"Nobody is tapping the market for funds The institutions are cash flush and the State pension funds are looking for equities Registrar of Financial Institutions Piet Badenhorst is looking at changing the prudential guidelines for pensions and it is likely he will raise the equity limit from 60% to 75%

"The long bond rate rose 17 points this week after Chris Stals's talk to business The long rate has moved from 15,2% to 16,8% in the past two months That means people have given up hope on inflation In SA, when inflation threatens, investors run for equities"

The platinum price reached a six-year low of $335 on Friday, a fall of $20 on the week Both Impala and acquisition Barplats weakened Rustenburg fell from R71 to R67 It was R87 in May

M-Net was traded heavily after signing up its 600 000th subscriber A broker said some demand came from abroad

Strike

Safcor's good results gave parent Curfin a boost Stocks & Stocks did well on its results plus its work for SunBop SunBop was also rock solid QData's sterling performance also caught the eye

The aftermath of the motor strike hit McCarthy (off from 485c to 440c) and Toyota, which shed R3 to R32 New investment trust Natrust had a good debut, opening at 330c, a discount of only 10% to net asset value of 380c

Prefcor's well-timed new issue was 40% oversubscribed Heavily traded Iscor was firm at 245c ahead of results on Thursday

Unit trusts look to blue chips of future

(232)
S/Times (Bus/T) 18/8/91

By DAVID CARTE

AFTER years of concentration on the big 50 shares, unit trusts are starting to nibble at second-liners.

Their purchases could point to potential blue chips

In the quarter to June, Old Mutual Industrial, for instance, picked up 800 000 Toco, 320 000 Uniserv, 90 000 Da Gama, 25 000 Dimension Data and 500 000 Sunpak.

Fedgro bought Klipton, Royal, Toco and Delta Electrical

UAL Selected Opportunities went for Berzack, Rainbow, Clinic Holdings and Lion Match

NBS bought Royal and Berzack, while Syfrets evidently liked the look of Keeley Group, Keeley Granite, Berzack, Hudaco and Unitrans

Guardbank and UAL seem to have stuck to the big 50

The unit trusts provide a window on what institutions are doing in their main portfolios Companies given the seal of institutional approval are likely to be grateful.

Bullish

Old Mutual reports that cash flowed in so strongly in one of the best-ever quarters for unit trusts that it was obliged to buy heavily in all its funds

The main fund bought shares worth R141,1-million and its sales were R10,5-million

Old Mutual is obviously bullish on Iscor, since the main fund picked up 3,3-million shares, while Old Mutual Mining sold 1-million "purely to refocus on mining"

Old Mutual made the biggest purchases by far (R44,6-million of Pep, R44,1-million of ABSA and R13,2-million of Minorco)

Guardbank picked up large lines of Impala (R18,2-million), Standard Bank (R18-million) and Rusplat (R17,4-million)

Standard Bank's funds continue to perplex In its report, Standard sells unit trust investment hard It even incorporates a bullish article by Richard Jesse of stockbroker Martin & Co on the virtues of unit trust investment

But Standard persists in keeping a large portion of its assets in cash. Fund manager Gaston Antelm says. "It's because the market does not offer good value at the moment."

It seems a contradiction to woo investors into unit trusts because equities do better than fixed-interest investments — and then to keep their money on call.

At June 30, Standard's main fund was 41% liquid and the gold fund had 28% in cash

Bearish

Standard has been bearish about the market for more than three years In that time, its cash component has never been less than 25%. Its performance over three years is ninth best among the 19 general equity funds but over seven years it ranks fourth

Other liquid trusts are Senbank (46%), Fedgro (29%), Commercial Union (24%), NBS Hallmark (23%), UAL Resources (19%) and UAL 18%

After changing its name from Allegro, Commercial Union restructured its portfolio "to focus on quality" It sold Teljoy, Iscor, Grintek, Southgo, FNB, FIT and Boumat and bought Rusplat, Liberty, ABSA, Pick 'n Pay and Rembrandt

FIT was also sold by Sanlam Index Old Mutual Mining sold ET Cons, Vaal Reefs, Rooiberg, JCI and Sasol and the main fund sold 1,6-million Robor and 1,4-million Pep

● **A colleague on Business Times reported wrongly two weeks ago that the Association of Unit Trusts is to cease publication of quarterly figures In fact, the association has asked commentators no longer to analyse results for only a quarter because it believes the medium is for long-term investment only.**

Harsh words for SA's unit trusts

STimes (Bus [T]) 232

18/8/91

DIAGONAL STREET by David Carte

of March, a per capita holding of R1 700 among only the white population compared with Australia's R4 300

Mr Coombs reports that Sanlam's trusts have grown fastest in the two years to March, expanding nearly 70%, followed by Guardbank (57%) and Old Mutual (54%).

Mutual had by far the largest market share at 31,8%, followed by Sanlam (15,8%), Guardbank (14,1%), UAL (11,2%) and Sage (10%) The top five managers controlled 83% of investors' funds

He says that in spite of new entrants, more funds are accruing to fewer managers Old Mutual has retained its market share in the past two years, while 17 share the rest of the market compared with 12 in 1989

Mr Coombs says that in Europe an asset base of less than $500-million is considered non-viable and in Australia A$100-million is considered the minimum sustainable size.

Unit trusts he considers "vulnerable" because of their lack of "critical mass" are Southern, Momentum, Safegro, Metboard, BOE, Corbank, NBS Hallmark, Fedgro, Norwich NBS, Commercial Union and Senbank.

The number of holders of units in SA has grown by 45% in the past two years to 753 000 General equity and high-income funds showed best growth.

Commercial Union has increased the number of accounts by 345% in a year, NBS Hallmark 78%, Sanlam 58%, Norwich NBS 53%, Syfrets 39% and Southern 37%

Sanlam did most to increase market share in terms of the number of accounts, raising its share from 16,8% to 21,2%

Senbank enjoyed the biggest average account value at R92 683, followed by Safegro at R69 429, Corbank at R36 952 and UAL at R33 737 Norwich NBS had the smallest average account at R3 127

Quoting market researcher Markinor's estimate that 5% of blacks have incomes of more than R16 000 (against 80% for whites), Mr Coombs says "That level of income arguably allows at least a R50 a month investment programme"

He calculates that 4-million whites and 1,76-million other races earn more than R16 000 a year and that therefore 1,25-million are eligible for unit trust membership The potential market is thus 1,7 times greater than the present account base

Mr Coombs criticises the rule requiring trusts to levy a 0,5% yearly management fee. He says it restricts the market, fostering oligarchy and limiting choice — because the rule presents an entry barrier to small fund managers without a client base, a strong distribution capability or the financial stamina to await break-even.

"In theory it invites questionable practice, for instance applying cross holdings within trusts operated by the same manager or operating a redemption-repurchase 'box'

"A far more effective way to protect investors is to mandate presentation of essential information before investment and before any fundamental change is enacted "

Mr Coombs says there is an appalling dearth of information about who manages which funds and the philosophies of their teams. He believes they should disclose their favourite sectors and why — and whether the team does its own research.

JSE's BDA to be put to the vote

ROBERT GENTLE 232

THE future of the JSE's new R6m Broker Dealer Accounting (BDA) system is in the balance after increasing signs that stockbroking firms are not prepared to use it.

JSE president Tony Norton said in an interview on Friday that there had been "some unhappiness" in stockbroking ranks since the committee's decision last month to order all firms to adopt BDA. B|Day 19/8/91

Consequently, a special general meeting had been convened for August 30 at which the issue would be put to a vote — despite the fact that it was in the committee's powers to decide on BDA without consulting the membership.

"In the interests of democratic choice, we have decided to consult the members," Norton said. "It makes good sense."

About 13 of the largest stockbroking firms — who account for 33% of all equity trades — have been using a rival system called MASS for many years and some are understood to be against the switchover.

The feeling in certain sectors of the stockbroking community since July 12 has been that the committee forced members to adopt BDA in order to recover the steep development costs and prevent it from becoming a white elephant.

Norton would not be drawn on what would happen if the members voted against the introduction of BDA. "We cannot pre-empt the decision," he said.

Bidvest's turnover soars 357 percent

Star 19/8/91

(232)

Bidvest Limited reports an increase in turnover of 357,59 per cent to R411,6 million (R115,1 million) and attributable income rose by 310,6 percent to R17,5 million (R5,6 million) for the year ended June 30

A final dividend of 65c a share (51c) has been declared bringing the total for the year to 115c a share, an increase of 19,8 percent over the previous year's 96c

Earnings per share, on an undiluted basis increased from 241,3c to 351,7c

Bidvest chairman Brian Joffe said the increase was especially pleasing given that extra shares had been issued during the period under revue

Due to the re-organisation of the group last year and the acquision of Steiner Services with effect from May 1 this year comparative figures provided in Bidvest's statements are not truly comparible.

Pyramid holding company Bidcorp, which has a 60 percent stake in Bidvest, reflected the increase reported by Bidvest.

Attributable earnings increased by 16,2 percent to R14,2 million (R12,3 million)

Earnings per share rose by 15,5 percent to 145,5c (126c)

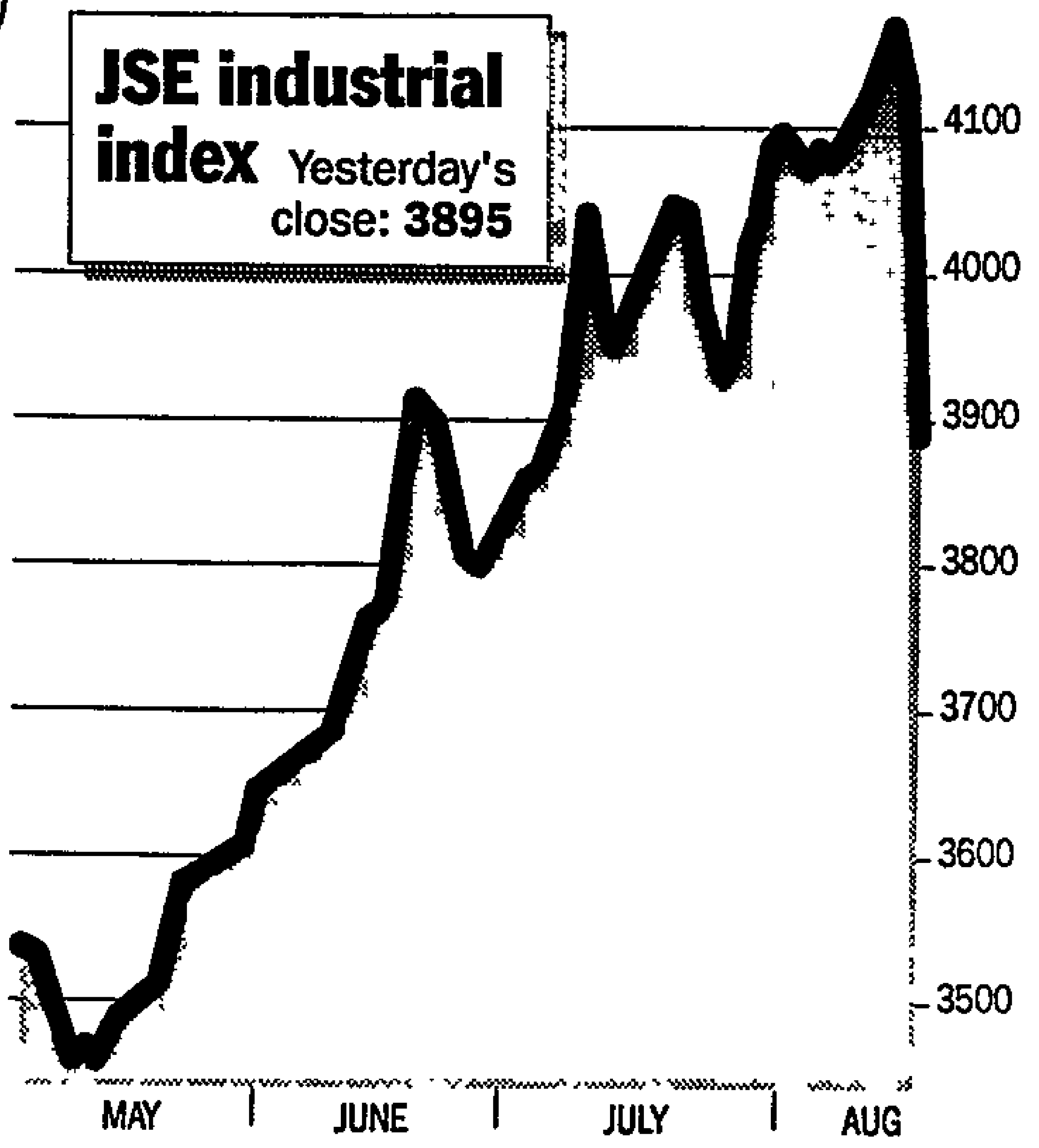
A final dividend of 35c a share was declared bringing the total for the year to 60c (50c) — Sapa

JSE battered along with world markets

Star 20/8/91

232

By Jabulani Sikhakhane



Share values on the JSE plunged yesterday as world markets were battered in the wake of the ousting of Soviet President Mikhail Gorbachev.

More than R17,85 billion was wiped off its market capitalisation and the overall share index closed 182 points down to 3293 — off a low of 3284 during the day

Industrials fell sharply, the index losing 235 points or 5,7 percent to 3887 But it recovered to close at 3895, as buyers returned to the market in the last few minutes of trading to pick up leading industrial stocks at the lower levels.

Hopes that world bullion prices would benefit from the turmoil and provide some consolation for the setback on the equity market were short-lived. After peaking at $365 in early trading in London, gold closed in New York only 90 cents up at $358,85

Gold shares reflected gold price movements, closing off their highs for the day The JSE gold index touched a high of 1289 before falling to 1269 — up only 14 points on the day.

Jack Shapiro of Frankel Max Pollak Vinderine said there wasn't a lot of selling pressure on the market. "The market has adjusted for the expected falls on Wall Street. If Tokyo doesn't fall further today, then the losses on the JSE will also level off"

Among leading shares De Beers, which has a diamond marketing agreement with the Soviet Union and has loaned them $1 billion, fell 850c to R82,75 It bounced back to close at R84,25 with 183 295 shares worth R15,7 million traded.

A spokesman for De Beers said the situation was being monitored, but it was still too early for meaningful comment Associate Anglo American lost R11 to R109,50, but recovered to R111,50

Industrial leader Barlow Rand, trading 222 207 shares worth over R10 million, fell to R44,50 but recovered to R44,75 at the close SA Breweries also recovered from a low of R54,75 to close at R55,25 — down 275c on the day Over 102 000 shares were traded

Dealers said gold price movements were reflecting uncertainty about the events in the Soviet Union

David Meades of Meades de Klerk said there was speculation in the market that the Soviets might be forced to sell gold to raise foreign exchange since any possibility of financial aid from the West had been squashed by the ousting of Gorbachev

"If the coup had taken place two or three weeks ago, we could have seen gold breaching the testing $372 level"

But Southern Life, senior general manager-investments, Paul Beachyhead said the events in the Soviet Union had not yet threatened the discipline of the strict monetary policies followed by the Western central banks

Until that happens the environment for gold is not positive We are not likely to see any major fireworks on gold until the disciplined monetary policies of Western central banks are threatened," he said.

He said world equity markets had also built in the "peace dividend" resulting from the improved East-West relations into the pricing of assets If the events in the Soviet Union get worse, that may be reversed.

Mr Beachyhead added that should the situation worsen in the USSR, SA's chance of getting a bigger slice of the international investment funds could be enhanced venue

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Genbel profits from a cut-down portfolio

Star 20/8/91

By Derek Tommey (232)

Anton Botha, managing director of natural resources investment company Genbel, would seem to agree with a leading investment manager who remarked there were only 12 shares worth buying on the JSE.

Since he has taken control of Genbel he has steadily whittled down its shareholdings with successful results.

Genbel reports that it increased its attributable income by 15 percent from R120 million to R136 million in the year ended June.

Earnings a share rose from 28,8c to 32,0c and in line with its established policy all its earnings are being paid out by way of dividends.

The final dividend has been increased by 19,4 percent from 15,5c to 18,5c and a 12,5 percent increase in the interim from 12,0c to 13,5c (This suggests that Genbel did even better than Mr Botha expected.)

Genbel's rearranged portfolio now has only 17 major holdings, against 50 holdings in 1984, and 10 stocks, together worth R2,5 billion, represented 84 percent of the portfolio.

Portfolio

These stocks and their percentage weighting on the company's R3,2 billion portfolio are Genbeheer (17 percent) Impala 12 percent, Engen 11 percent, TransAtlantic 9 percent, Oryx 7 percent, De Beers 7 percent, Sappi 7 percent, Kinross/Winkelhaak 6 percent, Unisen 5 percent and Trans-Natal 3.

Mr Botha says that primary exporters, with their rand hedge components, represent 17 percent of Genbel's net assets, gold shares 17 percent, platinum shares 13 percent, mining financial shares 19 percent and energy and industrial shares 16 percent.

The net asset value of Genbel's shares was 740c at June 30, some way down on the 785c a year ago.

Increased income from Engen and TrasnAtlantic helped increase earnings. Mr Botha says given a moderate recovery in the world economy, earnings and dividends should show a further increase in 1992.

Gold falls as markets recover

(92) MERVYN HARRIS (232)

SLIDING precious metal prices put gold shares under pressure yesterday as the rest of the JSE joined global stock markets in a strong rebound from Monday's sell-off.

Gold slipped to a low of $352,75 in London before recovering to close $4,90 down on the day at $355,50.

The decline came on disappointment at precious metals' failure to hold on to gains.

Speculation that Russia would have to sell gold and platinum to generate hard currency also weighed on bullion markets Platinum fell $8,50 to $344,50 and silver was quoted at $3,96 against the previous $4,0550 B/Day 21/8/91

The JSE all gold index slumped 44 points to 1 225 but the downtrend of platinum shares was stemmed. Leader Rustenburg Platinum, which bottomed at R63,50 on Monday after tumbling from a month-ago high of R74,25, rose 250c to R66.

Dealers said the decline of gold shares also reflected a lower rand gold price which fell R25,50 to R1 028,77 on a combination of softer gold and a slight recovery in the rand against the dollar.

The JSE overall index recouped 2,2% or 76 points to 3 369 after shedding 182 points on Monday as bargain hunters swooped on selected shares.

After plummeting 5,5% (227 points on Monday, the industrial index recovered to close 3% or 118 points firmer at 4 018.

● See Page 10

Stockbroking firm attacks JSE ruling

(232)

B Day 21/8/91

ROBERT GENTLE

STOCKBROKING firm Ivor Jones Roy has attacked the JSE committee's decision last month to impose an R8m Broker Dealer Accounting (BDA) system on member firms and wants a fundamental restructuring of the exchange's finances

It has called on the JSE to sell its buildings and computer division to ensure the exchange's financial survival and to improve cost-efficiency ahead of a possible Big Bang.

Ivor Jones Roy, one of the exchange's leading firms, has circulated a document to this effect to the JSE committee and other member firms

After this "fundamental restructuring", the exchange would have a clean balance sheet and a low cost structure, the document said.

"These are now prerequisites for our survival and no compromises in these areas should be accepted."

If the continued rate of escalation of the JSE's debt — currently at about R50m — was not checked, the equity base of the institution will be jeopardised, it said

"Further, if dual capacity is introduced in the near term, it is imperative that the JSE and its members be as cost efficient as possible."

Ivor Jones Roy is against the introduction of dual capacity trading in the JSE

The document says the JSE does not need to be in the property business — its land and buildings are worth more than R100m — nor in the business of running a massive mainframe-based computer division

"Indeed it is demonstratably less efficient than private enterprise in these businesses and should have no hesitation in privatising them to the maximum extent."

The properties should be sold to JSE members This could be done at a price "attractive" to them and still provide the means to eliminate most of the JSE's borrowings.

At the root of Ivor Jones Roy's dissatisfaction is the JSE committee's decision on July 12 to impose its new R8m Broker Dealer Accounting (BDA) system on all brokers

"We regard this decision as ill-considered, morally repugnant and not in the best interests of members," the document says, adding that the JSE has "utterly failed to do its homework in this area"

At least 13 brokers have for many years been using a rival system called MASS.

"MASS is an efficient, low-cost system which does its job entirely adequately and is capable of being upgraded at reasonable cost to meet requirements of users of the JSE," the document says

The document accuses the committee of

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JSE ruling

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(232)

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"exploiting" the Old Mutual investigation into alleged trading irregularities to put forward the view that a "single system" like BDA under JSE control would enhance investor protection and market integrity.

This single system argument suggests "shades of Zambian and Tanzanian politics"

The committee's decision to impose BDA on members not only infringed their freedom of choice, but was also "legally invalid" because it exceeded the bounds of the JSE constitution and rules, the document said The decision had been taken solely to salvage the "disastrous investment" in BDA, a system so inefficient that "its logical charge rate cannot be borne by its users"

JSE president Tony Norton said yesterday he had no comment to make

COMPANIES

Curfin results justify confidence

B/Day 21/8/91

232

MARC HASENFUSS

STRONG gains made on the JSE by Currie Finance (Curfin) this year were justified by the group's latest set of results and by market expectations of further growth in the year ahead

Helped by a strong performance from 50,1%-held subsidiary SA Freight Corporation (Safcor), the group continued to stave of recessionary conditions and has reported unbroken earnings growth since 1988

Curfin lifted earnings 13% to R10,8m (R9,6m) or 77,3c (68,7c) a share and declared a total dividend of 43c (38c) for the year to June 1991

Curfin chairman Mackie Brodie was relatively bullish and expected the group to match this year's growth in the next financial year

Curfin has attracted considerable investor interest this year, and analysts believe the shares will continue their upward showing in light of the group's growth record

Curfin has climbed from a 300c low in October 1990 and closed at 675c yesterday

Safcor responded in a similar manner and rose to a 750c peak in August after dipping to 235c in October 1990 Safcor gave up 25c last week and ended at 700c yesterday

The market was initially unable to gauge prospects for Curfin after it underwent a dramatic structural transformation and disposed of its core motor retailing division

Early in 1989 the group sold the assets of its profitable Currie Motors to Barlow Motor Investments and the listed cash shell to Bidcorp

Brodie attributes the group's performance to good management under unfavourable business conditions

Management's successful control of overheads improved operating margins and enabled the group to transform a 4% decline in turnover to R926m into a 15% increase in operating profit to R35m

The group is in an ungeared position with no long-term loans and has a healthy cash balance of more than R41m

Brodie did not rule out future acquisitions but said there were no deals in view for the short-term

Safcor's relatively liquid position could change by the end of this year when cash reserves are expected to be used to support its customer base with the payment of VAT

Brodie expected an improved contribution from Curfin's leasing, finance and property divisions next year Safcor's domestic and international freight forwarding divisions would also see better business levels when the economy improved

UNIVERSITY OF CAPE TOWN

DEPARTMENT OF ACCOUNTING

FINANCIAL MANAGEMENT

SECOND TEST : JUNE 1984

SUGGESTED SOLUTION

Businesses in JSE building feel squeeze

Bday 22/8/91. ROBERT GENTLE (232)

SLACK equity markets, retrenchment of stockbroking staff and reduced spending power of many who remain have begun to squeeze the service outlets in the JSE's main building.

Bulls & Bears, the traditional lunchtime hangout of the stockbroking fraternity, has seen its lunchtime occupancy levels plunge by almost 50% since the recession started. "Business is not that good," a spokesman said.

The owner of the Juicy Lucy outlet next door said he was now averaging about 50% occupancy compared with nearer 90% at the same time last year He was supposed to increase his prices along with other Juicy Lucy outlets in June, but had had to hold off.

He said he had been particularly hard hit by the fall-off in passing traffic from stockbroking staff and people coming to the exchange to drop off or collect share certificates or cheques

A similar picture emerged at the bookshop on the lower level, where a spokesman said "We are surviving — for now."

Added to the sharp fall-off in clientele, some outlets will face increased rents from the JSE as their leases expire this month.

James Dysart, owner of the Croppers Unisex hairdressing salon, said the number of clients had dropped substantially over the past year. The impending increase in rent would mean he would have to increase his prices.

"We were hoping to keep prices down," he said.

However, at First National Bank's lower level branch, a spokesman said "business is okay"

SAB and Remgro: which is the bluest chip?

B/Day 22/8/91 (232)

BRENT VON MELVILLE

BASED on their investment merits of stability and growth potential, there is little to choose between the two bluest of blue chips on the JSE, SA Breweries (SAB) and Rembrandt Group (Remgro)

With a combined market capitalisation of R28bn they account for almost 20% of the total weighting of the industrial index, and about 8% of the overall index which currently has a total market capitalisation of R338bn

The high ratings of these two shares has often prompted speculation about which is the better investment

Breweries has generally been accorded a higher rating with a historical price to earnings ratio of about 21, compared with Remgro's 13,7 Remgro's Swiss-based sibling Richemont, however, supports a p e of 20 times largely because it is regarded more as a rand hedge

SAB came out as the favoured group in a recent poll of investment experts by market researcher Campbell Belman But a snap-poll of industrial analysts yesterday yielded a split vote, with some suggesting that Remgro may have earned a higher rating

Remgro has outperformed SAB relative to the industrial index over the past year, moving up about a third against the index

Substantial diversification over the past few years has given both groups a wider profit base

SAB now derives a significant proportion of its earnings from its significant retailing interests in OK Bazaars, Amalgamated Retail, and star-performer Edgars Remgro has major concerns in mining, industry, financial services and corporate finance

The bulk of SAB's ready cash is being poured into its beer and beverage divisions while Remgro's thrust is towards expanding its industrial interests through Huntcor, and has gone big into Rainbow Chicken in particular

Analysts regard most of Remgro's investments as low-risk but with considerable profit potential Last year while Remgro's substantial industrial interests contributed 17,9% (17,5%) and the financial services division (under Absa) 8,5% (7,9%), the trademark division (essentially tobacco) remained dominant, earning R345m, and upping its contribution to profits to 40%

SAB's beverage interest raised its contribution to operating profits of R1bn to about 53% (49%), the beer division alone accounting for 42% (39%) The retail division, led by Edgars, added 24%, and manufacturing chipped in 12% Hotel interests (the 100% holding in Southern Sun) and non-RSA interests accounted for the balance

Analysts, however, emphasise another important factor the capital cost associated with expanding production capacity, an aspect very much in Remgro s favour SAB's plant costs are high Its latest annual report discloses capex plans for the beverage division alone at R1,1bn for the current year, of a total of R1,5bn for the entire group

Remgro's capital commitments stand at a much more sedate R155m The annual report does not disclose a breakdown of capex requirements

On a technical analysis SAB's recurrent sideways trading and inability to hold ground above the R60 level has inspired some caution about market potential in the short to medium term

But on that basis, Remgro is also relatively overbought, say technical analysts One analyst believes the share price is due to come back to about R21 while SAB's support level is between R50 to R53

Off-market deals will be allowed

(232) B/Day 22/8/91

LINDA ENSOR

CAPE TOWN — The Financial Services Board (FSB) has withdrawn the provision prohibiting off-market dealings in the proposed amendments to the Stock Exchanges Control Act

FSB CEO Piet Badenhorst said on reconsideration it was thought unnecessary to change the present Act which prohibits people from buying or selling securities as a business on behalf of a client except through a broker The Act covers all beneficial transactions and exemptions in the present Act would still apply in the new Act

Dealings between two pension funds would depend on their contractual relationship to the company administering them and on whether the shares were shifting in one common pool of assets or being sold at arms length from one fund to the other

But Badenhorst's understanding of the change is different from that of the life offices some of which believe that the lifting of the proposed ruling will allow direct selling between two principals

Badenhorst said portfolio managers in the mutual societies who engaged in the buying and selling of shares on behalf of clients would be regarded as conducting a business and would still be required to go through brokers

He said a clarifying circular would be sent out shortly However, the controversy on the issue is likely to mount as the life offices are strongly opposed to this requirement

Old Mutual's GM (investments) Johannes van der Horst previously objected to the "sweeping" rule that all trade in quoted securities had to be through a stock exchange

And Life Office's Association director Jurie Wessels said the LOA was strongly opposed to the requirement that all deals be done through a broker because of the expense this would involve and because of the need in certain circumstances to keep details of strategic deals confidential

JSE president Tony Norton yesterday emphasised the need to prevent the stock market from becoming a market of last resort as this threatened the integrity of prices

Fictitious

He stressed that it was necessary when there was a change in the beneficial ownership of shares for the price to be tested on the market otherwise someone would be the loser

Frankel Max Pollak Vinderine's Sydney Frankel said the prices on the stock market would become fictitious if they did not truly reflect the relationship between supply and demand, which they could not do if large volumes of trade took place outside the market

"You can only have a real market if there are proper volumes otherwise the market becomes a meaningless institution," Frankel said

Another stockbroker also said he would like to see as much trade as possible coming through the market as this made it possible to get a sense of the size of trade in the market

SA financial markets fall under spotlight

BDay 22/8/91 (232)

ROBERT GENTLE

DEREGULATION of the JSE and the broader issues facing SA financial markets will be the subjects of a public debate on September 19 in Johannesburg organised by the Association of Corporate Treasurers of Southern Africa (Actsa).

The debate, sponsored by Eskom, will be chaired by Eskom treasury manager Willem Kok.

An Actsa statement says the four key speakers will be JSE president Tony Norton, Registrar of Financial Institutions Piet Badenhorst, Absa economist Hans Falkena and Rand Merchant Bank chairman GT Ferreira

FM. 23/8/91 (232)

PICARDI APPLIANCES

FM 23/8/91

Brave turnaround

(232)

A R27m turnaround in pre-tax income is a remarkable achievement for a group that lost R13,2m a year ago and was all but written off by most analysts Even more remarkable is that after-tax profit of R14m exceeded forecast by 40%, even though turnover fell by 5% in the year ended June 30

And make no mistake. it has not been an easy economy to give effect to this recovery It was a brave decision to sell out at fire-sale prices stocks of depressed-margin, low-end portable audio products, then accounting for 35% of turnover But it was manifestly apt

What has brought about this revival is that a thinned down, more motivated management and staff concentrated on higher margin white goods while focusing on efficient working capital utilisation Against a 5% reduction in sales, stock has been cut by 12% and debtors by 16%

Interest-bearing debt fell dramatically to R62m from R106m, though it includes a R21m injection (at market-related rates) from holding company Picardi Holdings The interest bill dipped to R17m, from R27,5m in financial 1990

Because of the R13m loss in 1990, no tax was payable in 1991, and an EPS at 54c obviously reflect this Had tax been paid, MD Peter Spreckley comments that 32c would have been the figure It is well to remember this, since the tax rate for 1992, Spreckley estimates, is likely to be in the region of 30%

Spreckley is convinced that 1992 will be a formidably difficult year for the white goods industry and feels that the company will be doing well if it can sustain operating profits In this scenario, investors should not expect EPS to be much more than that nominal fully taxed 32c In other words, this year's EPS is a one-off bonanza

KIC, the main branded line marketed, has an excellent name, with both the trade and consumers Chairman Jan Pickard clearly has great faith in the organisation, or would not have granted the R21m inter-company loan When the economy improves, so should Picapli's fortunes

In this light and accepting that passing the dividend is good for Picapli's financial health, a share price of 100c cannot be considered expensive If EPS for 1992 indeed turn out at about 35c, the forward p:e is 2,85 Furthermore, NAV is 182c *Gerald Hirshon*

RISING ANGER AGAINST JSE COMMITTEE

232

FM 23/8/91

With JSE members to vote next week on the committee's controversial decree that all firms must convert to the exchange's new BDA broker-client accounting system, there is intense lobbying going on among members

The decision to vote on the matter at a special meeting on August 30 is in itself unusual. Ahead of this meeting, criticism of the resolution, taken on June 5, has become increasingly vocal

A number of senior partners have set out their objections in letters to the committee chairman, Humphrey Borkum At least one firm has warned the JSE it may refuse to comply with the decision

This week, Ivor Jones, senior partner of another firm, Ivor Jones, Roy, sent to the senior partners and senior directors of all member firms a copy of a nine-page letter he had addressed to Borkum This was accompanied by a separate letter, calling on all members to attend the meeting and vote against the committee's resolution.

Jones is one of the most respected of the exchange's brokers, but generally maintains a low profile The strength of his letter and the fact that it was circulated to the directors of about 50 firms, had the market buzzing It amounted to a scathing attack on the committee's resolution, the way in which it was taken and on the arguments that have been given to justify an enforced move on to BDA — mainly surveillance and cost It also questions the validity of the action

An alternative plan to resolve the JSE's problems is proposed This includes the sale of all JSE properties to its members — who are in any event the ultimate owners — and the privatisation of all computer functions, other than those that can be run on an inexpensive micro- or mini-computer based system These steps, it is argued, would leave the exchange with a clean balance sheet and a low cost structure, which would be essential for its survival

Meanwhile, none of the 13 firms using the MAS system offered by SPS Computer Systems has shown any enthusiasm for switching to BDA SPS partner Neville Olver says that they have all stated they would prefer to continue using MAS and will do so if possible

Unless enough members of firms now using BDA vote against the resolution at the August 30 meeting, the opponents will not easily succeed The firms using the MAS have roughly 106 members, who would represent only about a quarter of the JSE's total membership

JSE president Tony Norton says a simple majority of 51% would be enough to pass the resolution Members would probably be asked initially to vote by show of hands, but there could be a move for a poll, which would result in a secret ballot

It is not yet clear whether the number of votes cast each way will be made public But even a negative vote by a quarter of the members should be seen as an embarrassment for the committee and anything larger would look a lot worse The committee needs to deal with the fact that the peremptory manner as well as the substance of its June 5 resolution has aroused exceptional anger among a sizeable bloc of members

Though Norton talks of a "democratic vote," the JSE's image as an ostensible symbol of free enterprise is not being enhanced by this episode There is a real possibility it will end up sadly diminished

BIDVEST FM 23/8/91

Lashing out

232

It is meaningless to compare results from Brian Joffe's Bidvest Group for the year to June with those of the previous year On the first day of the latest year, Bidvest acquired caterers CaterPlus, half of Justine Cosmetics and control of Afpac, a manufacturer and distributor of fastening and packaging equipment and materials In May, the group acquired towelling rental company Steiner Services for R86m In 1990, the only asset was 52% of Afcom

Attributable earnings tripled on actual results to R17,6m Dividends per share are up 20% to 115c But on the pro forma results the picture is not so rosy If the new structure had been in place, 1990 attributable earnings would have been R19,5m and sales R363m In 1991, on this base, sales increased by 13%, but income fell by 10% Afcom's after-tax income fell by 9%

Joffe, nevertheless, calls these results satisfactory CaterPlus, Afcom and Steiner Services all primarily supply the industrial market, whether through institutional feeding, staples and strapping or hygiene products Only Justine, which makes women's cosmetics, is directly exposed to consumer spending Joffe says Justine was acquired for strategic reasons It sells to 350 000 households and a computerised data base is being drawn up

Bidvest has not been shy to pay for good companies It spent R252m altogether on acquisitions last year, almost R97m over book value. Goodwill was set off against shareholders' funds and cut them in half Joffe says assets are valued conservatively For instance, Afcom's plant has a book value of R4,3m, but replacement cost of R35m

"Shareholders have done well We could have sat on our cash, but we were committed to establishing a viable industrial holding company " In spite of a R106m rights issue, Bidvest, which was ungeared, now has gearing of 41,8%

Joffe argues it is time to gear up before the recovery Maybe, but there is a short-term cost In financial 1990, operating income of R17m was supplemented by net interest received of R600 000, this time round, operating income of R35,4m is diluted by a net interest charge of R8,4m

Bidvest has a fair rating, with a dividend yield of 3,6% and p e of 10,5 The share price has appreciated by 42% this year But there has been more investor interest in pyramid

Bidvest's Joffe *time to gear up*

Bidcorp, which has risen 62% and has a p e of 10,4 Bidcorp has a wider spread of share ownership, Bidvest, with about half its equity in convertible debentures, is tightly held by institutions *Stephen Cranston*

Overseas investment vital, says Genbel chief

(188) 232

BDay 23/8/91

MATTHEW CURTIN

THE Reserve Bank and the Johannesburg Stock Exchange had to take action to attract foreign capital to SA by ensuring investment opportunities were on a par with those overseas, Genbel chairman Tom de Beer said on Wednesday

The rebuilding of foreign investors' confidence and the adoption of internationally accepted economic policies were critical preconditions for bringing new foreign investment into SA

De Beer said Genbel, the Gencor group's investment arm, was confident the Reserve Bank was planning to scrap the two-tier exchange rate, and the company had been talking to the JSE for several months over ways to encourage overseas investment.

Industries

Addressing stockbrokers at a presentation of Genbel's year-end results, he said the Companies Act did not preclude local companies from placing shares for cash on behalf of interested overseas parties. But the JSE, unlike the London Stock Exchange, prohibited such activity

Why should the JSE not comply with SA law and international practice?, De Beer asked

MD Anton Botha said Genbel had successfully concentrated its investments over a wide number of industries in the year to end-June 1991, as it continued to cut its reliance on income from the gold mining industry

Income from Genbel's offshore interests, investments in primary exporters and trading activity replaced income from its gold, platinum and mining finance interests as the main contributors to group profits between 1990 and 1991.

Windfall for Sinclair shareholders

BRENT VON MELVILLE (232)

FOLLOWING the sale of its Aquanaut pool-cleaner division for $7,1m earlier this year, Sinclair Holdings yesterday announced that it would spin off the proceeds of the deal to shareholders

The company — soon to be renamed Urquhart Motor Group following its takeover last July — has decided to hand out the special bonus dividend of 93,5c per share, equivalent to 76% of the group's current share price

Shareholders will also receive 24 preferred ordinary shares for every 100 existing shares The handout will be worth about R20m and stems from the extraordinary profit of the R17m realised from the Aquanaut sale BDay 23/8/91.

Sinclair director Jonathan Bader said the preferential dividends could be valued at a premium as high as 14% on the ordinary share value, or about 180c a share. He said the decision had been prompted by the fact that there was excess cash in the business and non-existent gearing

Sinclair has managed to steer itself to a 55% rise in attributable earnings to R6,2m (R4m) The rise, off a 7,6% improvement in turnover to R235m (R218m), translates into earnings of 24,1c (15,5c) a share

An extraordinary profit of R5m is also listed on the books, arising from the disposal of Aquanaut as well as the closing of two motor dealerships. The group's existing businesses includes franchises for Audi, Ford, Honda, Mercedes-Benz, Nissan, Toyota and Volkswagen cars

Bader said the company was committed to growth by acquisition and would pursue this objective strongly in the coming year. He said the group would be comfortable with a gearing in the region of 75% to 80%, because of the group's high asset turnover.

In terms of the group's re-organisation with Urquhart & Co, the group's shares will be consolidated on a one for two basis, the company's name will be changed to Urquhart Motor Group Limited and its listing sector on the JSE will change

JSE in the pink after shaking off Red blues

MERVYN HARRIS (232)

DIAGONAL Street has displayed its underlying strength with yesterday's rise of 48 points in the industrial index to 4 106 enabling it to recover 211 of the 227 points it shed in Monday's shake-out

The latest uptrend came on news of the return to power in Moscow of Mikhail Gorbachev in the wake of the failed Soviet coup, which fuelled demand for quality shares across most sectors

The rise was boosted by a continuation of rallies on major global stock markets after a strong opening on the JSE petered out before noon in a volatile session of trading Bday 23/8/91

The rand also showed strength as it more than regained the losses it suffered against the dollar during the week following the coup attempt

It closed at R2,8633 to the dollar as the US unit was discarded on overseas markets This compared to the Wednesday close of R2,8863 and levels as high as R2,93 earlier in the week However, it lost ground against other major currencies

The overall index rose 28 points to 3 417 after starting the week at 3 475 with lagging gold shares holding the market back Gold closed little changed in London at $356,55 as sliding platinum prices weighed on the market. Platinum fell $5 to below $342 before recovering slightly on news of trouble at two Impala Platinum mines

Dealers said positive sentiment pervading the market was shown in the strength of leaders De Beers and associate Anglos, which had both plunged by 10% in early trading on Monday on concern over the $5bn diamond deal with Russia

De Beers, down on Monday from R91,50 to R84,25, touched a high of R92 yesterday before slipping to close 50c up at R90, while Anglos, which slumped from R120,50 to R111 on Monday, rose to a high of R120 yesterday before easing to close at R118

However, capital market rates moved higher as bearish sentiment about government's borrowing requirements following the VAT revamp outweighed the developments in the capital market

The benchmark Eskom 168 climbed to 16,56% from Wednesday's 16,53% close

Industrials confirm underlying strength

CT 23/8/91

(232)

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In New York, gold slid a little to close at R354,75

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● In London, the FTSE-100 resumed last week's record-breaking trend, beating last Friday's closing high of 2 621,0 to end at 2 623,0, 21,1 points up on Wednesday's close

● In New York, the gains were modest. **Wall Street** stocks settled into range trading as investors paused to assess the US economy and the market's direction

The Dow average ended up about five at 3007.

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Picardi comes in from the cold

Star 23/8/91

(232)

By Sven Lunsche

After a year of drastic rationalisation Picardi Holdings (Pichold) has reported a remarkable turnaround in earnings for the year to June.

Attributable income surged to R10,9 million (loss of R13,4 million in the previous year) — a turnaround of 181 percent.

Earnings per share subsequently jumped from a loss of 180,2c to 221,6c.

The turnaround was achieved on a 57 percent rise in turnover, while operating profit was up 19 percent from R25,2 million to R29,9 million.

The directors attribute the major recovery to the success of the strategies introduced in 1990 to improve working capital management and profitability.

Continued capital management resulted in a further decrease in interest-bearing debt of R71 million to the present level of R49 million.

Extraordinary items reflect a write-off of R22 million, after investments were valued at their present net realisable value.

The extraordinary items include an investment in Cape Investment Bank and the offer to buy out Picardi Properties minorities.

No further dividend has been declared because of the special dividend of 100c paid in February.

The directors say the current strict monetary policy continued to affect consumer demand.

Accordingly they expect only moderate growth until the economy receives the needed stimulation.

Picardi Investments, whose only assets are cash of R8 million and a 69 percent stake in Pichold, mirrored the turnaround with earnings per share improving from a loss of 185,8c in financial 1990 to a profit of 187,4c.

● In a report on Pichold subsidiary Picapli this week the Star reported that turnover rose by 95 percent in the year to June.

This is incorrect. Picapli's turnover was 95 percent of that of the previous year.

Getting under the skin of unit trusts

Star 24/8/91 (232)

Money Matters

MAGNUS HEYSTEK

THIS week's Financially Speaking on Radio 702, which focused on unit trusts, elicited a big response

Questions once again underlined that though there are more than 800 000 unit trust account-holders in SA, many people are still uncertain about aspects of this recommended investment.

My guest in the studio was Professor Hugo Lambrecht, the author of the respected quarterly survey on unit trusts published by the Graduate School of Business Management at the University of Pretoria.

Here are some of the questions posed by investors:

● What are unit trusts?

It is surprising that people are still a little uncertain what unit trusts are and, more important, that they have some difficulty in distinguishing between the three major types.

With the exception of the income funds, unit trusts are an indirect investment in the JSE.

So, if you don't like the idea of investing in the JSE, unit trusts are not for you, unless you want to invest in an income fund, which is not a stock market investment.

The first and largest category of unit trust is the general equity fund These funds invest your money in companies across all the sectors of the JSE. It is a broad-based investment in equities.

The second category is the specialist fund These funds are invested in certain defined areas of the JSE, such as mining financials, gold shares or industrials

The rationale is to meet the needs of more sophisticated investors who would like to take advantage of the more volatile, but potentially more lucrative areas of the stock market.

The third category is income funds Many people have difficulty understanding them Money entrusted to these funds is not invested on the JSE but in fixed in come securities.

This type of investment includes government and semi government stock, gilts and other capital and money market investments The emphasis here is on income and security

● How have unit trusts performed?

An analysis shows that the equity based funds have outperformed the inflation rate considerably in the past 10 to 15 years.

Over a 10-year period, the gen eral equity funds on average provided a return of more than 24 percent, compared with the average inflation rate of 14,5 percent in the same period

The investment returns of the specialist funds are somewhat lower — just over 20 percent for the four specialist funds that have been in existence for longer than 10 years.

The reason why specialist funds have under-performed general equity funds has been the depressing performance of gold and other commodities for most of the Eighties

Income funds, on the other hand, have slightly under-performed the inflation rate, with a minus 0,6 percent return.

● Why can't unit trusts beat the JSE overall index?

In most cases the performance figures of unit trusts have not been higher than the overall index and a question often asked is: If these fund managers are so clever, why can't they beat the index.

Because of limitations placed on the movement by the Unit Trust Control Act of 1983, it is very difficult for unit trusts to beat the index.

One restraint is that unit trusts must have at least five percent of their assets in cash That means that at any given time they can be only 95 percent fully invested, against the theoretical 100 percent represented by the overall index.

Besides, unit trusts may not have more than five percent of their assets in any one particular company

Also, unit trusts may not have more than five percent of the market capitalisation of any one company

But despite these and other limitations, some funds have actually outperformed the overall share index.

● Are these performance figures guaranteed?

While there is no denying that unit trusts have been excellent investments, creating real wealth in the process, there are no guarantees.

The performance has been on the back of rising stock markets worldwide for most of the Eighties. Things could change in the Nineties, as some commentators have suggested.

Unlike other investments, such as fixed deposits that guarantee you capital, or endowment policies that have guaranteed minimum rates of return, albeit at a very low four percent on average, unit trusts don't offer any such guarantee.

● What costs are involved?

Unit trusts charge a maximum five percent commission, which pays for marketing and administration However, it should be borne in mind that one can get a discount on this five percent.

Those making a large investment should insist on a reduced commission

Standard Bank, for instance, offers discounts on its own trusts if you use some of its other personal banking products.

In addition to the commission, unit trusts have to levy a 0,5 percent marketable securities tax, as well as brokerage of 1,5 percent, which is paid to the broker doing the deal.

Next week I shall discuss some more of the most-often asked questions on unit trusts

● Two book prizes are awarded this week. The first goes to Barend du Plessis, Minister of Finance.

The book is entitled "How to Lose Business Friends and Upset Taxpayers" It is awarded for his great somersault on VAT earlier this week, which is nothing less an unmitigated disaster

A clearly flustered Mr du Plessis, caving in to the short sighted pressure applied by the ANC and Cosatu, dropped the VAT rate to 10 percent and did what he all along said he was not going to do — start exempting certain transactions from VAT

How many millions of rands is this going to cost the business community in the form of new accounting systems, labell ing, invoices and lost man hours? The ultimate cost will be borne by the poor consumer Who else?

The second prize goes to the various consumer bodies and lobbies who are now so grateful for the reduction in VAT

The book is called "How to Have the Wool Pulled Over Your Eyes in 10 Easy Steps"

The poor consumer, whose interest these bodies ostensibly have at heart, is now going to pay significantly more for his staple food with VAT at 10 percent (and petrol higher by 13c a litre) than he would have with VAT at 12 percent and no increase in the petrol price.

● Don't forget to watch the Allied World of Money on SABC-TV1 at 10h55 this morning The topic is the secret of budgeting and, believe me, after this week's events, you're going to need it.

(232)

By DAVID CARTE

THE slump in the platinum price to $331 on Friday and a stronger financial rand took their toll on platinum shares

Rustenburg lost R5,50 to R60 and Impala R6,50 to R45 But they rallied before the close, Rustenburg to R61,50 and Impala to R48,50 At one stage, losses on the heavyweight platinums approached 10% S|Times

Non-feature of the week was the failure of the Putco share price to react to the announcement that the proposed sale of its assets is off Had such a sale been concluded, another generous distribution might have been possible (Bus |T)

Managing director Jack Visser denied a comment that the company's bluff had been called by the Government He said Putco could be profitable tendering The bid price was 200c There were sellers at 250c and the last trade was at 290c

By Friday, many blue chips had regained most of the sharp losses they sustained earlier in the week on the attempted Russian coup SA Brews closed at R59,50, short of its high of R60,25, and Barlows at R47,25, R2 off the top 25|8|91.

Golds were down on an afternoon fixing of $353,70 Vaal Reefs lost R9 to R194, Kloof R1,50 to 2 875c Western Deep Levels lost R7,50 to R99,50 De Beers closed weaker in sympathy — partly due to the recovery of both the commercial and financial rands

S\Times (Bus\T) 25/8/91 (232)

Mutual's winning portfolio formula

By DAVID CARTE

BURLY rugby-playing Rowland Chute, 38, emerges as the investment heavyweight to watch after his appointment as assistant general manager investments of Old Mutual

Mr Chute is second in command of a department that spent R3,7-billion on shares last year His team accounted for an eighth of JSE turnover

Mr Chute, prop for the Villagers fourth team in Cape Town and a keen hobycat sailor, has 20 years' service with Old Mutual He joined, aged 17, from school and acquired his BComm and MBL through part-time study

He has spent much of his working life in the investment department.

Research

In 1978 he became an equity trader and in 1979 embarked on company research In 1983, he started to manage large pension fund portfolios

Mr Chute has continued the successful policy of delegation of responsibility of portfolio managers started five years ago Managers do their own thing within the corporate view (a preference for equities over gilts and property and industrials relative to mining stocks)

Mr Chute gave Business Times details of Old Mutual's investment strategy last year

"We were aggressive buyers of equities even in the third quarter when the market sagged We had to buy aggressively to keep the equity content of our portfolio at 67%

"Once again our biggest purchases were De Beers-Anamint We spent R392-million on the diamond counters We also laid out R240-million on Iscor and hundreds of millions more on Richemont, Absa, Barlows, Rusplat, Anglo American and JCI"

Old Mutual's assets at the end of June were R72-billion, of which R65,9-billion was in SA

Investments in SA, excluding unit trusts, totalled R58,3-billion, of which R39,2-billion was in equities, R12,8-billion in interest-bearing investments and R6,3-billion in property The value of equities rose by R7-billion Among the prescribed assets was R4,8-billion in cash

The portfolio mix did not change from 67% equity, 22% prescribed and 11% property Dividends and interest on the total portfolio came to R3,6-billion

The top 10 holdings were Anamint-DeBeers, Anglo American, Anglovaal, Barlow Rand, Gencor, Nedcor, Rembrandt Group, Richemont, SA Brews and Safren

Industrials were given particular emphasis on Mutual's view that once the Persian Gulf crisis was resolved, the market would recover ahead of an economic upswing in 1992-1993 The 33% rise in the financial and industrial index has vindicated Old Mutual's strategy

Coup

Mr Chute expressed his views about the stock market after news of this week's Soviet coup "Russia doesn't change the ball game It is not an important part of the world economy and a coup there won't stop the world economic upturn we expect from next year lasting about three years

"We predict an economic improvement here as well, but relatively high inflation, hence our belief in equities and not in fixed-interest instruments

"In the 1980s, SA was under attack In the 1990s some negatives will fall away and I believe the economy will grow reasonably well Equities are already discounting that growth

"The market has run long and hard and it could well take a breather Political noise upsets confidence and if the upturn is delayed, we would see an amber light But we would see any weakness as an opportunity"

With the State pension funds and other institutions too light in equities trying to get into a scrip-starved market, Mr Chute doubts that any correction will take prices into cheap territory At worst, the market will remain expensive to neutral

Mr Chute has strong feelings about what makes a winning company "They grow organically with a sound financial structure

"Some examples are Pick 'n Pay, Liberty, Toyota, Rusplat, JCI and SA Brews Most of them are single-product companies and are strong enough in their markets to be price setters

"You seldom find a conglomerate or a company that grows by acquisition doing well in the long run, though SA Brews and Barlows are notable exceptions"

COMPANY ROUND-UP

PRELIMS	Turnover (Rm)	% change	Profit before tax (Rm)	% change	Earnings a share (c)	% change	Div a share (c)	% change
Wooltru	3 303 2	+22	268 5	+8	422 0	+12	170	+13
Bidvest	411 6	+257 6	26 9	+52 8	265 7	+10,3	115	+19,7
CFC	926 1	−4	35 0	+15	77 3	+13	43 0	+13
*Oceana Inv Corp	—	—	1,461	+33	16 0p	+39	—	—
Sun Ciskei	103	+26	28 4	+47	41 5	+10	—	—
Genbel	—	—	—	—	32	+11 1	32	+16,4
Picapli	—	—	14 6	+211	32 ■	—	0	—
Wayne	129 8	+17 3	13 4	+27 5	15 2	+16 9	6 0	+15,4
Gold Fields	—	—	358 0	−20 8	328	−16 5	200	—
Rho Ex	—	—	2,8	+421	6 99	+336	—	—
Macmed	—	+49 9	1 75	+251,6	3 4	+61 9	1 0	−95
Kersaf	1 788 5	+15	538 0	+17	220	+18	135	+16
Cashbuild	387 0	+20 5	17 5	+24 4	36 8	+20 6	15,0	+15,4
Conshu	621 5	+16 8	57 7	+14 4	66 6	+13 6	28 0	+14,2
Urquhart	234 7	+7 6	6,2	+55 1	24 1	+55,4	—	—
Distillers Corp	—	+13,7	177 9	+10 9	63 4	+13 7	35	+16,7
Pichold	—	—	12 9	+187	92 3 ■	—	100	—
Picbel	—	—	13 7	—	105 2 ■	—	100	+566

* Pounds ■ Pre-utilisation of tax losses

INTERIMS	Turnover (Rm)	% change	Profit before tax (Rm)	% change	Earnings a share (c)	% change	Div a share (c)	% change
NEI Africa	360 1	+16 9	5 0	−25 6	16 8	—	7	−87,2
▲Morkels	62 4	+1	0 59	−83	1 4	−67	—	—
Profurn	55 1	+2 7	3 9	−11 5	5 7	−5	—	—
SMH	33 0	+21 7	0 32	—	0 3	—	—	—
Progress Industries	35 1	+16 6	1 3	−27 7	38 4	−62 4	11	−38 8
Aimark	—	—	1 2	+842	2 29	—	—	—
Smith	24 4	+9 4	1 3	−64 8	4 7	−50	—	—
Delta	—	—	21 2	+10	26 0	+17	9 5	+19,0
Liberty Ass of Africa	—	—	—	—	51 1	+20 8	43 0	+34 4
Liberty Holdings	—	—	—	—	160 7	+19 2	110 0	+46,7
FIT	—	—	56 4	—	19 0	−6 4	7 0	—
Grincor	259 5	+14	13 0	—	25 1	+71	10 0	—
Noristan	108 4	+11 7	11 5	−15,4	15,9	−18 8	4 0	—
Guardian	—	—	19 1	+10 4	170 1	+26 4	65	+18,1

▲ Quarter ended June 30

Share analysis and accurate forecasting

Star 26/8/91.

(232)

This is the first of 10 articles in a series by Jacques Magliolo on the methods JSE analysts use to predict company performance.

The JSE analyst's task is not easy He has to keep track of a multitude of factors that could influence a company's performance during its financial year

Yet the analyst's work is sometimes viewed with a degree of scepticism

Analysts are sometimes perceived — incorrectly — as yuppies who take two-hour luncheons, leave work early for the pub and spend a fortune on their appearance and luxury cars

Expensive

Some directors of stockbroking firms consider them "expensive extras"

So why do the larger firms still have research teams?

The answer lies in the numerous, although not always obvious, benefits gained by precision forecasting

Firstly, accurate analysis warns directors of changing market trends and, thus, a more professional service can be offered to existing and prospective clients

Secondly, but more important, if the firm employs a rated analyst, it can lure financial institutions to trade through them

An analyst is rated by these institutions when he is perceived to be the most knowledgeable and accurate in his particular field

This is the true reason for employing analysts They effectively become marketing tools to expand the brokers' institutional client base

Given the importance of research, what factors would the analyst take into consideration before making this final findings public?

The aim of this series is to outline this process in greater detail

A variety of tasks need to be completed before an analyst can begin his investigation

Historic

These include

- Gathering information on the company

This involves accumulating five years of historic financial reports, the latest interim and year-end results, the past year's media cutting and corporate information released by the company

- The figures from the five-years of annual results are typed into a computer model, which the analyst has created to assist him in determining his forecasts
- Market trends and share sentiment are investigated
- An interview with the directors of the company is set up

Although analysts differ in their approaches to forecasting, there are common elements which have to be analysed

Variables

Short-term variables include

- How economic factors could affect the company

Research teams usually include an economist, and the analyst would use such data as the CPI, PPI, prime rate, exchange rates, GDP and private consumption expenditure in his predictions

- Fundamental factors

All pertinent events are considered, including political and social unrest, wage demands, restructuring, consolidations or expansion plans, competition and debt levels

- Ratio analysis, which includes cash flow projections
- Technical analysis.

This is computer-generated analysis which can provide the analyst with insight into bullish and bearish sentiment, whether shareholders are still accumulating or about to sell shares, moving averages and daily trading volumes

- Long-term factors

Different risk variables are determined and decisions are made on whether these could worsen in future

- Similarly, a decision is made on rates of return
- The company is evaluated relative to its sector and to the industrial index

Recommendation

Once all these factors have been considered, a recommendation to buy, sell or hold a share can be made

Although this series is not intended to be a comprehensive course on how to find profitable investments, it should provide a better insight into the numerous factors involved in analysing companies

Shareholders earn a mint in Pep deal

LINDA ENSOR (232)

CAPE TOWN — JSE-listed Pep Ltd is to pay R13,2m for the 51% stake in Pep Stores Peninsula Holdings held by members of the coloured community. It will incorporate the company as a wholly owned subsidiary. B/Day 27/8/91

Shareholders who bought 2 000 shares in Pep Peninsula for R1 000 in 1973 have gained R70 000 in the value of their stakes.

Pep Peninsula was established 18 years ago to comply with the Group Areas Act. Members of the coloured community took up 51% of A shares and Pep 49% of B shares. In terms of today's announcement the 377 910 A shares will be cancelled for 377 910 new Pep shares, or shareholders can offer their shares to Pep's parent Pepkor for a cash payment of R35 for each Pep share.

Pep chairman Christo Wiese said the transaction would have no material effect on the earnings and net asset values of either Pep or Pepkor.

"The transaction, if approved in general meeting, will enable Pep to consolidate Pep Peninsula's activities, but there will be no negative effect on employees or stores," Wiese said.

Scrapping of the Group Areas Act made it unnecessary for Pep Peninsula to continue to exist.

In the year to end-February Pep Peninsula declared a dividend of 72c a share on earnings of 279,5c. Sales from the chain of 38 stores totalled R74m.

JSE-listed firms account for almost half of GDP

B/Day 27/8/91

ROBERT LAING

232

JSE-listed companies generated 42,6% of SA's GDP of $88bn last year, according to a study by McGregors Online released yesterday.

Anglo American headed the chart, accounting for 30,9% of the GDP generated by the JSE. Anglo was followed by Sanlam (15,9%), SA Mutual (12,6%) and Rembrandt (9,3%)

Non-listed companies generated 26,1% and the state (including Eskom, IDC and Transnet) about 29%.

McGregor Online chairman Robin McGregor said "Director-controlled companies, of which there are 364 listed on the JSE, perform commendably They only control 5% of the JSE's market capitalisation, yet produce 12,1% of the JSE's contribution to the national GDP."

The report found that SA mines still generated the bulk (32%) of GDP generated by JSE-listed companies Mines were followed by banks (6,6%), retailers (6,0%) and beverages (5,9%)

However, GDP as a percentage of fixed assets showed mining near the bottom of the list Whereas the Venter Group came 11th on the JSE's top GDP generator list, it had the highest percentage of GDP to fixed assets (195%), followed by FSI (188%) Anglo dropped to eighth on this list with 99%

The report said SA was Africa's leading GDP generator with $88bn in a total Africa GDP figure of $373bn Worst performer in the total Africa figure was Lesotho, generating GDP of just $330m.

Monitoring the economy

SEP 25/8/91

Share analysis and accurate forecasting — 2. A 10-part series by Jacques Magliolo on methods used by JSE analysts to predict company performance.

(232)

The analyst's first task is to understand how the economy affects a particular company's future performance

Stockbroking firms usually employ an economist to monitor the volatile and unpredictable market.

This information, which helps the analyst to understand the macro-economy, includes

● **Gross domestic product (GDP).**

This helps to detect movements in the overall business cycle and, thus, prospects for future growth.

Present indications are that GDP will not improve this year and therefore analysts believe a more aggressive state fiscal policy could be implemented.

This policy might be in the form of capital expenditure on social infrastructure, which would result in houses being built and in turn would mean an increase in the sale of furniture and other durable goods.

An accurate estimate is essential to forecast a company's future turnover growth.

● **Exchange rates.**

A forecast change in the commercial rand warns analysts that the cost of importing and exporting goods will be affected.

A prediction that the rand will weaken against the dollar would indicate higher costs for importers, while exporters would benefit from such changes

Conversely, a stronger rand benefits importers, but raises exporters costs

Analysts say there is also a long-term effect of exchange rates on retail unit costs.

For instance, the recent weakening in the rand should result in manufacturers paying more for imported raw materials, which will be incorporated in prices charged to retailers, who in turn are expected to push up their prices

● **Prime rate.**

The Reserve Bank has intimated that a drop in interest rates is imminent, which would release some pressure on companies with high debt ratios

However, companies with positive cash flows and no debt would receive lower income from interest.

The extent of a reduction in the prime rate would be reviewed and the findings applied to the company being analysed If the drop is minimal, benefits to companies with excessive debt will not be significant

● **Private consumption expenditure (PCE).**

This indicator helps the analyst to detect possible changes in consumer spending patterns

More specifically, he would investigate a breakdown of PCE to determine changing demand for services and semi-durable, durable and non-durable goods.

An historic comparison between a company's turnover and PCE often produces a trend. In this manner, it is possible to detect whether the company's turnover will be affected and by how much.

While marginal overall growth is forecast for 1991 and implies no improvement in spending patterns, a breakdown shows continued negative growth for semi-durable and durable goods, but positive growth in services and non-durable goods.

● **Consumer price index (CPI).**

Commonly known as the inflation rate, this factor is widely discussed in South Africa.

Although the universal definition for inflation is "a general increase in the price of goods," analysts are aware that the different sectors of the JSE are affected by varying CPI rates

This effectively means that to forecast turnover growth accurately it is essential to know what the price structures are for companies operating in a particular sector

For instance, the Central Statistical Service reports that the May 1991 CPI figure for non-durable goods rose by 17,5 percent, compared with the same month in 1990

Other goods rose by only 14,4 percent.

● **Production price index (PPI).**

This figure should provide a guideline to expected changes in CPI as it is usually a leading indicator of between three and six months.

Analysts believe there could be a substantial fall in PPI to about 13 percent from 1990's 15,8 percent.

This is due mainly to a slower rate of increase in salaries than last year and more realistic wage demands by unions

Another reason for an expected fall in PPI is an inflation-related wage increase for civil servants.

This is in line with the Reserve Bank's objective of reducing the inflation rate to single digit by the end of 1992.

After the economic variables have been investigated and it has been determined how these affect a company, the analyst has a solid foundation to start predicting future performance.

FIT share price plummeting

Star 27/8/91

232

By Jabulani Sikhakhane

The share price of First International Trust (FIT) has fallen 425c, or 30 percent, since mid-July to yesterday's close of R10 amid rumours that some investors are short-selling the shares ahead of the R375 million rights issue

The rights offer of 30 share for every 100 held, which is underwritten by Liberty Life, is pitched at 900c

Liberty owns 42,4 percent of FIT, but controls 50,3 percent of the voting rights

FIT plans to use part of the proceeds from the rights offer to repay Liberty Life the amount it advanced to FIT to buy 15 million TransAntlantic shares from Compagnie Financiere Richemont for a consideration of £52,5 million

The deal was done through FIT's wholly owned subsidiary, Conduit Insurance Holdings

Liberty acquired the other 28,021 million shares and the deal resulted in FIT and Liberty jointly controlling 67 percent of TransAtlantic's equity, of which Liberty Life's share is about 36 percent and an effective 28 percent of Capital & Counties.

According to last week's announcement, the proceeds of the rights offer will also be used to reduce FIT's gearing and provide a limited amount of additional working capital

Market speculation yesterday was that some investors were selling FIT shares short in the hope of picking them up later at lower levels

But Ed Hern Rudolph analyst Peter Brown said FIT's price was being pulled down by the recent falls in its major underlying investment in Capital & Counties

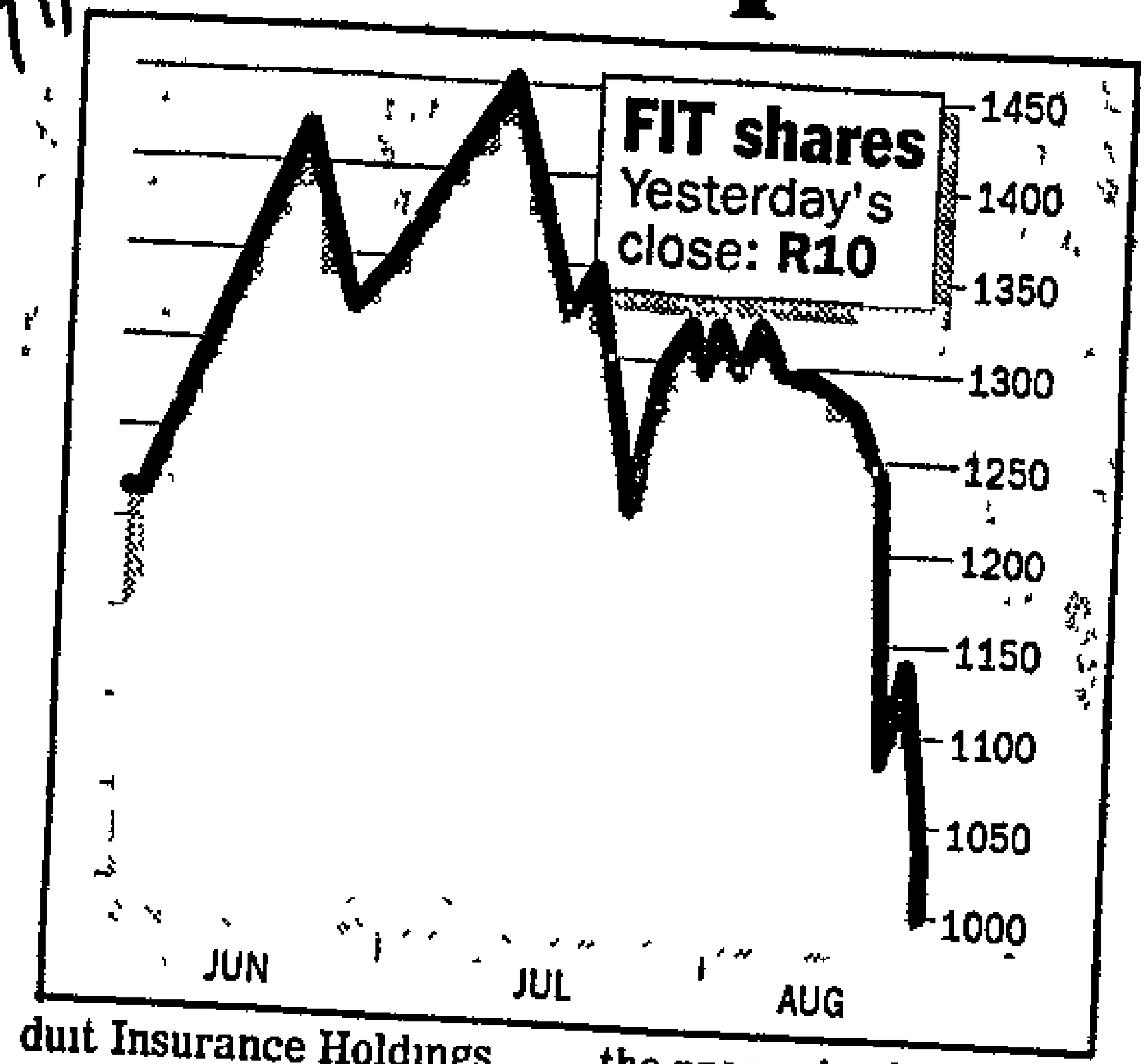
Capital's share price fell from 332p at the end of July to to 263p on Friday

TransAtlantic Holdings owns 75,8 percent of Capital's equity and Capital contributes over 70 percent of TransAtlantic's pre-tax earnings

Mr Brown said the financial rand, which has a normal impact on FIT's share price, has not moved that much against the pound sterling

At the end of July the financial rand was trading at R5,45 to the pound and on Friday it closed at R5,49,

Another analyst said the share price was being depressed by last week's interim figures showing earnings a share down from 20,3c to 19c The dividend was maintained at 7c a share



Builders mixed on VAT

WHILE some builders and estate agents have praised the VAT concessions for the industry announced last week, others feel the lead-in time is not long enough for any real benefit to be felt. B Day 28/8/91

The paperwork alone could take more than six months, with building usually beginning after that, said Gough Cooper Homes chairman Trevor Jackson

He added that in the present economic climate, and with bonds becoming more difficult to obtain, building began only when a bond had been granted

Inland Revenue said recently the concessions were aimed at helping to reduce the double taxation situation in which many builders would have found themselves on September 30

Jackson said "We do not expect to derive any benefit under the December deadline and very little from the March one"

Construction group Concor chairman Brian Murphy said the concessions would have little effect on the construction industry

PROPERTY

JSE sectors 'offer good deals'

B Day 28/8/91 232

Reports by PETER GALLI

THE investing public appeared to be unaware that the JSE's property loan stock and unit trust sectors generally offered a good alternative to syndication investments, said Hyprop MD Peter Behrmann.

"Property loan stock and unit trusts are held largely by institutions, with Hyprop having a very small proportion of individual investors

"This is a peculiar situation as those sectors offer investors an open market in which to trade, the security of heavy institutional support and lower buying and selling costs In addition, the JSE looks after the investor as far as possible," he said

These companies also generally offered a lower risk and it was far easier to trade or change one's investment than in a syndication

The investor considering companies on the property loan stock sector needed to look at the quality of the properties held and the spread of the portfolio, Behrmann said

Prospective investors should also consider where growth for these companies came from

"Hyprop has shown more than a 20% growth in rental income, but year on year growth of dividends for the current year is affected by reduction of earnings of interest income, where cash resources are being invested into property developments"

Investors should look primarily at the underlying trend of the company's rental growth as well as the capital growth which is reflected in the price of the shares in the market, he said

Frankel Max Pollak Vinderine property analyst John Rayner agreed the sectors offered a better alternative for the investor than a syndication because of their marketability

In addition, there had been a re-rating of both those sectors since November 1990 "Historical yields touched 12,2% and, since then, the property trust sector has appreciated by about 20% with the historical yield falling to 10,2%

"The loan stock sector has gained about 16% with the historical yield dropping to 10,7%," Rayner said The market was in a period of consolidation with the trend over the next 18 months likely to see yields falling further, which implied capital growth

JHI director Steve Kesler said the spread of risk and tradeability of shares in these sectors made them a good alternative to syndication

Zimbabwean dollar slipping against rand

Star 28/8/91

By Michelle Mallepaard

Zimbabwe's dollar, not so long ago on a parity with the rand, is slipping fast and will affect the economy of that country owing to its limited foreign exchange supply, says Nora Hill, MD of Export Marketing and Management Consultants.

The Zimbabwean dollar has slumped against the rand. Yesterday it was quoted at between Z$1,30 to Z$1,325 to the SA unit

"We do not import a lot of goods from Zimbabwe, but rather export a fair amount to it — so we should benefit," says Mrs Hill

However, she says, if it becomes too expensive, the orders from Zimbabwe will fall off and trade decrease.

Unofficial exchange rates of the Zimbabwean dollar to the rand are far removed from the published rates.

One source says the introduction of the Open General Import Licence a few weeks ago has resulted in the black market exchange rate sliding to alarming proportions

"We can now get up to Z$2,75 for R1 on the black market and we are expecting it to go up to around Z$5 by the end of the year," he says

The effect can be seen in the price of goods in Zimbabwe. A car bought in SA for R50 000 can fetch up to Z$180 000

"Deprived of certain goods for a long time, Zimbabweans are prepared to pay high prices for scarce commodities," he says.

Share analysis and accurate forecasting — 3

Directors with vested interest inspire confidence

Star 28/8/91

232

A 10-part series by Jacques Magliolo on methods used by stock exchange analysts to predict company performance.

The groundwork has been completed when the analyst has collated all relevant data and assessed economic trends.

He is now ready to start determining the company's future prospects

Before beginning analysis of the financial results, he needs to investigate factors which are not quantifiable but could affect a company's performance

These include:

● **Management.**

A continuously changing board of directors and senior management team is likely to undermine the confidence of shareholders and the share could be adversely affected.

The recent problems experienced at furniture retailer Rusfurn when chief executive Geoff Austin resigned saw the share drop to 80c from a previous trading band of between 120c and 140c.

A long-term association between directors and the firm always inspires confidence, especially if the directors have a vested interest in the company through personal share holdings

● **Demographics.**

It is essential to understand the company's target market

This provides a better insight into the business's cyclical nature.

For instance, if it targets the middle to upper income group, the firm's sales turnover will be evenly distributed throughout the year.

It becomes easier to forecast results if the stage of the company's business cycle can be determined

● **Product cycles.**

In assessing possible changes in turnover growth, it is important to know how demand for the company's product range is affected by cyclical movements

Retailers experience the greatest volume of sales during the last three months of the year, while service companies are less cyclical and turnover growth is evenly distributed throughout the year

Another variable that requires investigating is long-term product cycles, such as companies producing fashion garments

The problem of determining the effect of cycles on turnover growth becomes more complex when the company has trading partners in another country

This partner is likely to be in a different cycle phase, making demand and supply predictions more difficult

● **Spread of investments.**

Most companies have a number of subsidiaries which are also listed on the JSE, although they do not necessarily produce the same goods

It is imperative, therefore, to complete the same analysis on all the listed subsidiaries.

The analyst compiles an organisational chart of the entire group, including major shareholders, percentage control of each listed and non-listed company and in which sectors these companies are operating

This highlights the diversification of group investments, strengths and weaknesses in organisational structure and whether its shareholders could provide a "safety net" through financial assistance during recessionary conditions.

● **Mission statement.**

A review of the company's past financial statements should reveal whether it is conservative and methodically achieving its targets;whether its main aim is growth through acquisition or if it is simply not attaining its goals.

Although it is difficult to place a value on these factors, they do provide an indication of a company's inherent strength and ability to overcome financial problems.

And, they are essential when forecasting financial results

Finrand ruling set to boost futures

BDay 29/8/91 232

ROBERT GENTLE

THE Reserve Bank yesterday gave non-residents the green light to trade futures on the SA Futures Exchange (Safex) through the finrand

All registered members of the exchange — from futures brokers and banks to institutions and JSE stockbrokers — will now be able to handle futures trades directly on behalf of foreign clients

This key decision, which the market had been waiting for since late last year, is expected considerably to boost liquidity on Safex in the medium to long term

It is also expected to help the sluggish liquidity of the JSE, the reasoning being that non-residents are more likely to trade in shares now that they have the ability to hedge their exposure through futures.

Exchange CE Stuart Rees, confirming the Reserve Bank's decision, said "The importance of this move cannot be underestimated It is the first stage of the internationalisation of the hitherto closed futures market"

"Safex, the Reserve Bank and banks authorised to trade futures for non-residents will now jointly consider the detailed mechanics to control the flow of funds," Rees said "We expect final implementation to be in two to three months"

The futures market reacted with great enthusiasm

"We are ecstatic," said Greenwich Futures & Options MD Bryan Coyne

☐ To Page 2

Futures

BDay 29/8/91. 232

☐ From Page 1

Mike Bolus of stockbroker Ed Hern's futures division said it would be enable the firm to offer futures to its foreign client base "it's an excellent move," he said

First Financial Futures MD Derek Kreunen said it would spark off a whole range of new activity as foreign clients moved into the market

Rees said the Reserve Bank had accepted all the basic proposals initially put forward by the exchange for non-resident trading of futures.

Non-residents would pay for futures contracts in finrands and take profits out through the finrand Interest earned on margins placed with the exchange was likely to be in the commercial rand

The overall gearing effect would be very favourable for non-residents, Rees said, especially as few overseas futures markets paid interest on margins

Opening markets needs to balance a range of interests

B\Day 29\8\91. **ROBERT GENTLE** (232)

THE SA financial markets have taken a major step towards competitive neutrality with the announcement last month that government is to be asked to consider scrapping anti-competitive clauses in the Stock Exchanges Control Act

In its present form, stockbroking membership remains limited to individuals who hold SA citizenship, commissions remain fixed and stockbrokers may act only as agents for their clients (the so called single capacity sytem)

This contrasts with the other key markets — bonds and futures — where there are no fixed commissions, brokers may act as agent and principal (the so-called dual capacity system), and banks are free to operate either directly or through a shareholding in a broking firm Trading is done on screen as well as through open outcry

The move by the Financial Services Board's Piet Badenhorst to bring the restrictive Stock Exchanges Control Act into line with the more open Financial Markets Control Act — which governs futures and bonds — can be viewed in three ways Firstly, the government does not want to enshrine laws which could be construed as restricting entry to equity markets or giving participants particular privileges, secondly, it wishes to provide a mechanism for eventual foreign participation in our financial markets, and thirdly, it wishes to eliminate any competitive distortions in the present structures of financial markets

Some examples of these distortions are that JSE broking firms are members of the futures and bonds markets, but not all members of the futures and bonds markets can become members of the JSE This gives JSE brokers an advantage over other exchange brokers They get first shot at price information on equities because of their position on the equity floor while the rest of the market — particularly the futures market — has to wait for it to be relayed to their dealing screens

Though the few minutes' delay might seem short, it does enable JSE brokers to take positions in the futures market based on what is happening in the underlying spot market ahead of their competitors in the rest of the futures market

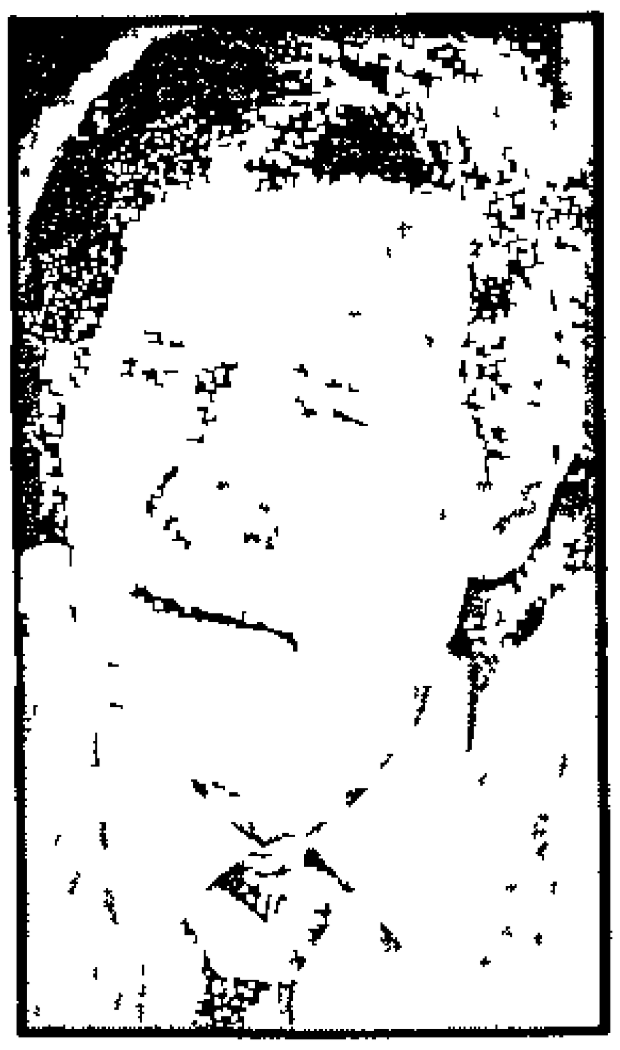
More seriously, the JSE is the victim of deterrent turnover taxes such as marketable securities tax, uncertainty over capital gains tax, exchange controls and SA's high degree of economic concentration — all of which severely undermine the liquidity of the share market

This filters through to the futures market, whose own liquidity and price efficiency is inextricably linked to the underlying equities, resulting in SA having some of the most stark price inefficiencies between shares and futures They increase the cost of capital in the economy Worse, they cannot be arbitraged away because the shares cannot be easily obtained — a vicious circle

Moreover, effective arbitrage requires huge amounts of capital Undercapitalised JSE brokers who operate alongside heavily capitalised banks in the futures and bond markets are at a competitive disadvantage

These are some of the problems, and it is a fair bet that significant foreign participation will not materialise until they are sorted out But would opening up the market — whether through Big Bang or a series of controlled explosions — necessarily improve the situation?

The argument against deregulation, highlighted mainly by stockbrokers and major users of the exchange, is essentially that the JSE's present structure and rules are the most appropriate for SA with exchange control, high economic concentration and limited size Opening up the market would simply increase that concentration as huge corporations buy up stockbroking firms or get their banking subsidiaries to start trading shares for their own account and for clients



☐ BADENHORST

This would result in a handful of big securities houses, under the sway of corporations, dominating the market, reducing competition and worsening price efficiency Conflict of interest would occur and cornering of shares would be a real possibility The small investor would be virtually eliminated

Starting a rival exchange dominated by these same corporations would be equally devastating for the market as they would concentrate on the 20 to 30 liquid stocks at the expense of the rest of the market, the capital raising function of the equity markets would be seriously impaired The London Big Bang is anything but a success and has no place in a market like SA's

The counter argument, put mainly by the banks and a minority of portfolio managers is that the concentration argument is a red herring What counts is not the number of banks 'dominating the market but whether they operate in a competitive environment The 50 odd stockbrokers, they claim, are a price-fixing cartel Saying there is competition among them is like saying there is competition among members of oil cartel Opec And the JSE itself is dominated by a handful of stockbroking firms anyway

It does not necessarily follow that the big financial instutions would — or could — dominate a deregulated equity market by funnelling all deals through their stockbroking subsidiaries The dual capacity bond and futures markets have been open to the big corporations for years, yet they have not moved to dominate them If anything, many are conspicuous by their absence As for a rival exchange concentrating only on liquid stocks, that is pretty much the situation on the JSE already

The shortcomings of the London Big Bang relate to how it was implemented rather than because it was implemented Open, competitive markets of that type are becoming the norm throughout the world

Given the complex pros and cons of the argument, SA might well look abroad for clues as to how it might improve its financial markets

Tokyo may be something of a laughing stock at present with a seemingly endless string of financial scams But it does handle trading efficiently with illiquid stocks traded on computer screens while liquid stocks are traded on a floor

In Germany, all illiquid stocks are traded on order driven markets while the 15 most liquid stocks are traded on a quote driven system In the UK most firms choose to trade in single capacity even though they are allowed to trade in dual capacity In New York, small rival auction based electronic exchanges coexist with the large New York Stock Exchange

There is no single solution to the problem of how to create a vibrant equity market For example our liquid stocks might lend themselves to one sort of treatment (say continuous floor trading), our illiquid stocks an other (say three times weekly, through an electronic auction) Small participants may want single capacity and low capital outlay big ones might go for more capital intensive dual capacity structures

There is broad consensus that the only thing Pretoria need concern itself with in these or any other prospective scenarios is that the three pillars of regulation are observed system safety market efficiency and investor protection

But for any of this even to reach the planning stage, a competitively neutral operating environment is a must That is why the proposed amendments to the Act are so important

Share analysis and accurate forecasting — 4

Star 29/8/91 (232)

More on fundamentals

A 10-part series by Jacques Magliolo on methods used by JSE analysts to assess company performance.

Although numerous methods are used to forecast future company results, most analysts prefer to start by assessing changes in turnover and margins

The latest set of financial results, either year-end or half-year, are used to establish company trends Recent performance is compared with the previous year and any significant change in policy is noted

The following methods can be used to forecast change in turnover

Method 1: Percentage turnover achieved at interim stage compared with year-end

Although this first step is not scientific, it does enable the analyst to place his initial forecast "in the ball park"

If a company does not significantly change its product mix over the years, a pattern tends to form in relation to that product's business cycle

This is best illustrated by the following basic example

Half of a retailer's annual turnover is achieved in the first half of the year and the remainder in the latter part of the year, and if this retailer achieves an interim turnover of R1 million in 1990, the analyst — based on fundamental details discussed in the previous article — can assume a year-end total turnover of around R2 million

Fundamental and technical factors would indicate similar or radically changed rates for the period under review

Method 2. Assessing the complete breakdown of all contributions to group turnover

Most companies include this information in their annual report and it enables analysts to detect any changes in product mix over the past year and whether any acquisition is likely to alter this mix

The following example highlights the significance of a breakdown of turnover

A footwear company has a number of wholesale companies and its own retail outlets

Up to two years ago this group has been buying more retail outlets and, thus its wholesale operations have contributed less to turnover

Fundamental factors point to the group going into a consolidation phase and, therefore, the analyst can assume that the product mix will not change significantly in the current financial year

A historic comparison between the group's two operation and details released by the association which collates information for the sector shows that the company has continually outperformed other wholesalers and retailers by two percentage points

The company's cycle can be compared with the sector trend and future market movements can be extrapolated, with the company two percentage points above that of the market

At times the company will find it to its advantage to change its product mix to take advantage of market movements Footwear companies operating their own retail outlets would benefit from a general rise in de-stocking in 1990 and further expected sales in 1991

Method 3: Changes in volume and price

Turnover in this method is calculated by multiplying expected changes in volume by expected changes in prices

The following assumptions are made

- If the company is not expected to outperform the market, volume is assumed to equal the average rate of private consumption expenditure for the sector or using the same details as in method one

There are two prices to consider These are as follows

Retailers raise the price of goods sold to consumers by more than the expected CPI level to cover future increases in the cost of purchasing goods from manufacturers This is done to cover both the local and the inflation rate of its international suppliers and devaluation of the rand against these countries

However, any company increasing its mark-up during recessionary conditions could price itself out of the market

Therefore, changes in turnover can be estimated

PICHOLD/PICBEL FM 30/8/91 (232)

Fortunes turning

Following the dramatic gain at Picapli (*Fox* August 23), the fortunes of both Picardi Holdings (Pichold) and Picardi Investments (Picbel) advanced in the year to June

Pichold has two assets R21m cash, lent at

FM 30/8/91 (232)

market-related rates to Picapli, and 93% of Picapli Similarly, apart from 7,5m URD R1 preference shares (a Sanlam issue), Picbel's only asset is 69% of Pichold So both depend almost entirely on Picapli

Pichold's operating income improved by 19% to R29,9m Whereas a R40m interest payment pulled pre-tax results into the red in the 1990 year, a cut in interest-bearing debt to R48,5m (R119,5m) had the benefit of bringing interest payments down to R17m Since the tax rate was just over 8%, attributable earnings were R10,9m against the R13,4m loss the previous year

With EPS of 180,2c and 187,4c respectively for Pichold and Picbel and with both quoted at 385c, their p e ratios are 2,1 and 2,0 Either the market disbelieves the viability of Picapli, or the holding company shares are hopelessly undervalued In these difficult trading times it is as well to be cautious about prospects for a company mainly in the white goods arena, but such lowly p es seem unduly reserved

Pichold's balance sheet has been much strengthened by the reduction of debt and R22m has been written off as a result of valuing investments at net realisable value — including that in Cape Investment Bank

In the interests of conserving liquidity, Pichold's directors have decided that the 100c special dividend declared in February is all it should pay at this stage, especially since no dividend flowed up from Picapli Picbel reflects much the same picture and will also pay no further dividend *Gerald Hirshon*

JSE COMPUTER ROW

Open revolt

232

FM 30/8/91

Considering the dismay of some JSE members over such issues as rising costs, the state of the exchange's balance sheet and the threat of deregulation, it is not surprising that open revolt is threatening at Friday's special meeting

Dissension on this scale is by no means unprecedented, but it does not happen often on Diagonal Street Ivor Jones, senior partner of Ivor Jones, Roy, is a leading figure among those who are objecting to the JSE committee resolution that requires all broking firms to move on to the JSE's new BDA broker-client accounting system

As the *FM* noted last week, Jones has taken the unusual step of circulating to the senior partners of all member firms, a detailed and forceful letter arguing — among other things — that firms should be free to choose which computer accounting system they use Jones has directly linked the issue to the financial position of the JSE, stating that the proposed new BDA accounting rationalisation will not solve the financial problems but will only aggravate them A similar, though less detailed letter was circulated by Simpson McKie

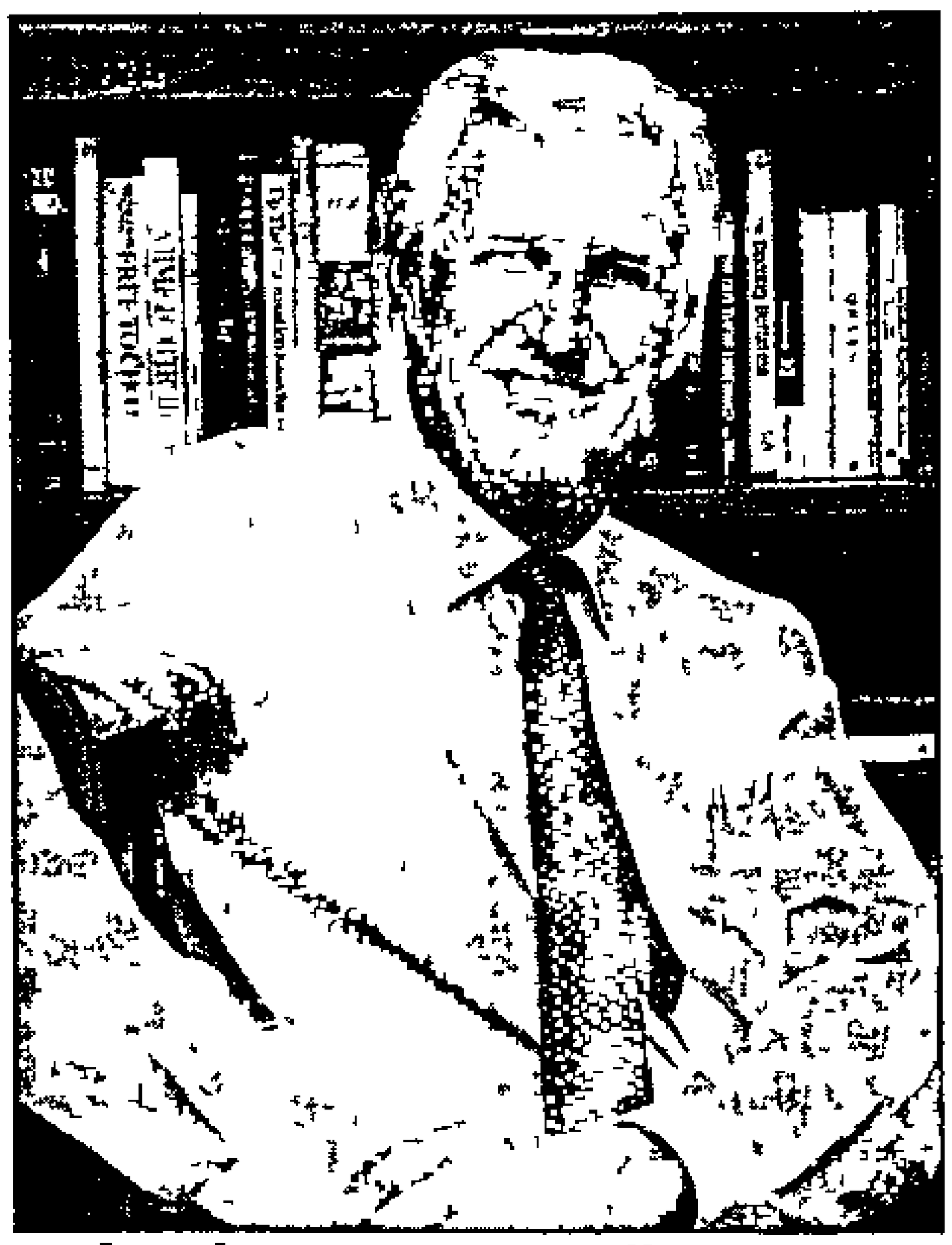
JSE committee chairman Humphrey Borkum declines to comment ahead of Friday's meeting, taking the view that the matter should not be debated in the press before the arguments have been presented to members and a vote is taken at the special meeting After the Jones letter, though, Borkum also sent out a letter setting out some of the committee's views and calling on members to listen to the various arguments at the meeting

That is fair enough — there are bound to be arguments on both sides It is known that 10 of the committee's 12 members voted in favour of the resolution Four of the firms now using the Mass system run by the privately owned SPS Computers are represented on the committee, so some were evidently swayed in favour of the BDA system at that stage

The BDA system was developed over the past three years — during the tenures of several JSE committees — and is claimed to offer better surveillance capability than other available systems This would include the capacity to run audit trails quickly on all transactions. BDA cost some R8m to develop, and the costs to users will apparently be higher than on other systems

SPS, which also sent a circular to broking firms this week, says it will charge only R2,30 a transaction Mass users have claimed that the BDA system could cost about R9 a transaction These firms also fear there would be large costs incurred in converting to Mass, with Jones citing a total

Chairman Borkum . *calling for votes*



Ivor Jones . . *BDA will aggravate financial problems*

figure of R10m However, a realistic estimate is difficult, as it is not known how rapidly the change would be made and how existing contracts would be treated

BDA grew out of the 1987 bull market, when the JSE's existing computer equipment was unable to handle the large trading volumes The new system has been strongly supported by committee members such as two previous chairmen Paul Ferguson, of Fergusson Bros, Hall Stewart, and Peter Redman, of Mathison & Hollidge, as well as by Francois Tolken of Martin & Co — all of whom carry considerable weight on the present committee

However, this committee does have in its favour the fact that it has only been in office since June, so it can hardly be held responsible for many of the JSE's broader problems A new committee, with five new members, was voted into office after a tough election battle in which the JSE's costs were a major issue It will probably say it has not yet had time to tackle and resolve the cost problems

This point will no doubt be emphasised at Friday's meeting The JSE has for some time been talking to Unexcor — established by clearing banks — about the possible sale of part of its computer operations

That does not necessarily imply it is backtracking on its preference for BDA, but it could mean a sale of hardware would be considered, with a suitable outside party becoming responsible for the management of the computer operation Security of access to the software is likely to remain a crucial consideration for the JSE. Not everybody would be happy about a deal with Unexcor, which some see as yet another bureaucracy; but maybe there are other options

One of the strongest criticisms by the Mass brokers is their contention that the committee did not do its homework properly. The committee will presumably be seeking to persuade the members that, in requiring the move to BDA, it did have enough information available to make a firmly grounded decision, based on all the technical aspects involved If that is so, it is a pity that the point was not persuasively made earlier.

Whatever the result of the vote on the BDA resolution, the committee will have to gain and hold the support of the exchange's own members. Though the issues are not unrelated, there are larger matters to be dealt with than the question of which computer system brokers may use It is difficult to see how the JSE can expect to deal effectively with its cost structure, or with deregulation, if it does not show a more creative approach or argue its case convincingly. ■

EVERITE FM 30/8/91

Volumes buckle

Like many capital-intensive businesses, Everite has taken a tumble from reduced sales The 18% drop in sales volumes, which resulted mainly from the core fibre cement division, led to a 68% reduction in attributable earnings for the year to end-June

But Everite MD George Thomas is not entirely disheartened He says every 1% increase in sales will mean another R1m to the bottom line It is hoped that the elusive low-cost housing boom will eventually lift sales

Director bidding for Claude Neon

B Day 30/8/91

ROBERT LAING

RONALD Holdings (Ronhold), the unlisted company buying Claude Neon from Anglovaal, was formed by a Claude Neon director to facilitate the acquisition

Ronhold is wholly owned by Claude Neon marketing director Ronald Nel, Claude Neon MD Brian Bain said yesterday.

Claude Neon's share price rose to 400c from 250c yesterday as a result of Ronhold's announcement that it would offer 420c a share to Claude Neon shareholders. The net asset value of the share is 392c, its June year-end results show.

Bain, who was moved from Anglovaal in May 1989 to restructure the group, said he would be returning to the holding company after the acquisition had been completed

Nel was not prepared to add any details on how the deal would be financed, saying a further announcement would be made in two weeks.

(232)

He would not comment on the level at which the offer was pitched

The announcement says Nel has 500 shares and an option to acquire a further 32 500 through the employee incentive share scheme This would give him 0,6% of the company's total issued capital of 5,8-million shares

Nel has worked for Claude Neon for about 20 years

The statement said no other involved parties owned any shares in Claude Neon.

Recession eats into earnings at Iscor

Star 30/8/91.

232

By Derek Tommey

Iscor's 220 000 shareholders are likely to be disappointed that the company has almost halved its final dividend to 6,5c a share from 12,2c a year ago

This brings the total dividend for the year to June to 11c — 37,5 percent less than a year ago.

This is a result of a decline of 33,6 percent in attributable income from R929 million to R617 million, equal to 33c a share.

The hundreds of thousands who subscribed for Iscor shares when the company went public almost two years ago have not yet seen much profit from their investment

But as MD Willem van Wyk says in the preliminary profit statement, Iscor is not shielded from the general economic climate

Iscor, in fact, appears to have fared rather well in tough times Although sales volumes in the South African market declined 13,6 percent, the loss in revenue was more than made good by a major export drive which saw foreign sales tonnages rise 47 percent

The overall result was a 6,5 percent rise in turnover to R7,26 billion, despite a 10 percent drop in dollar export prices.

An increase in unit costs and a jump in the cost of borrowings reduced pre-tax income by 47 percent to R633 million from R1 194 million last year

A sharp drop in tax paid from R259 million to R32 million helped narrow the difference

The steep rise in the cost of borrowing reflects the high level of new investment

Reviewing the company's prospects, Mr van Wyk says no improvement in demand for steel has been seen in either the local or international market.

"In fact, there has been no indication of the end to the downward tendency of the past two years

"In these circumstances it will be difficult to repeat this year's results"

All Iscor needs to show better results is an improvement in the market

Share analysis and accurate forecasting — 5

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Assessing margins and productivity

Star 30/8/91

A 10-part series by Jacques Magliolo on methods used by JSE analysts to predict company performance.

In this final section on fundamentals, changes in profit margins are investigated and other factors affecting final company profits are described

Before assessing changes in margins, the following basic definition and explanation should be reviewed.

- Margins effectively indicate whether the company is operating at a high or low productivity level
- To calculate margins, operating profit is taken as a percentage of turnover

There are many factors which can seriously affect productivity and can often be assessed only after a "factory tour"

To prepare for the excursion, the analyst carefully looks at the company's value added statement, which enables him to determine three fundamentally important issues

First, this shows historic dividend and interest payments If interest payments have been rising rapidly and this trend is not expected to abate, it could leave less capital available for future expansion and to strengthen reserves

Secondly, it shows the amount of funds used for maintaining and expanding operations The latter figure enables the analyst to ascertain changing company policy — for example, there may be a move away from being labour intensive

Thirdly, and more important, the high cost of employee remuneration is shown In the past two years there has been a major move towards reducing the wage burden through mechanisation

Labour disputes

Another reason for aiming at being more capital intensive is to offset the negative affects on productivity and sales of prolonged labour disputes, strikes, go-slows and stayaways

A walk through the factory floor enables the analyst to inspect personally how smoothly factory operations are carried out, whether any serious problems exist and how new the machinery is

Before making his final forecast on profit margins and, thus, future operating profit, it is essential for him to look at the effects of possible future consumer boycotts, international sanctions, government interference through tariffs and duties and the availability of raw materials resulting from scarcity or monopolistic control

Once all these factors have been assimilated, a decision on profit margins is made using the following formula.

★ Change in turnover (outlined in part 4) is multiplied by expected changes in margins, which equals forecast profit margin

The next step is to forecast the following factors and to show how they will affect operating profit.

★ Interest payable, which is calculated on the expected level of borrowing, debt policy and objectives of the firm (ratio analysis will be discussed in part 6)

★ Tax rate. The future rate can be determined based on accumulated losses and decentralisation and other benefits.

★ Profit before extraordinary items, minority interest payments and preference share issues

The latter is the easier of the three to calculate. The company would have made a press announcement of any further preferential share issues or amounts redeeemed

Extraordinary items and minority payments have to be estimated, but discussions with directors helps produce an accurate figure

★ Attributable profits This is the net effect on operating profit of the above and is used to pay a dividend to shareholders, while the rest is transferred to reserves

The attributable profits enable the analyst to calculate earnings per share (EPS), by dividing this amount by the number of shares in issue, which can also be assessed from press cuttings and discussions with the directors

★ Dividends per share (DPS) Once EPS has been calculated, this figure can be worked out by reviewing the company's dividend policy and historic dividend cover (EPS divided by DPS)

If the cover remains constant over a number of years, it is highly probable that this policy will remain in force

Part 6 on Monday will deal with ratio analysis and cash flow projections, which, are used to determine company strengths and weaknesses, such as solvency, liquidity and financial leverage

OWNERSHIP & CONTROL — 1991

SEPT. — OCT.

Nafcoc bid to control JSE firms

Sow C/Press 1/4/91

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NAFCOC is to mount an aggressive public relations campaign to promote a 10-year plan to raise levels of black participation and ownership in companies listed on the JSE

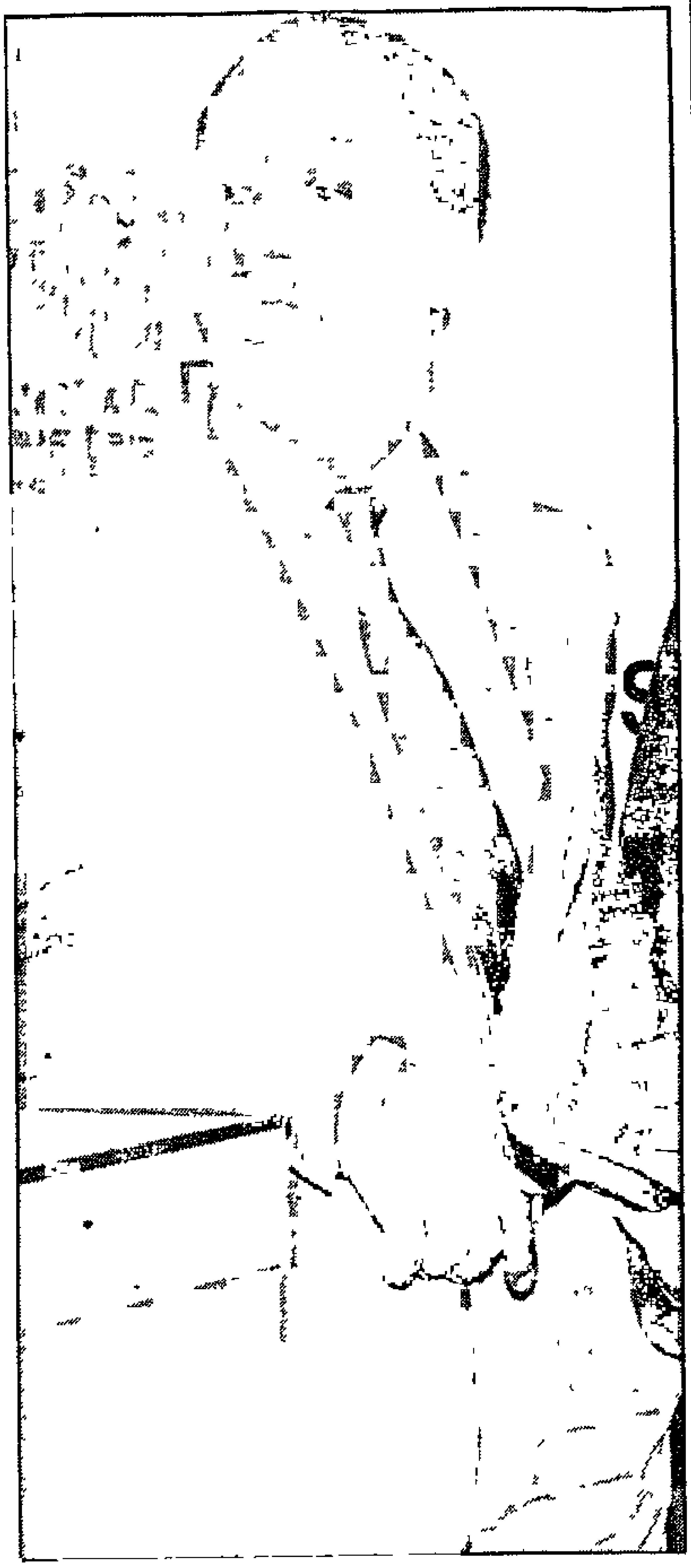
The federation will also be making strong representations to the authorities on the shortcomings of VAT, Nafcoc executive director Mofasi Lekota said in a statement

The resolutions were passed by the 100 000-member organisation at its 27th annual congress at Sun City attended by 1 400 delegates

"The resolution on black involvement in public companies calls for a 30 percent participation on management boards and a 40 percent ownership by blacks of listed companies," Lekota said

"It also seeks a ruling that 50 percent of the value of outside purchases made by listed companies should be placed with black-owned suppliers and contractors"

The resolution also suggested that 60 percent of top management and personnel should come from the black community, within the 10-year framework – Sapa



MOFASI LEKOTA . . . Strong representations.

Company liquidations 'will get worse'

232

SHARON WOOD

COMPANY liquidations would grow in the second half of the year as rising company civil debt judgments led to liquidations, credit analysts said at the weekend

Total liquidations declined by 2,7% month-on-month to 146 in July from 150 in June, CSS figures show

But Credit Inform director Jack Brownrigg expected liquidations to get worse in the second half of the year

Civil judgments against companies had risen this year and this was expected to have a knock-on effect on final liquidations, he said

Credit Guarantee economist Luke Doig said the number of civil judgments had been rising rapidly this year compared with last year

Insurance claims at Credit Guarantee had climbed to an average of R4,3m a month in the first six months of this year from R2,5m in the last six months of 1990, he said

Companies biting the bullet in anticipation of a fall in interest rates were suffering, said Doig

"Now that interest rates have not dropped, larger concerns are also going to the wall," he added

The construction industry had been hardest hit by economic recession, with the number of construction company liquidations rising 27% year-on-year in the first seven months of this year, said Doig

The rise to 114 in the number of construction industry liquiditions this year to July from 90 last year was borne out by an 8,6% slump in production activity in the construction industry in the second quarter, he said

BDay 2/9/91

The wholesale and retail sector was still suffering, with the number of liquidations in this sector rising by 15,3% to 384 in July from 333 in June

Credit Guarantee insurance claims figures showed wholesalers were feeling the pinch more than anyone else, said Doig

This was probably a result of retailers pressing for discounts and wholesalers' labour problems, he said

Accounting system vote fuels JSE division

BDay 2/9/91

ROBERT GENTLE

DIVISIONS in the stockbroking community widened on Friday after a close vote by JSE members favoured the exchange's Broker Dealer Accounting (BDA) system over the competing MASS system

The vote was held at the end of two hours of heated debate over the merits and disadvantages of BDA, which the JSE committee wants used by all broking firms

The final result, one broker said, was 162 in favour of BDA versus 140 against Another said it was 162 for and 120 against A terse JSE statement confirmed that BDA had won, but gave no numbers

Although the committee is technically empowered to compel dissenting firms to switch to the BDA system, the narrowness of the victory raises serious doubts over whether it will risk doing so

Battle lines have been drawn between many of the big-name firms Ivor Jones Roy, Simpson McKie and Frankel Max Pollak Vinderine are against BDA Davis Borkum Hare, Fergusson Bros and Martin & Co are in favour

"There is clearly no consensus," said one broker "We have no idea where we go from here"

Brokers said the debate, although heated at times, was cordial and constructive The only high moment, it is said, was when JSE committee chairman Humphrey Borkum ruled his father Max out of order for repeated interjections

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However, the JSE committee's arguments failed to win over the 200 members present A show of hands produced only 69 votes in favour of BDA It was only afterwards that, in accordance with JSE rules, the matter was put to a full poll which included proxy votes by the 140 members who had chosen not to attend

Stockbrokers canvassed for opinion afterwards were divided on the vote Some, like Ed Hern of Ed Hern Rudolph,

☐ To Page 2

Division

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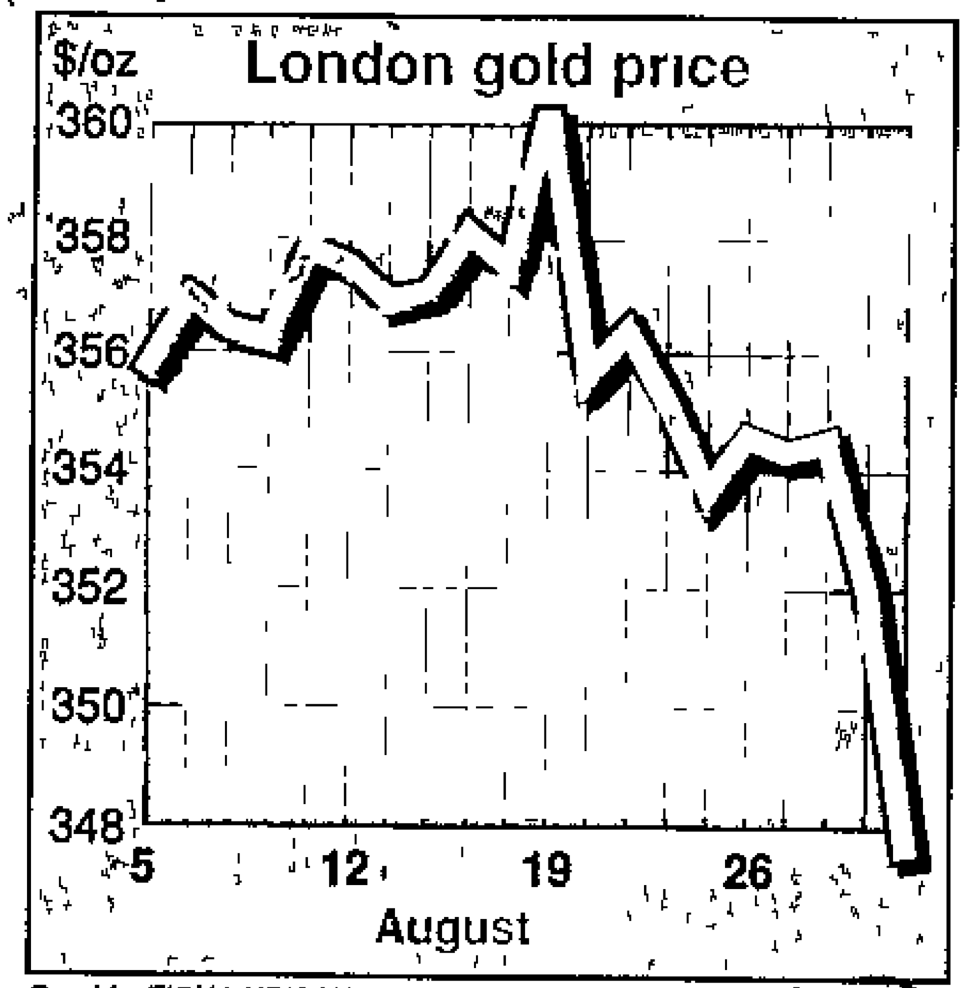
☐ From Page 1

said it showed that democracy ruled at the JSE "We are quite pleased with the way it went. It is positive rather than negative for the exchange"

Others brokers argued that the vote proved what they had always suspected — that BDA did not have the overwhelming support of the members and would never have got off the ground if they had been properly consulted in the planning stage.

They also expressed dismay at the fact that Financial Services Board head Piet Badenhorst had sided with the committee's views on BDA and had asked for this to be made known at the meeting.

A letter, extracts of which were kept on screen for much of the meeting, said, "I am of the opinion that a modern accounting system which is owned and controlled by the JSE is essential" Badenhorst was not available for comment yesterday



Graphic FIONA KRISCH Source REUTER

Gold drags down leading industrials

B/Day 2/9/91 (232)

MERVYN HARRIS

LEADING industrial shares were dragged down in sympathy with golds on the JSE on Friday as the market braced itself for possible further losses in precious metals

The gold price's fall to its lowest level since June 1990 set alarm bells ringing for a scenario which could see gold heading towards the $300 level if resistance was broken at $341, analysts said.

Markets were gripped by fresh waves of bearish sentiment on Friday, when gold closed more than $4 down in London at $347,75, but off the day's 14-month low of $345,50 In New York the metal ended $2,70 down at $348,75 In Hong Kong on Saturday gold ended slightly easier at $348,25

Reuter reports that the market is plagued by fears over the Soviet central banking system Soviet republics' central bank presidents are expected to meet next week to discuss the future of the country's monetary system

JSE dealers said quality gold shares held up reasonably well under the circumstances. The JSE all gold index fell almost 3% or 33 points to 1 077. However, losses among lightweight golds ranged up to 15%

Negative sentiment from the gold board spilled over to the rest of the market A 13-point decline in the industrial index to 4 114 helped pull the overall index down 33 points to 3 349

Dealers expect trading to remain hesitant and volatile, with the gold price slump taking some of the edge off leading industrials which are no longer seen as offering value at current levels

Share analysis and accurate forecasting — 6

(232)

Ratios determine company's strength

Star 2/9/91.

A 10-part series by Jacques Magliolo on methods used by JSE analysts to predict copany performance.

Through economic and fundamental research, the analyst is able to assess the company's resilience in overcoming negative market trends and to forecat short-term prospects

Before making his final conclusions public, all factors are re-inspected through a system called ratio analysis

This is the breaking down of accounting figures into components and relating them to other components

These ratios enable analysts to determine the possibility of liquidation, whether the company's financial strength could prevent a hostile takeover, its solvency and ability to continue to fund expansion plans.

Financial

Factors relating to financial ratios are.

- **Solvency.**

This is the ability of a company to pay its total debt and is determined by the extent that its total assets exceed total liabilities.

Where a company's assets are not at least twice its liabilities (including shareholders), it is considered insolvent or near insolvency

The analyst has to decide whether assets will grow in future, how these assets will be acquired and the effects of such purchases on the company's future financial ratios

Any company which is near liquidation would be investigated to see whether buying the share would be profitable for its "break-up value"

This means that it could be beneficial to buy the share before the company is dissolved, if its net asset value (total shareholders equity divided by number of shares in issue) exceeds its share price

However, there is a problem with taking this ratio at face value

For instance, it creates a false impression when a company has recently started operating In this case, liabilities could be equal to asets due to high start-up costs and low initial stock levels

- **Debt:equity**

Also known as financial leverage, this shows the relationship between the shareholders' equity and the total level of debt incurred (short and long-term loans and bank overdraft)

The significance of this ratio is especially important in an economy which has had constantly high interest rates (discussed in part 2)

- **Interest cover**

This is calculated by dividing pre-interest profit by net interest paid It shows the company's ability to meet interest payments

A low cover would show that the company is not working enough operating profits to pay interest on its outstanding loans, or that its loans are growing at a rate which the company is unable to contain

- **Rates of return**

These include rates of return on shareholders' equity, capital employed and net assets

They will be outlined in greater detail in Part B as they are closely associated to a company's risk factors.

Liquidity

The following are liquidity and efficiency ratios

- **Current asset ratio.**

This shows the extent to which a company is able to pay current liabilities (accounts payable, bank overdraft and short-term loans) out of total short-term assets (accounts receivable, stock, bank)

The lower this ratio, the higher the likelihood that it could be liquidated

If a creditor demands payment, but the company's assets are tied up and it is unable to pay, the creditor can demand that the company be liquidated even if it has a strong solvency ratio

- **Quick ratio**

This is known as the acid test ratio and also indicates the company's ability to pay current liabilities

However, it excludes stock and shows the company's ability to pay current assets out of cash resources and other current assets which can be easily sold

- **Profit margin.**

This was discussed in part 5.

- **Stock turnover.**

This figure (stock multiplied by 365 days and divided by turnover) indicates how efficient the company's operations are

If vast sums have been spent on upgrading and redefining the company's information systems and computer-minded facilities, stock turn could improve and the ratio helps to work out other forecasts, such as turnover and profit margins

- **Debtors and creditor days.**

These indicate how long it takes to pay creditors and how long it takes to collect amounts owing from debtors

A forecast improvement in the economy could mean a reduction in debtors days, bolstering the company's liquidity through greater cash inflows

However the opposite is also true If the economic cycle is slowing, companies with large debtors books could find themselves in financial difficulties

All the ratios, when compared with previous years, help the analyst to redefine his projections and accurately forecast short-term results.

The final step includes analysing cash flow projections, technical indicators which influence the share price and the long-term prospects of the company through a risk-to-return profile

COMPANIES

Meeting to look at BDA issue

B Day 3/9/91. (232)

ANDREW GILL

THE controversy surrounding the implementation of the Broker Dealing Accounting (BDA) system on the JSE is set to be the centre of today's weekly committee meeting on the exchange, say brokers

Chairman Humphrey Borkum said yesterday MASS supporters and BDA supporters had undertaken to be bound by the decision of last week's vote, which was narrowly split in favour of implementing the BDA system.

Implementation would be done with caution, consideration and sympathy, he said "It certainly isn't something we are going to rush into tomorrow "

The important thing to be done now was to "heal the wounds in the community" that the rift had caused, he said.

Some of the brokers vehemently opposed to the BDA system before and during Friday's meeting were philosophical yesterday about the outcome of the vote

They said a majority of brokers had voted in favour of one system instead of two and as a result the exchange had gained the "democratic support" it needed to implement the system

However, one warned, if the next step taken was "abhorrent", they might react It was now a question of waiting for the committee to decide on what course of action to take before making any decisions

Another broker opposed to the BDA system said it was time to reach a compromise on the issue because of the "sad split" it had caused in the broking community

Share analysis and accurate forecasting 7

Projections of cash flow

232

Star 3/9/91

A 10-part series by Jacques Magliolo on methods used by JSE analysts to predict company performance.

In the previous article ratio analysis was outlined, showing how the analyst is able to assess mathematically the company's inherent strengths and weaknesses

The next step is to use this historic information, with the company's latest cash flow statement, to see if financial flexibility could be affected by future unforeseen circumstances

In the 1980s, the Companies Act was amended to force listed companies to include a cash flow statement in their set of annual financial results

This was promulgated to highlight efficiency and the company's management skill during long periods of recession, which has caused many firms to operate in overdraft and often at high gearing levels

Analysts use this statement to take advantage of the following

● Quality of income is highlighted

A breakdown is given of how much profit was received in cash by adjusting for non-flow items such as depreciation and movement in working capital

● Utilisation of cash

A breakdown is given, showing the split between cash used to replace equipment and purchases of new equipment for expansion

All cash outlays for acquisitions and cash received from the disposal of operating divisions is highlighted

● Financing of investment activities

The analyst can detect major share movements, repayment of loans or further increases in borrowings and cash movements

● The effects of inflation are illustrated

● Depreciation is eliminated

This figure is distorted by inflation and, in cases where the company has a number of subsidiaries operating in different markets, it becomes a "guessing game" to forecast depreciation

● Accounting policies become irrelevant

Using ratio analysis, in conjunction with cash flow movements, the analyst is able to identify

● Whether the company can maintain its current operating capacity in the long term

● If, and how it can invest in future expansion and growth

● Its ability to pay outstanding interest, dividends and other liabilities

● The likelihood of meeting all its obligations om time and not only surviving in current inflationary conditions

These factors help the analyst to determine future liquidity, profitability, solvency and risk ratios

Although short-term forecasts have been finalised, the analyst has to apply his predictions at the correct time

If his analysis shows that the company will grow strongly and would, therefore, be a sound investment, it would be unwise to advise current and prospective shareholders to buy if the share price is to high

Determining price levels can be done with the assistance of technical analysis, which is a system used to detect the best buy and sell periods

The following technical indicators are among the most commonly used

● Moving averages

The use of three moving averages (10, 20 and 30-day) enables the analyst to determine short-term buy or sell signals

When three averages are moving in a parallel formation with the shortest day average on top and the longest day average at the bottom, this means a continued buy signal

When the top indicator turns downwards and becomes the bottom average, this is called the "dead cross" and is a sell signal

When the reverse takes place, called the "golden cross", a buy signal is indicated

● Momentum

This measures the rate of change of prices compared with the actual price level and supports the moving averages indicator that profit-taking or further buying could take place

● Market tracker

This figure shows the share's strength and weakness and indicates when it is cheap or expensive

In Part 8 tomorrow all the factors discussed so far are related to possible long-term growth and prosperity

The analyst has to determine whether the company is only a short-term investment opportunity or whether it could maintain growth into the future

Share analysis and forecasting — 8

Judging future performance

(232)

Star 4/9/91.

A 10-part series by Jacques Magliolo on methods used by analysts to predict company performance.

The volatile and unpredictable South African market intensifies the difficulties of accurately forecasting a company's long-term prospects.

However, based on a number of factors, the analyst can judge future performance with a high degree of precision

The research outlined in Parts 1-7 provides the necessary information required to determine whether a company is able to sustain its present financial strength into the future.

The analyst first compares this information with factors in other markets

Company size

These are highlighted by the following

- A sector comparison

The size of a company (calculated through market capitalisation) is of fundamental importance

Analysts believe a proportional relationship exists between a company's size and its ability to overcome negative market factors, including insolvency, liquidation, being involved in a takeover or merger

For instance, the eventuality of these factors occurring are generally greater in small companies which are easily affected by political instability and economic upheaval This is especially true if negative market sentiment persists

The opposite is also true If a company has monopolistic control, it is easier to overcome difficulties

The analyst would compare a company's historic performance with other companies operating in the same sector This is done to determine how much competition there is in the market and to conclude if the company is likely to gain or lose market share.

The next step is to compare target markets This affects the cyclical nature of the company and performance is often hampered or enhanced by cyclical fluctuations.

Target market

Finally, the business maturity stage is checked. If the company is ex-growth and it has not outlined new possible markets, future prospects are bleak

If the company is, however, expanding and its target market is minimally affected by cycles, short term forecasts are likely to remain positive

- The local and international markets.

The company being investigated has to be analysed in the context of local and international influences.

If a company is economically and politicaly insensitive, the analyst's task is simplified But this isseldom the case.

International sanctions and boycotts forced the South African business environent to streamline and survive under abnormally difficult circumstances

However, the total affect has left many companies with little hope for long-term prosperity Too much has to be repaired and lifting of sanctions is unlikely to help

International competition from the Far East, especially low cost producers like Korea and Japan, are expected to influence long-term prospects.

The analyst has to consider all these variables before concluding a company's prospects for long-term survival

The final sections of this series we look at how the analyst evaluates the company's share relative to the sector and to the industrial index

This comparison, with a risk-to-return profile, enables the analyst to detect possible share reratings which affect his final recommendations

Norton to leave JSE in April

232

5/11/91

Finance Staff and Sapa

Tony Norton, executive president of the Johannesburg Stock Exchange since August 1985, is to leave at the end of April next year.

Mr Norton's original five-year contract expired last October, but he agreed to stay for another 18 months to complete all his projects.

He said: "I have been talking to one or two people, but the window is still open as to what I will do I will possibly return to industry or merchant banking, both of which I enjoyed very much."

Johannesburg's stockbroking community has reacted with dismay to the news.

A senior broker said: "It's very sad to see him go To my mind, Tony was an outstanding person who has been unfairly criticised by the Press He will be a great loss to both the institution and members and will be difficult to replace

"He showed great wisdom in handling a very difficult task and was unbiased in his decisions and advice People will miss him more than they realise"

Reacting to comments that Mr Norton had been upset by the spate of attacks on his running of the JSE, brokers said that in a position as sensitive as that of president of the JSE, this was to be expected "It goes with the territory," said one

They said, however, he had handled this situation coolly and with discretion.

Star 5/9/91

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Share analysis and accurate forecasting — 9

Evaluating the shares against market price

A 10-part series by Jacques Magliolo on methods used by analysts to predict company performance.

The analyst has a single task left to complete

Before he issues his forecasts to present and prospective shareholders he has to determine if the share is fairly priced, cheap or expensive

This is followed by a review of fundamental and technical factors (outlined in parts 1-8) to determine whether these factors could alter the company's future share price

To ascertain the present value of the share, the company's dividend yield (CDY) is compared with the industrial index dividend yield (IIDY)

If the CDY is essentially the same as the IIDY, the share is considered to be fairly priced.

But if there is a substantial difference between the two, the share is either trading at a discount or premium to the IIDY

A premium rating means there is room for future derating, if fundamental and technical factors do not support the share Similarly, a discount rating could indicate a future re-rating if overall factors are positive

To determine if the investor sentiment could re-rate or derate the share in the next fiscal year, the analyst looks at risk and compares this to levels of return

The net effect between risk and return is an indication of possible future changes in the share price. There are generally three types of risk to consider These are business, financial and share trading risks.

Although these factors have already been examined, it is necessary to review them as follows

● **Business risk.**

The analyst reviews the company's cyclical nature, reconsiders the effect of economic patterns and factors affecting production

The popularity of brand names, competition, scarcity of raw materials, export and import costs and all other variables which have an influence on business operations are re-checked

● **Financial risk.**

This includes the future effects of acquisitions, disposals, restructuring, consolidation periods, strength of cash flow and the strength of the income statement and balance sheet

● **Share trading risks.**

Any possibility of a future share issue would affect bottom-line growth and has to be considered The influence that major shareholders have on the company needs to be reassessed

The three types of of returns achieved by a company in its financial yare are outlined as follows.

● **Return on shareholders' equity.**

This is the rate of return a shareholder receives on his original investment

● **Return on capital employed.**

This is the yardstick used by some firms to determine whether their operations are viable It effectively tells directors how profitable ther capital is employed

● **Return on net assets.**

A high return indicates that the company's assets are highly productive and profitable.

It often provides directors with the incentive to continue expanding, especially if the rate of return is substantially higher than the prime rate

The net effect between risk and return is best outlined in an example

An analyst has investigated Company A and concludes the following

● The company's short-term prospects are excellent and he forecasts substantial net profits, supported by a strong set of financial ratios

● The fundamental and technical factors are expected to remain positive in the long-term

● The CDY is trading at a discount to the IIDY

● Returns are expected to remain high and the company's risk profile is expected to remain static

The analyst would conclude that the share is likely to rerate as risk becomes less effective compared with rising returns.

His recommendations would be to buy the share on positive fundamental and technical factors at the current share price, or on any future weakness

Part 10 tomorrow will deal with other methods used in analysing company reports

Blue chips' performances could boost number of rights issues

B/Day 5/9/91

(232)

MERVYN HARRIS

RISING blue chip share prices are expected to prompt some companies to come to the stock market to tap institutions for funds in several major rights issues

The market has been rife with speculation of several big issues in the pipeline, after company representatives had sounded out institutions on support for such issues

Sources said they estimated that funds to be raised in the remainder of this year could exceed the R2,159bn raised on the JSE in the first half of the year to June

Analysts said it was cheaper to come to the market for funds now with blue chip shares trading at or near record highs

Companies which had already come to the market this year included energy group Engen, Consolidated Metallurgical Industries, Tempora, Sycom, Tamboti and Metropolitan Life, they said

Shares of leading mining house Gencor have been under pressure on the market on rumours of a rights issue to raise more than R1,5bn to follow expected rights issues in its subsidiaries and associates

There was also market talk that Anglo Vaal Industries could come to the market for between R400m to 500m Packaging group Consol and food group Irvin & Johnson have also been mentioned

Ernst & Young Corporate Advisory Services MD Claire Herbst said that this was a good time for first-tier companies, whose shares had been trading at all time highs, to come to the market, as the cost of raising equity funds would be lower

On the other hand, second-tier shares, which formed the bulk of the market, had not seen their share prices increase in line with the industrial index and it might not be in their interest to come to the market

Commodities

Companies which did not need surplus cash should not come to the market as they could only get a taxed return of around 8% on interest on the funds against the average cost of 16% to borrow money

Herbst said there were only two reasons for companies to come to the market for funds To repay debt, which many companies had done, as reflected in stronger balance sheets since 1987, and for new investments

Groups needing cash for new investment could be involved in commodities This applied to mining houses, but flat commodity prices implied flat and volatile share prices

"So this need not be a good time for them to come to the market"

She said that the manufacturing sector was not having rights issues because there was still a lot of surplus capacity in the sector, and the poor industrial outlook was holding them up

Demand for new investment had been dampened as tax breaks for capex were not available, as in the past

Political uncertainty in the country was another reason why companies might hold back investment decisions and therefore put off rights issues, she said

However, there was concern among market analysts that a plethora of rights issues could cut institutional discretionary investment on the JSE

For instance, an institution, which wanted to take up its rights worth R200m or R400m, would hold back funds from the market

Another worrying factor for the broking community is that there are no brokerage fees on rights issues at a time when the market is plagued by low turnover

AVI set for return to the limelight

232

B/Day 5/9/91

BRENT VON MELVILLE

ANGLOVAAL's fast track industrial nucleus, Anglovaal Industries (AVI), has slowed its growth pace during the past few years but the market is expecting the group to return to the limelight.

Analysts yesterday said they expected a 10% increase in earnings to about R230m (about 806c a share) for the year to end-June, but that the strength in the group's profit mix, its strong cash base and rationalisation benefits would allow higher gains in coming few years.

The comeback is likely to be led by the group's biggest provider to the bottom line, the packaging and rubber division headed by Consol, which this year bumped up operating profits an impressive 48%.

Consol has also alluded to a rights issue soon, the proceeds of which will be used to reduce its borrowings of about R200m. Consol financial director Keith Forgan said it would also be used to fund capex to keep up with volume growth in the buoyant beer and beverage markets

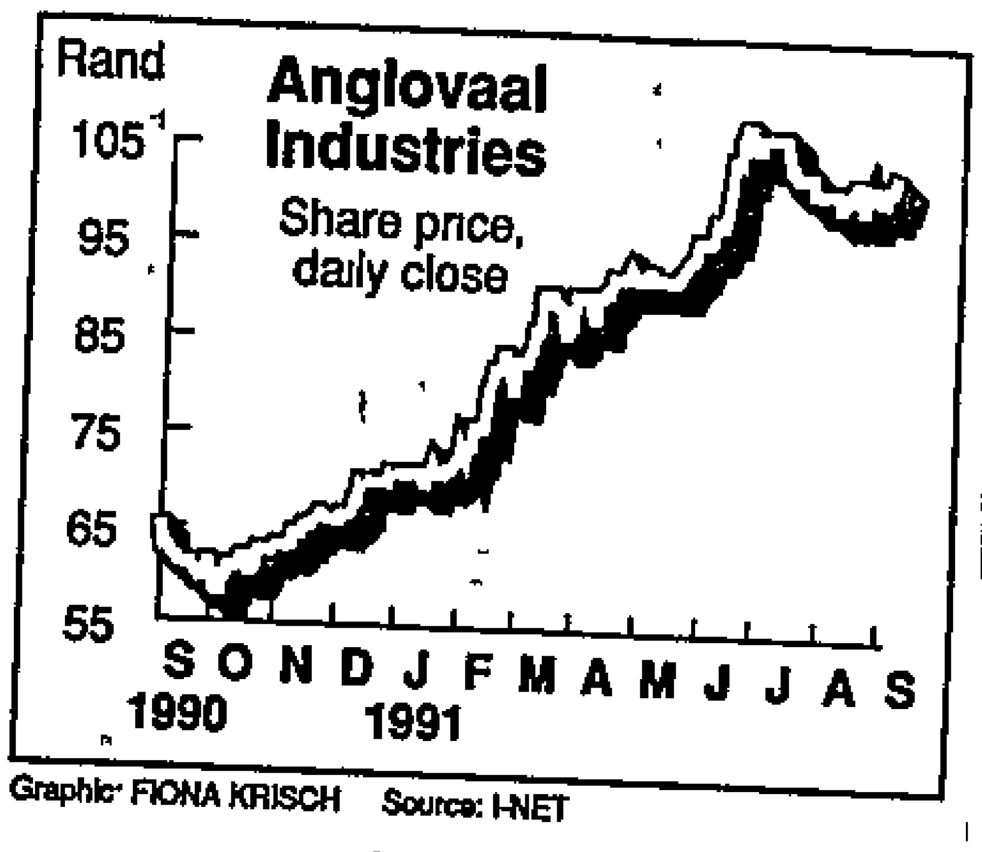
Vigour

Forgan said the numbers still had to be worked out but a major consideration would obviously be the potential dilution of AVI's 56% holding.

Analysts have pegged the issue at between R300m and R500m They said the current R2,5bn market capitalisation of the group made R500m a good level, although dilution worries might prompt a lower share issue to one in seven, translating to about R360m

Analysts expect a strong showing from the consumer brands division, which incorporates National Brands, Bakers, Cadbury Schweppes and Pleasure Foods. The market rating of Pleasure Foods has shown vigour lately, rising 40% to 105c in a week

The jump came largely on the back of very tasty results. The fast food group showed a tremendous turnaround for the year, with earnings more than quadrupling to R5,2m from R1,2m the previous year But analysts also suggest there may be an impending deal involving a buy-out of minorities It would cost AVI about R14m for the outstanding 28% of the company.



Graphic: FIONA KRISCH Source: I-NET

A buoyant international seafood market during the last year saw Irvin & Johnson prop up earnings 20%, and chairman Jan Robbertze believes the current year will show another improvement on the back of appropriate quotas in Namibian waters and healthy conditions in the frozen vegetables and prepared foods market.

Diversified holdings are likely to push up its contribution by about 22% this year, and AVI will benefit in coming years from rationalisations and mergers During the course of the year the division sold its 89% holding in Universal Knitters, and negotiations are underway for the sale of the underperforming Claude Neon

Corrective action has also been taken at Grinaker Construction, the main component of the construction and electronics division For the year to end June Grinaker suffered a 24% earnings drop in electronics holding company Grintek

Analysts said the action, which involved discontinuing certain unprofitable operations in electronics distribution and the housing division would likely help the division's bottom line next year.

Assuming AVI meets market expectations this year, the current share price of R103 would put it on a p e of 12,8 times, which analysts believe is a fair rating considering the quality grouping of AVI's interests, and the steps it has taken to buck the dismal economic situation

Sad day at the JSE as Norton delivers notice to quit

B/Day 5/9/91

232

MERVYN HARRIS

THE JSE was yesterday rocked by the news that executive president Tony Norton would not renew his contract when it expires next April

Norton informed the JSE committee of his decision at its weekly meeting on Tuesday At the meeting, Ivor Roy Jones representative on the committee, Rob Roy, submitted his resignation

It was the first committee meeting since last Friday's general meeting in which divisions in the stockbroking community were reported to have widened after a close vote by JSE members favoured the exchange's Broker Dealer Accounting (BDA) system over the competing MASS system

The resignation of Roy and the impending departure of Norton will be seen by many as resulting from the problems plaguing the stock exchange, although this has been denied by both Norton and Roy

Norton was on a five-year contract which expired last October and had agreed to extend it for another 18 months to April 1992, as "I wanted to complete many of the things I had started", he said yesterday.

"I have always seen my position on a contract basis and not as a career At the end of six-and-a-half years, I have done everything that I reasonably or substantially expected to do"

Norton said he had made no decisions regarding future plans He had been approached by one or two people but still had eight months in his present position

He said his decision had nothing to do with recent controversies "People must remember I am not running from this exchange Eight months is a long time and I still have work to do."

Describing his tenure on the JSE as "incredibly challenging and very different from my other career", Norton said despite "all the problems" it had been very rewarding

Roy said "I decided to resign for personal reasons I have got to the stage in life where I want to do other things If I want to play golf on a Wednesday afternoon, I can now do it

"I know people want to link my resignation to the controversy surrounding implementation of the BDA system The timing will lead to that conclusion but it has nothing to do with it

"Everybody knows that Ivor Roy Jones spearheaded the attack on the JSE committee for opting for the BDA system, but we gave an undertaking to abide by the majority decision and we must now just

☐ To Page 2

Norton

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☐ From Page 1

carry on with our business," he said

In a statement issued yesterday afternoon, JSE chairman Humphrey Borkum said "After lengthy discussions over the past few months we have accepted with regret Tony Norton's notification that he would not be seeking extension of his contract as president beyond its current terminal date of end April 1992"

He said Norton had volunteered to stay on for 18 months after his contract expired

"He now feels that by April 1992 he will have completed his major projects at the JSE and has indicated his desire to move on as he has always viewed his appointment here as an assignment rather than a life-time career"

Borkum said the committee was discussing the appointment of a successor and would make an announcement in due course

Sapa reports that the stockbroking community reacted with dismay to the news

A senior broker said "It's very sad to see him go To my mind, Tony was an outstanding person who has been unfairly criticised by the Press He will be a great loss to both the institution and members, and will be difficult to replace."

Another said Norton was an asset to the JSE and had enhanced its standing both locally and internationally

Reacting to comments that Norton had been upset by the spate of attacks on his running of the JSE, brokers said that in a position as sensitive as that of JSE president, that was to be expected.

TOLLGATE HOLDINGS FM 6\9\91

Turning slowly

The Tollgate interim report reveals first signs of a turnaround in the group's fortunes And so it should, after all the ground that has been covered by the consortium since they took over in June last year (232)

While the core tramways business is still intact for the time being — providing substantial cash flow — there has been much paring and pruning in the various divisions Major disposals have been Arwa, Norths Industries and Gant's But these sales took longer than chairman Julian Askin would have liked and the results may have been even better had the weak economy not influenced the pace at which the disposals could take place

The primary reason for the disposals was to eliminate the large debt burden, which had caused interest charges to effectively eliminate operating profits And because none of these companies was profitable when

continue →

FOX FM 6\9\91

control of TGH changed, the sales also meant that the group could rid itself of loss centres (232)

The six-month figures to end-June show reduced turnover but a doubling in operating income Interest paid has also fallen to R14,5m (R18,1m) With the aid of a tax credit of R1,7m and the share of associated companies' earnings, profit before preference dividends rose to R7,2m compared to the year-ago loss of R13,4m

SMALL PROFIT

Six months to	Jun 30 '90	Dec 31 '90	Jun 30 '91
Turnover (Rm)	285	313	253
Pre-interest profit (Rm)	26,4	46,5	31,8
Pre-tax profit (Rm)	(17,8)	(12,2)	2,8
Attributable (Rm)	(10,1)	(11,7)	1,2
Earnings (c)	(55,6)	(64,2)	4,1
Dividends (c)	—	10	3

Of this, preference dividends accounted for R1,3m Interest payable on the convertible debentures (an instrument introduced by the consortium to help fund the absorption of the original holding company, Duros, into TGH) amounted to R4,8m That left attributable earnings at R1,2m, compared with a loss of R10,1m last year

But there is little point in comparing the interim figures with those of the previous year, given the radical changes that have occurred in the operations The TGH board now wants to consolidate the profitable operations in the group, even if it means having to sell even more assets to reduce debt in order to bring about continued improvements in profitability.

Askin says the group is "addressing the future of the remaining considerable assets that are employed in its commuter bus interests " The implication is that ways are being sought to maximise returns from this source and an announcement in this regard should be expected in the near future This may mean that TGH will dispose of the assets tied up in the commuter bus company, Tramway Holdings However, there may also be an announcement of an overseas acquisition

Over the past two months, the TGH share price has hardened from 450c to the present 560c *Gerald Hirshon*

TEMPORA (232) FM 6/9/91.

Cash rich

Activities: *Investment trust Biggest assets are 20,63% of Dalys and 5,7% of Cadbury Schweppes, together amounting to 86% of the value of the June 30 portfolio*
Control: *Directors 34,85%*
Chairman: *R D Hamilton*
Capital structure: *10,8m ords Market capitalisation R181m*
Share market: *Price 1 675c Yields 1,9% on dividend, 1,9% on earnings, p e ratio, 53,7, cover, 1,0 12-month high, 2 500c, low, 950c Trading volume last quarter, 20 000 shares*

Year to June	'88	'89	'90	'91
Div income (R000)	1 264	2 195	2 797	3 083
Taxed profit (R000)	1 652	3 084	3 477	3 373
Earnings (c)	20,4	28,5	32,1	31,2
Dividends (c)	15	28	32	32
Net worth (c)	524	778	1 056	1 861

With the bulk of the portfolio (86%) invested in two highly favoured consumer stocks — Dalys and Cadbury Schweppes — the share has remained a strong performer over the 1991 year At 1675c, Tempora's price has

FM 6/9/91

more than quadrupled since the March 1988 rights issue, which was at R4 a share

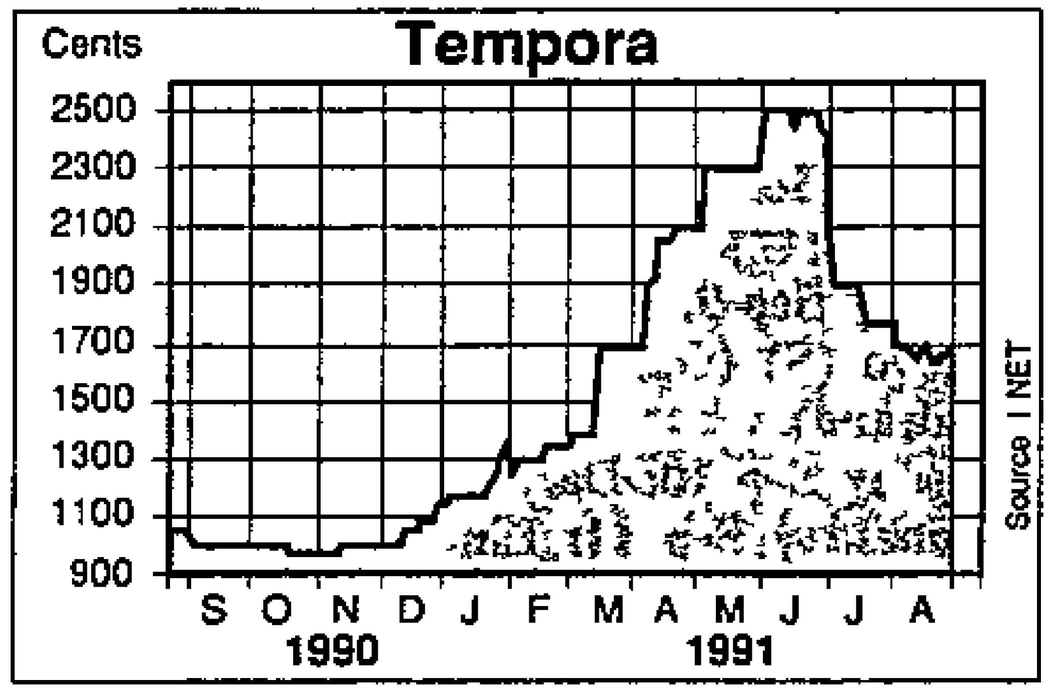
The latest rights issue, held last month at R15 a share, made a further R40m available for investment, though it is not yet clear how these funds will be used The rights offer document simply stated that the purpose was to take advantage of future investments op-

(232)

portunities in line with Tempora's investment policy, as and when they may occur Chairman Robin Hamilton says he is unable to indicate at this stage how it is intended to invest the funds, most of which are still held as cash

Cost of the portfolio, which stood at R27,8m at the 1990 financial year-end, rose

continued



by R2,7m during the 1991 year Main changes were a reduction in the stake in Sage Holdings, from 59 800 to 12 100 shares, and a purchase of 71 000 Cadbury Schweppes, bringing the total to 2m There was also a 1,8m increase in the holding in Saficon ords, which rose to just over 2,8m, and (because of the conversion) a 1,1m reduction in the holding in Saficon convertible debentures, which dropped to 36 800

At June 30, the market value of the investments totalled R200,8m, after an increase of R89,6m for the year At present prices, the value has risen to about R210m, which adds a further 89c a share to the balance sheet NAV When account is taken of the additional R40m equity capital and the increase by a quarter in the issued shares, the NAV is now about R19

On that basis, the share, at R17, stands about 10% below NAV There may be concerns about the price levels of the major investments, though it's notable that these continue to perform well Dalys announced its 1991 final dividend last week and it results in a one-third higher payout for the year from this investment Tempora is not cheap but should remain a good long-term investment

Andrew McNulty

DATES TO REMEMBER

Last day to register for dividends:

Friday Sep 13: Asseng 2c; Ass Mang 250c, Beatrix 31c; Cadswep 12c, Cashbuild 10c, Coates 19c, Consol 55c; Everite 2,5c, Evhold 7c, FIT 7c, Genbel 18,5c, Guardian 65c; I & J 78c, Imperial 23,6c, Imphold 8c; Implats 195c, Ind Select 6c; Iscor 6,5c, Klipton 19c; Liberty 43c; Libhold 110c, Macmed 1c, Masonite 25c, M & R Hold 110c; M & R Inv 98c, Natsel 7,5c, Oceana 53,64c; Panprop *38,7345c, Pleasure 4,5c, Scharrig 9c, SFW 7,5c, T & N 7,5c

Meetings:
Monday Sep 9: Abercom (S) (Sandton), Decovo (S) (Garankuwa); Prestige (S) (Midrand)
Tuesday Sep 10: Darmag (Sandton)
Wednesday Sep 11: Lindum (Randfontein), Musica (Ndabeni), Sinclair (S)
Thursday Sep 12: Merhold (S)
All meetings are in Johannesburg unless otherwise stated
S = Special meeting
* = Per linked unit

THE JSE'S ROW

The deeper malaise

FM 6\9\91 (232)

The row at the JSE over computer systems, on which we reflect in more detail in the following pages, is symptomatic of a much deeper malaise at this unfortunate institution It has little to do with surveillance Its errors and misjudgments in recent years have made it a laughing stock even in the eyes of those who make few demands on its efficiencies and are not particularly troubled by its imprudence

Of course, the environment in which it operates has become much less friendly Brokers no longer have the turnovers of the most recent new issues boom, and inflation has seen the progressive flight of smaller, private clients

But nothing the JSE has touched in recent years has turned to gold The hand of failure hangs heavy Whether it be the adherence to open outcry markets when experience elsewhere and technical advance suggested otherwise, the unfulfilled promise of traded options, or the attempted upgrading of its communications systems, there always appeared to be something wrong in the engine room

Moreover, the institution has never been in so much debt It gives every appearance of having been run by rank amateurs instead of financial men of skill and wisdom Whether it be fortuitous or not, the JSE's fall from grace has coincided with the period in office of its first executive president, Tony Norton, who has allied himself firmly with most of the decisions that events have proved either inappropriate or, at best, based on unjustified optimism that should have been subsequently modified

Norton has given notice that he will not seek to renew his contract and will leave in April of next year New chairman Humphrey Borkum, who is left holding the can, emphasises that Norton's departure has nothing to do with the present row or in fact the JSE's general state of affairs Norton apparently feels he has achieved what he set out to do and never did view the JSE as a long-term career opportunity He gave notice three months ago

Whatever the final judgment on Norton may be, his sense of timing has not been subordinated to his own interest And that is a manifestation of admirable integrity

But the question has to be asked now whether the executive presidency has been a success Theory was that it would bring to the affairs of the institution a leader of independent mind who could give it his full attention and avoid clashes of personal interest that are inevitable when the presidency is held by a member

The reality may be that Norton made or supported decisions that were later unavoidably invalidated by a material and unexpected change in trading conditions which he could not have foreseen Simply put, it might not have been his fault But there are two aspects that must be kept in mind

First, instead of displaying the independent leadership that was so widely expected, Norton became beholden to a committee with members no less fractious or individually self-important than in former times

It could be argued that it is still the committee that is substantially to blame for the institution's current position rather than the executive presidency And if that be so, the committee needs to look to its own laurels rather than seek out another executive president to become its scapegoat Perhaps the new committee under Borkum will rise to that challenge But we wouldn't bet on it

Second, assuming that decisions were made that were later shown to have been inappropriate for unavoidably changed circumstances, neither the executive president nor the former committee showed much initiative or creative disposition to rectify the situation Instead they displayed a dogmatic desire to sink further into the mire The JSE's Diagonal Street building may now have to be sold to get it out of its present financial difficulties

Borkum is facing now what is probably the greatest challenge of his career For there are strong forces within what are loosely called the liberation movements who want to see the JSE brought to its knees They dislike the idea of an efficient capital market and instead want capital to be provided by an officially supervised banking sector The allocation — or rather misallocation — of capital will then be at the behest of liberation bureaucrats

That is the real challenge that the JSE is facing — not the threat of the removal of its charter or negotiated commissions And to face it, the JSE must show itself to be creative, efficient and prudent Whether, in its opinion, it is doing so we leave to Borkum's committee to answer.

The first sign that it is rising to the challenge will be whether it is sufficiently magnanimous to modify its mandatory decision on its computer system The fact that more than 40% of its membership is against it should lead to some sober reflection and an ultimate compromise That they have followed their own self-interest makes no difference

But, of course, it is going to have to do much more than that And maybe, now that the computer row has revealed the bias of the present committee and its unfortunate high-handedness, it should subject itself to another election Perhaps it is significant that the member who polled more votes than any other in the recent election has stood firmly against the committee's decision

Borkum has a sound base on which to build, the JSE has an enviable record Despite the recent scandal involving two members, it has been substantially free from excesses and, when problems have occurred, it has in the past moved swiftly to adapt and protect its members and their clients

Its reputation has been won justifiably over a long period of time It can easily be jeopardised by members who become more shrill than sensible ■

Move to scrap post of JSE president expected

B Day 6/9/91 (232)

SEAN VAN ZYL
and LIZ ROUSE

BROKERS were expected to push for the scrapping of the JSE's position of president following the announcement of Tony Norton's resignation, sources said yesterday.

The JSE committee would probably decide to change back to the system in force before Norton's appointment, under which the committee, headed by a chairman, would handle executive decisions

Humphrey Borkum is currently JSE committee chairman.

Sources said they would not be surprised if there were more resignations from the JSE management "old guard".

They said the new JSE committee's priority would be a stringent cost-cutting exercise that could see a number of executive positions fall by the wayside. In addition, Norton's departure would probably result in the committee disposing of the JSE computer division, which brokers have long regarded as a white elephant.

In the event of the committee retaining the position of president, sources said brokers would lobby for one of their own to fill it. They added that it was unlikely the committee would select an outside candidate for the position

Brokers felt the problems encountered under Norton, who was nominated as an independent outsider, largely resulted from his "lack of understanding" of the needs and workings of the JSE.

A spokesman for a leading broking firm said Norton had worked under enormous pressure and done it admirably. He said the JSE committee should take some of the blame for what had gone awry.

● Comment Page 10

Share analysis and accurate forecasting — 10

232 Star, 6/9/91.

Keeping track of unforeseen developments

Last of a series by Jacques Magliolo on methods used by analysts to predict company performance.

During a company's financial year there are many factors which could affect the analyst's recommendation

For instance, the directors may declare new and unforeseen company projects, a director (and major shareholder) could die and leave the company without leadership, or changes could be made in taxation laws

It is important to determine the effects on a company of each new event and to assess how these are likely to alter recommendations

New investment

These effects are best highlighted by the following

- New long-term capital plans

At times a company which is in a consolidation phase may, if the opportunity arises, be induced to make a large capital investment

This new investment could be replacement of equipment, expansion of production facilities, introduction of a new product line or expansion through acquisition

The effect of such an investment is usually significant as it involves large sums of money Resources invested are committed for a long period and it usually involves substantial risk

There are three fundamental methods used to assess the viability of such an investment These are payback period, return on average invstment and discounted cash flow

The payback period is used to calculate the length of time required to recover the cost of the original investment from the net cash it generates

It effectively tells the analyst how long it will take the investment to pay for itself and is calculated by dividing the initial investment cost by annual net cash flows

The time frame is especially important for two reasons

Firstly, the longer it takes to recoup the investment the greater the risk associated with that investment

Secondly, over time the investment becomes less profitable, especially in an inflationary environment

To approximate profitability of such an investment, the analyst uses a method called return on average investment

This is calculated by dividing the investment's expected annual net income (after tax) by cost to give the investment returns The effect on overall performance is considered and, if necessary, final forecasts are changed.

Discounted cash flows enable the analyst to compare the cost of the investment to the present value of all future income expected from this investment

- Funding capital projects

There are a number of alternatives that a company can use to fund major new projects

It can issue shares (preference or ordinary shares) or debentures or increase its long-term loans

The company's decision affects results and has to be investigated

Shares issued

For instance, if new ordinary shares are issued the company's earnings per share and, therefore, dividends per share are diluted

- One-off orders

At times a business may have to make a decision on special one-off orders

For instance, a company may receive a large order, but at a price which is below its normal asking price

Should the company accept this special order, the effects on its profitability have to be considered

The analyst would work out set-up costs, additional selling and administrative expenses and whether the average cost of production could be affected

Based on his findings he would issue a new recommendation to clients

This is called differential analysis

- Analysis of joint product costs

Many manufacturing firms can produce a number of goods from the same raw material (eg, kerosene, paraffin and lubricating oil from crude oil)

Any new venture announced has to be assessed for viability

The analyst would investigate the common costs required to make these products and the additional costs which would be required to manufacture the new product

This series has outlined a vast number of factors that the analyst looks at before making final recommendations public and, based on these methods can make an accurate prediction

Longmile hit by recession

The Longmile group has been hard hit by the recession and has reported a cut in earnings of 37 percent for the year to June

The group said yesterday that earnings were 30,4c a share, compared with the previous year's 48,3c, while pre-tax income was down seven percent to R28,7 million (R32,91 million) Turnover was also down at R352,88 million (R402,9 million) (232)

This decline was to some extent the consequence of an increase in tax and the continued intense competition in the marketplace The level of earnings was expected Star 6/9/91

Longmile has posted a final dividend of 7,8c (9,1c) a share, which represents the total payment for the year, but in keeping with group policy of maintaining a four times dividend cover — Sapa

JSE's bridesmaid markets jilted by reluctant investors

W/Mail 6/9 - 12/9/91 (232)

By MONDLI MAKHANYA

INVESTOR uncertainty is stifling the growth of the Johannesburg Stock Exchange's Development and Venture Capital markets (DCM and VCM).

These two subsidiary "boards" were established to enable small companies to raise capital through a listing.

They are aimed particularly at firms which do not meet the stringent requirements for listing on the main board, which the man in the street still thinks of as the JSE.

A company applying for a DCM listing has to have had a minimum two-year trading record and pre-tax profit of R250 000. For the VCM all that is needed is capital reserves of R1,6-million. A listing on the main board requires an "acceptable trading record" for three years and R1-million pre-tax profit for the last year of trading.

According to a recent analyses of these two boards by stockbroking firm Davis Borkum Hare (DBH), the DCM in particular has had mixed fortunes since its inception in 1984. While the DCM appeared to attract investors and new listings soon after its inception, the 1987 stock market crash reversed its fortunes. Since then funds raised on the board have plummeted from R238-million to R4-million so far this year.

The number of new listings has also declined sharply from a peak of 76 in 1987 to just three this year. At present there are 32 companies listed on the DCM. Of 71 companies which have been transferred their listings to the main board, 16 have subsequently been terminated through provisional liquidations, mergers or takeovers.

The three-year-old VCM, which currently consists of four companies has been "stagnant" since its founding.

Attributing the poor performance of these markets to investor shyness caused by their high risk potential, the report also blames small investors' preference for the lower-risk unit trusts as well as brokerage rates, which are prohibitively high for the small investor.

DBH analyst Louise Castle says small investors — potential investors in markets such as the DCM — left the stock exchange in 1987 but are gradually returning, albeit in the way of unit trusts.

"They are very cautious about what they invest in," Castle says.

Given the already high level of concentration of power on the JSE, the failure of the DCM and VCM has dealt a blow to the exchange's bid to give fledgling companies an opportunity to raise capital.

Poor perceptions of the DCM run deep, with this market having a bad reputation of attracting chancers. "The only people who ever make money from the DCM are the original shareholders," is a common refrain.

University of the Witwatersrand equity market expert Steve Meyer reckons part of the problem lies in the illiquidity of the JSE. He points out that whereas on the New York Stock Exchange half the volume of listed shares change hands annually, on the JSE this is less than five percent.

"The large institutional investors only look to the big share blocks and as a result the shares on the DCM are languishing," said Meyer.

Econometrix economist Tony Twine says while most of the blame for the two boards' failure lies in the companies' management, the concentration of economic power has also played a role.

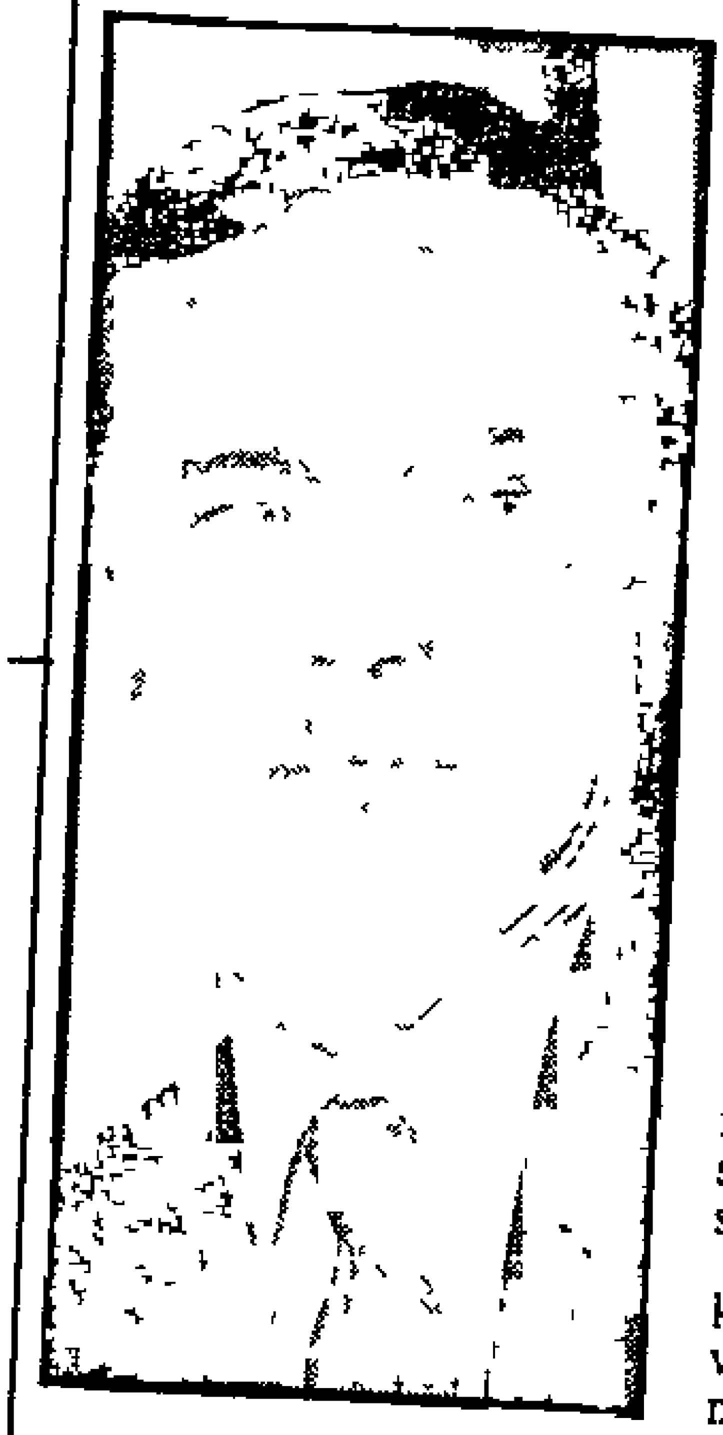
The high risk-low return nature of the two markets has ensured that finance houses rather invest in big companies on the main board in order to gain a fair return for their clients, Twine believes.

"They don't know how long these companies are going to last. They feel that they can be liquidated at any time. But they know the big guys are going to be there for the foreseeable future," said Twine.

Companies listed on the two boards cannot take comfort in a turnaround in the near future.

Meyer reckons the poor perfomance of the economy has had an impact on the DCM — "this always hurts the small entrepreneur first".

McGregor's On Line Information managing director Robin McGregor points out: "With interest rates where they are at the moment — and there's no sign they'll soon go down much — as well as the economic climate the way it is, things can't improve much."



RICHARD JESSE Positive

Broker tones down red alert for JSE

(232)

S|Times (Bus) 8/9/91.

By DAVID CARTE

AS THE JSE soars, concern about a possible correction in the market heightens

Stockbroker Alan McConnochie of Ed Hern Rudolph put out a "red alert" to private clients in July, strongly advising clients to defer purchases of industrial shares, to liquidate 20% of industrial holdings or adopt a stop-loss policy, selling stocks which fall by 10%

In August, after the market continued moving upwards, another Ed Hern partner, Andre du Plessis, appeared to recant

He wrote in a letter titled The road beyond red alert that the firm expected no more than a healthy correction, not a collapse

Mr Du Plessis says the "historically high (sic) price earnings multiples of our leading industrials are certainly discounting enormous economic dividends from the new SA" He adds that although the market rating is highly demanding, it is not totally unrealistic

Mr Du Plessis forecasts economic growth of 2% to 2,5% in 1992 and earnings to rise on average by 20% to 25% He warns that the Dow should be watched, but concludes that it is likely to rise in anticipation of a modest improvement in corporate profits in the next six months to a year

Another bullish factor is the shortage of good-quality scrip, aggravated by the need of the State pension funds for equities Any interest from foreigners will exacerbate the position

There is also concern among long-term investors about future inflation

Mr Du Plessis expects interest rates to start falling from the end of the year

"In conclusion, we expect the JSE index to be substantially higher over the next three to four years with a doubling being quite probable in the scenario sketched We therefore recommend that over the next six months clients should judiciously acquire quality holdings during periods of market weakness"

Another firm, Martin & Co, has long been the most bullish of stockbrokers Its analyst Richard Stuart predicted last November that the market would rise strongly

Mr Stuart said recently that the strength of the rise had exceeded his expectations The financial and industrial indices achieved in less than a year what he expected in two years

Trendline

Mr Stuart's colleague, Richard Jesse, gave Business Times this view of the market. "The financial and industrial index remains within the major uptrend which began 14 years ago in 1977 The chart of the index shows it is better to have been invested in financial and industrial shares than not

"However, it has to be acknowledged that the market has moved some distance from the trendline (it could fall about 25% before hitting it) and that the current PE ratio of 13,7 and dividend yield of 2,9% are by no means cheap by historical norms

"The fundamental case for equities in SA is tied to their status as prime inflation hedges It looks almost certain that political and economic influences will put upward rather than downward pressure on inflation in the 1990s

"SA's renewed access to world capital markets should contribute to a better real economic performance in the 1990s, which will boost company profit growth

"A shift to the political left seems likely to put downward pressure on interest rates, reducing their attractiveness relative to equities

"Thus, on anything other than a short-term view, the case for good financial and industrial shares looks markedly positive"

Namfish treads water as others confirm recession

S|Times 8/9/91 (BUSS)

By JULIE WALKER

COMPANY results released this week confirm the view that South Africa is still in recession

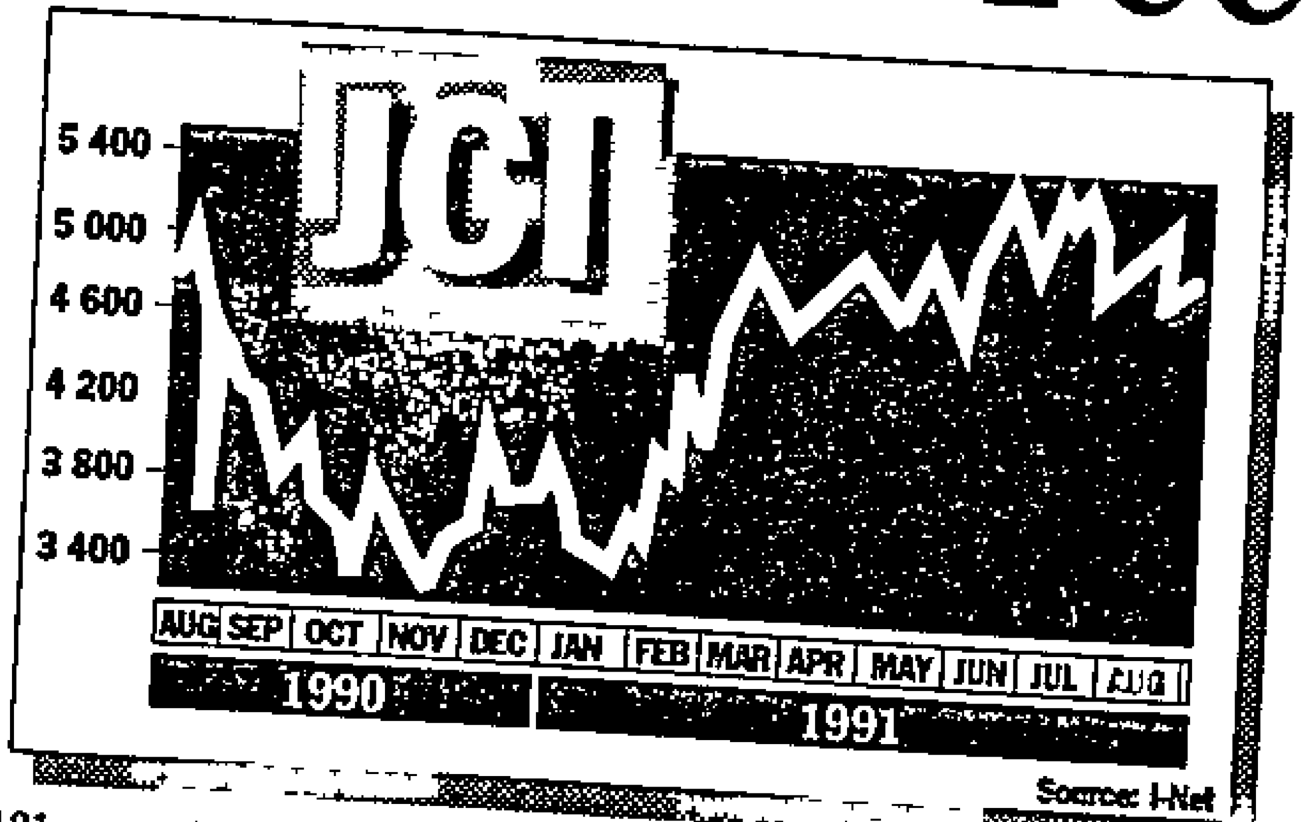
Only seven out of 19 announcing annual figures were able to improve on their previous year's performance ... three outpaced inflation, but ... three incurred losses

The seven interim results ... a little better, two coming out of the red ... four showing handsome increases

In the six months to June, Namibian Fishing Industries (Namfish) more or less trod water at the taxed income ...

Shade

... earned a smaller share of associates, but did not have to pay an adjustment on participation rights which were reported previously as an extraordinary item ... earnings a share of 48,7c ...



181 megatons out of its 704 megatons allocation for the year

Seaflower has applied to the Namibian Ministry of Fisheries and Marine Resources to be granted concessions and quotas in other fishing sectors based at Luderitz It has been granted 500 megatons of long-line hake

The directors expect reduced earnings from Namfish

Namibian Sea Products (Namsea), which owns 26% of Namfish, earned R3 2-million in the six months to June ...

strong customer base and good service helped the group to retain export markets The directors expect maintained sales in the second half of the year

Acquisitions last year by clothing retailer Bergers lifted turnover by two-thirds to R71-million in the six months to June

Without the acquisitions, sales grew by 23% The group has three trading divisions with 262 stores, having opened 12 and closed eight in the first six months of 1991 It plans to open another 14 before the yearend

Problems included deteriorating trading conditions, robberies and shoplifting

Consumer boycotts were prevalent outside the Pretoria-Witwatersrand-Vereeniging area and hit Bergers' Jones chain, which is being refocused The Capri chain has been sold and seven Jones shops will be opened

Although the directors predict a tough second half, they are confident of satisfactory growth They say that Vat may have a negative effect on trading

Gypsum, Ilco, Sasfin and Lonrho Sugar also improved earnings

Johannesburg Consolidated Investments (see graph) held up in the year to June Its earnings were 3% down on the previous year

Its share price of R49,75 is almost the same as a year ago The 12-month low was R33 last November and its high R53,50 two months ago

JSE head-hunters look for Norton's successor

(232)

S Times (Bus) 8/9/91

By DAVID CARTE

THE JSE has appointed a head-hunter to find an executive president to replace Tony Norton

JSE chairman Humphrey Borkum scotches suggestions that the exchange will revert to appointing its president from within

Mr Borkum says "We have confirmed Tony's deputy, Mike Thompson, as the inside candidate — but we must find the best man possible So we have opened the job to outside candidates

"No thought was given to appointing a broker to the president's position To remain self-regulating, we need an independent-thinking business person of immense stature It will be hard to replace Tony

Begged

"At the end of his first five-year contract, we begged him to renew He said he would not consider another five-year term

"We persuaded him to stay for 18 months to finish some projects he started Three months ago he indicated that he would go next April on expiry of the 18 months We have tried to talk him out of his decision ever since"

Asked what package was being offered, Mr Borkum says "We will pay what a successful stockbroker earns"

Mr Norton confirms that his departure was related only to his contract He says it was unconnected with controversy about the JSE's requiring all brokers to use its computer system and complaints about excessive costs

Mr Norton, who is 53, says retirement does not appeal — yet

"I still have 10 good years and I want an executive role I like working and it will be nice to get back to profits and losses At the JSE, the president's office is a cost centre I miss the reference point of profit"

Mr Norton believes he achieved what he set out to do

"When I arrived, the JSE wanted to open a new chapter It was under-resourced and its systems were on the verge of collapse We agreed on a mission plan and it is almost complete This is a re-resourced agency"

Mr Norton replies to critics' claims that his administration overspent that, as the world's sixth biggest stock market, the JSE could not afford to be under-resourced It simply had to spend

"The problem has not been high costs It has been low turnover We have a system that can cope with 30 000 deals a day We are now doing 2 000 a day

"There are heavy fixed costs, so naturally there have been financial pressures on brokers

"But I don't think we have Rolls-Royced the JSE What everyone seems to forget is that in the new SA, turnover could well return to former levels There could be a bull run in the gold price Or there could be a great sell-off

"Our systems will cope and we will not have to close the market We also needed sophisticated surveillance to remain self regulating"

Mr Norton says that after spending R60-million on computers and about R35-million on the JSE annexe, the exchange had an overdraft of R45-million But its assets — far more than R100-million — are unencumbered Depreciation provisions exceed capital spending, so debt will diminish

Banking

"If this were a business, it would not be overgeared Both Mike Thompson and I have banking backgrounds We would never incur undue risk"

Mr Norton says the JSE does all brokers' accounts The bill for rental and computer costs that brokers' receive every month from the JSE amounts to only 8% of their costs

"We are a material cost to members, but had we remained under-resourced, they could have lost their businesses"

What about the JSE's much-criticised traded options market, the Bond Market Association and the SA Futures Exchange?

"The Traded Options Market was a mistake that cost R3-million We tried to do a quick and dirty and it didn't come off But the BMA, Safex and the Securities Regulation Panel, which were all set up in my term are all solid institutions"

The JSE has been criticised for not switching from the open outcry system to screen trading Mr Norton says New York and Tokyo use open outcry — the best way to establish a price But the issue is a minor one

He is pleased that the JSE's biggest customer, Old Mutual, has shot down suggestions that the JSE be subjected to a Big Bang, permitting banks to muscle in and make it even more institutionally dominated

Mr Norton has no regrets about having left Barlow Rand, where he was an executive director and chairman of Tiger Oats He says his relationships with the committee and the broking community have been good Indeed, several tell Business Times that they are distressed at his departure

Folly

Mr Norton does not believe he had an unfair run at the JSE "I know the lot of the investor The guy who is party to brave decisions gets criticism That's his role It's easy not to take decisions

"But if you operate in the public domain, people expect it Judgment of my term should be made in five years As I left CG Smith people called the new Sezela sugar mill Norton's folly Today it's a money maker

"I helped to bring Tiger Oats into Barlows at the equivalent of R1,50 a share Now, thanks also to good management after I left, it's worth R35"

S|Times

8|9|91

TONY NORTON CG Smith Foods chairman in 1985

TONY NORTON AT OFFICE THIS WEEK Outgoing JSE president next April Picture DAVID SANDISON

GDM doing well

Star 9/9/91

Diagonal Street

232

LYNNE PEACH

Financial services group GDM, founded in 1952, has gone from strength to strength and performance in the current year is expected to remain above average

Strong management, spread of risk and strict credit assessment leave it well-positioned to meet the challenges ahead.

In the annual report, managing director John Cowper says that as South Africa is able to trade more openly with the rest of the world, new opportunities will present themselves and demand for services already offered will increase

GDM provides trade financing to clients and acts as a confirming house (ensuring payments by clients for international and domestic trade transactions), establishes letters of credit and provides related services

Despite an increasingly difficult economic environment, pre-tax profit rose 22 percent in the year to April from R9,8 million to R12 million.

Mr Cowper says the acquisition in January of certain companies within the Repfin group added almost R10 million to group receivables

Overall, he says the broad client base, which covers a spread of business sectors, remained steady at around 200 companies

Mr Cowper adds that no one client represents more than five percent of total receivables and that no one business sector represents more than 26 percent of total turnover

A decline in the effective tax rate from 22,3 percent to 20,4 percent resulted in taxed profit rising 25 percent from R7,6 million to R9,5 million.

After outside shareholders' were allocated a relatively larger share of profits, the rise in attributable income was reduced to 15 percent from R7,5 million to R8,6 million.

Earnings per share rose from 29,3c to 33,7c

The dividend for the year was 13,5c — 13 percent higher than the previous year's 12c.

The balance sheet discloses conservative gearing and gross assets of R150 million

The latter grew 17 percent over the year, which Mr Cowper attributes to trade finance volumes and to increased turnover in African Shipping, in which GDM acquired a 64 percent stake last year.

GDM, priced at 215c, is trading on a P/E ratio of 6,4 and provides a dividend yield of 6,3 percent

These yields are attractive, particularly in view of the group's good track record and satisfactory prospects Accumulation of the share is recommended

COMMENT GDM's share price has performed consistently well over the past four years

At 215c, it is just off its all-time high of 230c of two months ago

The trend remains positive and will only be threatened if the price starts falling below 200c management had met the workers yesterday to discuss issues that prompted the unlawful work stoppage

BOTHA

Emergency services to be privatised

B/D ... 11/9/91.

TANIA LEVY

THE Benoni Town Council last night voted to privatise its fire and ambulance service

The council believes it will be Africa's first emergency service to be privatised

(232)

Management committee chairman Danie Taljaard said the privatisation would save the council and its ratepayers about R15m in the next five years

The decision had not been taken lightly and the privatisation committee had deliberated for almost 15 months, he said

Benoni's fire chief Stephen Barber said the council would contract out its fire and ambulance service to a private company, which would be bound to maintain the standard of service at no extra charge to users

Fire and ambulance staff would be kept on by the company, which would lease Benoni's fire station from the council

Town clerk Deneys Conradie said the agreement also marked the first time a local authority would own shares in a private company

Shares would be split between the council, First National Bank, the Fire and Emergency Services Holding Company and the company's employees

Judge orders boxer not to harass family

SUSAN RUSSELL

INTERDICT proceedings launched against former boxing champion Gerrie Coetzee after he allegedly threatened to have the wife of a Randburg boat dealer raped by a hit squad, were settled in the Rand Supreme Court yesterday

An order interdicting Coetzee from assaulting, harassing or threatening Ronnie Arenson and his family was granted yesterday by Mr Justice Flemming by agreement of both parties

Arenson in turn agreed his company, Waterworld would return a boat Coetzee lodged as part deposit on a boat he had ordered from the company

The boat will be returned when Coetzee pays R4 000 for costs incurred during the transaction

The Randburg boat dealer initially obtained an interim interdict against Coetzee two weeks ago after the former world heavyweight boxing champion allegedly threatened him and his wife

Coetzee had until yesterday to show cause why the interim interdict should not be finalised

In an affidavit, Arenson said Coetzee had threatened to "sort him out" and have his wife raped by a hit squad He then reported the threats to police

Arenson said he, his wife, two-year-old son and two-month-old daughter then left their home under police escort to live elsewhere Security guards were hired to protect his home and business premises

He said he and Coetzee had negotiated a deal for the purchase of a new boat which was to have been imported from the US

Coetzee gave the company two boats as a trade-in, one of which Waterworld valued at R25 000, Arenson said

He added that it was a term of their contract that the deposit on the new boat would be forfeited if the deal fell through at the instance of the purchaser

Arenson said the deal fell through after his company had incurred expenses of R7 500 and Waterworld had kept the R25 000 vessel

Official 'people's court' opens today

B/D ... 11/9/91.

WILSON ZWANE

SA's first official "people's court", to be called a community dispute resolution centre, will open its doors in Alexandra township today

A Community Dispute Resolution Resource Committee official said the opening would, however, be low key "A formal launch will take place within a few weeks after we have found our feet," she said

The centre, in Wynberg near Alexandra, will deal with minor community disputes and will be the first of its kind in SA The committee has said it would be the forerunner of similar centres in other townships

The committee — formed by the Wits Centre for Applied Legal Studies and the National Association of Democratic Lawyers — has trained 12 people who will mediate in disputes

Alexandra Civic Organisation president Moses Mayekiso has said the negative reaction of Alexandra people to the "white" judiciary, as well as rising crime, had prompted his organisation to work towards establishing community oriented courts

The Justice Department has said the establishment of the dispute resolution centre has much in common with its desire to make the administration of justice accessible to all

Bail granted

JONATHON REES

LOOD van Schalkwyk, one of three hunger strikers

German firm set to make bid for Gentyre

(232)

SEAN VAN ZYL

GERMAN tyre manufacturer Continental Gummiwerk is expected to bid for W & A-controlled Gentyre Industries in a deal pitched at R35 a share, say market sources. This would value W & A's 67,6% interest in Gentyre at R368m.

W & A deputy chairman Terry Rolfe said that W & A was openly looking for "offshore alliances" to open new export markets and bring overseas technology to the group.

He added that the group would not consider disposing of any of its companies now that W & A had weathered the downturn in the economy. He would not be drawn on whether partial disposal would be considered to attract foreign participants.

Rolfe would neither confirm nor deny that discussions were taking place with Continental. B/Day 11/9/91

But sources connected to Continental were confident the deal would be announced shortly. They added an offer would be extended to minorities, as required by the JSE, with the possibility of Continental pushing for full control of Gentyre and subsequent delisting of the tyre distributor. Continental senior directors were unavailable for comment.

W & A has attracted keen market attention over the past three days with more than 1,6-million shares changing hands on speculation the group was planning to dispose of various interests

The unusual interest in the share has

To Page 2

Gentyre B/Day 11/9/91 .

(232)

From Page 1

lifted W & A's share price by more than 8% over the week to 460c Gentyre's share price rose sharply to around the R30 level in August — where it has since held — when the rumours first broke that W & A was looking for an offshore partnership

Market sources argued the sale would be a logical step for the group which was in dire need of new capital to relieve the pressure of its interest-bearing debt

W & A's consolidated interest-bearing debt stood at over R1bn at the end of 1990 and its consolidated interest payments totalled R163m last year FSI, W & A's penultimate parent, reported a consolidated debt of R1,22bn at end-1990 and paid out R206m in interest last year

Star 11/9/91

Retail repossessions are on the rise

Certain mortgage lenders are sitting with in excess of R500 million worth of repossessions and near-repossessions of retail investments

This is the estimate of Neville Berkowitz, whose authoritative Property Economist publication, circulated within the industry, has been monitoring events in the market for more than a decade

And with interest rates likely to remain high in the foreseeable future, more retail centres are likely to end up in mortgagees' hands, he believes

Added to this, the closure of at least two Checkers centres and the tightening up of the group will materially affect certain retail developments

"How many more Debruyn-plan and Greenfield collapses do we have to endure before the penny drops that retail developers are overdeveloping?" Mr Berkowitz asks

The Central Statistics Service currently documents about 57 liquidations in the category of wholesale and retail trade, catering and accommodation services for the month of June, down slightly from 74 the same time last year These come after about 62 in May this year Total liquidations in this category in 1990 numbered 503

Despite these and earlier warnings, Mr Berkowitz estimates that retail space with a value of between R2 000 million to R2 500 million a year is continuing to be built.

As companies and pension funds are only likely to finance between R500 million to R700 million of new retail space annually, some R1 500 million of new developments are being funded via mortgage finance at current high interest rates

"This overdevelopment of space is depressing retail rental levels across the country as supply outreaches demand, on the one hand, and on the other major retailers have to expand to keep their market share This game of 'catch' is affecting developers, tenants and property owners' profits and viabilities"

The Property Economist has quantified new retail space built annually over the last five years at about 500 000 sq m In the light of the current oversupply, it recommends that only 150 000 sq m be built annually

From its research, the Property Economist has found that some 250 000 sq m are required annually, when the economic growth rate is between 1,5 percent to 2 percent a year Assuming a total development cost of some R3 000 a square metre, then total annual retail development, at 1991 figures, should be in the region of R450 million Compare this with the R2 400 million spent in the year to March 1991 and the oversupply is self-evident

"To match the actual supply of new space built requires a 4 percent real retail spending growth rate annually on a long-term basis The last five years have only averaged a 1,2 percent growth rate," he says

He advises developers to carefully measure likely retail turnover per square meter in any area and build to demand

To tenants, Mr Berkowitz says concentrate on profitability per store rather than market share of retail spending

Investors, he says, should look very carefully at retail investments and developments

"The opportunity areas in the retail market place are occurring in the mega centres such as Sandton City and Eastgate for example, and in the CBDs of the major cities The reason for this is primarily due to increased urbanisation and the economic empowerment of blacks," Mr Berkowitz says

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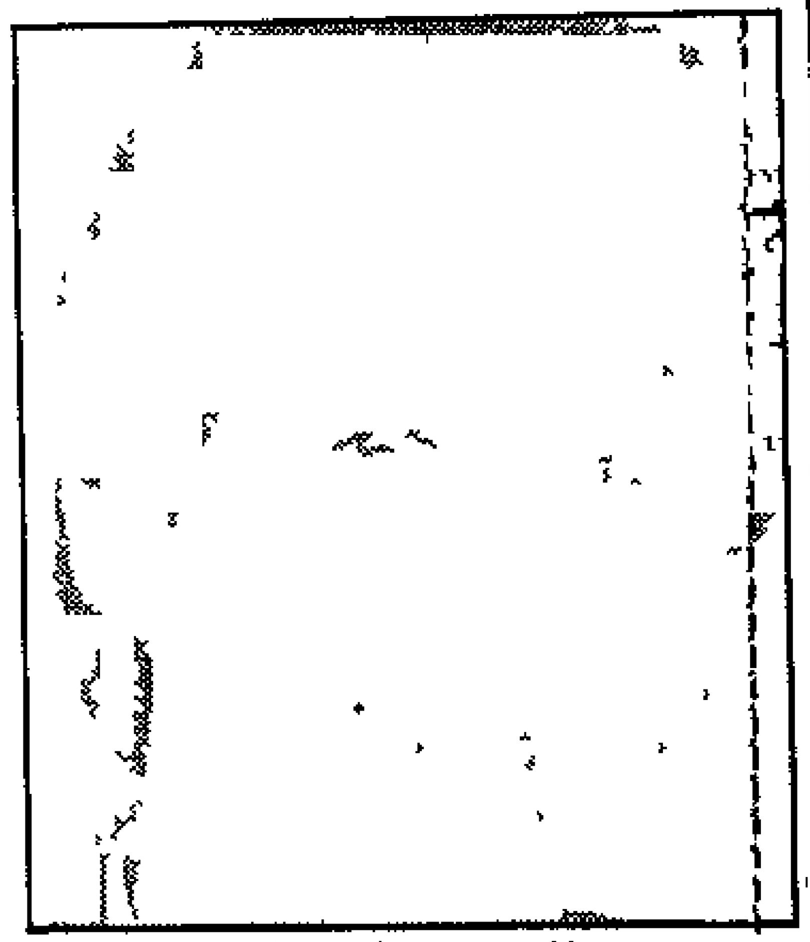

Neville Berkowitz . "more retail centres likely to land up in mortgagees' hands"

IDC may sell Sasol shares

By Jabulani Sikhakhane

The Industrial Development Corporation (IDC) could decide within the next month to sell some of its 170 million Sasol shares, managing director Carel van der Merwe said yesterday

Sasol has risen strongly in the last few days, after reporting good results The share closed 25c up at R17,50 yesterday and there is still good demand

Mr van der Merwe said "We have made it known that we intend selling some of our Sasol shares in the future"

"The current share price looks attractive. We are carefully looking at the situation and we will look at our cash-flow situation A decision could be made within the next month

"The shares would be offered in terms of the original prospectus But no decision has been taken yet," he said

When the IDC decides to sell its Sasol shares, they have to be offered proportionally to existing shareholders

Analysts say a proportional offer could result in a few institutions taking large blocks of shares, resulting in a distortion of their investment portfolios and leaving them exposed to the counter

David Meades of Meades de Klerk says State pension funds, reported to have R40 billion, which could soon be freed for investment in equities, might underwrite the IDC offer.

He reckons that Sasol shares could still go up to R25 Even at that price, the shares would be cheap relative to other blue chips

A R25 price would place Sasol on a historic P/E ratio of 13,5 and a dividend yield of 2,86

"Sasol managing director Paul Kruger says Sasol is worth R23 a share, which hints at the possible level at which the IDC could pitch its offer If Sasol shares reach R23, the IDC could offer its shares at R20," says Mr Meades said

He says the IDC offer could be on the basis of 30 shares for every 100 Sasol shares held

At yesterday's closing price, the IDC's stake in Sasol is worth R2,98 billion At R20 it will be worth R3,4 billion.

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LE TOWNSHIP

AVI, subsidiaries seeking R786-m

(232)

Star 13/9/91.

By Jabulani Sikhakhane

Anglovaal Industries (AVI) and its subsidiaries, Consol and Irvin & Johnson, are to raise a total of R785,7 million through the issue of unsecured automatically convertible subordinated debentures.

Ultimate holding company Anglovaal will contribute R242 million, AVI R234 million. The minorities will fork out R309 million of the total funds to be raised

The rights issue has sparked rumours that the AVI group may be on the acquisition or expansion trail.

But AVI said yesterday that the matching an acquisition or major expansion to raising funds to the best advantage was frequently not possible

It said that current conditions in the capital markets were favourable.

AVI is issuing 4 001 839 5 percent debentures at R97 on a ratio of 14 debentures for every 100 ordinary shares held, which will raise R388,2 million

Anglovaal has agreed to take up its rights (2,40 million debentures) and is underwriting the balance.

Proceeds

Of the total proceeds, R234 million will be used to follow rights in Consol and I&J, leaving AVI with cash resources of R154 million, which will be used to enhance the group's capital base and position it for future growth

Group borrowings at end-June of about R480 million will be eliminated.

After the issue, group consolidated cash resources will rise by R551 million.

Of this, R242 million will be contributed by Anglovaal

Consol is issuing 8 345 415 5 percent debentures at R36, making a discount of R4,50 to market price.

The ratio is 13 debentures for every 100 ordinary shares held

About 78 percent of the debentures have already been taken by AVI, its subsidiaries and other institutions Anglovaal is underwriting the balance

Consol will use the proceeds to pay-off debt of R159,31 million at end-June and redeem R50 million of preference shares in August and December 1992.

Saving

Based on the 5 percent interest payment, or 180c a debenture, Consol's cost of servicing the debentures will be about R15,02 million a year, compared with the taxed interest payment of R18,53 million in the past financial year.

This translates into a saving of R2,51 million

I&J is raising R97,1 million through the issue of 2,86 million 6 percent debentures at R34 (the share price closed at R37 yesterday)

For the year to June, AVI reported a 13 percent increase in earnings to 825c and dividend growth of 11 percent to 150c.

The calculation of earnings does not take into account extraordinary items of R24,9 million.

Consol, I&J and National Brands were the major contributors, accounting for 71 percent of AVI's attributable earnings.

Turnover rose 14 percent to R7,39 billion, but reduced profit margins in many of the group's markets cut this growth in pre-interest profit to 12 percent at R772,8 million

UNIDEV FM 13/9/91

Recapitalising

(232)

Activities: *Investment holding company*
Control: *Unicon 53%*
Joint MDs: *J K Brett, A H Chonowitz*
Capital structure: *31m ords Market capitalisation R6,8m*
Share market: *Price 22c Yields nil% on dividend, nil% on earnings, p e ratio, nil, cover, n/a 12-month high, 110c, low, 20c Trading volume last quarter, 2,4m shares*

Year to Dec	'87	'88	'89	'90
ST debt (Rm)	8,0	38 2	75 0	77,9
LT debt (Rm)	10,7	12,3	5,4	5,5
Debt equity ratio	0,84	2,42	1,4	11,4
Shareholders interest	0,53	0,33	0,31	0,07
Int & leasing cover	19,2	3,1	1,4	(7 8)
Return on cap (%)	10,7	8,2	6,7	nil
Turnover (Rm)	n/a	n/a	n/a	n/a
Pre-int profit (Rm)	10,4	11,5	18,9	(80,2)
Earnings (c)	61	52,1	55,8	(280,4)
Dividends (c)	22,5	12,0	14,0	nil
Net worth (c)	268	178	227	28

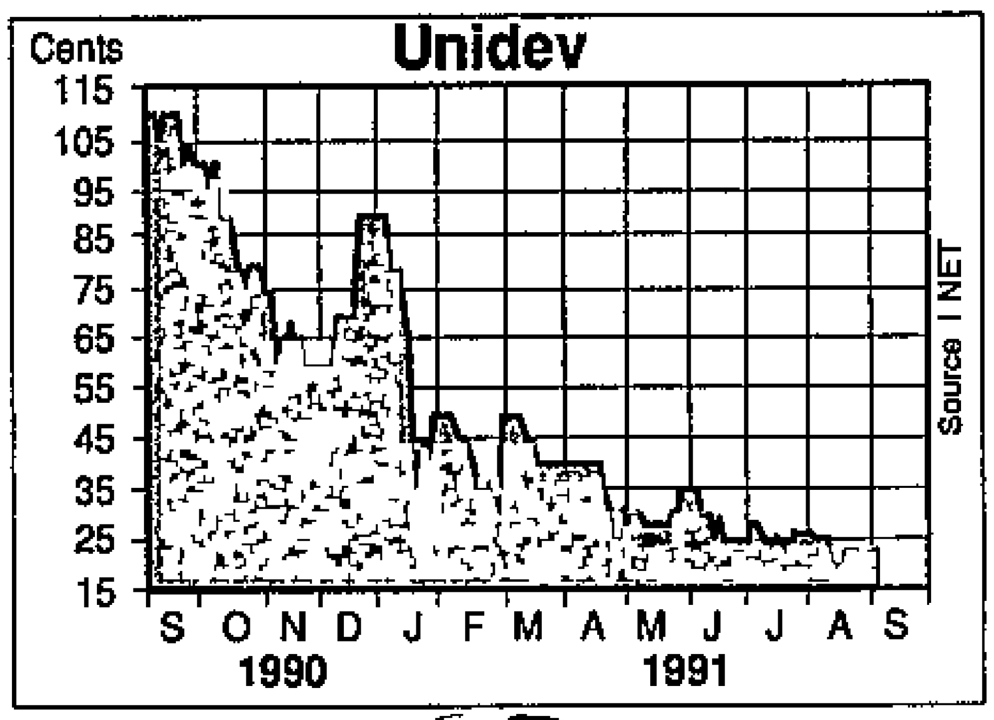
If there is a common thread running through the many recent failures of listed companies, it is excessive gearing This is particularly evident in the case of Unidev before its present management took over

As joint MD Jon Brett puts it "The previous directors were buying minority interests in companies and using short-term bank borrowings to do so Some of these acquisitions were returning yields of 3% whereas the bank-sourced finance was costing 18% and more It was the interest cost differential, together with the liquidation of Cortech, that killed them"

Brett and his counterpart, Alan Chonowitz, assumed control of Unidev at the end of February They hold 60% and Senbank holds 40% in the top company, Top Hi, this company has 79% of Unicon which, in turn, controls 53% of Unidev

It was to be expected that their first move would be to try to eliminate as much debt as possible from the "operating" company Since the financial year-end, Unidev has announced a rights issue to raise about R23m which is to be used to repay borrowings A further rights issue is being held to raise R13m for Unicon The issues, being underwritten by Top Hi, closed on Septem-

Continue →



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Brett says the consequence of the issue is that, other than the redeemable preference shares (originally floated to finance the acquisition of the 22% holding in Rusfurn), there will be no interest-bearing debt left in Unidev This at least gives the new management a reasonable chance to make a go of a company that has failed dismally to achieve its objectives over the past three years

At present, the investments comprise 80% of Prestige, manufacturers of kitchenware, 50% of Medicor, a private hospital chain, 33% of Hyperette, a chain of 30 convenience stores, 22% of Rusfurn, and other sundry assets, most of which, not being related to Unidev's core business, will be disposed of

In these conditions, it's likely that Prestige, Hyperette and, particularly, Rusfurn will find it difficult to produce anything like real growth in earnings. But, with a massive clean-out completed, the interest burden largely eliminated, and after registering an R86,8m loss last year, the company should post improved EPS during the current financial year

Balance sheet ratios as calculated on the 1990 annual accounts will obviously change radically after the rights issues It remains to be seen whether Brett and Chonowitz can now prove that they can add value to the Unidev portfolio The share is unlikely to show much appreciation until that happens

Gerald Hirshon

COMPANIES

Unidev offer undersubscribed

B Day 13/9/91

MARCIA KLEIN 232

RESULTS of a R36m rights offer by Unidev and holding company Unidev Consolidated (Unicon), which were both undersubscribed, reflect doubt in the market about the untested, newly formed group

The R23m Unidev offer was 56,7% subscribed, with 52,8-million shares taken up, and the R13m Unicon offer was 79,4% subscribed (47,8-million shares)

The balance of the Unidev and Unicon ordinary shares were taken up by ultimate holding company Top-Hi Investments, which underwrote the issue

Joint MD Alan Chonowitz said yesterday he was happy with the results

He said Unidev was coming from a situation where it had incurred losses of R87m in its last reporting period, and had nearly wiped out its capital base

As Unidev had not reported since the December year-end, subscribers had had to base their confidence on faith

Another factor was that shares were offered at an issue price of 25c, but were trading on the JSE at 22c for much of the duration of the offer, so investors could trade on the open market for less than the issue price, Chonowitz said

The group was recently taken over by Jon Brett, Chonowitz (formerly of FSI) and Senbank It now comprises holding companies with interests in houseware company Prestige, private hospital group Medicor, convenience supermarket chain Hyperette and furniture group Rusfurn

The takeover came just before the group reported huge losses, mainly attributed to former subsidiary Corporate Technologies (Cortech), which did not form part of the takeover deal

COMPANIES

JSE announces suspension of Quorum shares

BD 13/9/91 SEAN VAN ZYL (232)

THE JSE yesterday notified investors that Quorum Holdings' shares had been suspended from the banks and financial services board

The move followed a provisional winding-up order issued last week by the Supreme Court, a JSE statement said A JSE spokesman said Quorum should have notified the exchange of the winding-up order last week

He said the the exchange was deeply concerned that the notification only arrived a week after the company had closed its doors for business.

Earlier this month Business Day was told that banks had called on the company to honour debts on its credit book However, at that stage chairman Harry Haralambous denied the company was in trouble

However, sources close to the company said Quorum was negotiating to sell its 62,5% stake in Business and Personal Insurance Company (BPI), valued at about R4m, to settle debts

Although BPI MD Terence Maher confirmed negotiations were under way, Haralambous said the capital raised would be ploughed into new development projects and not to settle bad debt

Other than its BPI interest, Quorum has a number of subsidiaries involved in the marketing and packaging of credit and trade finance agreements which are discounted with major banks The group's revenue is generated largely through commissions earned via the banks

However, the effect which the winding-up order would have on the various operating subsidiaries, in particular the intended disposal of BPI, remains unclear Haralambous was unavailable for comment late yesterday

Haralambous stated in his 1991 annual review that the insurance company had made a significant contribution to the group's profitability for the 1991 financial year ended February

He added the group's other activities under the leasing divisions had been adversely affected by bad debts, resulting in the group's earnings slipping to 2,6c a share from the previous years' 8,2c a share

Despite the unhealthy position of the credit finance market, Haralambous said Quorum would in future focus its attention on the leasing divisions

'Encouraging' rise in AVI's income

232

B Day 13/9/91

BRENT VON MELVILLE

DIVERSIFIED industrial conglomerate Anglovaal Industries (AVI) turned in a fair set of results for the year to end June, bettering market expectations with a 13% rise in earnings to 825c (733c).

The performance of the Anglovaal-controlled group came on the back of bolstered sales for the packaging, rubber and consumer products divisions, which contributed to a 14% rise in group operating profit to R722m (R631m) off a rise in turnover to R7,4bn (R6,5bn).

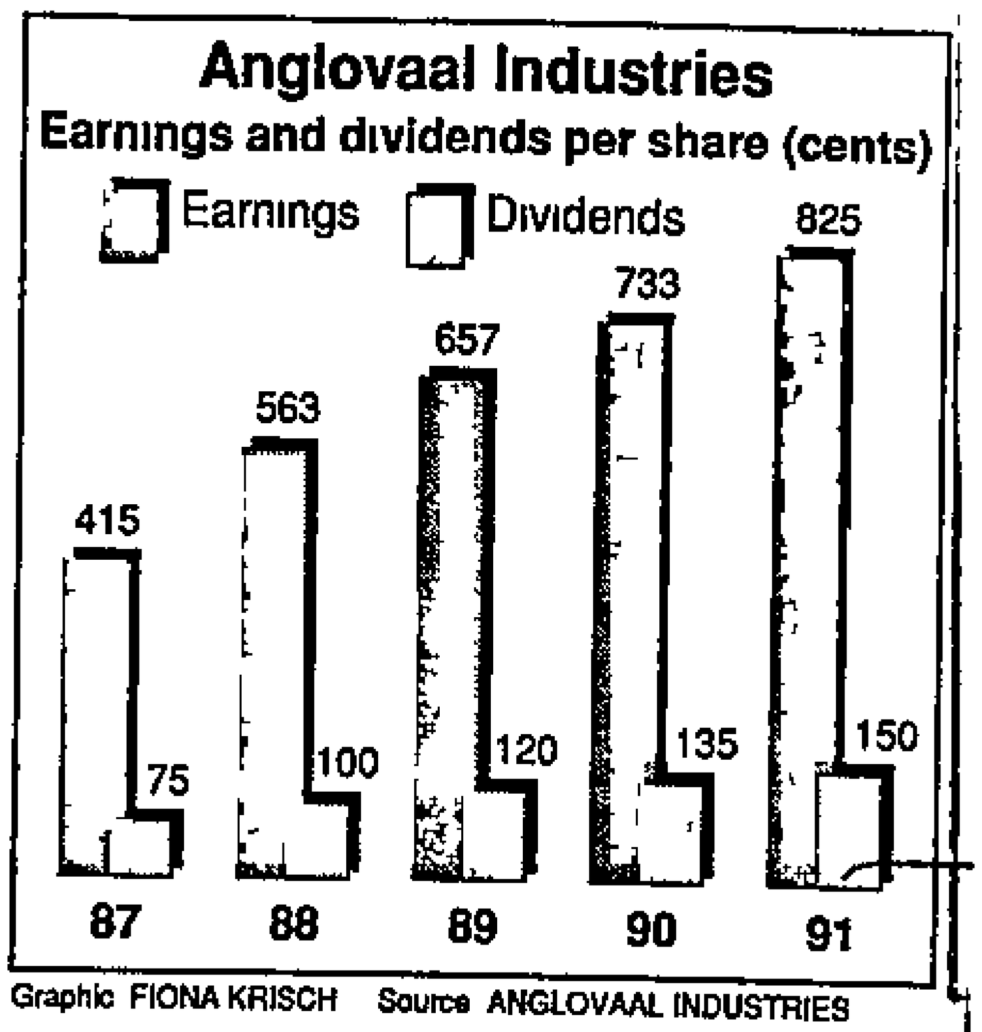
MD Jan Robbertze said yesterday the results had been encouraging in light of the prevailing economic conditions and that AVI would now be looking to real earnings growth with significant expansions and attention to operating efficiencies in the group's divisions

The dividend was up 11% to 150c (135c) a share, covered 5,5 (5,4) times by earnings, which have grown by an average annual growth rate of 28% over the past five years This year's performance also pushes up AVI's contribution to parent Anglovaal to well over 60% from last year's 56%

Robbertze said the major rubber diversification at Consol last year had paid handsome dividends, as Consol came in with a 107% increase in operating profit Profits for national brands moved up on the strength of biscuit manufacturer Bakers and tea and coffee business Becketts while Pleasure Foods also pushed up results significantly

I & J benefitted from good vegetable crops and has entered into a joint venture with a Russian fishing organisation to catch the horse mackerel quota awarded to I & J by Namibia He added negotiations on establishing a joint fishing venture in Mozambique were under way

Diversified holdings were hampered by



Graphic FIONA KRISCH Source ANGLOVAAL INDUSTRIES

the textile division under Avtex, which suffered from lower demand, reduced margins and competition from inexpensive imports Earnings from Grinaker Holdings were down as both the construction and electronics sectors were hard-hit by the current downtrend

Divisionally packaging and rubber, under Consol, turned in the best performance, pushing up its contribution to the bottom line up to 29% from 22%, while National Brands contributed 20%, up slightly from 19% last year Fishing and frozen foods group I & J also showed a stronger performance, adding 22% (19%) to attributable profits

Capex during the year was reduced to R206,4m (R232m) although Robbertze said spending over the next three years would amount to about R1,1bn, primarily for expansion and replacement and to be funded exclusively from cash-flow

Gearing fell to 25% from 31% the previous year and Robbertze said that a further reduction would take place over the next three years

No concrete plans for extra cash

AVI sell-off and issues to realise R1bn

B'day 13/9/91

(232)

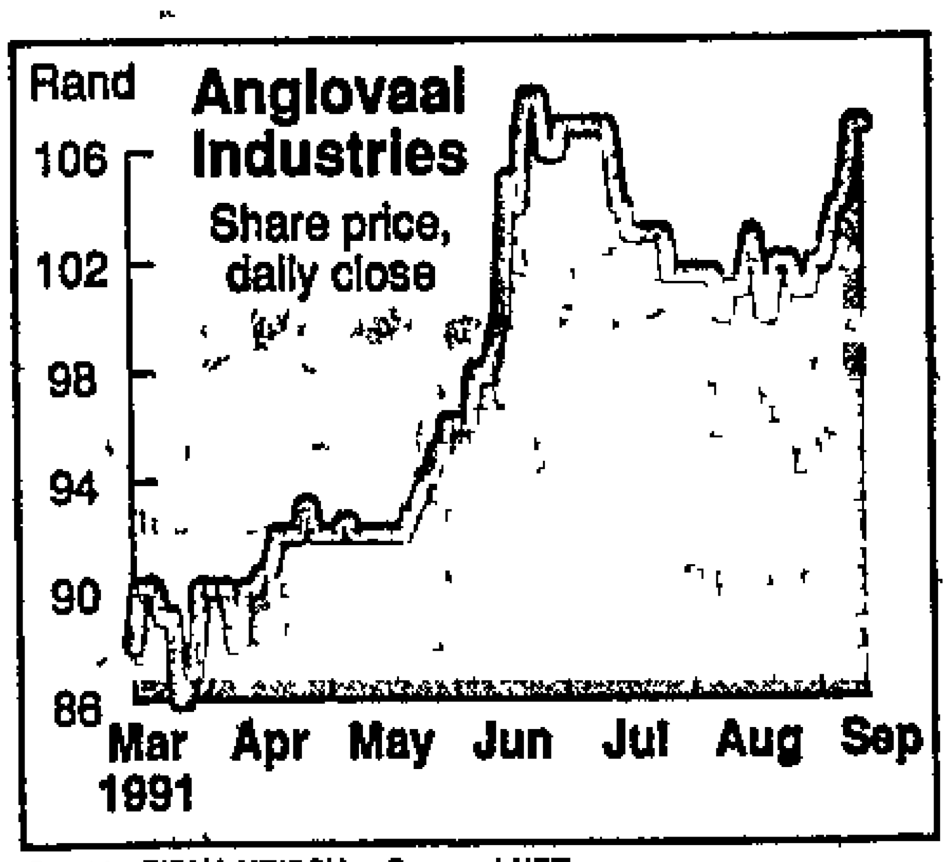
BRENT VON MELVILLE

ANGLOVAAL Industries (AVI) and two of its subsidiaries will bank almost R1bn in three separate rights issues and the sale of AVI's holding in Cadbury Schweppes SA.

AVI, as well as subsidiaries Consol and I & J, are to proceed with rights offers of convertible debentures to raise a total of R785,7m, while AVI's sale of the 16,2% interest in Cadschweppes to Suncrush's Tempora Investments for R31,50 a share will net the group an additional R177,1m

Announcing the offers yesterday, AVI MD Jan Robbertze said the group had no specific plans for the proceeds other than to eliminate debt and expand the group's capital base for possible future growth opportunities.

In terms of the deals, underwritten by Anglovaal, AVI will issue 4-million 5% debentures at R97 each in a ratio of 14 per 100 ordinaries to raise R388,2m. Consol will issue 8,3-million 5% debentures at R36 each in a ratio of 13 per 100 ordinaries to raise R300,4m, and I & J will issue 2,9-million 6% debentures at R34 each in a ratio of 10 per 100 ordinaries to raise R97m.



Graphic: FIONA KRISCH Source: I NET

The cost to AVI of maintaining its 55,7% stake in Consol and 68,6% holding in I & J will be about R234m, the balance, about R154m, will be used to expand the operational base of AVI.

The three offers will increase group cash resources by about R551m, of which R242m will be contributed by Anglovaal in order to follow its rights. Anglovaal will source its contribution from the proceeds of its R830m rights issue last year, which, analysts said, was originally destined for the Free State Sun gold mine project

Robbertze said the group felt it was an opportune time to come to the market as the market ratings of Consol, I & J and AVI had moved ahead significantly in the past few months. Consol and I & J are currently on highs of R40,50 and R37 respectively while AVI is at a near-high of R107.

The R177m sale of Cadschweppes will net AVI a book profit of R154m. The holding in the beverage and confectionary group was acquired in 1986 for R23,3m. Robbertze said the stake was bought on the understanding that it could be increased

As this was no longer possible, it had been decided to dispose of the shareholding. Proceeds from the sale will go towards the National Brands division, leaving about R60m cash after paying off debt.

☐ To Page 2

AVI

B'day 13/9/91 · (232)

☐ From Page 1

Gross group borrowings are currently at R478m, and included in current assets is R200m cash on deposit This leaves net borrowings of R278m Cash gained from the rights issues and Cadschweppes sale will amount to R728m, leaving about R450m cash, with no borrowings

Executive director Richard Savage said once the transactions were completed the group would be left with a total shareholders' interest approaching R2bn and R450m cash on deposit

He said if the rights offer had been in ordinary shares, because of the high price-to-earnings ratio there would have been no dilution of earnings "But because it was a debenture offer earnings would have actually increased by more than 10% per share"

In terms of the offer the debentures will be converted into ordinaries when the dividend yield equates to an interest rate of 5% That equates to 485c in the case of AVI, 180c for Consol and 204c for I & J

Savage said that effectively the cost of the money to AVI after tax would be 2,5% and the group should enjoy this benefit for more than five years

He said the shares would probably not convert until 1998, based on a compound dividend growth rate of 15-20%

● See Page 9

Star 13/9/91 . (232)

Amgold share conversion

Amgold is to hold a meeting on October 3 to convert 6 million issued and unissued S ordinary shares into ordinary shares in view of the lifting of America's Comprehensive Anti-Apartheid Act.

Amgold says in a circular to members the shares were created before the rights issue of November 1990 in response to the CAAA and to provide shares, both for the rights issue and to have a certain number of shares in reserve

The S ordinaries carry the same voting and dividend rights as do the ordinaries but they have a preferential right to one cent a share in the event of a winding up of the company.

The lifting of the CAAA means that it is no longer necessary to continue with the special ordinaries, the company says.

The meeting will also decide on the power of directors to issue and allot the authorised but unissued capital.— Sapa

Unit trusts keep growing

232

Star 14/9/91.

FINANCE STAFF

UNIT trusts continue to amass a fortune in investor funds on the JSE

The market value of the 32 funds grew by 16 percent in the second quarter of the year to R9,6 billion

In Frankel Max Pollak Vinderine Inc unit trust review Lynette Bowes writes that for the three months to the end of June the net cash inflow to the sector reached R450 million.

This is virtually the same volume as that recorded in the third quarter of 1987 — the period which ended in the global market crash of October

General trusts, which at an average net return (capital and dividends) of 20,6 percent offered the second highest return of the four categories, again attracted the bulk of funds entering the investment — R346 million, or 77 percent.

Top of the pile was special equity funds with a return of 37,6 percent, third-placed was the high income category (18,1 percent), while mining trusts returned an abysmal 1,9 percent

Unit trusts on average reduced their non-equity holdings, or liquidity levels, from 22 percent of assets in the first quarter to 17 percent, an indicator of confidence in a strong market

In a comparison of compound total returns over five years, the gigantic Old Mutual Investors fund comes out in its customary top position with an average annual return of 24,4 percent

The top three are tightly bunched, Sanlam Industrial at 24,3 percent is next in line while traditional second-placed Guardbank general fund slips to third at 24,2 percent

Measured over the 12 months to June 30, the special equity funds dominate the top returns

Old Mutual's new industrial fund tops the list at 43,5 percent, followed by Sanlam Industrial (again) at 39,4 percent, Sanlam Dividend (34,8) and UAL Selections (32,7)

● **Board of Executors' new general trust had a remarkable 1958,8 percent increase in market value in the year to June 30. Its asset base climbed from R1,7 million last June, soon after its launch, to R35 million a year later**

Even Old Mutual Industrial, with an increase of 230,7 percent, couldn't match that rate.

Senbank sheds fixed-interest unit trusts

SI Times (Bus) (232) 15/9/91

SENBANK is to change its pair of fixed-interest unit trusts into equity funds

One will be a general fund investing in all shares and the other will focus on financial and industrial counters

The two fixed-interest funds had barely 50 unit holders

"Equity is the place to be for growth," says assistant general manager of investments Stephen Meintjes

"The two fixed-income funds never really took off because of negative real interest rates"

The marketing drive will be directed at TrustBank customers and by direct mail

Mr Meintjes says the move is not treading on the toes of Sanlam in creaming off the TrustBank customer base into its own funds because TrustBank is an agent for all unit trusts.

In any event, Senbank is wholly owned by Bankorp, in which Sanlam has a holding of more than 90%

The trusts will be shop windows for the performance of Senbank's rejuvenated investment division The closest previous glimpse of the division's talents was Natrust, the investment portfolio floated on the JSE last month

Natrust's net asset value grew at a compound annual rate of 28% in the past five years compared with the JSE overall index's 16%

Mr Meintjes says Senbank has a sound administration which will be used for the two new funds. Research will be screened from other sources Bankorp's economic research is available

TrustBank customers will get a 20% discount on initial costs if they buy units before November At any time they will be able to switch from one fund to the other without cost. The minimum monthly investment is R25 and the lump sum R200

Mr Meintjes says there is still plenty of room for additions to SA's list of 38 unit trust funds The value of SA's funds is about R9,6-billion, whereas the United Kingdom's exceeds £56-billion, or almost R277-billion

● The comparison is not altogether valid SA's fund managers are obliged to invest only in domestic enterprises whereas countries without exchange control can invest around the globe

The gross national product a head in the UK is 4,3 times that of SA. South Africans have invested an average of R275 a head in unit trusts compared with R4 860 in the UK

To account for the higher gross national product figure in the UK, the SA unit trust investment a head is adjusted to R1 180 — still well below the UK's, according to Mr Meintjes' information

Big-spending Safren puts faith in new SA

232

S/Times (Bus) 15/9/91

By DAVID CARTE

MORE remarkable than Safren's 16% earnings rise in the year to June is the group's ambitious capital spending plan.

Judging by its huge new investments, Safren is the company with the most faith in the new SA

In relative terms, it is the boldest capital spender listed on the JSE

Others are Sasol and Engen, which are to spend billions in the next few years Most companies have drawn in their horns and agonise about the new SA

Lost

But Safren's planned capex at R1,5-billion in the next two years amounts to nearly 50% of total capital employed (R3,2-billion)

Sasol's planned capex of R2-billion was 25% of assets of R8,3-billion and Engen's R1,5-billion would be 42% of its assets after the rights issue

● In Kersaf, Sun International is spending R700-million on the Lost City at Sun City, R320-million on the Carousel, which opens in November, and another R75-million on expanding the Wild Coast Sun Because of favourable tax rules in the homelands, the payback on hotel-casino developments is extraordinarily quick

But inflation makes geniuses out of hotel owners, ensuring stunning returns four to five years after investments are made — provided, of course, the units are used at close to capacity

● With Interleisure spending on lavish cinema complexes, Kersaf is looking at laying out more than R1,2-billion in the next three years

● Safmarine has two large ships under construction in Eastern Europe With partner Iscor in the new Safore, it is building a 150 000-ton bulk coal and ore carrier in Romania for delivery in March or April

At Pula, near the war zone in Yugoslavia, the 38 000-ton container liner, Oranje, is nearing completion

The ships are worth about \$50-million and \$60-million respectively — a total of R320-million

Safmarine has long provided additional depreciation, for which it receives no tax credit Ships are written down to reflect what they can earn The depreciation burden hits earnings in years one to three, but does ensure cash

ALISTAIR MACMILLAN Long-term growth is the aim

flow when loans and interest payments are at their highest Ships start to become lucrative once depreciation and interest payments tail off

Leased

The policy is necessitated by Safmarine's one of getting rid of ageing ships The average age of its ships is 9,5 years

Three weeks ago Safmarine announced it had bought 49% of Belgian container company CMB Transport

Safmarine paid \$25-million for its share in the company, which has 24 ships and assets of \$530-million

Safmarine has 35 ships, of which 30 are on the balance sheet Only about five are registered in SA

● The 38%-held associate Trek Airways has launched Flitestar with four Airbus aircraft worth \$50-million apiece The aircraft are leased, but represent assets worth R560-million

● Safair, the freight airline, recently bought a \$20-million BAe 146 jet cargo aircraft

I asked Safren chairman Alistair Macmillan and chief executive Buddy Hawton from where the group's bold capex plans emanated

"In the companies That's where opportunities reveal themselves," they replied virtually as one man

Mr Macmillan says "Sol Kerzner and Ken Rosevear have great confidence in the future of tourism in the new SA They came up with the basic idea of Lost City and the Carousel

"Together with financial director Alan van Biljon and the rest of the team, they undertook market and general feasibility studies and looked at the impact on other resorts and on group debt and cash flow before coming to the SunBop board

"The shareholders in SunBop — Sun International and the Bophuthatswana National Development Corporation — checked their study before giving approval

"Obviously, the buck with all these huge projects stops at Safren, so both Buddy and I have been intimately involved all the way"

Mr Hawton says contingencies were built into all projections, so even though the economy is more depressed than at the time of planning, his confidence in the expansions is undiminished

Vindicate

Mr Macmillan says as chairman he demands of the big capital spenders that they prove to him projects are economic

The emphasis, he says, is on long-term growth He believes that long-term prospects in tourism, the declining rand and more airlines flying to SA will vindicate the spending drive in Kersaf fairly quickly International music and sports stars could also give SunBop a lift

"Some acts, such as those that draw 80 000 to Wembley Stadium, have become too expensive for SA But other big names more appropriate to a venue the size of the Superbowl will be affordable"

BUDDY HAWTON Greenfields ventures need time

Mr Hawton says that had SunBop delayed building by two or three years to see how the new SA developed, its costs would have risen by 50%

Because Trek and therefore Flitestar are only associates, the risk inherent in a company competing with SA Airways is small for Safren

Mr Hawton says Safren has R655-million of cash in its balance sheet, so expansion should not lift debt excessively

Mr Hawton says some of the greenfields investments will take time to pay off Although payback in Kersaf is normally quick and Safmarine's two new ships will not slow the rest of the company significantly, airlines are seldom gold mines

But he believes that Flitestar will ultimately earn a reasonable return on investment Aircraft normally appreciate, so long-term tax-efficient growth seems assured

One of the group's prime secrets, say the top two, is to buy, lease and sell assets well

Outstripped

Mr Macmillan and Mr Hawton say management throughout the group is decentralised Nothing would be gained by scrapping head office and distributing shares in Kersaf, Safmarine and Rennies

Safren lifted turnover by 9% to R4,4-billion, pre-tax profit 8,5% to R749,5-million and, thanks to lower tax, attributable profit 19,6% to R302,4-million in the year to June

Earnings a share were 16% better at 565,5c (486,7c) Without additional depreciation, earnings growth would have been a scintillating 26% A final dividend of 177,5c made 237,5c for the year The result puts the PE at 15 and the dividend yield at 2,8%

Safmarine is the biggest earnings source, contributing R137,1-million compared with Kersaf's R125,3-million Safmarine's 22% earnings growth in spite of additional depreciation outstripped Kersaf's 18%

Safren's market capitalisation is R4,5-billion and the value of the 76% Kersaf stake is R2,3-billion The rest of the group is thus valued at R2,2-billion, or 12 times the earnings it contributed That compares with Kersaf's PE of 18,6

Now that the group is more fairly valued, a rights issue looks an attractive possibility even though cash on hand is large

AVI rights issue greeted with a positive response

B 16/9/91

MERVYN HARRIS 232

THE investment community has given the thumbs up to the proposed rights issue by Anglovaal Industries (AVI) and two of its subsidiaries to raise about R786m.

The positive response was reflected in AVI shares being bid at a new high of R110 on the JSE on Friday, R3 up on the last traded price of R107.

Subsidiary Consol traded at a fresh peak of R40,50 and Irvin & Johnson was bid at its current high of R37. Normally, shares tend to ease on news of rights issues.

In terms of the proposals, underwritten by Anglovaal, AVI will issue 4-million 5% debentures at R97 each in a ratio of 14 for every 100 ordinary shares held. Consol will issue 8,3-million 5% debentures at R36 each in a ratio of 13 for every 100 ordinaries, and I & J will issue 2,9-million 6% at R34 each in a ratio of 10 for every 100 ordinaries held.

Analysts said the investment community was content with the 5% coupon rate on the instruments.

However, another leg of the deal, involving AVI's sale of its 16,2% holding in Cadbury Schweppes (Cadswep) to investment trust Tempora, was received with less enthusiasm. The deal valued Tempora at R17,50 for purposes of financing the acquisition of the Cadswep stake. Tempora shares subsequently fell from the last traded price of R24 to R19,75 on Friday.

Tempora is a subsidiary of soft-drink bottler Suncrush, controlled by Dalys, in which Tempora holds a stake of almost 21%. Suncrush and Dalys shares have been among the top performers on the market over the past year. Suncrush and Dalys, up more than 100% to R410 and R45 respectively, look set to move to even higher ground.

Incestuous corporate boards need more outside directors

BDay 16/9/91.

TREVOR WOODBURN (232)

THE impact of prolonged recession on company profits and growing shareholder militancy abroad are just two of the factors that could bring the role of independent non-executive directors increasingly to the fore in SA boardrooms

Contrary to trends in the UK and the US, outside non-executive directors in SA are still found mainly on holding company boards rather than on the subsidiary company boards This is particularly the case with large conglomerates like Anglo American Corporation, Barlow Rand, Gencor and Anglovaal

By drawing directors from too small a pool in SA we put people on too many boards, and make it difficult for them to deliver solid value or be much more than figureheads This situation creates the impression that SA boards tend to be incestuous

All too often the non-executive directors come from head office or the holding company board and are too steeped in the group's culture to be independent. Obviously, those voted in by major shareholder groups to look after their interests must do so, but balance requires a sufficient number of directors who have no allegiance to any particular shareholder group

Militant shareholders in the UK and the US are demanding better corporate governance with greater accountability to shareholders Many want to separate the roles of chairman and CE and others want a balance of non-executives and executives on boards They are increasingly challenging professional managers of poorly performing companies on high pay packages and the way they run companies

Major shareholders such as institutions and pension funds have made it increasingly clear they are not necessarily willing to wait for merger or takeover situations to arise before they exert their influence for management change

There are many reasons why independent counsel is needed at board level Boards dominated by strong executives can be dismissive of new ideas and resist the need to review strategies and structures to meet changing market trends Companies with successful track records often raise their traditional formula for success to the level of unchallengeable dogma Big and small companies can become inflexible, introverted and insulated against reality

The recent case of UK supermarket chain Asda is a case in point Its chairman and CE were sent packing by restive investors because the board was perceived to have become so wedded to its success formula that it could not change strategy to adapt to changing industry trends and fell behind rivals in developing the next generation of superstores

Boards composed entirely or largely of cronies of the chairman and superannuated and current executives risk becoming hidebound A very general rule of thumb suggests terms of about seven years for CEs and three for non-executive directors to ensure optimum performance

Shareholders need a champion at board level who can question a company's tenets and values and exert influence, sometimes contrary to the views of powerful executives

Ideally, non-executive directors are recruited from the ranks of the professionals, academics and successful executives from other companies or groups Because they are not absorbed in the company's culture and day to day activities, they can play an invaluable role Their relative detachment can give them a broader overview and receptiveness to new ideas as well as enhance executive awareness of realities outside the company — such as how they are perceived and what their competitors are doing

It is not a question of foisting know-it-all outsiders on a company to tell management how to run the business But there are areas where, because of strong vested interests, a special effort must be made to achieve impartiality The growing awareness of the value of disinterested audit and remuneration committees is an acknowledgment of this

Clearly, being beholden to those who put them on the board must at times make it hard for outside directors to take an independent view Recent UK research showed 70% of non-executive directors were known to their chairmen before their appointments There is now a growing school of thought in favour of composing boards of three sorts of directors — executives, independent non-executives and professional non-executive directors

The third category is mooted because not all non-executive directors have the necessary independence, motivation, time or skill for monitoring of management performance, especially when they were selected by management on whom they rely for tenure Directors drawn from the ranks of professional advisers such as company lawyers may have the experience and insight to play useful roles, but their reliance on fees could temper their willingness to offer unpopular advice

The professional non-executive director is also needed to bring total impartiality to issues like top management succession, remuneration of the top team and conflict of interests arising from restructures, mergers and management buyouts

A Stanford Law School paper titled Reinventing the outside director an agenda for institutional investors suggests how to design a position to attract professional non-executives with the time, skill and independence to help and monitor performances of managements

A potential professional non-executive could, for instance, be a partner at a big auditing firm, or a business school professor He would devote fulltime attention to five or six directorships in order to derive sufficient income so as not to need additional compensation

"Any issue that divided management and the professional directors would leave the balance of power with the traditional outside directors,' say the authors "In effect, the traditional outsiders would assume a quasi-adjudicative function — a role that unlike the monitoring function, they might be expected to perform capably"

In considering the need to reconstitute SA boards, we have these and other factors peculiar to our situation to consider — such as the high incidence of interlocking directorships, the concentration of institutional ownership and the disparity between the racial composition of boards and society at large

In a new, possibly socialist-leaning SA, it would be up to companies to demonstrate they have balanced boards representative of the people they serve Companies should be proactive in this regard and make sure they have directors who empathise with workers and society at large — rather than wait for political pressure to force them to capitulate Merit must, however, continue to be the overriding consideration

SA chairmen and CEOs should take the initiative in ensuring they have the right combinations of directors at holding and subsidiary company levels Each board should be tailored to the specific needs of the company The composition of boards should be approached systematically by auditing the suitability of board members and identifying strategic skills gaps The same care needs to be taken in appointing replacement or additional directors as is the case when seeking senior executives

In the UK and the US, it is increasingly being ensured that shareholders get boards that best serve their interests It is just a matter of time before pressures for reform begin to build up in SA

☐ **Woodburn is a search and management consultant and MD of Woodburn Mann.**

Fund managers suggest alternatives to industrials

b(Day) 16/9/91 (232)

LESLEY LAMBERT

WITH the JSE's industrial index continuing to put out danger signals, fund managers are recommending alternative investments

The industrial index is currently rated at peaks previously seen before major stock exchange corrections or crashes The price to earnings ratio of 13 is at its highest since the October 1987 crash, while the dividend yield has touched a 2,5% low Both ratings indicate that shares represented in the index are overpriced

Leading institutional fund managers say industrial blue chips and consumer shares such as SAB, Wooltru, Clicks and Foschini, which have had an excellent run, have already discounted factors such as the expected decline in interest rates and the economic upturn next year

Some say they are likely to move sideways for the next six months, until there has been sufficient growth in company earnings to justify their overinflated prices

Others argue there is little certainty about the extent to which the shares have discounted future events This, coupled with the inherent shortage of quality scrip on the JSE and institutional interest in blue chips means there may be more upward potential

Southern Life Investments GM Carel de Ridder says "A correction may happen only once the market is fully discounted and if there is a major political crisis But it is only the most courageous investors who are increasing their exposure to these shares now rather than taking profits" De Ridder recommends that those who are heavily invested in shares which appear to be overpriced consider taking some profits and look for value in the mining and financial sectors

Benefit

BoE senior portfolio manager Rob Lee says that although there appears to be little fundamental value in gold shares, cost-cutting and rationalisation in the sector has placed it in a better position to benefit from a rise in the gold price

However, investors are unlikely to show much interest now with the gold price testing new lows Banks, on the other hand, continue to show sturdy performance in spite of new capital requirements and the VAT proxy which will be introduced at the end of this month, says Lee

De Ridder also sees value in fixed interest stocks, which are expected to benefit from increasing gross domestic fixed investment

Many of the unit trusts are looking for value in second-tier stocks in order to improve their investment performances in an overheated market

With world commodity markets headed for an upturn, cyclical stocks, such as Barlow Rand, Amic, Sappi and Tongaat — some of which have been underperforming — also have future potential, fund managers say

Sanlam fund manager Nel van Niekerk says market conditions could also encourage a new spate of rights issues which will open up opportunities for investors

Fund managers feel the JSE's long-term prospects are strong

Company earnings are expected to show sharp increases next year as the domestic and world economies recover, and fund managers expect to see significant gains next year and in 1993

Claude Neon out to remedy its flickering performance

B/Day 17/9/91 (232)

BRENT VON MELVILLE

LABOURING Claude Neon, which last year fell from its position as SA's premier sign group, has taken remedial steps and hopes to bolster earnings for the coming year

Chairman David Royston said the past year was one of consolidation after major restructuring in the previous year

In his annual review Royston said the company was planning to increase its market share and had the production capacity to handle a greater workload

As part of its rationalisation steps, capex in the year under review was limited to only essential plant and equipment replacements worth R160 000, compared with R1,4m the previous year

But the steps seemed too little, too late for parent Aveng, subsidiary of Anglovaal Industries (AVI)

Subsequent to the year-end, Claude Neon announced that AVI had accepted an offer by Ronald Holdings (held by Claude Neon marketing director Ron Nel) for AVI's 65% stake in the company worth 420c a share, translating into R15,9m

Claude Neon is currently trading at 390c, but has been labouring well below that for the past 18 months, at between 260c and 120c a share

The low rating comes from the company's terrible financial showing in the past two years, and staff walkouts which led to several court actions

This year's results show a dramatic recovery, attributed largely by Royston to MD Brian Bain, who was installed last year by AVI

Bain said there had been no hitches so far in the bid by Ronhold and that scheme of arrangement papers were due to go to minority shareholders next week

Bain will return to head office after the buyout

Capital market turnover plummets

B\Day 17/9/91. (232)

ANDREW GILL

CAPITAL market turnover has plummeted in the past few weeks with investors scrambling to the sidelines in an environment of static interest rates and little chance of capital gains

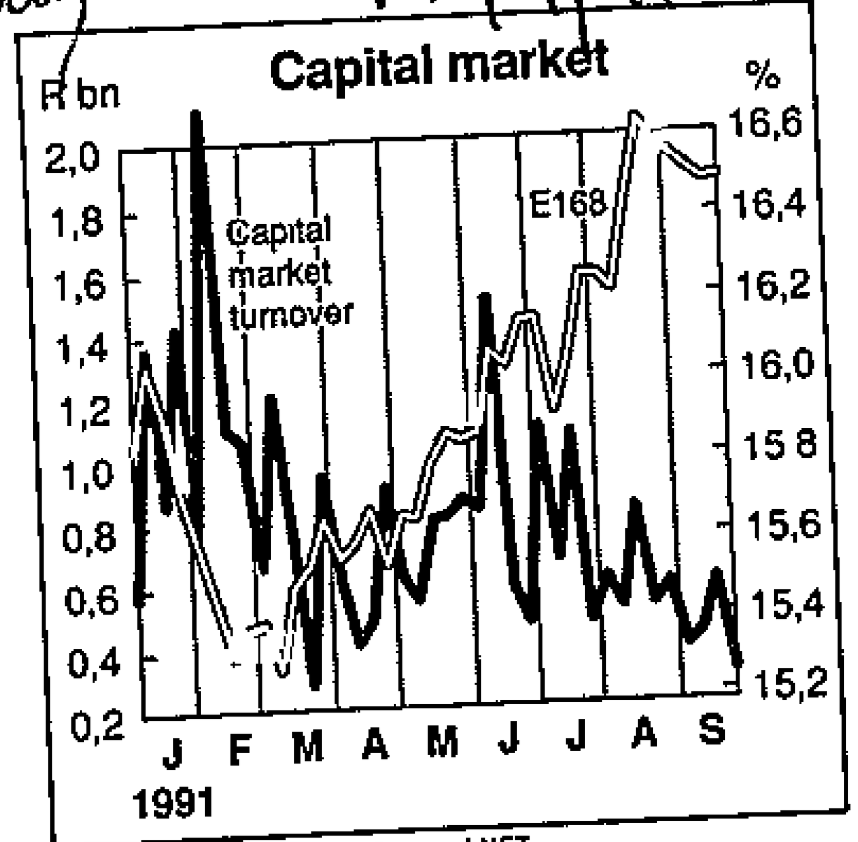
Dealers say the lethargy will continue until there is a Bank rate cut or a strong surge in demand from offshore investors, neither of which appears likely in the short term

Dealers cite a lack of institutional activity and economic uncertainties as reasons behind the slackening interest in the market

Institutions appear content to hold their existing gilt portfolios on a longer-term perspective but aren't interested in exposing themselves further to long-term paper

Analysts say investment managers looking for suitable avenues see an increased bond portfolio as an opportunity cost With short-term rates offering better yields and little hope of capital gains on long stock there is little reason for heavy gilts buying

Dealers also warn that strong demand for stock doesn't look set to appear even at rates above the current bearish levels If rates fall 20 points a lot of investors are said to be ready to offload some stock



Graphic FIONA KRISCH Source I NET

However, with supply and demand evenly matched at their barely noticeable levels rates are set to continue their listless trend

The only noticeable prop in the market at the moment is the apparently ever-willing offshore investor who keeps buying SA bonds offering relatively attractive yields

The extent of their buying is far from enormous but their presence has allowed the bears to find some room for optimism

Market making has also slowed in recent weeks The biggest market-maker, Eskom, has done virtually all its funding for the year and is less inclined to make a price than it would have been if further funding had been necessary

Concern has been expressed that small traders with a limited capital base could be on their way out if the trend continues One has already stopped capital market operations

The one-man show of Corrie Kruger of stockbroking firm Kruger and Co packed up in mid-September and took with him a R333m-a-month business that was one of the best market-makers on the floor

If others like him leave or get taken in by the bigger firms, a catch-22 situation could devlop, dealers warn Even if conditions are right for an uptick in volumes, the lack of active jobbers could quell volatility

The bigger firms with larger capital bases are in a position to ride out the current malaise but even they have rationalised operations

A factor which could affect the market later this year is the "queue of city treasurers anxious to do borrowing" Having taken a view on lower interest rates later this year the authorities put off borrowing on the market but have now run out of other ways to raise money and may become forced borrowers, a trader says

IDC 'told to privatise Armscor'

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JOHANNESBURG. — The Industrial Development Corporation (IDC) said yesterday government had instructed it to privatise parts of Armscor CT 19/9/91

IDC MD Carel van der Merwe was responding to questions about electronics marketing company Irenco, which began trading in the sector about a year ago Competitors had alleged Irenco was a front for Armscor subsidiary Kentron and was engaged in unfair business practices

Van der Merwe said Irenco was being used as a vehicle to privatise some state assets, including parts of Armscor subsidiary Kentron

He said the IDC had another company similar to Irenco called HDP, formed to take over parts of the Atomic Energy Corporation

Earlier this week Irenco MD Berthold Alheit said the company was in no way related to Kentron

Irenco has apparently generated chaos in the radio telemetry market

Adolph Numerical Systems MD Brian Newton said. "I am seeking legal advice against Irenco — I cannot simply sit back and let the state put me out of business "

Larger groups Altron, Reunert and Grintek have declined to comment

IDC is using Irenco to help privatise Armscor

B/day 19/9/91

(232)

ROBERT LAING

THE Industrial Development Corporation (IDC) said yesterday government had instructed it to privatise parts of Armscor

IDC MD Carel van der Merwe was responding to questions about electronics marketing company Irenco, which began trading in the sector about a year ago Competitors had alleged Irenco was a front for Armscor subsidiary Kentron and was engaged in unfair business practices

Van der Merwe said Irenco was being used as a vehicle to privatise some state assets, including parts of Armscor subsidiary Kentron "The IDC has been given the responsibility of making certain state assets attractive to private investors, and this is the main reason for creating companies like Irenco Armscor created tremendous facilities which need to be brought into the private sector now that the war effort is declining"

He said the IDC had another company similar to Irenco called HDP, which was formed to take over parts of the Atomic Energy Corporation

Earlier this week Irenco MD Berthold Alheit said the company was in no way related to Kentron

Alheit said Irenco acted as a marketing organisation Kentron was one of the many companies it represented He declined to name the other firms, but said Kentron was its only Armscor supplier

Irenco has generated chaos in the radio telemetry market

Adolph Numerical Systems MD Brian Newton said "I am seeking legal advice against Irenco — I cannot simply sit back and let the state put me out of business"

Istron Electronics MD Garry Schmuller alleged that Irenco had created an uneven playing field by trading on Kentron's expertise, which was funded by taxpayers

Omnicon MD Pieter Jacobs said Irenco had beaten his company in various contracts and tenders by undercutting prices and trading on Kentron's name

The larger groups, Altron, Reunert and Grintek, declined to comment

Van der Merwe said the disruption that might be caused by bringing state companies into the private sector was unavoidable The extent to which past government subsidies had helped them was academic, he said

Charter poised for take-off

Star 19/9/91

232

(228)

Diagonal Street

Jabulani Sikhakhane

After a rigorous reorganisation programme, London-based Charter Consolidated is now well placed to benefit from the recovery in markets served by its four principal industrial businesses

Chief executive Jeffrey Herbert told investment analysts in Johannesburg this week that Charter's cost structure had been reduced in the last few years and that the workforce was down 21 percent from its 1989 level, saving £20 million annually

A head office building, five times the group's requirements, was sold for £20 million and a new one bought for £4 million

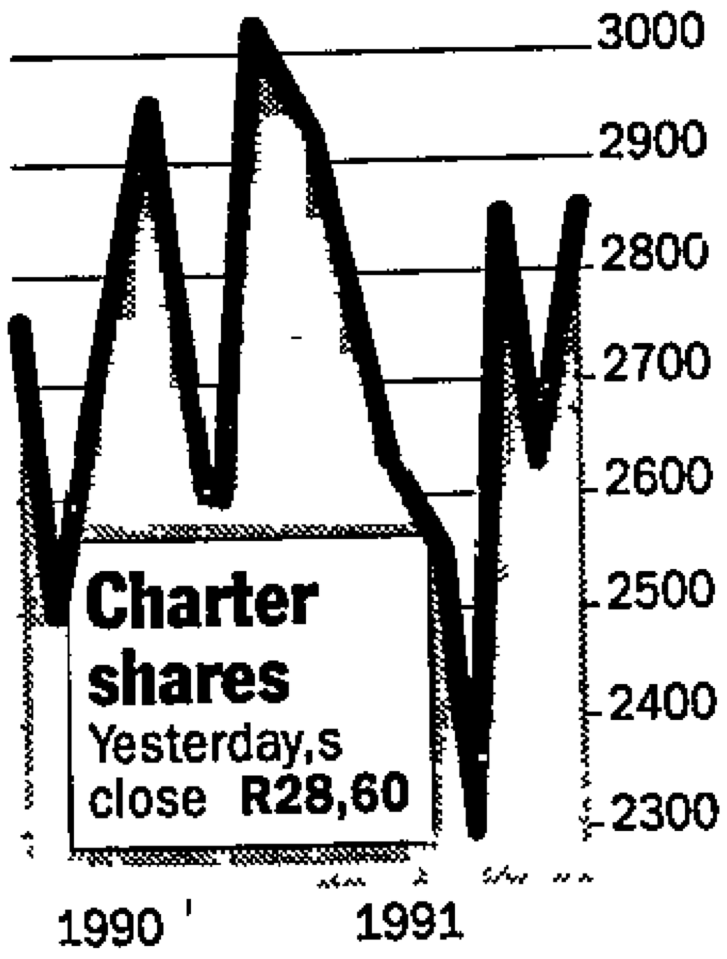
Low-yielding assets were sold for £105 million and new businesses bought for £109 million.

This had changed Charter from a portfolio investment company into an industrial holdings company with four core businesses Pandrol, Cast Resources, Cape PLC and Anderson It also held a passive 38,5 percent stake in Johnson Matthey

Charter's profitability also improved In the past five years, pre-tax profit had grown at a compound rate of 22 percent, against five percent compound growth in turnover (the above figures are based on the rand/sterling rate of R4,85)

Mapping out the future, Mr Herbert said emphasis would be placed on increasing Charter's dependence on managed businesses for a large share of profits.

In financial 1991, managed businesses contributed 41,3 percent of Charter's profits, precious metals (Johnson Matthey) 33 percent and Treasury operations the balance



Growth, Mr Herbert said, was expected to come from further penetration of existing markets

A large part of Charter's net cash balances of £133 million at year-end would be used to develop existing managed businesses

Acquisitions to extend existing businesess and move into other industrial operations complementing existing businesses would also be pursued

But the criterion for acquisitions was that they must be market leaders, be UK-based, with a potential to expand into overseas markets and have an industrial customer base

Mr Herbert said Pandrol, which supplies rail fastenings and track maintenance, was expected to benefit from railway investments in Western Europe

Railway investment is forecast to grow by nine percent a year for the next nine years

Italian Railways, which has specified Pandrol's rail fasteners, is expected to invest £4 billion a year until the year 2000

Despite depressed coal markets in the UK and US, Anderson which supplies mining equipment, has been increasing market penetration in the US and Australia

Of the 11 available orders for longwall coal shearers in the US this year, six were filled by Anderson New markets had opened up in China, Poland and Russia

Coal intake by the UK electricity utilities should fall by 12,5 percent this year to 70 million tons, reducing further by 7 percent in 1992 to 65 million tons

This would have an impact on British Coal's business and on Anderson's But British Coal would need modern heavy-duty mining equipment to improve productivity Anderson was well placed to supply these

Cape PLC, a supplier of fire protection systems to nuclear power stations and off-shore oil and gas stations, had been reducing its dependence on the UK building market

Mr Herbert said Johnson Matthey (JM), which is a passive investment, would be made less significant in terms of contribution to Charter's profits

He said that with current low platinum group metal prices, a flat performance by JM would be a "tremendous win"

Overall, Mr Herbert said "Charter is in the middle of its programme of change and there is still somewhere to go"

DOW close 3017,69

W & A seeks to strengthen international partnerships

Star 20/9/91 (232)

By Jabulani Sikhakhane

W&A, which reports a 5,2 percent drop in earnings to 34,8c and a maintained dividend of 15,5c in the six months to June, is making strategic moves to strengthen ties with international partners, says executive chairman Jeff Liebesman

He adds that while these moves will help reduce gearing, they will not affect control of any of the group's core businesses

The statement comes amid speculation that W&A will sell part of its stake in Gentyre to Continental

W&A holds 68 percent of Gentyre's equity. Selling 16 percent at, say, R35 a share would net W&A R87,43 million, still leaving control intact

Mr Liebesman emphasised last night that the group did not plan to sell control of its core businesses

It is W&A's clear intention to compete internationally and group strategy is to build and nurture international alliances

Reviewing half-year results, Mr Liebesman said group companies did well, in many instances increasing market share in a hostile operating enviroment.

Turnover rose 35 percent to R1,68 billion and operating profit 25 percent to R171,93 million, indicating a margin squeeze

Net interest payments were up 64 percent to R87,97 million because of the need to fund mainly overseas acquisitions within AAF, its London subsidiary, and to increase working capital

For the full year, interest should fall because cash is expected to flow from JD, which recently sold its debtors' book to a consumer finance company

Higher interest payments were offset by a 60 percent drop in the tax charge to R7,93 million, boosting taxed profits 18 percent to R76,03 million

Attributable profits were up 117 percent at R56,99 million, but a 118 percent rise in issued shares saw earnings a share falling 5,2 percent to 34,8c

ANGLOVAAL INDUSTRIES

Coming to market

232

FM 20/9/91.

Anglovaal Industries (AVI) is well-placed to raise additional capital from the market after announcing 13% earnings growth for the year to end-June It is one of the few industrial conglomerates to maintain earnings growth through the recession

AVI intends to raise R388m by offering 14 debentures for every 100 ordinary shares It needs R234m to follow its rights in two issues being held simultaneously by its strongest listed subsidiaries, Consol, whose own issue will raise R300m, and Irvin & Johnson (I & J), whose issue will raise R97m The remaining R154m will be used to "maximise future business opportunities" Altogether, R480m of group debt will be eliminated

The three issuing companies' shares all enjoy buoyant ratings, AVI stands on an earnings multiple of 14,9 and a dividend yield of 1,2%, Consol on 20,6 and 1,4%, I & J on 14,9 and 2,2% Consol, I & J and unlisted National Brands contributed almost three-quarters of earnings and more than offset the reduced contribution from construction and textiles

AVI group MD Jan Robbertze ~~says that~~, ideally, rights issues should coincide with an acquisition or major expansion, but in the real world conditions are not always ideal at that time AVI's capital spending will accelerate — R1,1bn will be spent over three years compared with R206m in 1991 — but there is no dominant headline-grabbing project

AVI has a good eye for acquisitions, which often take place at short notice Most significant was Consol's purchase of Goodyear from its American parent in July 1989 Others have included HiPerformance Systems, the former Hewlett-Packard, and Mooi River Textiles

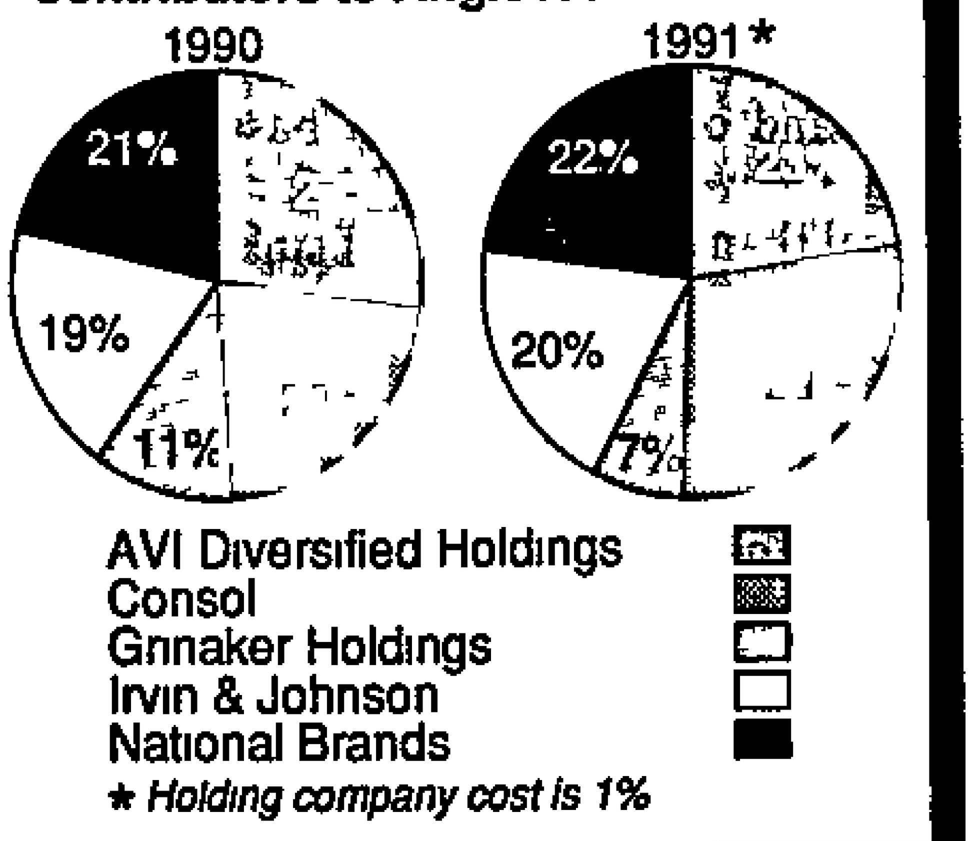
AVI has an excellent opportunity to raise cheap finance Existing shareholders will find that the interest available from convertible debentures give a much more attractive yield than ordinary shares AVI and Consol are offering 5% and I & J 6% — about three times the current dividend yield Even after tax, the debentures will still offer a better yield, yet these dividend pay-outs cost AVI much less to service than loans

For Anglovaal, which holds 60% of AVI's ordinary shares, the rights issue does not threaten control Anglovaal's philosophy is to preserve control but keep gearing low, which can be a delicate balancing act, particularly for a family-controlled company

Anglovaal's share of the rights issues will be R242m, a sum it can afford without upsetting its own gearing When new shares in AVI were last issued in 1989, Anglovaal's stake fell from 66% Now, Anglovaal has agreed to underwrite the offer, so its stake in AVI will remain intact. AVI is likely to provide the group with better earnings growth than its mining interests in the short term, so Anglovaal cannot afford to reduce its exposure to industry

A strong line-up

Contributors to Anglovaal Industries



At R97, the AVI debentures are being offered at a 13,4% discount to the current market price of R112 The debentures will convert to ordinary shares when dividends match the debenture interest payments Analysts expect this to be between 1997 and 2000 And AVI has just one class of ordinary shares A storm was caused during last year's Anglovaal rights issue, as the group had earlier issued N shares, which carry only 1/500th of the voting power of A shares No such device has been used by AVI

The market generally supports the rights issue, not least because it will bring high-quality scrip into play AVI's earnings and dividends have doubled since 1987 The operating margin has increased from 9,3% to 9,8% Gearing peaked at 31% in 1990, but it is now down to 25%

AVI's gearing has already been improved by the sale announced this week of 16,2% of Cadbury Schweppes. This might seem a strange decision in view of Cadswep's record and prospects But Anglovaal does not like passive investments and it had hoped to buy a larger stake in the future, perhaps if Cadswep Plc had disinvested

AVI sold the stake for R177m — a capital gain of R154m This money can be made to work much harder for the group, as only the dividend income from Cadswep was brought to account Short-term borrowings, which were R200m in the last balance sheet, will be almost wiped out by this deal Once the surplus of the rights issue is paid in, gearing will be barely 10%

Ostensibly, I & J has the least need for a rights issue It has more cash than borrowings But it has established a joint venture with a Soviet consortium in Namibia and may have further expansion plans I & J has had few disappointing years in its 28 as a listed company, though 1990 was prominent among the lean years In 1991, however, I & J lifted earnings by 20%, despite low chicken prices and no real growth in the processed foods market

Consol is now the star performer of the quoted companies in the AVI group, and it contributed 29% of 1991 earnings However, the share is widely considered to be overpriced, so there is a deeper discount for Consol debentures At R34, they will be issued at a 15% discount to the current market price of R40,50 So the issues have been carefuly structured to allow for the recession and a generally tired-looking stock market

Stephen Cranston

WINNING THROUGH

Year to June 30	1990	1991
Turnover (Rbn)	6,49	7,39
Operating income (Rm)	631	722
Attributable (Rm)	208	234
Earnings (c)	733	825
Dividends (c)	135	150

TEMPORA FM 20/9/91

More sweeteners

Normally, investment trusts trade at a discount to net asset value, but this has not been the case with Suncrush subsidiary Tempora It now trades at R19,50, a premium on current NAV of R18, calculated by chairman Robin Hamilton

The shape of the trust has changed significantly over the past two months Tempora has had a rights issue and R100m was placed with institutions to fund the purchase of 16% of Cadbury Schweppes, to increase the group's holding to 22%

Hamilton expects the share to be more tradeable than either of its two major investments, Cadswep and 20% of Dalys, the Suncrush holding company Suncrush's stake in Tempora has fallen from 62% to 43%, and the recent R100m placing was spread among eight institutions Tempora is now predominantly a vehicle for investment in the soft drink and confectionery market Its stake in Cadswep is worth R240m, in Dalys R130m Its other significant investments are R30m in Sakers and Saficon, and about R3m in Seardel and Searcon

Hamilton says he does not expect the Suncrush interests to be involved in any way with

continue →

FM 20\9\91 232

PENSIONS FM 20\9\91 232

ANC guidelines

Liquor and tobacco shares will be banned from retirement fund portfolios if ANC secretary-general Cyril Ramaphosa has his way In an off-the-cuff speech, at a seminar arranged by consultants and actuaries Alexander Forbes, he reeled off a list of "proscribed assets" which also includes any company that has sinned against the trade unions.

His audience in Sandton last week, mainly actuaries and investment fund managers, alternated between laughter and disbelief as Ramaphosa rammed home his views "You might know that the trade union movement is committed to a smokeless SA and believes that people should be healthy and should smoke as little as possible "

After Ramaphosa had added to the list any company that had bashed unions, the fund managers mentally tallied the score of pale-blue chips which might be acceptable to their portfolios

Ramaphosa *no beer or baccy in the new SA*

Yet, earlier, Ramaphosa had adroitly sidestepped the issue of nationalisation of pensions and provident funds He also expressed some views that broadly agreed with those which Finance Minister Barend du Plessis was delivering to a Cape Town conference of the Cape Assurance Industry Liaison Committee Du Plessis was urging pension fund managers to be innovative and channel funds towards projects that would create jobs Specifically, he suggested outlets such as the Small Business Development Corporation, the Development Bank of Southern Africa and the Independent Development Trust

Du Plessis seemed unimpressed by steps the life industry has taken to free retirement funds for home building "More needs to be done to tap the resources available to finance socio-economic projects " He trod the non-interventionist line nimbly by adding that no funds should be invested in such a manner that the interests of fund members were prejudiced

No such niceties constrained Ramaphosa "We believe that we should develop strategies that can unlock (capital) and help us create a new SA The money is there and we argue that, instead of the money going towards the building of fancy office blocks, the money should be put to productive use

"We would argue that such investments should not go into companies that are trade union bashers, companies that do not recognise trade unions, companies that do not have a good trade union or industrial relations record We would also argue that such investments should not be invested in overseas companies We would also argue that those investments should not go to companies that are privatised, the Iscors of this world where the trade union movement believes that privatisation should not take place, we think it is immoral for the monies of the workers to be used to go against the very principles that they stand for "

Retirement funds, Ramaphosa emphasised, could productively be channelled to housing, education and job creation The question would arise, he conceded, that the investment returns would not be as high as investment in "a glass building somewhere "

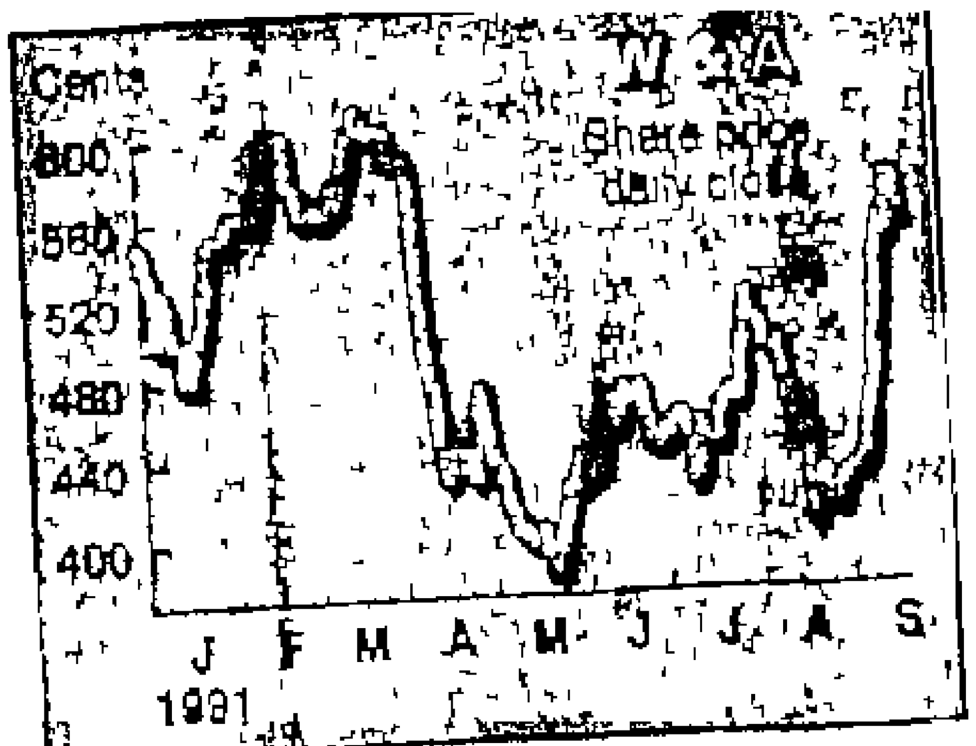
He needs to sell the idea to a larger audi-

continue

ence than Alexander Forbes provided "We would conceive that the returns might well be minimal but, if a strategy is pursued that will ensure that we have a fairly good mix between investments that bring in a fairly good return and investments that bring a good return or, possibly, the best return in the long term, we can find a way out"

Before coolly arrogating his followers' retirement prospects, Ramaphosa did at least appear to rule out nationalisation of the retirement industry He believed that question should be addressed to ANC president Nelson Mandela but added "I am also a member of a pension fund so I have a direct interest in this matter and I would like the ANC to tell us whether they are going to nationalise pension funds or not because, if they do, I also lose"

Presumably, Ramaphosa's pension fund may also invest in liquor and tobacco shares ■



Graphic: FIONA KRISCH Source I-NET

W&A borrowings dilute earnings (232)

BRENT VON MELVILLE

THE effect of W & A Investment Corporation's high level of borrowings has again been a major factor in its financial performance B Day 20/9/91

For the half-year to June the diversified conglomerate reported improved returns at the operating level, but high finance charges and more shares in issue diluted earnings to 34,8c (36,7c) a share, 5% down on the comparable period last year.

In addition, executive chairman Jeff Liebesman has warned that earnings were likely to be down by about 10% by December, as trading conditions were not expected to improve into the second six months This translates to earnings of about 85c (95c) for the year.

The decline in earnings came off a doubling of attributable profits to R57m

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W & A earnings

B Day 20/9/91. (232)

☐ From Page 1

(R27,6m), largely due to the low tax rate of 9,4% (23,3%), which was attributed to capital allowances in certain subsidiaries

Turnover was up 34,8% at R1,7bn (R1,2bn), while operating profit climbed 24,8% to R172m (R137,7m)

Interest paid slashed R88.m (R53,5m) off current liabilities, which were up to R963,7m (R809,2m)

Liebesman said the rise in interest charges related mainly to the acquisition of offshore businesses with AAF Investment Corporation, and the increase in working capital

He said, however, that the level of increase in interest was expected to be lower as cash flows came through to JD Group from the sale of the JD debtors' book, and as a result of lower gearing, currently at 59,9% (67,4%)

Interim dividends across the group were left the same, with W & A declaring a dividend of 15,5c, Waicor 6c, FSI Corporation 12c and FS Group 6c

Liebesman said the total dividend for the year would remain at 42c

PRIE
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Foreign investor interest in SA shares picking up

Star 20/9/91

(232)

By Sven Lunsche

Foreigners may have been net investors on the JSE in the first half of this year, although they slightly reduced their holding in South African mining stock

In a study of foreign ownership of local mining shares, Davis Borkum Hare analyst Manny Pohl says that total foreign holding in mining shares was 13,8 percent at the end of June this year, slightly down from 14,1 percent in December 1990

The investment was valued at R23,78 billion at the end of June

Foreigners have been steady sellers of local mining stock since 1982, when they controlled in excess of 33 percent

Dr Pohl notes, however, that overseas interest in the JSE over the past few months has been focused on industrial shares as reflected by the 40 percent surge of the industrial index

"There may thus have been a net inflow of funds into equities," he says

He ascribes the increased interest over the past few months to a number of factors

- The stabilisation of the commercial rand and the decrease in the financial rand discount from 25 to 11 percent since the beginning of the year which has increased the total return on SA shares to foreign investors
- Foreign investors have imparted a political risk to holding SA shares This has changed with the recent rapid political reforms and foreign investors are once again looking at SA for investment opportunities

However, US investors are still prevented from investing by a range of state and municipal laws

Turning to mining shares Dr Pohl says that relatively poor performance of base and metal prices have mitigated against investments in this sector

Furthermore the revival of the gold mining industry in North America and Australia has provided international investors with an alternative source of mining equity investment

A breakdown of foreign holdings shows that the largest decline was recorded in local mining houses Foreigners now only hold 4,4 percent of their total equity compared with 5,2 percent six months ago

The foreign interest in diamond mines, almost exclusively De Beers, has dropped from 22,8 to 21,3 percent, but the listing of De Beers Centenary in Switzerland has made it more difficult to assess the exact foreign holding

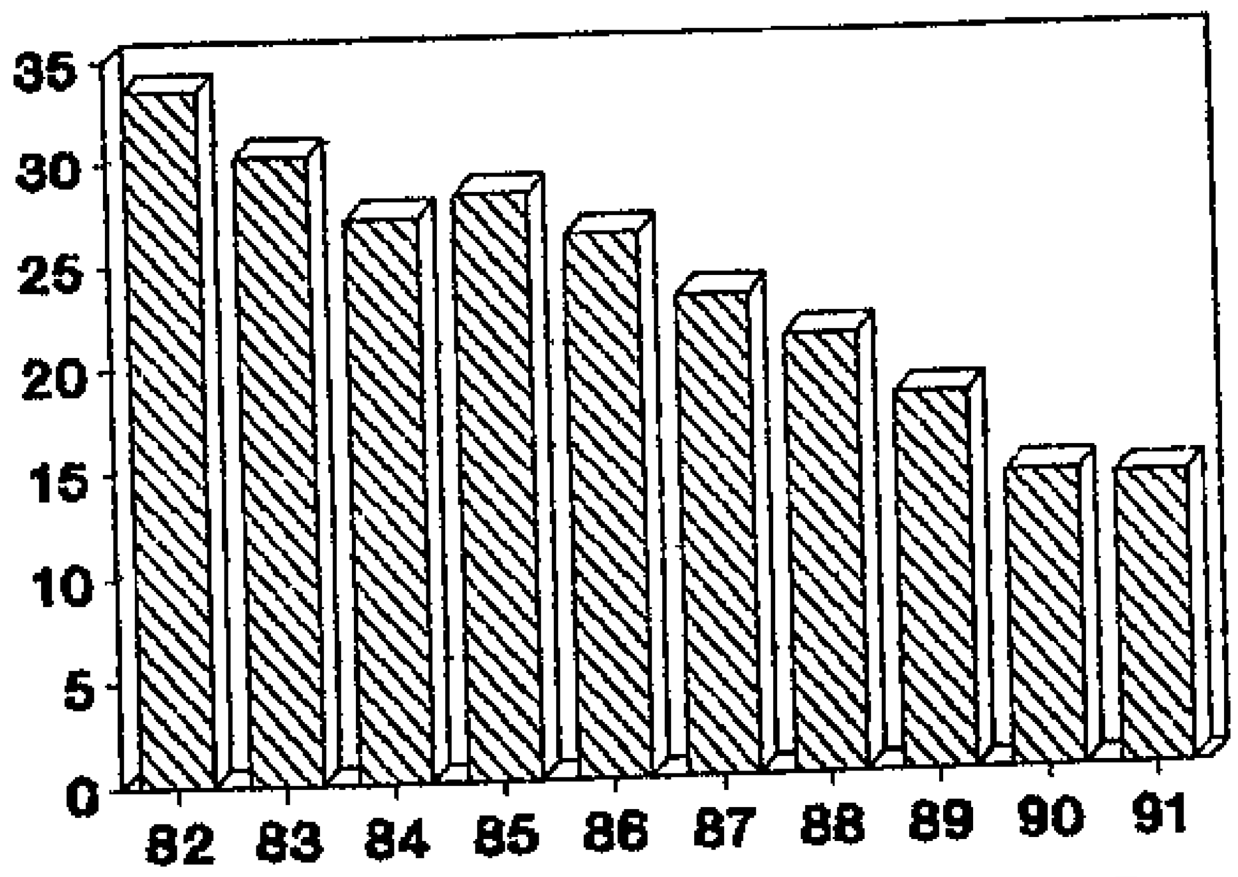
The decline from 4,4 percent to 3,9 percent of the total issued share capital of platinum mines under foreign ownership was anticipated given the extremely volatile platinum price and negative investor sentiment

Against the trend foreigners are now holding a larger share of SA gold stocks — 24,7 percent against 24,2 percent — largely as a result of an increase in investments from continental European investors

Dr Pohl adds, however, that US involvement in gold shares in particular and SA mining shares in general, at 3,3 percent (3,4 percent in December), seems to be at an all-time low

UK investors' holdings in total mining shares are down from five to 4,9 percent and those of other European investors has dropped from 5,2 to 5,1 percent

Finally, Dr Pohl says, although the foreign holdings in Eskom declined from 44 percent in September last year to 43 percent in May 1991, foreign holders have accumulated further stock with a nominal value of R600 million



Foreign ownership of SA mining shares (Percentage of shares in issue).

Charter set to deliver goodies — at long last

232 S/Times (Buss) 22/9/91.

JEFFREY HERBERT Shaker

CHARTER Consolidated has been under several managements in its 26-year history

But managing director Jeffrey Herbert and his team under the chairmanship of Sir Michael Edwardes look like being the first to deliver the goods

The British company gave presentations to the Investment Analysts Society this week

I wondered what was in it for Charter, but many SA companies have shares in it and shareholders are treated with more courtesy in England than they are here

After the Johannesburg presentation, a Scottish sage told me he wanted to buy a few shares before my article appeared

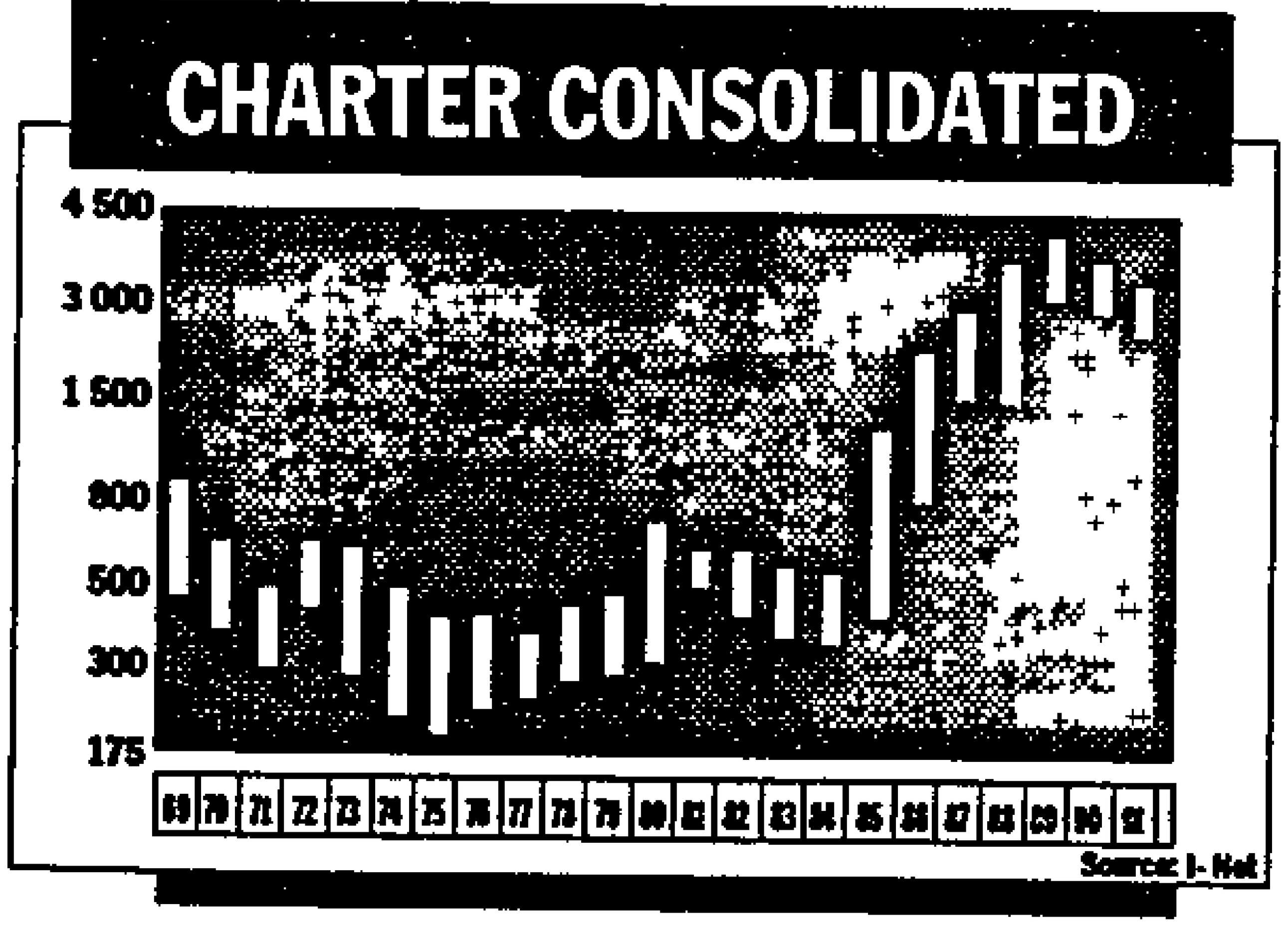
He said "Let's face it, Charter's been a bum steer for 20 years But it looks like it's coming right now Mind you, Herbert's not the first young man who was going to put it on the map"

Mr Herbert is nevertheless the first to show that Charter is capable of sustainable growth He concedes that Charter is not yet all he wants it to be, but there has been much commercial decision making in the three years he has been there

So much change has taken place that the group no longer warrants being listed under mining financials The closest thing to a mining interest is a 38% stake in Johnson Matthey

Charter sold its 40 000m² premises at Holburn Viaduct for £20-million and bought offices a quarter of the size for £4-million Head office staff was cut from 280 to 36

"How could we justify sitting on £16-million of shareholders' funds tied up in property we did not need?" asks Mr Herbert



In the year to March 1991, a quarter of Charter's profits came from cash, a third from Johnson Matthey and the rest from managed investments

The four managed businesses are Anderson, Pandrol, Cape and Cast.

Anderson is world leader in longwall coal-mining equipment, distribution and services Longwalling is an efficient mining method accounting for a third of production from America's 2000 mines Of the 90 faces now being mined, Anderson equipment is on 20

Mr Herbert says British coal mines face difficulties and Anderson has expanded in other countries Longwall mining is growing in America, Australia, China, Poland and Russia

Pandrol's business is rail fastenings and track maintenance It manufactures in 14 countries and sells to 70, reducing its reliance on British turnover to only 12%

Mr Herbert says railway investment is expected to grow by 9% a year in Europe for the rest of the decade at least Italy alone is to spend £4-billion a year Pandrol's standards set those for the industry Its profits grew by 60% in 1990 It has even secured business in Japan against stiff domestic competition

Cast quarries aggregates in Yorkshire and carries out open-cast coal mining in Indiana, where 50% of the work is on Cast's reserves of high-quality, low-sulphur coal Quarrying had a difficult year in England where markets fell by 16%, but Mr Herbert says the businesses are the best in their area

Cape is the British leader in fire-protection building products and industrial contracting services It has grown well in the past three years, but the intention is to expand outside the UK Foreign sales rose by 35% last year and Cape is expanding in Europe and the Far East

Costs have been cut — 1 682 redundancies resulted in a saving of R100-million a year Financial controls and reporting have been strengthened

Gone is the 4% cross-holding in Minorco, which owns 36% of Charter The yield was too low Other traditional businesses have been sold for £105-million and £109-million has been spent on new businesses

The disposals and acquisitions have resulted in a compound annual growth rate in turnover of 5% since 1986 to R5,4-billion (currency conversion) in the year to March 1991 Pre-tax profit rose by 22% a year to R376-million in the same time Earnings a share grew by 19% and dividends 13%

The return on capital employed increased by 32% a year since 1986 to 19% at March 1991

Slightly more than half its profits come from Britain and Mr Herbert does not expect it to drop below 40% North America chipped in 28% and Europe 10%

Charter has R645-million in cash and access to R1,5-billion in borrowings if required to follow an industrial strategy This could be through organic growth, bolt-on acquisitions or new fields

SA investors have done well from Charter's rand-hedge characteristics In five years since 1987, taking into account the rand's depreciation against sterling, earnings a share in rand terms have grown at a compound rate of 31% and dividends by 24%

Mr Herbert expects SA shareholders to continue to benefit by being in Charter because the rand will probably slide further because of different inflation rates

Mr Herbert is nigh scornful of analysts who appear to have a fixation with the platinum price, Charter's holding in Johnson Matthey and Minorco's in Charter He says that cash is critical and he is aware of the lack of control over the dividend policy of Charter's investment in Johnson Matthey

It seems that the stake will either be boosted, or sold The status quo is unsatisfactory

Sanlam has 5% of Charter No doubt other SA institutions will be looking to get aboard The current price is R28,60 — off February's high of R30,25, but well above the July low of R23

A move to industrial holdings might improve its rating

Competition Board to probe Kentron

232

ROBERT LAING

ABOUT eight electronics firms are petitioning the Competition Board to halt Armscor subsidiary Kentron's participation in the telemetry market.

Competition Board chairman Pierre Brooks confirmed that the board was to investigate the sector.

Brooks said he had spoken to representatives of the industry and had asked them to prepare a submission.

"We receive a host of complaints resulting from the privatisation and commercialisation of state assets. Some are well founded and we have managed to stop state and parastatal organisations taking business from private companies.

"The board advises the relevant Minister on what appropriate remedial action he could take. We have no power to impose a solution upon the parties concerned," Brooks said. B Day 23\9\91

The companies allege that Kentron has been competing in the market for about a year via an Industrial Development Corporation wholly owned subsidiary, Irene Commercial Enterprises (Irenco).

Directors of smaller companies — Adolph Numerical Systems, Istron Electronics, Prodesign, Omnicon and Telemetria — said they would ask the Competition Board to investigate Irenco.

Sources close to larger firms, Siemens and Altron's subsidiaries BBT and Alcom, said they were considering joining the peti-

☐ To Page 2

Kentron

B Day 23\9\91

(232)

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tion

Prodesign's Peter Cherry said "I don't like my competitors, but at least they are not backed by an endless pit of the state's funds This market is overcrowded already — none of us can survive competition from Kentron with its army of engineers whose salaries are paid with our taxes"

Outlining the criteria used to establish whether unfair practices were being conducted by a state enterprise, Brooks said it depended how long the state company had been in the market, how well established its competitors were and the extent of its financial assistance from government.

The board also had to establish whether the state-sponsored venture was expected to fulfil commercially non-viable functions, whether its competition was cross-subsidised by activities in which it held a monopoly, and whether it precluded private firms tendering for in-house business

If unfair competion was found to exist, the responsible Minister would probably issue a cease-and-desist order, Brooks said

Dismal news from Pick 'n Pay boss

B/Day 23/9/91 [redacted] 232

LINDA ENSOR

CAPE TOWN — Pick 'n Pay chairman Raymond Ackerman had dismal news for shareholders and the supermarket chain's employees at the weekend Not only did the group record its first interim profit decline in the six months to August 31, but retrenchments were inevitable over the next few months.

The group turned in a 3,2% decline in earnings from R32,7m to R31,7m and from 41,8c to 40,4c a share At the August 1990 interim stage, earnings had increased by 15% to R32,7m on an 18,7% turnover rise to R2,4bn. However, earnings had increased by only 4,5% to R86,6m by the February

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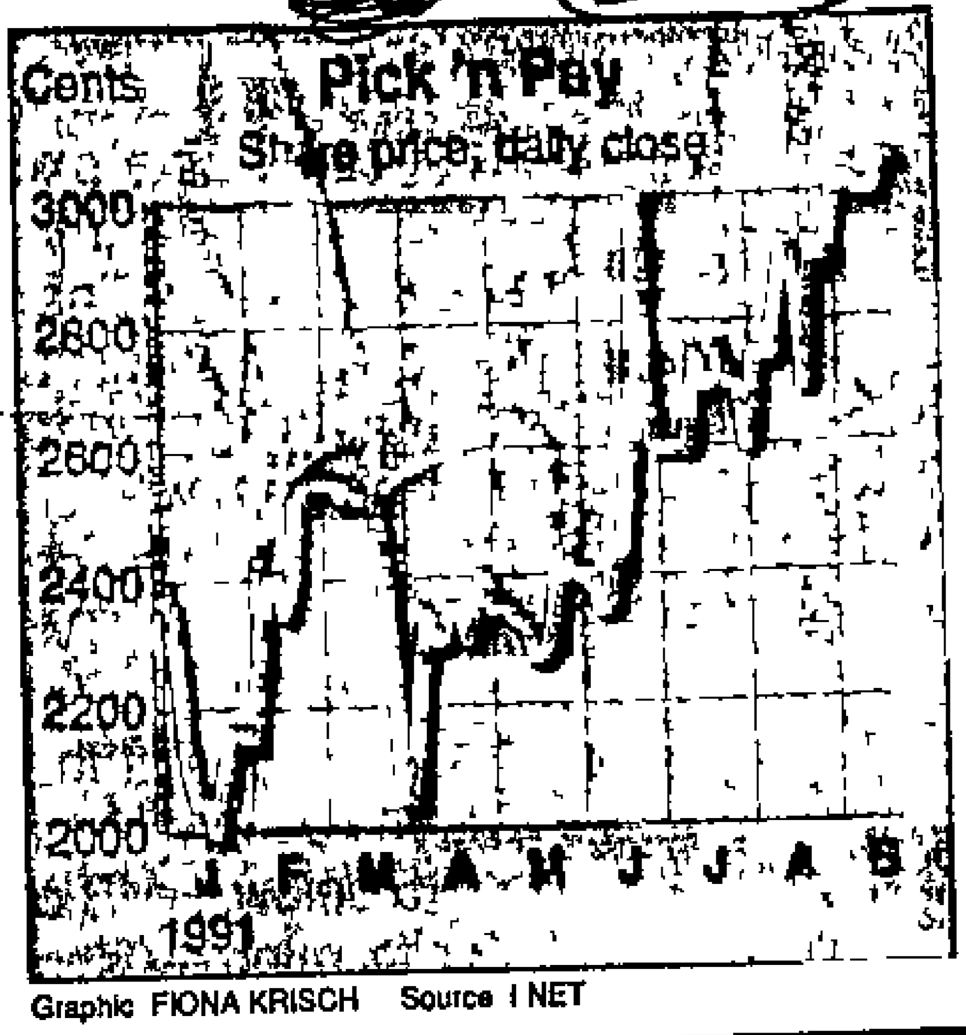


Graphic FIONA KRISCH Source I NET

Pick 'n Pay

B/Day 23/9/91

[redacted] 232

From Page 1

1991 year-end

Accounts published at the weekend show that despite a 15,6% turnover rise to R2,8bn (R2,4bn), interim results were down by 10,3% to R53,1m (R59,2m) at the operating level.

The operating profit was hit by the fact that retrenchments were delayed by agreements with the union And, before year's end, between 1 000 and 2 000 people faced being retrenched unless the SA Commercial, Catering & Allied Workers' Union (Saccawu) accepted the principle of "flexible" employment practices during the looming wage negotiations

So far the union had been reluctant to negotiate this principle If it persisted in doing so, Pick 'n Pay would have to consider retrenchments as a last resort, Ackerman told a weekend media conference

He said the group's inability to redeploy and relocate unproductive workers from one store to another during the six months to end-August acted as a constraint on its ability to rationalise in the face of a "catastrophic recession" The cost of carrying these workers was between R1,2m and R2,4m a month

MD Hugh Herman said that turnover was running at about 18% in March and April, dropping dramatically from May onwards, but the group had not been able to reduce expenses such as labour costs — about 60% of the total — quickly enough to keep them in line with this slide in sales

Also, about R70m of the more than R100m invested by the group in scanning systems for VAT was included in expenses in the six months to end-August

These problems contributed to the fact that while Pick 'n Pay's interim turnover rose, margins fell to 1,89% (2,43%) and trading income by 10,3% to R53m (R59m)

Investment income of R7,7m from insurance policies and a lower tax rate softened the bottom-line fall in earnings a share of 40,4c (41,8c) to 3,2%. The dividend was maintained at 12,5c

Ackerman said an important feature of the results was the 40% decline in shrinkages and the increase in market share to 32,1%, despite the drop in turnover Shrinkage, including markdowns, was well below 1%, indicating the success of the technology and systems introduced

Cash resources fell to R4,6m (R21,3m) in the first half because of capital expenditure on scanning systems

Ackerman was confident about the second-half performance, which will come off a low base, and said the annual result should show an increase in earnings

Relief for brokers as JSE cuts transaction costs 10%

232

ANDREW GILL

JSE broking firms struggling to keep their heads above water as a result of dwindling turnover have been given relief by an average 10% cut in broking costs

A circular to broking members from JSE committee chairman Humphrey Borkum this week disclosed broking costs at the Equity Clearing House (ECH) had fallen 15% (R1,30) a transaction to R7,28, effective September 1

The new and controversial Broker Deal Accounting (BDA) system will charge R2,30 a transaction, the same price the outvoted MASS system is charging All brokers are subject to the ECH charge which covers system costs after the R2,30 charge

BDay, 25/9/91.

Gilt brokers have also been given relief in the form of a 33% cut in costs Dealers say the move will help market operators who have been squeezed by low turnovers One operation has already closed down because of weak activity

Gilt dealers are concerned that next year's move to the Bond Market Association could see spiralling costs and say the cuts could be a political move by the JSE to keep costs low at the changeover

JSE president Tony Norton said yesterday the committee was aware of the pressures on brokers and was doing its best to grant whatever relief it could without being "irresponsible"

The prices could be varied and even lowered if activity on the market picked up, he said Also, when all brokers eventually moved onto the BDA system, prices could fall further

Estimates show the move to BDA could save R2m a year

In the circular Borkum said costs had been revised to provide for a more appropriate allocation of spare capacity The new approach was more realistic and removed cross-subsidisation except in the interim in the case of Broker Client Accounting, BDA and ECH Wherever possible, services would be charged out at cost

The committee also decided against commercialising the JSE computer facility

The new rates were calculated on an estimate of 1 800 transactions a day

Borkum warned that if no exemption were granted on VAT on Information Services Divison charges, rates would need to be adjusted

Industrial decline deepens on JSE

Star 26/9/91

Finance Staff

Industrial shares on the Johannesburg Stock Exchange came under pressure yesterday with leading shares recording steep declines despite a further firming in the gold price

The industrial index dropped by 66 points to close at 4085 This follows the previous day's decline of 22 points (232) (

The decline was mainly as a result of the strengthening of the financial rand, which yesterday rose by another 2c to R3,090 against the US dollar But some analysts have indicated that the industrial index may have commenced its long-awaited correction from recent record levels

Recent poor results from blue-chip companies like Pick 'n Pay and Sappi, together with the increase in the prime overdraft rate, has had a noticeable effect on investors' sentiment

BUSINESS

Exploration struggles to show its worth in shares

B Day 26/9/91.

MATTHEW CURTIN

(232)

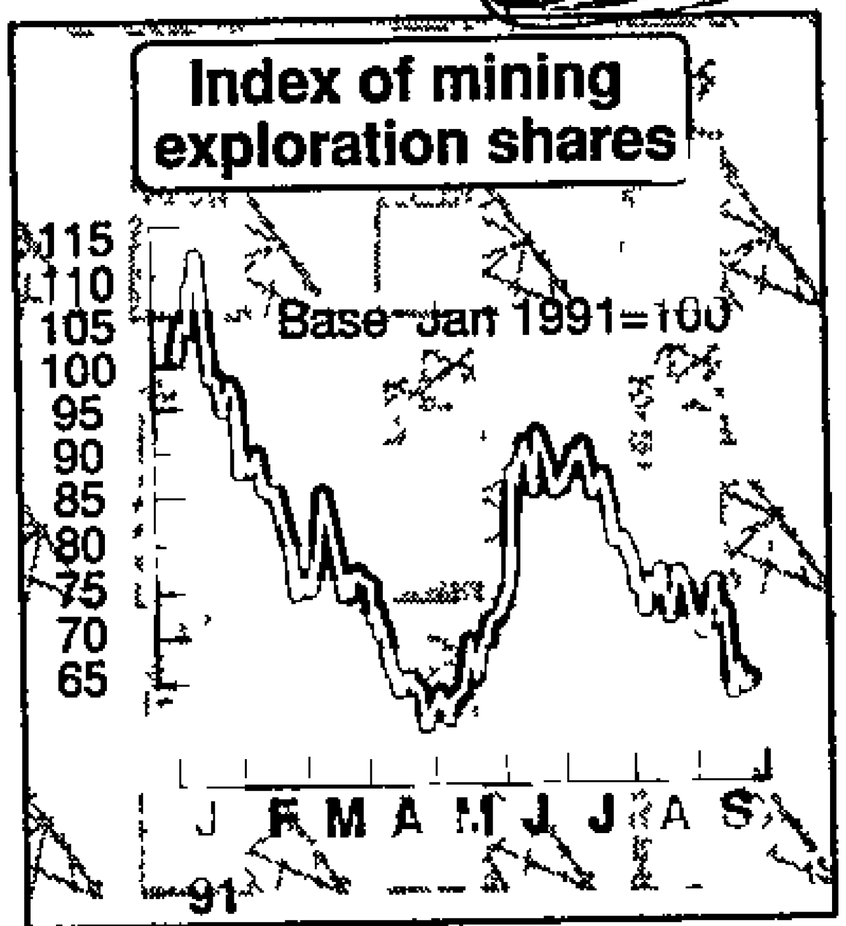
THE value of shares in the main exploration companies listed on the JSE dropped from R900m to R300m in two years, underperforming the rest of the market by a considerable margin, Simpson McKie analyst Peter Bahnemann said in a recent report on the sector

Bahnemann said many exploration companies were listed on the strength of mineral rights held in deep-level gold exploration targets within the Witwatersrand Basin Low gold prices put the viability of new deep-level mines in doubt, knocking share prices also dulled by unsatisfactory drilling results

He noted that some companies were reducing their dependence on gold by investigating platinum, base metal, coal and heavy mineral sands deposits.

Barnato Exploration (Barnex) chairman Kennedy Maxwell said in his annual review this week that although the Witwatersrand was still one of the most attractive areas in the world for the discovery of gold deposits, the persistent low gold price had made Barnex review its asset portfolio

He said that after a decade of competitive exploration, the past year had seen a significant decline in the overall level of gold prospecting Barnex's evaluation drilling in the Doornrivier Prospect, south of Welkom, was complete and results indicated a mining operation was not economic at current gold prices



Graphic LEE EMERTON Source I-NET

He said Barnex had moved towards taking part in ventures involving gold exploration at shallower depths

However, Bahnemann said the poor performance of the sector had more deep-rooted causes

Exploration shares, by the very nature of the risks involved in the business, were extremely sensitive to rumour, perceived expectations and general economic conditions

The slump in share prices coincided with political uncertainty in SA following government reforms, the weak gold price and local and worldwide recession

Another reason for the poor performance of the sector was that it had been added to the JSE only recently Investors, inexperienced in exploration stock, pushed prices to unrealistic levels in the share boom before the 1987 stock market crash

They forgot the exploration business was a long-term, high-risk business and that shares should therefore trade at discounts

When shares fell, disillusionment set in and the companies' stock traded at levels which did not reflect their cash assets or the potential of their mineral rights

Barnex's current market value is R17m, against current assets at its June year-end of R57m, and R8m worth of expenditure in the year on joint venture projects worth R29m

Bahnemann said another reason for the market's poor view of the sector was that it had not generated worthwhile rewards for investors New listings of Rhombus Vanadium by Rhombus Exploration, South Murchison and Southplats by South Witwatersand Exploration, and Freddev's passing of its stake in South Deep Exploration to shareholders had been unsuccessful in as much as all these shares were barely able to maintain their issue price if they had not fallen below it

He said it was unfortunate that exploration shares were at the bottom of investors' shopping list because "new ventures and new mining projects are the lifeblood of the economy and the stock market"

FM 27/9/91 FOX

W & A FM 27/9/91

Working on debt (232)

The impact of high debt levels was apparent once again in the W & A interim results Though operating income advanced by a quarter, thanks to an increase in interest paid of nearly two-thirds, the pre-tax profit was static

According to CE Jeff Liebesman, the working capital requirements increased, as did the need for capital to finance the takeover of Alloy Wheels International and Unit-Span Modular Building by UK subsidiary AAF Investments

By June 30, gearing — based on the group's own calculations — had fallen from 67% to below 60% A conservative calculation, with all intangibles eliminated, for example, might produce a somewhat higher figure (232)

FSI itself, which is now simply a pyramid company, has R277m of its own debt Deputy chairman Hennie van der Merwe contends this is not that risky, as it is serviced by dividends on preferred ordinary shares and by interest on convertible debentures It is thought that FSI would like to place its convertibles if share prices become attractive On present trends, that may take a while.

However, gearing should improve markedly after the sale of the J D Group debtors' book to a banking consortium for R414m (*FM* September 20), though some of this money was used to purchase preference shares in the new J D Sales

A cautionary notice was recently published concerning Gentyre's negotiations with Continental Gummiwerk, which holds the licence for Continental Tyres That immediately gave rise to speculation that Gentyre could be sold — which would generate a hefty inflow of funds that could be used to repay borrowings But Van der Merwe says that FSI will not sell its core businesses, and Gentyre is considered to be one of these

Continue

Even so, perhaps the sale of a minority stake should not be ruled out W & A might hope for a full price for any equity sold, but it would be at a cost to the earnings stream The 68% interest in Gentyre accounted for more than 34% of W & A's attributable earnings at the halfway stage.

Moreover, Gentyre is a net earner of interest, and carries more cash than debt It also has a very low effective tax rate In 1992, however, Gentyre will be back in tax, and so the timing for its sale could be good. If a meaningful stake is sold to Continental, then the group could realise as much as R100m

W & A's own tax rate was only 9,4%, down from 23,3% at the previous interim, due to capital allowances in subsidiary companies Van der Merwe says that the rate will remain around 10% for at least two years But, unless W & A continues to buy poor performers, eventually its tax rate will be comparable with those of other holding companies

There do not appear to be too many concerns in the market with the performance of the major underlying businesses Natbolt is exporting significantly and the Edworks shoe chain might finally be recovering — though that has yet to be shown

The number of shares issued was increased by 118% as part of last year's restructuring of the FSI group, which led to the delisting of five subsidiaries As a result, EPS fell by 5,2%, and the group expects a fall for the full year of 10%, to around 85c Liebesman reckons that this will be a much lower fall than is likely from most other conglomerates

But that is a misleading comparison He admits that the group does not operate in fragmented or highly cyclical industries Some other conglomerates which are not heavily exposed to cyclical businesses — such as Safren, AVI and SA Breweries — all showed good increases in EPS

At 540c, W & A's share price gives a p e of 5,7 and a dividend yield of 7,8% Market reactions remain divided on W & A, though even its critics acknowledge that it has made progress with gearing and stock control The group now has a large number of shares to service, which puts additional demands on the trading performance.

Provided that problem areas such as Edworks are dealt with successfully, and there are no further dilutions or shuffles of the shareholding structure, W & A may have a reasonable future The plan that emerges for Gentyre will offer further indications of the likely direction

Stephen Cranston

GAINS DILUTED

Six months to	Jun 30 '90	Dec 31 '90	Jun 30 '91
Turnover (Rbn)	1,24	1,80	1,67
Operating inc (Rm)	138	179	172
Attributable (Rm)	28	85	57
Earnings (c)	36,7	58,3	34,8
Dividends (c)	15,5	26,5	15,5

W&A's Van der Merwe . *not selling core businesses*

Foreigners quicken share sales

By Sven Lunsche 232

Star 27/9/91

Foreign selling of shares on the JSE has accelerated markedly this year, according to Reserve Bank figures

In the second quarter, foreign investors' net sales soared to R977 million from R892 million in the first quarter and R564 million in the fourth quarter last year

Sales accelerated further in July, with net sales of R604 million

But foreigners continued to build up their holdings of public-sector stock in the capital market to the tune of R665 million in the second quarter.

In July, a further R266 million of public-sector stock was acquired.

The sale of shares contributed to the net outflow of R2,1 billion recorded on the capital account of the balance of payments in the second quarter

In the first three months of the year R779 million of new capital entered the country

The Reserve Bank says the decline is attributable to short-term outflows related to a decrease in SA's trade credits on imported goods

However, the more favourable trade picture boosted the current account surplus from R1,5 billion in the first quarter to R6,2 billion in the second quarter.

Total gross gold and foreign exchange reserves stood at R8,7 billion at the end of June, equivalent to seven weeks' imports.

IOL

Healthy rise for Medhold

8/Bus 2/11/91

WILLIAM GILFILLAN

MAJOR surgery has seen medical supplies manufacturer Medhold, previously IEM Products, lift earnings a share 32% to 5,4c from 3,7c for the year to June

However, an unchanged dividend of 3c a share was declared on a dividend cover of 1,8 Turnover figures were not given (232)

Medhold was formed in 1990 through a merger of IEM Products and trading operations within the old Medhold group of companies.

MD Jack Marcelino felt the 32% earnings a share increase was satisfactory as this was based on a share capital which at the year-end had increased to 15,7-million shares from 10,25-million shares as a result of the merger

He expected a 20% rise in earnings a share in the coming year

An additional 1,55-million shares issued to the vendors of the Medhold group of companies would be listed on the JSE on Monday,

These additional shares have been issued as the performance criteria as set out at the time of the merger had been achieved, he said

It's still too easy for the insiders

W/Mail 27/9-3/10/91

New regulations haven't stopped inside traders escaping with an unfair share of the stock exchange profits. MONDLI MAKHANYA recommends a higher punishment price

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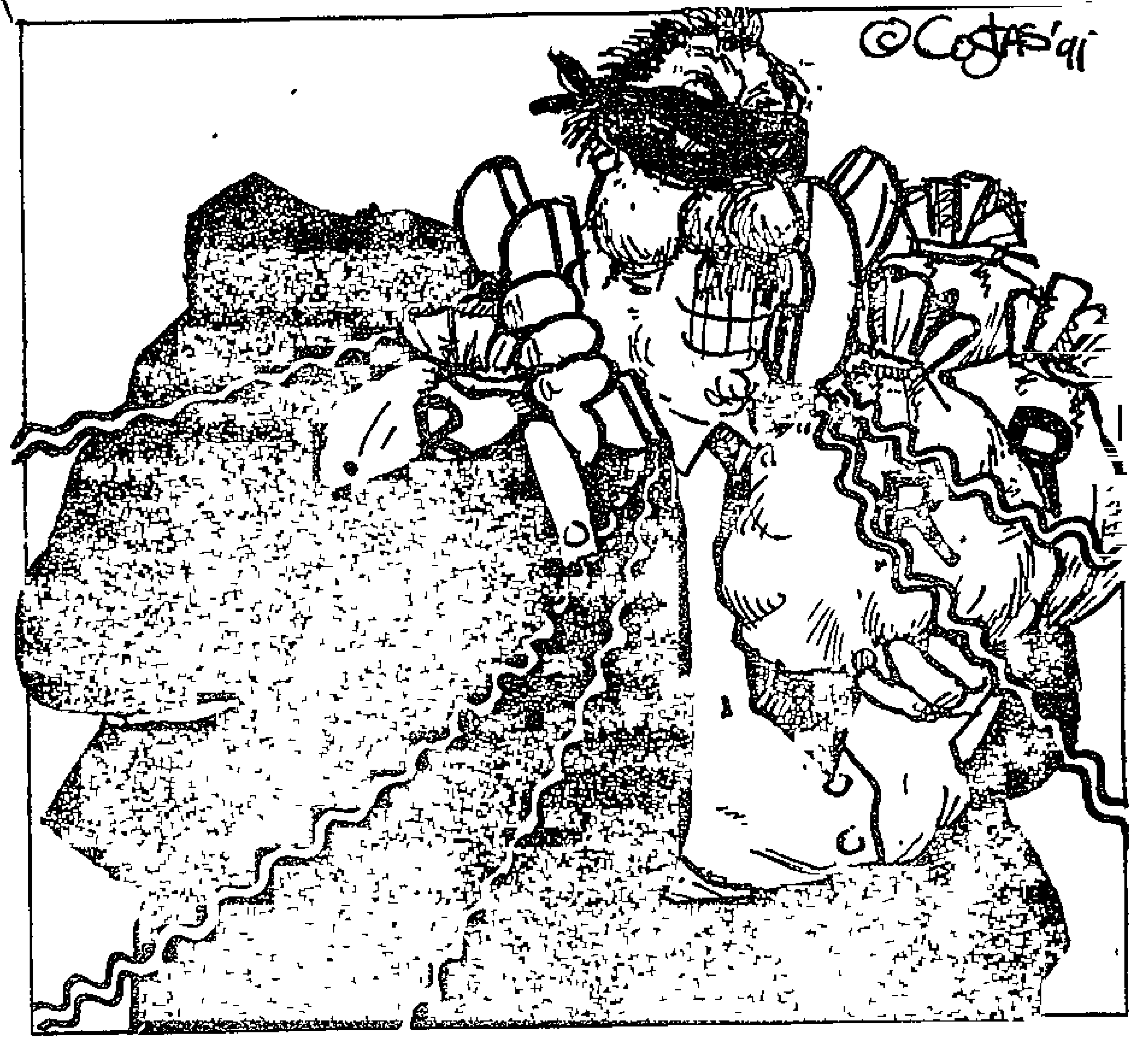

DESPITE the fact that anti-insider trading regulations have been in force in South Africa since 1973, not one person has been arrested for the offence, let alone convicted and penalised

And despite the beefing up of insider trading regulations and the establishment of the Securities Regulation Panel (SRP) on the Johannesburg Stock Exchange in February, insiders have not been deterred

Since then there have been a number of inexplicable price movements — occurring either shortly before favourable company results are released or on the eve of a major announcement concerning a particular company While the SRP has on a number of occasions called for returns of the deals involved — ostensibly to investigate the people behind the deal — that is usually the last we hear of such cases

JSE president Tony Norton says the SRP has investigated "about five or six cases but there was not enough evidence". He says before the law was tightened this year there were a number of "definite" cases that escaped the net "because the law was a joke".

The phenomenon is defined by *Collins Dictionary* as the "illegal practice of a person on the stock exchange or in the civil service taking advantage of early confidential information in order to deal in shares" Immoral and illegal as this practice is, certain individuals in corporate South Africa seem bent on cheating less privileged investors by using confidential information to make a quick buck

Not only is insider trading morally untenable, it is also bad for the economy In addition to harming investor confidence, it makes the share price artificially high, thus raising the cost of capital. Wits University financial markets expert Sinclair Davidson also maintains it "creates an incentive to create bad information" intended to deceive the market.

Contends Davidson. "Insider trading undermines the legitimacy of the stock exchange It harms the small investor's confidence in the stock exchange because he won't want to invest if other people are using privileged information which he doesn't possess."

Insider trading's propensity to distort prices is much easier in illiquid markets such as the JSE This is because illiquid markets have low volumes changing hands and are therefore price sensitive

Some estimates put the level of insider trading at more than half the shares traded on the JSE, but Norton calls this a "heavy overstatement"

Some suspicious cases this year include Score-Clicks Holdings, whose share price went from 320 cents to 350 cents shortly before Premier Group announced it was acquiring the company in May. Undue price movements have also continued unchecked this year. Shortly before EL Batemen announced year end results in July, its share price increased from R38 to R52 in a week.

Other cases have been more obvious than others, prompting the SRP to call for returns on the deal. Lebowa Platinum's share price rocketed from 385 cents to 500 cents ahead of the funding of Platreef platinum project. Gentyre Industries went from R22 to R28,50 in a week shortly before Continental Tyres announced it was taking a stake in Gentyre's holding company W&A Just a month ago the world's largest platinum producer, Lonhro, which is also listed in London, requested the two exchanges to call for returns on its trading after its share price soared from 1 240 cents to 1 470 cents in a week. This acceleration preceded an announcement that Lonhro was engaged in negotiations with the Soviet precious metal marketing body Glavalmaz, on the formation of a platinum cartel.

More recently we saw the M-Net share price jump by 300 percent to 700 cents in less than a week just prior to the government-appointed Task Group into Broadcasting announced the airwaves were to be liberalised

Common sense dictates that until someone is seen to be punished for insider dealing, big league rogues will continue to enjoy a head start on the small man Davidson blames "weak and inefficient" anti-insider mechanisms for the prevalence of insider trading

The majority of inside deals in South Africa are not carried out by directors themselves but by nominees This is because directors' shares are registered and therefore easier to monitor.

"The problem is that directors do not buy the shares themselves but will pass information on to a friend in return for a present. The friend will then return the favour when there is something interesting in his company It is therefore difficult to draw a direct relation between the share buyer and the company," says Davidson.

Norton says the JSE is aware of the use of nominees and as a result the SRP is legally empowered to investigate who lies behind the buyer.

Frankel Max Pollak Vinderine stockbroker David Shapiro also notes that a director may not necessarily be responsible: "It is usually four or five people down the line".

Even if an offence is detected and an arrest carried out, proving guilt beyond reasonable doubt is virtually impossible.

Just proving that a deal was an inside deal is difficult and Shapiro says "it is often difficult if a price movement is due to inside information or good research".

Although Norton insists South African regulations are the toughest in the world, there is also more the JSE is capable of doing to minimise insider trading. For one, the risk of indulging in this crime must be increased. At present a convicted inside trader faces either a R500 000 fine and/or a 10 year jail sentence Clearly the rate of insider trading on the JSE indicates this is not a great enough deterrent

To raise the risk further the multiplier approach — used in the United States — could be adopted This penalty pitches the fine at triple the profit the insider makes.

Davidson feels this will be a more efficient deterrent and less costly than the present regulation This is surely what Norton also wants as he has pointed out "it is not more regulations we want but more effective ones"

Companies could also do more by monitoring their employees It is nowhere near enough prohibiting employees from buying shares near year-end and reporting periods — insiders are not stupid and will always circumvent this In the United States listed companies design "models" showing the people with whom someone with access to company information is in contact. This may be a step we need

Merely calling for trade returns and investigating cases will not cure this malaise. The SRP needs to show its teeth and, as Norton says, show that it's "a real tiger and not a paper one"

Norton is hopeful of an arrest soon, but his admission that "we cannot manufacture evidence" underlines the JSE's helplessness.

BUSINESS

Stocks 'set to weaken'

B Day 30/9/91 (232)

LINDA ENSOR

CAPE TOWN — Share prices may continue to exhibit weakness in the short term as no significant turnaround in company earnings can be expected until well into 1992, Board of Executors' chief portfolio manager Rob Lee says.

Writing in the latest Investment Outlook, Lee says the industrial board will continue to look more vulnerable than mining shares but adds that buying opportunities should arise from major weaknesses in share prices

Lee believes that accumulating property investments is a good strategy at the present time and that long bonds will generate respectable returns over the next year

"The dividend yield on the property trusts remains just above the 10% level With prospective earnings growth of the order of 10% likely over the next year, in spite of the current recessing conditions in the commercial property market, the total returns available on property trusts could compare quite favourably with those on equities over this period"

Surprise

Regarding the economy generally, Lee believes an inflation rate of 12% is possible by mid-1992, based on trends in the annual producer price inflation which is likely to be about 9%-10% by the year-end

He expects sufficient progress to have been made in bringing down inflation by February/-March next year to motivate a reduction — albeit a cautious one in the Bank rate

Lee warns that companies and individuals relying on a traditional consumer-led economic upswing financed by collapsing interest rates are in for a "rude surprise"

"Our expectation is that this time the upswing will be led primarily by rising exports and by increased investment and in the shorter term by fiscal stimulus arising from the increased budget deficit in this financial year

"We expect economic conditions to remain tight for several more months and that the initial upswing phase will be muted However, precisely because the upswing is likely to be export and investment led, it has a high probability of ultimately achieving higher economic growth and being more sustainable than recent economic recoveries"

Optimistic Imphold ready for tough times

BDay 30/9/91 232

Business Day Reporter

ALTHOUGH the year ahead will not be easy, diversified industrial group Imphold expects another set of solid results for the year to June 1992.

In his annual review, executive chairman Bill Lynch said the group was well structured, well hedged and had good upside potential in several of its businesses.

The group has performed well for investors in the past 24 months with the capital value of an investment in Imphold appreciating 137% in the period under review.

Lynch said that this meant a holding of 100 Imphold shares worth R190 in July 1989 has grown by 151% to be worth R476 today.

The return on shareholders' funds at 31,7% was well ahead of the 20% target, and gearing at 35,5% was well within the covenant of being less than 80% of total shareholders' funds. The operating income to turnover margin of 9,5% was far higher than the target of "at least 6%".

Lynch believed the year ahead would be tough as the recession was likely to continue but he was cautiously optimistic for the group's performance.

"Violence and crime continue to aggravate the situation but, as a group, we have managed to adjust well to these difficulties. Our view is that matters cannot get worse but that a moderate improvement in the economy and lower interest rates will come through in 1992."

In his divisional review, he said Imperial car rental had been gaining market share and should continue to do so although the market remained competitive.

Reduced interest rates in early 1992, an important part of the costs of the division, should also benefit the division, Lynch said.

Imperial Motors has upgraded a number of its dealerships in recent times and strengthened its management in the review period.

"The parts and service centres are significant contributors to the profitability and stability of the division and should continue to make a meaningful contribution to future growth," he said.

The truck systems division, which contributed 28% to turnover and 33% to pre-tax profit, was exposed to fierce competition.

Founder sells 26% of Pennypinchers

B/Day 30/9/91 LINDA ENSOR 232

CAPE TOWN — Pennypinchers Holdings' (Penpin) founder and CE Fasie Malherbe has sold his 26% stake in the buildings materials group to First National Corporate & Investment Bank (FNCIB) for R3,5m.

The announcement was made today simultaneously with the interim report for end-June which shows that Penpin suffered a loss of 19,06c (profit 10,63c) a share

The deal was struck at 56c a share which is considerably lower than the share price which closed on Friday at 75c and an offer will therefore be made to minorities

PG Bison, which has a 47% stake in Penpin, has the option to buy up FNCIB's stake over two years

Malherbe is to relinquish his position as CE but will remain with the company as non-executive chairman. The post of CE has not yet been filled.

The recession in the building industry hit Penpin in the six months to end-June. While turnover grew 25% to R119,7m (R96m), severe competition and the sale of excess stock saw margins plummeting to leave an operating loss of R4,4m (profit R3,5m). The attributable loss was R4,5m (profit R1,9m)

☐ To Page 2

Pennypinchers

B/Day 30/9/91. 232

☐ From Page 1

An additional strain was the burden of costs associated with the restructuring of the group, refurbishing of existing stores and the closure of non-profitable branches Two clear divisions, a retail and wholesale division, have been created and emphasis has been placed on cash sales The "one-stop-shop" concept is expected to produce higher margins with lower operating costs

Financial director Percy Bishop said on Friday the improvements flowing from the restructuring should result in a turnaround during 1992 Subsidiary Pennypinchers Board, which suffered an interim loss of 3,7c (profit 4,9c), would be delisted shortly

Malherbe, who founded Penpin as a single low-cost store in Cape Town in 1979, saw it grow to a chain of more than 50 outlets, with 1 200 employees and a turnover expected to exceed R250m this year

"We built Pennypinchers with an entrepreneurial, informal style Given its tremendous growth in recent years, the company now needs a more structured approach," Malherbe said

NE

Anti-monopoly laws applauded

Star 30/9/91.

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By Patrick Laurence

South Africa needs effective anti-monopoly legislation, Anglo American chairman Julian Ogilvie Thompson has told The Star.

"It is extremely important (to) have strong anti-monopoly, anti-restrictive practices legislation," Mr Ogilvie Thompson said

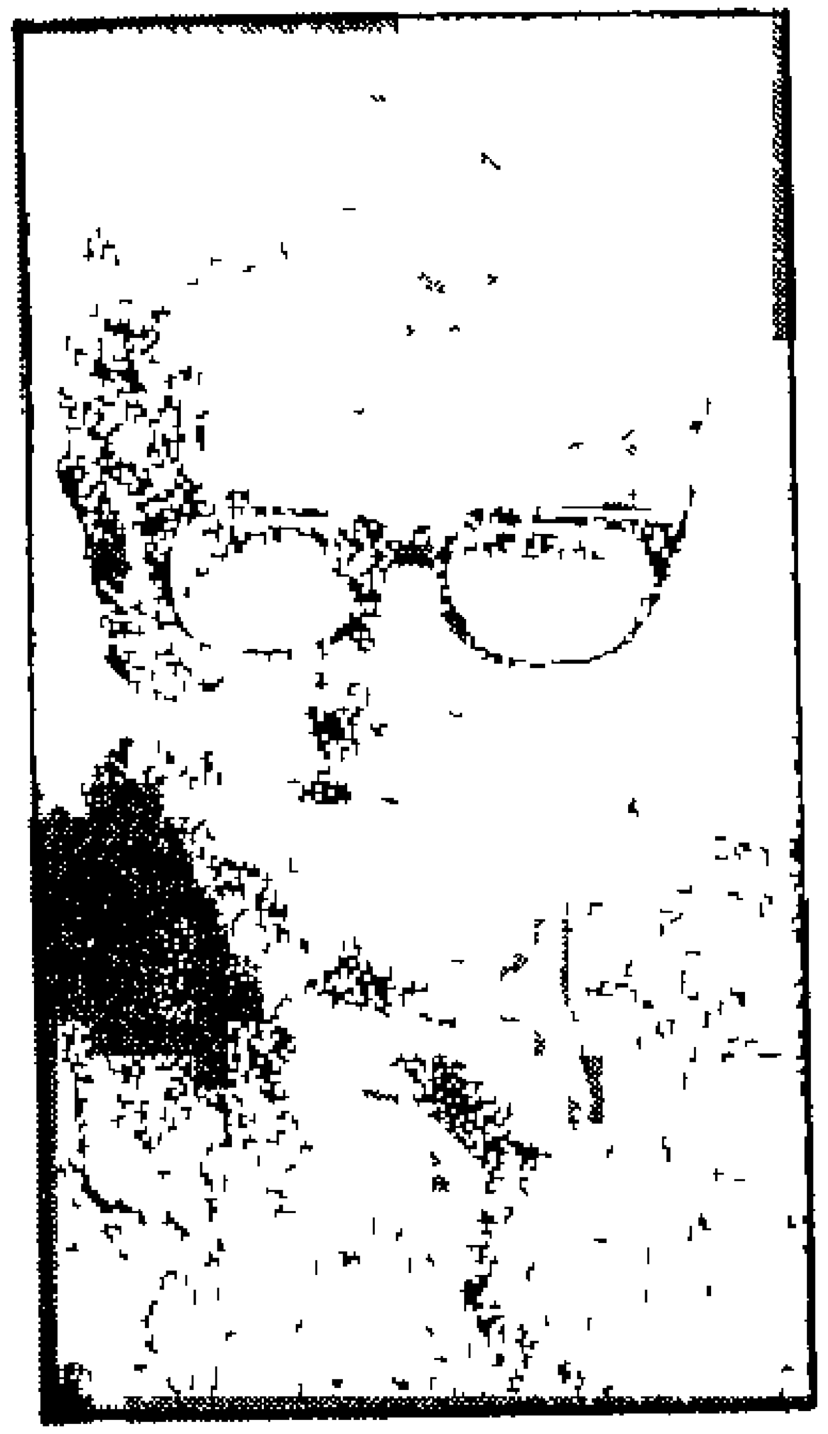
"We think this must be continually reviewed and, if necessary, revised"

Mr Ogilvie Thompson's assessment was made, coincidentally, on the eve of a critical finding by the Competition Board on the acquirement of shares last year by Anglo American and its sister company, De Beers, in Gold Fields of South Africa

The board found that the purchase of shares by Anglo and De Beers did not constitute a restrictive practice or amount to acquisition by the companies of Gold Fields.

Nor did it signal an end to competition between Anglo and Gold Fields in the gold mining in[illegible]y, nor the establishment of a monopoly

The board calculated that Anglo American and De Beers had acquired more than the



Julian Ogilvie Thompson ... review laws against restrictive practices regularly

18 percent share in Gold Fields necessary to block special resolutions in Gold Fields However, it said the power to exercise a veto did not in itself constitute a restrictive practice

But, in a postscript to its specific finding, the board noted that concern over the extent of corporate conglomeration in South Africa was "widespread and covers all shades of political opinion"

Mentioning Anglo American and Rembrandt specifically, it concluded that the time was opportune for them "to focus on the wider implications of the substantial network of formal relationships that exist between the major conglomerates in South Africa"

Commenting on the Maintenance of Promotion of Competition Act, Mr Ogilvie Thompson said: "I think it must be effective, and I think it is effective too"

Asked whether he was opposed to the law being given more teeth, he replied "If it needs more teeth, certainly it should have more teeth. We have consistently said so"

But he added "What you can't do is pick up the legislation, say, in the United States and plonk it down in South Africa and say it'll work You've got to adapt your legislation to the realities, facts and possibilities of the situation"

Developing his point, he said "You can't say that no one in South Africa can have more than 20 percent of the market, because then you won't get the economies of scale (to compete on the world market)"

In the United States it was possible to limit the share of the market in any commodity to 20 percent and "still have the five biggest producers in the world"

South Africa, Mr Ogilvie Thompson said, could not afford to do so "any more than Switzerland, Holland and Sweden"

These countries, like South Africa, had companies which were very large in relation to their own economies, but quite small on the world scale

In a related development, Anglo American spokesman Michael Spicer has reacted sharply to a renewed call by ANC president Nelson Mandela for the nationalisation of mines and financial institutions

Responding to a speech made by Mr Mandela at a banquet in Somerset West, Mr Spicer expressed disappointment at the ANC leader's "archaic and bankrupt thinking", warning that it would stifle initiative, block investment and lead to a flight of capital and skills just as surely as a rise in taxes

He noted that an invitation to the ANC to discuss economic policy had still to be accepted after two years

Another French group starts local link-up

Star 30/9/91.

By Jabulani Sikhakhane

French company Ecco, the world's third-largest human resources group, is acquiring a 60 percent stake in JSE-listed Technihire for R4 million cash, or 45c a share, from the Eliasov family.

A similar offer is being extended to the minority shareholders, it was announced yesterday

Technihire executive chairman Jack Eliasov, whose family trust controls 70 percent of Technihire's equity, remains on under a management agreement.

The Technihire board will be reconstituted, with three Ecco executives joining

Technihire offers the hire of skilled personnel, professional placement services, collection and administration of debt, and computer isography

"The Ecco group is virtually a mirror image of Technihire and we see strong synergies between the two," Mr Eliasov said

"The group is well geared presently, but the initial cash injection by Ecco is only the first step to later investments as opportunities are identified and explored."

Ecco, with a turnover of R6 billion, has 600 branches in 21 countries The acquisition of Technihire is its first investment in Africa

The deal is the third (two of which involved French government-owned companies) between French and South African companies in the past month

Recently, Liberty and leading French insurance group UAP combined their holdings to get control of of UK life assurer Sun Life. UAP is controlled by the French government.

In the mining sector, Genmin (Gencor's mining arm) signed an agreement with BRGM, a major French government organisation The two will mine gold and look for new mining ventures

These deals follow the visit by a French trade delegation led by the Minister of Trade and Industry, Dominique Straus-Kahn, who said France wished to become SA's biggest trading partner

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OWNERSHIP & CONTROL – 1991

OCT.

Seardel expects pressure on margins until next year

B/Day 1/10/91

(232)

LINDA ENSOR

CAPE TOWN — Clothing group Seardel is expecting margins to come under severe pressure in the year to end-June 1992.

It has budgeted for a 9% increase in pre-tax income to R49m (R45m) on a 21% increase in turnover to R1,2bn (R992,4m).

In the annual report released yesterday, chairman Aaron Searll indicates that an 11% rise in earnings a share to 120c (108c) and a dividend of 25c (23c) has been budgeted for, while a commitment to reduce gearing to 50% (60%) has been made

Economic conditions are likely to remain difficult, with a recovery expected only in the second half of 1992.

Searll says profit margins have been eroded by the fact that "a small number of retailers wield significant influence at retail level in the SA economic environment. Resulting from that is an erosion of profit margins which does not allow for the recovery of increased input costs."

He says Seardel has turned to the export market to reduce the impact of this pressure. In the year to end-June, export sales of R49m represented 6,5% of total turnover from the apparel division — with 10% the target

Whereas the apparel division contributed 77% of turnover and 72% of operating income in 1990, this fell to 75% and 61% respectively last year

The performance of the non-woven textiles and quilted products division, which operated in an environment of severe competition, was relatively unchanged with the contribution to turnover at 4% (4%) and to operating income at 5% (6%).

However, the toy division increased its share of group operating income to 12% (6%) on a turnover share of 7% (5%), while the electronics division experienced a dramatic improvement in profitability, taking a 22% (16%) share of operating income on an unchanged 14% slice of turnover

The electronics division includes Sharp Electronics and the Scripto writing instrument company.

Capex for the coming year is not expected to exceed R31m

Gencor 'will not go to market to fund projects'

BDay 2/10/97

(232)

WILLIAM GILFILLAN

GENCOR would be able to finance its part of recent acquisitions and rights issues without having to go to the market, Anton Botha, MD of Gencor's investment arm Genbel, said yesterday

Botha was reacting to speculation that the company would need to raise money through a rights issue to finance its part of Samancor's acquisition in the R1,1bn Middelburg Steel and Alloys (MS & A) deal, and to follow its rights in Sappi's R800m-R1bn rights issue Gencor owns 43% of Samancor and 50% of Sappi

One analyst said the rumours caused Gencor's share price to drop 7% over the last week to 1 210c

The conclusion of a deal with French aluminium and packaging group Pechiney to design the smelter for Alusaf's proposed R4,5bn expansion programme had added weight to the market's view that Gencor would need to hold the issue, the analyst said

However, the go-ahead for the expansion programme is dependent on government applying its new export incentive scheme for large capital and export-orientated projects to Alusaf

The agreement with Pechiney includes a let-out clause if the project does not go ahead

Gencor, holding 31% of Alusaf, would be required to fork out about R1,4bn for this project

But Botha said Gencor's R1,7bn in liquid resources put it in a strong position to finance the various projects

This was the case even after taking account of the R600m committed to the development of the Oryx gold mine

Although the MS & A deal would reduce the cost of the Columbus stainless-steel project, it was still expected to cost more than R2,5bn

But a large part of these expansions could be financed by loans and trade credits, he said

Ignoring the possibility of soft loans and trade credits Gencor, with its 43% stake in Samancor which in turn had a 50% interest in Columbus, would have to lay out about R537m if the project went ahead

Gencor's total exposure to possible projects was about R3,3bn

Botha said the group would need to take out R1,6bn in debt to finance these projects and, with R17bn in assets, it could afford these levels

COMPANIES

Volkskas Unit Trust defies market dip

DESPITE a slight drop in the JSE's overall index during the past quarter, Volkskas Unit Trust's repurchase price increased by 4,7% during the period

This brings the increase in the repurchase price since the inception of the fund on April 2 this year to 29,7%

The selling-to-repurchase price rose by 20,6%

B/Day 2/10/91

The client base and the total market value of the trust both grew by more than 50% in the quarter

The trust's first distribution of profit amounts to 4,05c regarding dividends and interest, which yields 6% on an annual basis, expressed as a percentage of the repurchase price

(232)

During the quarter the portfolio's exposure to industrial shares was increased from 43% to 63%, while its exposure to gold and mining shares was reduced from 26% to 13%

The cash in the portfolio amounts to 24%, which will be further increased in the short term

Shares added to the portfolio during the quarter include Sasol, SA Breweries and Pepkor — Sapa

Left's policy puzzles Anglo chief executive

Sowetan 2/10/91

FOCUS

232

AS THE head of South Africa's biggest corporation, Anglo American chairman Julian Ogilvie Thompson is - to use the idiom of the street - a man who packs a hefty clout.

But, when he makes a point about which he feels strongly, he does so in an understated manner The untutored may mistake his tone and phraseology for diffidence

"I hope that the new South Africa isn't moving into a situation where it proposes to penalise success," he says

Ogilvie Thompson's point is made amidst growing concern in South Africa over the concentration of economic power in the private sector in the hands of a few companies, of which Anglo American is pre-eminent.

It is manifest in a Competition Board report on Anglo American's acquisition of shares in Gold Fields of South Africa.

Collude

The report finds that Anglo American's share in Gold Fields does not enable it to control Gold Fields or collude with it and Rembrandt, another of Gold Fields' corporate shareholders, to establish a monopoly. But the report contains a strongly worded caveat

"The concern over the extent of corporate conglomeration is widespread and covers all shades of political opinion," the report says It goes on to warn of drastic measures - "akin to those introduced by the Supreme Commander for the Allied Powers in Japan after the Second World War" - if the major corporations do not take remedial action

Another sign - and danger signal for the big corporations - comes from the African National Congress and its allies, the South African Communist Party and the Congress of South African Trade Unions

Their pronouncements are permeated with threats and pledges to curb the power of, and even nationalise, the corporate giants

ANC president Mr Nelson Mandela has dispelled illusions that the ANC, heeding developments in Eastern Europe and the Soviet Union, is edging away from nationalisation

He reaffirmed the ANC's commitment to nationalise mines, financial institutions and monopoly industry as recently as last weekend

Ogilvie Thompson does not shy away from admitting that Anglo American is a big company "There's no denying that," he says

But he adds: "You might ask why we are a big group "

He offers two reasons

The first, and perhaps the foremost, reason is that Anglo American has been successful: its huge size is a measure of its success

The second is foreign exchange regulations Anglo American has been "forced to reinvest pretty well only in South Africa".

The concentration of Anglo American's power is "mostly in mines and largely in export industries"

Thus, he reckons, the power of the big corporations does not work to the detriment of South Africa - it operates to South Africa's advantage by making them more powerful competitors on the world market.

Ogilvie Thompson's point becomes clearer when he talks about the recent acquisition of Middelburg Steel and Alloys from Barlow Rand by Highveld Steel (an Anglo subsidiary) and Samancor (a subsidiary of another corporate giant, General Mining)

The acquisition will give the new company, Columbus, a monopoly of the production of stainless steel in South Africa and make it - and South Africa - a force to be reckoned with on the world stainless steel market.

"I mean, you asked specifically if it can be justified I think not only can this be justified but it's the only way you'll get things like this," Ogilvie Thompson says

"Once we've got a larger stainless steel industry in South Africa, you will find that downstream manufacturers will get their products at more or less a world price but without the transport (costs) "

Ogilvie Thompson is perplexed by the left's resistance to privatisation of State industries and its continued commitment to nationalisation

Object

"If the State privatises (its) businesses they'll be more efficiently run the Government would then be able to rearrange its assets and use the capital from the sales to spend money in the socio-economic sphere . . .

"But some people on the left object to that. I don't quite follow this. Is it that they hope that when they come into power they'll be able to fill State industries with all their chums on a very inefficient basis?

"This is, of course, what has jolly nearly destroyed Africa north of South Africa Nationalisation and overcrowding State-controlled companies with too many people, has failed totally in Eastern Europe, failed totally in Africa

"That is why all these countries are turning round the other way So I find it really rather curious that the people in South Africa should still be thinking along those lines It's a total muddle Or is there a hidden agenda which is not economic but political?"

The conversation turns to alternatives to nationalisation and to Mandela's challenge to big business to come forward with alternative methods of ending the racially skewed distribution of wealth in South Africa

"The trouble is there's no quick fix," says the Anglo chief

"If there was a quick fix, people would have thought of it long ago in many countries "

Quote

He goes on to quote from a study by the Indian economist Deepak Lal, who researched the economies of 21 underdeveloped or developing countries.

"The conclusion is that the only way to improve the lot of the poor is to increase economic growth in the country

He elaborates on political stability "Only that is going to give investors, local and abroad, the confidence to invest."

Investment is, in part, a "function of consumer spending," he says "When consumers are uncertain about the future, they don't spend There is either a virtuous or vicious circle here again." - *Sowetan Correspondent*

Southern unit trust achieves return of 41% for the year

B|Day 2/10/91 (232)

Business Day Reporter

IN A quarter which saw the JSE all share index drop by a moderate 0,3%, Southern Life's general equity fund continued its growth with a 34,7% return for the 12 months ended September 30

Based on level monthly payments, the fund returned 41% for the year

Southern Life GM, investments, Carel de Ridder said signs of economic recovery remained mixed and hesitant, and he urged investors to exercise caution.

"The past has shown clearly that the local stock exchange is not immune to sharp trend reversals in international stock markets, which are currently considered to be expensive"

Building on the strong performance of the Southern Equity Fund since the beginning of the year, holdings in Driefontein, Elands, Indsel and Natsel were sold out and the Premier and Remgro holdings reduced slightly.

Additional shares were bought in Anglos, Anglovaal, Genbel, Sasol and TIB New counters introduced to the portfolio were Ofsil, Minorco, Implats, Keeley, Southern and Mobile

The Southern Mining Fund continued to perform satisfactorily in the increasingly difficult conditions prevailing in the mining sector. The weaker precious metal prices, and a stronger financial rand, put downward pressure on the JSE mining sector, and the all gold index declined by about 28% over the quarter

The top five counters in the Southern Equity Fund are Mobile (5,8% of the portfolio), Foschini (5,6%), First National Bank (4,9%), Richemont (4,5%) and De Beers (4,1%)

Major holdings in the Mining Fund are Anamint (5,5%), De Beers (5,4%), Anglos (4,6%), Lonrho (4,6%) and Gencor (4,5%)

De Ridder said despite a continued tight monetary policy, with high interest rates and firm control on money supply, the Treasury had opted for stimulation of the economy through sharp increases in government consumption expenditure, further delaying a drop in the rate of inflation

Privatisation 'will help blacks'

SHARON WOOD (232)

STELLENBOSCH — Privatisation would make an enormous contribution to helping empower blacks and reduce the size of the public sector, Economic Society president Peet Strydom said at the society's bi-annual conference yesterday. BDay 3/10/91.

"Unless more blacks become involved in the production of GDP, the economic transition is unlikely to be a success," he said.

Big companies would have to provide the employment projects needed because the informal sector was too small and SA could not "dump people in the informal sector"

In addition to privatisation, business alliances should be established which would mutually benefit business and other players in the economy, and government would have an important role in stabilising markets, particularly in providing social security.

Strydom suggested various areas in the Budget which should be readjusted to release the resources needed to finance the new SA.

Police spending would have to be upgraded and funds should be re-allocated from defence and constitutional development to housing and health. SA's expenditure on education was relatively high by world standards.

He rejected the common statement that SA was under-borrowed, saying that foreign debt levels were still extremely high and government should privatise the cost of state debt.

Combatting inflation was an essential prerequisite for an efficient market-driven economy

"SA has made great progress with monetary policy . but is dragging its heels with fiscal policy, which is causing exessive inflationary pressures," Strydom said.

Low investor confidence killed Masterbond group

B/Day 3/10/91. (232)

LINDA ENSOR

CAPE TOWN — Waning investor confidence in the Masterbond Trust group proved its undoing as it could no longer attract finance for its borrowers to fund their development projects, Masterbond Participation Bond Trust Managers director Johannes Brits said in papers before the Cape Town Supreme Court yesterday.

Hundreds of small investors are uncertain of the security of their investments in the group and its companies which were placed in provisional liquidation yesterday.

The six companies placed under voluntary provisional liquidation were Masterbond Participation Bond Trust Managers, Club Mykonos Langebaan, Club Mykonos Langebaan Resort Managers, Mykonos Weskus Beleggings, Rosenfontein Masterprop and CML Developers

Application

An application is also to be made in the Eastern Province Supreme Court for the provisional liquidation of Marina Martinique at Jeffrey's Bay

The group's collapse comes as SA's timeshare industry lies in the doldrums and new venture confidence is low. Brits said the viability of the R100m Club Mykonos development on the West Coast was threatened by bad publicity which resulted in reduced sales

A system of intercompany loans and a reliance on companies lower down the pyramid to provide the means to pay the monthly interest on the debentures issued to the public proved fatal when sales at Club Mykonos fell off.

The companies were mostly unable to finance the interest payments on their debentures which fell due on October 1 Club Mykonos Langebaan issued R78,2m worth of debentures on its R127m mortgage bond and Mykonos Weskus Beleggings, a property developer which owns 88ha of land adjacent to Club Mykonos, issued debentures of R30m on its bond of R30m Marina Martinique issued debentures worth R66,3m on mortgage bonds totalling R97m.

The Masterbond Trust Group, which has assets under administration of about R750m, assisted companies to raise loans using their property as security.

It issued debentures in return for investment funds for these companies and these debentures were secured by mortgage bonds in favour of Masterbond. Masterbond then acted as a trustee for the debenture holders

Masterbond's difficulties began when the Reserve Bank decided its short-term debenture scheme was deposit taking and required that this aspect of the business be wound down or taken over by a licensed deposit taking institution

Negotiations with financial institutions proved unsuccessful.

Brits said a drop in investor confidence had resulted in a "tremendous decrease in the flow of investment funds into the group".

This meant that Masterbond was not able to provide continuing financial support to its borrowers and the reinvestment of funds also decreased dramatically

The provisional liquidation of its major borrowers destroyed Masterbond's main source of income — commission and administration fees As a result, Brits said, it could not finance its operational expenses of about R800 000 and had a shortfall of about R2,3m in interest payments due A further R7,4m becomes due on November 1

Papers before the court showed that Club Mykonos Langebaan was unable to finance interest payments of R1,5m to debenture holders on October 1 and would not have been able to pay out the R603 000 capital sum due on debentures maturing this month. The company owes its parent company, Club Mykonos Holdings, R45m and Masterbond Trust R1m.

Club Mykonos Langebaan Resort Managers, which relied on the sale of units at Club Mykonos to generate its income, ran at a loss of R289 764 in July and R175 645 in August. It has net current liabilities of R1,9m, a negative equity of R1,3m and owes CML Developers R2,2m which had been called up.

Safeguard

Club Mykonos Langebaan owes Mykonos Weskus R7m and had been unable to service the R562 000 interest due on October 1.

The two sources of Club Mykonos developer CML Developers' income — sales of residential units to the public and draws against mortgage bonds — have both dried up. CML Developers owes Club Mykonos Langebaan R78m Rosenfontein is a property investment company

□ Association of Participation Mortgage Scheme Managers chairman Colin Hickling said Masterbond was not a member and that the Participation Mortgage Bond Act was enacted to secure and safeguard participants' interests irrespective of what becomes of a management company.

Fund outguns inflation

BD 3/10/91 (232)

LINDA ENSOR

CAPE TOWN — The liquidity of Board of Executors' (BoE's) growth fund was 14% at the end of September, and the fund's total market value stood at over R43m.

BoE senior GM John Winship said the strength of certain shares such as Barlows and Sasol was viewed as a switching opportunity.

"Exposure in mining and mining-related shares was increased as opportunities presented themselves.

Concern about the economic recovery also led to new holdings being opened in relatively recession-proof investments like Foschini, Wooltru and Trencor."

Winship said about 53% of the unit trust fund was invested in industrials and 31% in mining shares. In the year to end-September the fund generated a total return of 36% on the repurchase price, compared with an inflation rate of 15,2% and the total return for the all share index of about 25%.

Transformation of JSE regulations now feasible

(232.)

B/Day 3/10/91

ROBERT GENTLE

THE Cabinet committee has approved recommendations calling for the scrapping of restrictive clauses in the Stock Exchanges Control Act, paving the way for early JSE regulatory transformation

This was disclosed yesterday by Financial Services Board executive officer Piet Badenhorst at a retail financial services conference in Johannesburg organised by the UK-based Lafferty Conferences group

Simultaneously, Badenhorst announced a radical new set of free-market, competitively neutral regulatory principles which lay the groundwork for the ultimate emergence of one-stop financial service conglomerates

Banks could in principle end up engaging in life insurance activities as well as stockbroking activities, as long as regulatory guidelines like system safety, fairness and consumer protection were adhered to

"A free market approach with maximum competition and thus a high level of efficiency for all financial intermediation should be supported," said Badenhorst

"It should not be a concern who provides services and unnecessary regulatory barriers for entry of further competitors should not be imposed"

The Jacobs Committee had also been requested to look at a rationalisation of requirements in respect of different financial institutions rendering similar services to enable them to compete in a neutral regulatory environment

Badenhorst said the report would have to reach the Finance Minister by year-end so that, if the recommendations were acceptable, he would be able to implement resulting policy issues in the 1992 Budget

Reserve Bank Governor Chris Stals, who also addressed the conference, was equally supportive of more competition and a levelling of playing fields — particularly in SA's high inflation environment which created distortions

Sometimes, he said, there was open animosity to opening the SA financial environment for foreign participation"

Special economics advisor Japie Jacobs said the financial system should be flexible and able to adjust to changing needs and circumstances Regulators should concentrate on risk management and not "inhibit innovation or competition"

On the prospects of one-stop financial intermediaries, Jacobs said it was possible to see the emergence of financial holding companies with both deposit taking and long-term insurers as subsidiaries

42 MARKS

INSTRUCTIONS TO CANDIDATES

1, Please do not open this paper until instructed to do so.

2. Answer each question on a separate page.

3. Please leave your script on the desk when you leave the test venue.

4. No student is to leave during the duration of the test.

THIS TEST PAPER COMPRISES 4 PAGES, INCLUDING THE COVER SHEET.

Siemens, GEC sell shares in Plessey SA to Sankorp

B|Day 3|10|91 (232)

MARCIA KLEIN

CONTROL of Plessey SA has fallen into SA hands after years of uncertainty over the electronic manufacturer's future.

Sankorp announced yesterday that agreement had been reached for it to acquire the total shareholding of Plessey SA from Siemens AG of Germany and the General Electric Corporation (GEC) of the UK.

Sankorp GM investments Derek Hunt-Davis said yesterday he could not disclose the value of the deal, but that "it was a significant transaction in SA terms".

As part of the deal, Plessey will sell off its 50% shareholding in Telephone Manufacturers of SA to GEC SA and Siemens SA, "with a view to rationalisation within the telecommunications market"

Plessey's fate has been in the balance since Siemens and GEC acquired control from its UK parent two years ago

Sankorp previously owned 26% of Plessey, while Siemens and GEC each owned an effective 37% stake.

Hunt-Davis said that the sale of Plessey SA had been discussed over the past two years

During that time Plessey management had indicated that it wanted control to be in SA hands

Hunt-Davis said the deal made sense as both GEC and Siemens had other interests in SA, and Plessey was in competition with these.

He said Sankorp would retain access to both Siemens and GEC technology, and to the continued representation by Plessey SA of specific, specialised products

These products included radar, traffic controllers, PABXs and semiconductors.

Plessey MD John Temple said Plessey had believed for several years that SA control would be in the best interests of the company.

Technology was a concern, he said, but the company had addressed the issue over some years by developing its own technology and linking up with overseas partners

The change in ownership would open the way further to extend these relationships

Hunt-Davis said there were some future growth opportunities and with Plessey independent of international majors there were opportunities for associations with other international players

Tradegro set to raise R61m

B/Day 3/10/91.

MARCIA KLEIN

TRADEGRO and holding company Tradehold yesterday announced they would raise more than R95m in rights offers to increase Tradegro's capital base.

In terms of the offers Tradegro is to raise R61,3m while Tradehold will follow its rights with a R33,9m issue.

The announcement arose from allegations by minority shareholder Ronnie Finger that the unbundling constituted a reduction in Tradegro's share capital His outcry caused sanctioning of the unbundling to be postponed until September 25

Tradegro said yesterday it would increase its share capital through the rights issue "to eliminate any suggestion" that this was the case.

In terms of the offer, ultimate holding company Sankorp would subscribe in cash for the full amount of the offer at 85c a share. It would subscribe on its own behalf and on behalf of shareholders who accepted the offer Sankorp had subscribed for the shares on September 25 in order for the scheme to be sanctioned

The Tradegro offer was for 72,2-million ordinary shares at 85c in the ratio of 39 new ordinary shares for every 100 shares held on November 1 (232)

In terms of the unbundling, shareholders would receive shares in Metro Cash and Carry, Cashbuild and the Premier Group as well as cash, and convertible instruments would become ordinary shares

Last week Sankorp and Pepkor announced that agreement had been reached for Pepkor to take control of the remaining companies in the Tradegro fold, including Checkers, Coreprop and the Greatermans-/Stuttafords department stores.

Embattled Rusfurn's rights offer pegged as high as R300m

B/Day 3/10/91

MARCIA KLEIN

TROUBLED Rusfurn's imminent rights offer has been pegged as high as R300m, market sources estimate.

The sources suggested yesterday that if the offer was for this amount, which is way over the group's market capitalisation of R89m, the furniture retail group could be hard-pressed to find takers. This despite the fact that the offer would be cheap, with shares plunging since January to close yesterday at a yearly low of 55c.

However, Rusfurn's new CE, Laurie Korsten, said the rights offer was in the process of being discussed, and a figure would only be known following a weekend board meeting. The group's results, which are expected to be dismal, are due to be published next week.

Analysts said yesterday that Unidev, which has a 22% stake in Rusfurn, would probably not take up its rights. Also, a large amount of shares are owned by directors of the company. This could mean that Senbank, which would underwrite the issue, would find itself with a huge stake in the company.

Analysts said Rusfurn had to come to the market as it was suffering terribly in terms of cashflow. However, this was the worst time for a rights offer considering the state of the furniture industry and Rusfurn's poor rating. The company would obviously make the offer attractive with the inclusion of convertible debentures and other instruments.

In a major shake-up at Rusfurn in July, CE Geoff Austin resigned his post and the group announced that Senbank would underwrite a rights issue following negotiations to restructure the group's capital base.

(232)

At the December interim stage interest charges had risen by 138% to R31,7m, reflecting the funding needs of the debtors' book which had a gross value of R1,1bn.

At that time analysts said a R100m sum which had been reported as the offer amount was "possibly very low". Since then the share has shed 40c to close yesterday at its yearly low of 55c, after reaching a high of 160c in February.

Equikor profits

EQUIKOR Holdings has pointed out that a report in Business Day on September 27 stated it had posted a 43% drop in attributable profits to R2,3m for the half year to end-June, with earnings down at 0,8c (1,4c previously) a share. In fact, Equikor reported a 7,8% improvement after tax to R2,28m (R2,11m) with earnings unchanged at 0,8c. Business Day regrets the error.

ANC sends capital market rates surging

By Sven Lunsche (232)

Capital market rates jumped sharply yesterday amid concern about the impact of ANC statements on the economy

Dealers said a statement by secretary-general Cyril Ramaphosa that the ANC would "not be keen" to honour international loans granted to the National Party government dealt another blow to already bearish market sentiment

Star 3/10/91

Indicator

The rate of the key market indicator, the long-term Eskom 168, jumped by 11 points to 16,85 percent when the news came out, while the Government R150 stock climbed to 17,19 percent.

The R150 on Monday rose above 17 percent for the first time since October 1989 after ANC President Nelson Mandela had re-affirmed his commitment to the nationalisation of mines and banks.

"The two statments by the top ANC leaders have dealt a blow to the market," a dealer said, adding that he had received many calls from German, UK and Swiss fund managers inquiring about recent political developments

Release

Overseas investors had been net buyers of capital market stock to the tune of about R1,3 billion in the first seven months of the year

But analysts are worried this trend could be reversed if such investors lose confidence in the economic management of a post-apartheid South Africa

The continued delay of the release of August inflation figures, coupled with worries about the impact of VAT, added to market jitters, a dealer said

On the JSE, most major players continued to be kept on the sidelines by the ANC's remarks, but market sentiment was buoyed by a $1,50 rise in the gold price to a close of $355,40

The financial rand held steady at R3,09 to the dollar

Safren likely to maintain growth curve

Star 31/10/91 (232)

By Jabulani Sikhakhane

Safren, which has its main interests in trade and tourism, is one the super growth shares of the Nineties, says Old Mutual senior portfolio manager Adrian Allardice.

Investors seem to share Mr Allardice's sentiments Safren's share price has had a strong run in the past 12 months, rising R49 to a high of R85 early last month.

It fell with the rest of the industrial market to about R73 before rising to yesterday's close of R79, at which level it is up 119 percent over the same period last year

Despite the strong rerating, Mr Allardice says Safren still offers some value

Mr Allardice told an Association of Unit Trust seminar in Johannesburg yesterday that Safren was likely to continue its growth perfomance

Its wholly owned subsidiary Safmarine would benefit from the lifting of sanctions, leading to growth in exports

Increased tourism should benefit 76 percent-held subsidiary Kersaf, he said

Safren is gearing up to take advantage of these opportunities Chief executive Buddy Hawton says in the annual report the group's main businesses have embarked on major capital expenditure programmes totalling R1,5 billion over the next few years

In financial 1992, capital commitments approved total R930,97 million, with a further R595,196 million to be spent after 1993

Despite this huge outlay, Mr Hawton says total borrowings (net of cash) relative to shareholders funds should not exceed 30 percent by the end of financial 1992.

Safren is a cash-generator, closing financial 1991 with cash on hand of R655 million

Mr Hawton says these investments should help show an acceptable medium-to-long-term growth in profits, while expanding and enhancing the group's range of activities and services

He adds that while the lifting of sanctions should have a positive impact on trade, the effect should only start coming through to Safmarine once the local economy picks up

Another positive factor about Safmarine is that the agreement relating to the Southern Africa-Europe Container Services (Saecs) is currently under negotiation

Safmarine is a major participant under this agreement and it forms a large part of its liner operation

Mr Hawton says the new arrangement should result in more streamlined and efficient services, which should increase Safmarine's market share

Negotiations should be completed later this year

Sankorp buys up Plessey SA

Star 3/10/91. (232)

By Sven Lunsche

Sankorp has acquired 74 percent of telecommunciations group Plessey SA for an undisclosed amount from Germany's Siemens AG and the General Electric Company (GEC) of the UK

Sankorp previously held 26 percent of Plessey, but has been involved in discussions with the two groups ever since Siemens and GEC took over Plessey PLC in October 1989

In terms of the agreement Plessey SA is simultaneously selling its 50 percent shareholding in Telephone Manufacturers of SA to GEC SA and Siemens of South Africa, which will strengthen their respective local operations

Derek Hunt-Davis, Sankorp's general manager, investments, said that Sankorp is paying cash for Plessey SA, which has annual turnover in the region of R250 million

"An important feature of the agreement is that Plessey will retain access to Siemens' and GEC's technology," he said

He added that the group would continue to represent certain specialised products from leading overseas manufacturers in SA, including radars, traffic controllers, semi-conductors and PABX's

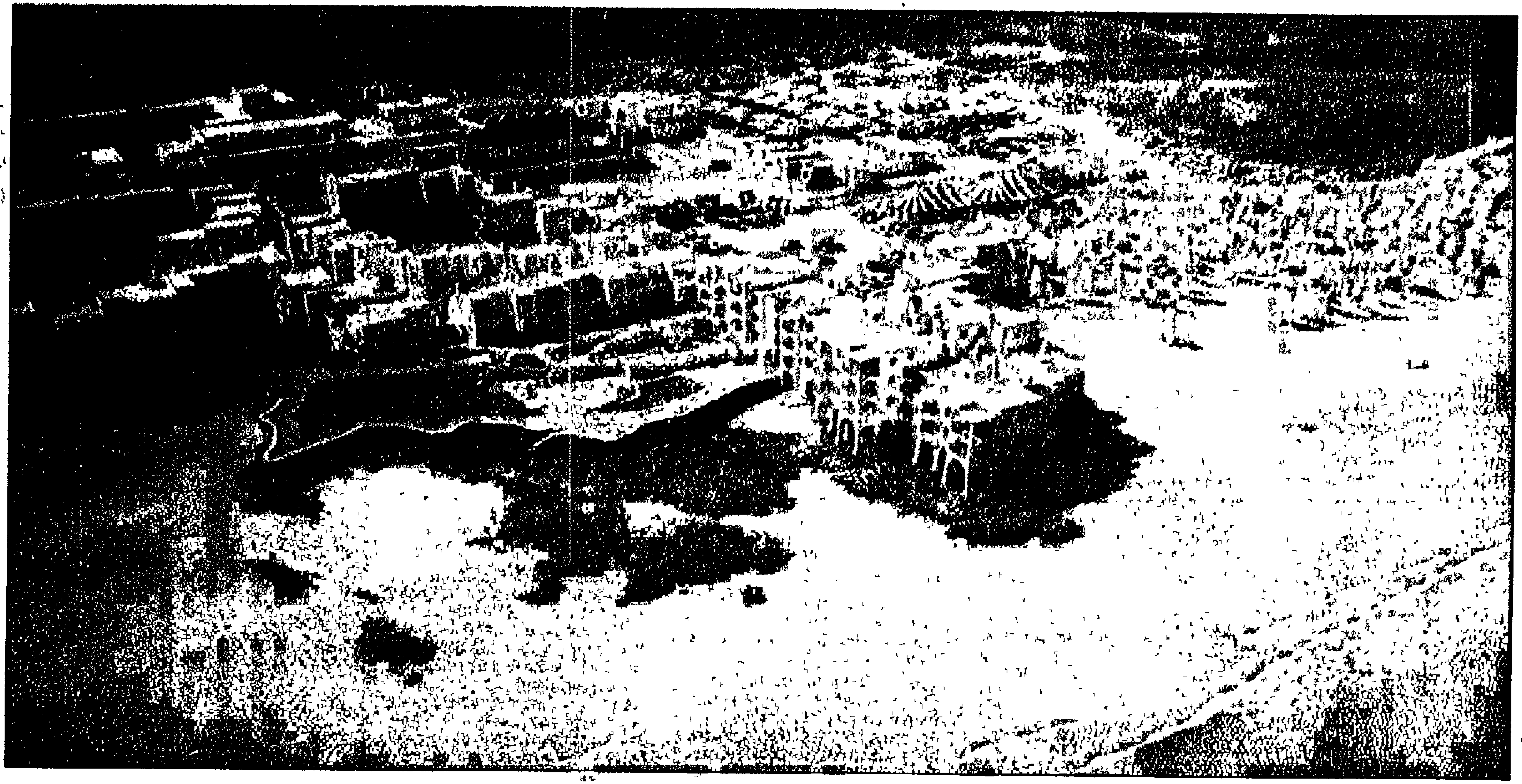
Independent

Mr Hunt-Davies says that Plessey would be maintained as an independent operation and not linked to Sankorp's other electronic and telecommunications interests

Dr John Temple, MD of Plessey SA said that management fully supported the change of control

"For several years we have believed that South African control would be in the best interests of Plessey SA"

The statement says the agreement is subject to certain formalities being completed



Failed venture . . . Club Mykonos on the Cape West Coast. Its liquidation, along with five other companies, has left 20 000 investors in the dark about their money.

Luxury Cape holiday resort liquidated

(232) Star 3/10/91

Own Correspondent

CAPE TOWN — Construction work on a new hotel in the Club Mykonos complex came to an abrupt halt yesterday, but for patrons and share-block owners it appeared to be business and pleasure as usual

The luxurious Cape West Coast holiday resort and five other companies run by Masterbond Trust were liquidated yesterday, leaving 20 000 investors in the dark about their money.

A question mark also hangs over the millions of rands invested through participation mortgage bond in Masterbond Participation Bond Trust Managers

The other liquidated groups are Club Mykonos Langebaan Resort Managers, CML Developers, Club Mykonos Langebaan, Mykonos Weskus Beleggings, and Rosenfontein Masterbond Properties

Through these companies, funds have been invested in numerous projects, including the R200 million Club Mykonos, a Natal North Coast game reserve, the Health and Racquet Club group and Marina Martinique near Jeffreys Bay

The group also holds a R30 million mortgage bond over the exclusive Fancourt golf course development outside George — but sold its equity stake to an overseas group only last week

Even before Mr Justice C T Howie granted a provisional liquidation order, scaffolding at the Club Mykonos complex was being pulled down and building equipment was being trucked out

Masterbond chairman Koos Jonker said yesterday there were 20 000 investors in all the group's properties He believed their money was safe because the properties were worth more than the mortgage bonds

"All assets exceed loans by between 50 and 60 percent in value"

About R120 million worth of units at Mykonos had been sold. Ninety of the 236 units had converted to sectional title and ownership of these units was safe.

The others — sold under the share block system — could also be secure but that had still to be decided by the liquidators

Mr Jonker said he did not foresee any problems for the Health and Racquet Club because Masterbond was negotiating to get someone to take over the bond

"Basically, we have a cash flow problem because we

● To Page 3

A fairytale of nationalisation

w/Mail 4/10 – 10/10/91 (232)

REG RUMNEY lets his imagination run fairly wild about what would happen if the African National Congress really went ahead with its threats of nationalisation

IT WAS more of a shock than a surprise. President Nelson Mandela, urged on by the results of a countrywide referendum, announced a programme of widespread nationalisation.

The African National Congress was split on the issue, but South African Communist Party leaders tapped into widespread resentment that the new government had done little so far to alleviate the plight of the poor and downtrodden. Action was needed.

Those who supported nationalisation reminded that it had long been one ANC option to achieve a number of political and economic ends, and was implicit in the Freedom Charter.

Intransigence by companies in moving to address wealth imbalances along racial lines, and problematic labour practices, had forced their hand, the pro-nationalism lobby said

Nationalising the mines would empower workers, achieve a minimum wage and better working conditions. Nationalising the banks would enable the government to funnel money directly into productive investment rather than speculatively.

The ANC had signalled its punches long before acting. Constant threats of nationalisation, accompanied by warnings that loans granted to the apartheid government might not be honoured, were taken seriously by the international financial community and local business.

The big South African companies, led by Anglo American, had first tried to face the government of the day down, and then quietly made their plans.

Some had already taken pre-emptive action. The government, in nationalising De Beers, found it had only a few South African diamond mines. Other diamond mines, such as those in Botswana, were effectively out of the government's reach. This was because De Beers had already been split in two, with overseas interests owned by De Beers' Centenary, and De Beers itself owning South African interests.

The shares of the two companies were then metaphorically "stapled" together to form one

All the powers that be in De Beers had to do was to unstaple the shares to leave two separate companies, one in South Africa, and the other invulnerable and based in Europe.

The government had several options. To get a controlling stake it could have paid cash for shares at the market value of target companies, ie the price the shares were trading on the Johannesburg Stock Exchange (before nationalisation was announced).

This was the option it decided on in gaining control of Rembrandt. Because of the pyramid structure of control of Rembrandt, it had only to pay around R320-million for the shares owned by the Rupert and Rembrandt family trust to gain control of a group with a market value of more than R3-billion.

It turned out it had to pay rather less. Well before the nationalisation the Rupert family relocated to Zug, where it still controlled the Richemont group, which has all its assets overseas. Rembrandt, deprived of its leading light, became less attractive to South African investors and share prices fell.

The government's representatives found that buying control wasn't that simple; it now also had to exert control over the hostile and disgruntled management, steeped in a particular culture, that of an Afrikaans conglomerate.

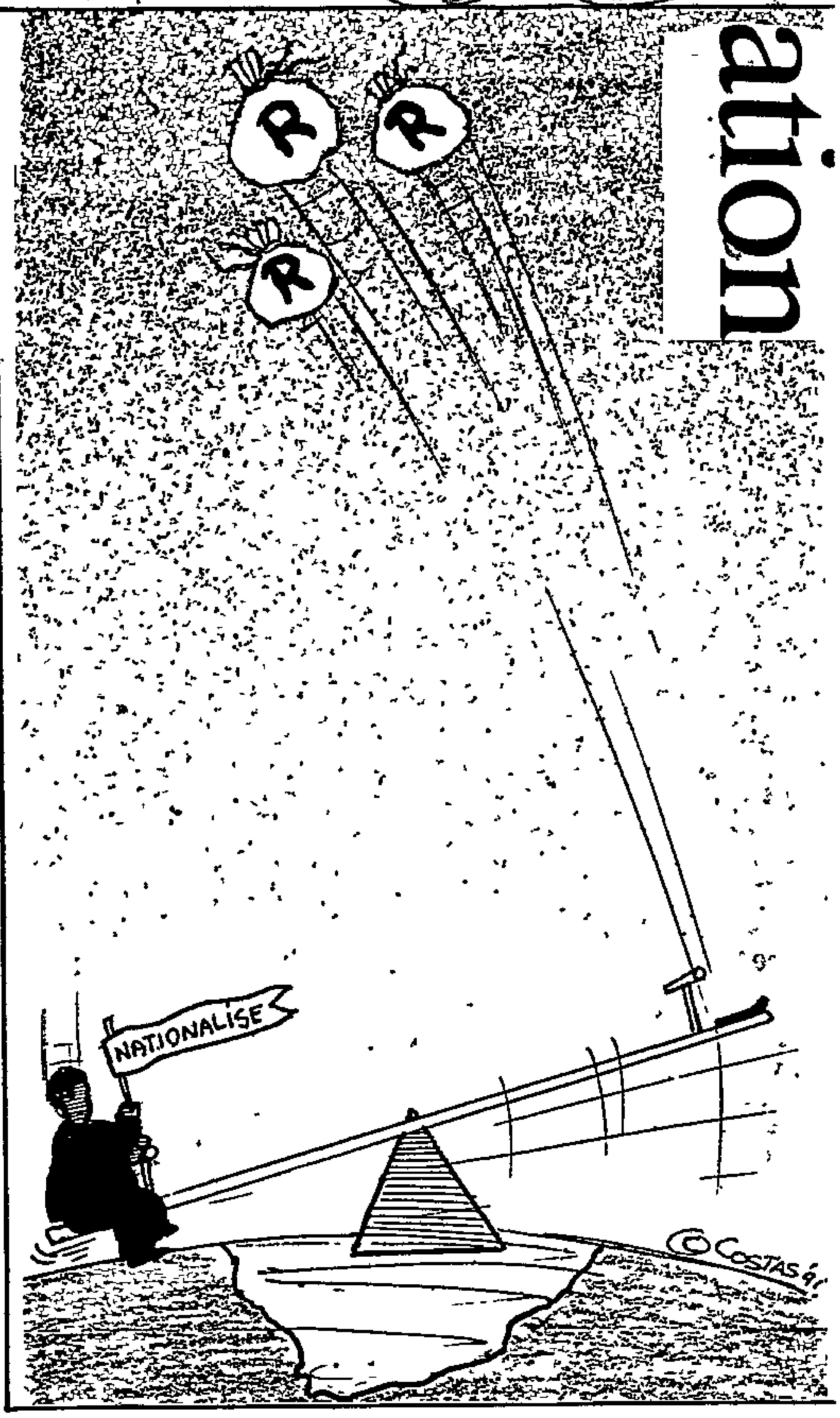
The government encountered similar problems in re-nationalising privatised Iscor.

Other acquisitions were problematic for different reasons. Not all companies can be acquired through pyramids. Though Anglo is in theory controlled through a mere eight percent stake by the Oppenheimer family, in fact control in this case also depends on director loyalty. To control Anglo, acquisition of more than 50 percent of the shares would be necessary.

Faced with paying, at some estimates, around R90-billion just to gain partial control (51 percent) of the mining industry, the government decided to issue government bonds in payment.

However, with inflation high and rising, fixed interest government bonds were regarded as little better than confiscation.

Some companies put into play previously hidden offshore shelf companies, in which they vested control of South African assets



This provide the government with a problem They refused to accept government bonds in payment for their assets, and since they were not subject to South African law they couldn't be forced to

Peeved, the new South African government went ahead and confiscated their South African assets anyway, much to the consternation of the already perturbed international community. New investment dried up, and in a retaliatory move, aid was cut.

The most damaging move was the flight of capital and skills. Many top and middle management discovered foreign passports at the back of their cupboards

The burden of administration of the newly acquired mines fell increasingly on the government, already thinly spread because of the general lack of skills in the country.

Surprisingly, the nationalisation of the banks proved less dramatic, though payment in bonds was regarded with displeasure by former shareholders This was because the government was forced in most cases to leave the management in place, and be content with a shareholding.

As in the French case, initial attempts to direct investment away from profitable areas were strongly resisted, even by management newly appointed by the government, and the conservative banking culture remained.

The government was left asking itself why it had bothered to nationalise the banks in the first place, when it could have used the money and energy on other projects.

This was especially so since it managed to control part of the funds of the long-term insurance companies (owned by policy holders in any case) without any ownership at all

Nationalisation looked like an uphill battle, even without taking into account the long-term economic consequences

● **Many thanks to Keith Coleman, whose *Nationalisation — Beyond the Slogans* (Ravan Press) I have used for basic information.**

Funds outstrip JSE index's 20% growth

Business Day Reporter

SAGE unit trusts have declared income distributions of 51,6c (47,4c) and 3,7c (3,6c) a unit for the six months ended September

Three other unit trusts, Metfund, Fedgro and Safegro, have also disclosed yearly based performance figures adjusted for the third quarter ended September

All have achieved returns in excess of the overall index's 20% growth over the period.

IGI Life's Safegro fund has reported a 29% increase in repurchase price for the 12 months ended September. The fund's assets have climbed to R36,2m from R21,7m, while liquidity has been kept at about 15,6%

Although Fedgro's unit trust repurchase return has not been disclosed, Sapa reported that the fund achieved an annualised return on capital and income of 25% over the past 10-months

As a result, ~~total~~ assets rose to R22m, while liquidity was reduced to 14% from the June quarter's 29%

(232)

The Metfund trust has reported a 27% annualised capital growth

Unit holders received an income yield of 5% on their initial purchase price, resulting in a total return of 32% for the 12-month period

8/10/86

At the VCM expectations are often of failure, not success

(232)

B/Day 4/10/91

MARC HASENFUSS

ONLY one or two of the handful of small entrepreneurial groups listed on the JSE's venture capital market (VCM) are expected to survive the recessionary pressures and finally qualify for listing in the Development Capital Market

According to estimates, 50% of VCM companies are expected to fail — making it a difficult market for investors to assess. Because of the size and high risk nature of the sector, analysts pay scant attention to these penny stocks

One venture capitalist said VCM investors were warned not to expect returns in the first year, but that ultimately they could "stand to gain or lose a lot".

Analysts said the VCM was unable to shed its negative image and venture capital groups were unlikely to attract investor interest from shareholders, who would be safer with third-line industrial shares when looking outside the blue chips and second liners

The JSE's proposal to launch a listed VCM sector in 1989 was prompted by the need to register VCM groups to protect investors. The listing criteria for the VCM is R1,6m in assets and "responsible management"

Venture capital pioneer Tecfin has held out well since listing in August 1989, and according to MD Peter Bird the soon-to-be-released interim results are satisfactory

Stressing the importance of the VCM, Bird said that low capital requirements provided small businesses with an opportunity to enter the main stream

He said that, as a listed group, Tecfin increased its credibility, "but conversely the listing never gave us access to capital"

Again, the high risk nature of the VCM and JSE regulations make it almost impossible for these groups to raise capital through rights issues.

Tecfin is aiming at a DCM listing and intends to achieve this through acquisitions The group has made regular acquisitions since listing and recently bought nuts and bolts company SA Screw

Tecfin is currently at 18c on the JSE, well above last September's 6c low The groups net asset value at end-February 1991 was 29,9c

Furniture manufacturer Dinette, listed in July this year at 105c, climbed to a peak of 155c in September. It is currently at 150c Dinette manufactures low budget tables and chairs and is managed by furniture entrepreneur Jack Chaskelson

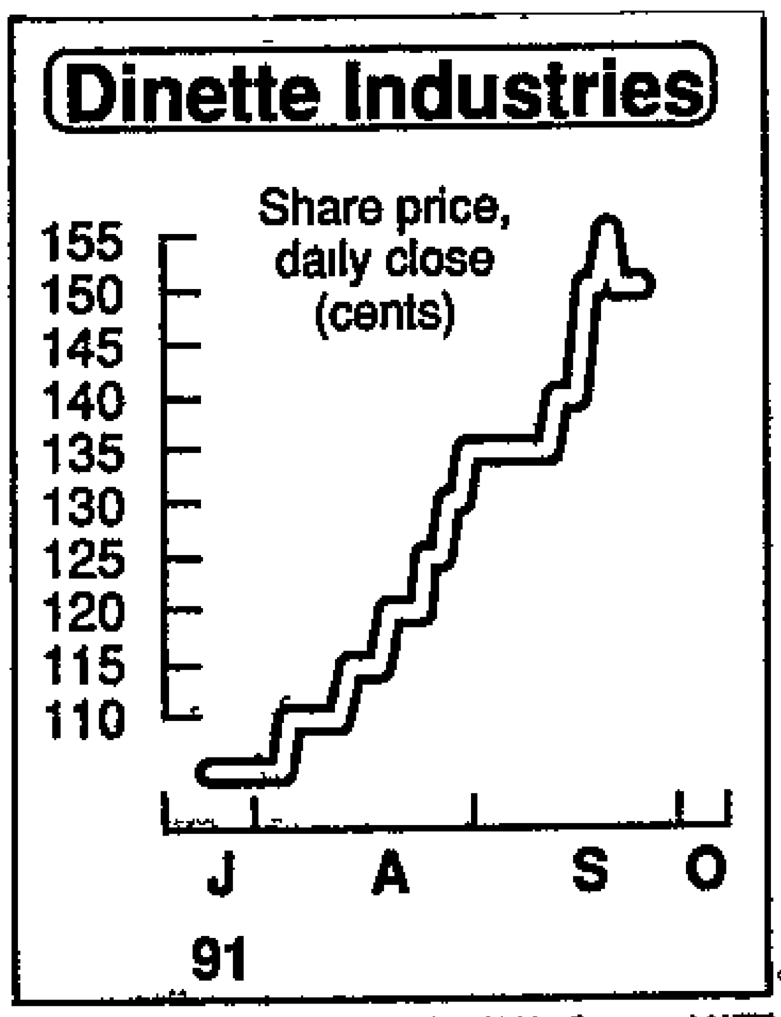
Polystyrene manufacturer Biopolymers incurred an interim loss of R508 000 in the six months to February 1991 after technical problems prevented full production.

Biopoly, which listed at 52c, peaked at 55c but declined sharply to 30c after interim results were released

With the plant now fully operational, year-end results could show an improvement and drive the share up from its current 35c.

New Company Investments, which recently liquidated its flagship subsidiary FCC Chlorine Ventures, has traded heavily between 1c and 2c since April this year

Rico Breweries was suspended from the VCM earlier this year after a successful application for provisional liquidation by its creditors



Graphic LEE EMERTON Source I-NET

Costly SA shares 'lack attraction'

B|Day 4|10|91 232

ROBERT GENTLE

SA WOULD have difficulty attracting foreign investment in local equities because they were overpriced by international standards and cheaper alternatives were available elsewhere.

That was the message given at the retail financial services conference in Johannesburg by Philip Stevens, director of London investment and asset management firm Lazard Investors.

Citing the example of blue chip share SA Breweries (SAB), Stevens said it was a world-class brewer — but there were other world-class brewers like Anheuser Busch (US), Allied Lyons (UK) and Heineken (Holland).

Buying SAB shares would expose the buyer to currency and political risk; SAB would therefore have to be cheaper than the other three brewers, but was not.

Anheuser Busch was trading at 16,8 times this year's prospective earnings, Stevens said, representing a p:e of 16,8. Allied Lyons' p:e was 14,8 and Heineken's 12.

"I should expect to see SAB trading at eight times," said Stevens. "In fact, it is the most expensive at 20 times."

Investment capital had to come into SA competitively and this was not the case.

The high equity prices were due to a "paper chase" in the closed local market, he said.

This view, which has been echoed by many an analyst, is variously known as the "greenhouse" or "hothouse effect" — a reference to the fact that billions of rands of institutional funds are bottled up locally because of exchange control and have no other real home but the JSE. Consequently, equity prices are driven up to unrealistically high levels.

Stevens also cautioned local observers against over-excitement at the government's recent successful DM400m Eurobond issue, saying it did not necessarily mean German money would always be available.

German capital was now committed to the newly unified Germany and there would not be much left, he said. Similarly, Japanese money would be "going home" in coming years.

The ending of these two key world capital flows, which had helped sustain world economic growth in the past decade, necessarily meant slower growth in the coming years.

"We are very cautious and continue to be very cautious," said Stevens, expressing concern about the stability and health of the world financial system. "We expect a serious, major collapse."

JSE COSTS (232)

Some relief FM 4|10|91.

Only a few weeks after the vote that resulted in all members of the JSE being required to move on to the exchange's new BDA broker/client accounting system, the JSE has announced reduced charges for brokers The reductions vary according to the service, but JSE president Tony Norton says the average decrease will be about 15%

He says that two developments have made the new charges possible management has been working on a costing model which has taken time to bed down fully "We are confident now we have the right model and it is giving us the right answers," he says

The other factor is the success achieved in reducing the exchange's own operating costs These have been running below budget since mid-year and the committee is optimistic this will be maintained If not, then the charges could be revised again

Trading activity has remained disappointing and there is little sign of improvement, with the gold price still going nowhere and the Industrial index showing signs of running out of steam Brokers will obviously welcome lower charges, though some will wonder why the announcement could not have been made a few weeks ago, before the controversial BDA vote

Norton explains that "you can only go as fast as the facts come at you" and adds that, had the announcement been made at the time, it might have been seen as "electioneering."

However, any talk of showing some flexibility on the ownership or management of the JSE's computer operations appears to have ended After the BDA vote, JSE committee chairman Humphrey Borkum said the exchange's main concern was to retain ownership of its software, but that it may not be essential to own or run the hardware

Norton now says that the question of commercialising the computer activities has been considered and the JSE has decided against

FM 4|10|91 (232) **FOX**

such a step, after considering all the benefits and risks involved The exchange continues to believe that it can only ensure integrity of surveillance and have optimal systems when they are owned and controlled by the JSE

A quick decision on the issue was probably wise But it still leaves the committee with the challenge of bringing about a lasting reduction in the JSE's cost structure and of ensuring that the computer operations are as efficient as they could be if owned by a commercial operation which has to compete for the business ■

Large boost for Copi's earnings

446 MARCIA KLEIN 232

CANADIAN Overseas Packaging (Copi) has increased its earnings by 36% to C$1,21c (C$0,89c) a share in the year to end-June on the back of improved operating margins and a change in the company's forex fortunes. BDay 4/10/91

Copi, which is listed on the JSE's paper and packaging sector, makes packaging materials.

While turnover for the year grew by 14,5% to C$106,6m (C$93,1m), pre-tax earnings were 22,7% up at C$20,1m (C$16,4m).

A 50,5% hike in taxation saw earnings after tax increase by 18,5% to C$16,9m (C$14,2m).

A dividend of C$0,50c was declared, 11% up on the previous year's C$0,45c.

Fund managers now cautiously optimistic

Star 4/10/91 232

By Sven Lunsche

Despite the disappointing performance of the stockmarket over the past few months, fund managers are cautiously optimistic that prices will recover strongly next year.

In its September quarterly report, Metfund Unit Trust says the market ought to be supported in the longer term by strong institutional cash flows and the recent change in prudential investment requirements

Furthermore, an upswing in the corporate earnings cycle by the second half of 1992, in a continued high inflation environment, should be good for the equities market.

In the year to September, Metfund's capital growth totalled 27 percent, while the income yield was five percent.

Over the same period, the JSE's overall index improved by 20 percent.

Fedgro is also optimistic about industrial and financial shares "We expect that these shares will maintain their strength so long as expectations of an economic recovery and the influence of the relative illiquidity of the JSE remain."

However, in line with other unit trusts, the managers are pessimistic on the performance of mining shares, particularly gold counters

"The exposure to gold producers in the Fedgro portfolio is minimal and we do not expect to increase it further for the present. The lack of response to the political crisis in the Soviet Union from the precious metals markets is further evidence of the lack of speculator interest in those markets."

The cash in the portfolio was reduced to 14 percent from 29 percent in the previous quarter, while total assets grew to R22 million.

In line with the poor performance of gold shares, **Standard Bank's Gold Fund** declined by 14,7 percent in the year to end-September, while total assets over the past nine months fell by R22 million to R222 million.

Standard said investors preferred the dollar as a safe haven during the Soviet coup, but on the supply side indications were that Soviet gold hoardings were at low levels and were likely to be retained to support the rouble.

Improved dividend and share price prospects depended on the rand gold price entering a sustained upward trend above R1 000.

The **Standard Mutual Fund** reduced its holding in the mining sector to 28 percent, in line with the poor outlook for the counters, and consequently raised its portfolio in industrial and mining stock to 72 percent.

Its total assets increased by about R25 million to R484 million, while the value of its investments was raised by 34 percent over the 12 months.

The bank's **Extra Income Fund** declared a distribution of 3,35c per unit, 10 percent down on last year, as the bearish sentiment in the capital market continued over the quarter.

Sage Fund increased its income distribution for the six months to 51,6c from 47,4c in the previous six months.

Income in the **Sage Resources Fund** was lifted slightly from 3,6c to 3,7c.

INSURANCE

Investors' choice

FM 4/10/91 232

Both long- and short-term insurers are relaxed about the revised investment regulations introduced this week There is still some carping about a few restrictions in revised Regulation 34 of the Insurance Act but insurers are happy they can now put more of their assets into JSE shares

For long-term assurers, the share limit goes to 75% (from 65%) of portfolios The short-term industry can invest up to 50% (40%) in the JSE Another change affects the overall composition of investment portfolios Some life offices had argued that the mix was unbalanced For example, the provision that property can make up 25% of portfolios may suit a smaller office it is meaningless to a Sanlam or Old Mutual which would be hard-pressed to expand its property percentage, even if it wanted to

For both industries, the new guidelines introduce more flexibility. There are 13 definitions of assets which offices may hold and maxima are such that most investment managers would be able to contrive portfolios which match particular strategies.

Some tidying up may still be required, says SA Eagle MD Peter Martin. He acknowledges that, in the nature of short-term business, insurers like Eagle need to be more invested in cash and gilts than a life office, but would have preferred the limit on JSE investment to go to about 60% instead of 50%. Nor is he happy with the regulation that 30% of short-term insurers' funds must be in cash and near-cash. He believes 20% would be more realistic

To keep the balance required by the regulations, he notes, when there's a tearaway market on the JSE and the value of an insurer's equity investments rises sharply, the insurer is almost compelled to offload shares to get back in balance "To a company like ours, it means we have to keep about R170m in cash or government stocks"

Some other guidelines may also be inappropriate, Martin suggests "For example, we are allowed a maximum of 20% invested in the paper of a local authority Theoretically, a major insurer could take up a whole issue" While that situation would be absurd, Martin is concerned that the regulations leave doors open for investment managers to become over-exposed to specific risks

Old Mutual's Theo Hartwig says the guidelines need studying to ensure there are no surprises There has, however, been considerable consultation between the Financial Services Board and the Life Offices Association, so small print hiccups are unlikely

Sanlam says another concession is an increase in the exposure allowed to shares with a market capitalisation of more than R2bn, from 10% to 15%. Some investors had exposures to shares such as De Beers which were slightly in excess of the old limit "The new levels will probably mean that most reasonably balanced portfolios will now fall within the revised percentages"

The changes could affect volumes in some markets "There could be additional money for shares, putting upward pressure on prices Conversely, less money may be available for fixed-interest investments" That could place upward pressure on longer-term interest rates ■

Resort companies' accounts unfrozen

Star 4/10/91. (232)

Own Correspondent

CAPE TOWN — The bank accounts of Masterbond Trust companies were unfrozen yesterday, enabling them to continue paying interest to their 20 000 investors.

This was disclosed by chairman Koos Jonker, who also revealed that an Italian company was interested in buying the R100 million Club Mykonos on the Cape west coast

The bank accounts were frozen on Wednesday when the companies were placed in provisional liquidation

But the provisional liquidators lifted the restriction yesterday, said Mr Jonker

Masterbond had also received three takeover offers for its participation mortgage bond schemes.

"I am confident this will not be a difficult exercise. The properties are all right, and investors have nothing to worry about," said Mr Jonker.

Investors in the operational companies should be getting their interest payments as usual, though there might be a hiccup of a few days because of the funds having been frozen

Two overseas companies and two South African financial institutions were now interested in buying certain of Masterbond's developments.

Mr Jonker said he expected to meet representatives of the Italian company soon, but negotiations could take several months

Masterbond is recommending that the profitable yacht harbour be leased out

Managing director Johann Brits said yesterday that the share block company at Mykonos had not been liquidated, and a special shareholders' meeting would be called later this month

The provisional liquidators would be asked to establish the situation.

Booked out

The resort was also still fully operational, with accommodation booked out until the end of the year, he said.

An organisation representing timeshare holiday owners at Mykonos wants an independent liquidator appointed to protect shareholders' interests, in addition to the three appointed by creditors.

Sapa reports that a development company which was being liquidated by Masterbond yesterday successfully opposed an application for provisional liquidation in the Grahamstown Supreme Court.

In a statement, the owners of the billion-rand Marina Martenique development near Jeffreys Bay said the court had set the liquidation application aside for 14 days.

Masterbond holds a 50 percent stake in the marina development

The order was granted following argument that the company's assets exceeded its liabilities and that alternative financing was being sought to continue operations.

But, in a new development, the managing director of the development company, G Oswald Buchner, said the company would launch a claim for R32 million against Masterbond for breach of contract

According to the statement, the claim was for funds which would have been used for a conference centre and a sports centre at the marina.

Mr Buchner, also a director of the marina, said in the statement he had been embarrassed by the liquidation application because the project had just been completed and the company was about to embark on a "strong marketing phase with 500 salespersons on standby"

He added that the liquidation of Masterbond would deprive his company of working capital until alternative finance could be obtained

Mr Buchner pointed out, however, it was vital that the public was made aware that the marina was not selling timeshare, but freehold property, and that all buyers were fully protected by law and could take transfer of their properties.

FM 4/10/91

PENNYPINCHERS HOLDINGS

FM 4/10/91.

Passive no more?

Famous last words "We will remain investors rather than managers," P G Bison financial director Angus Band (*Fox*, May 11 1990) commented on Bison's role in underwriting Pennypinchers Holdings (Penhold)'s R10m rights issue at that time That issue took Bison's stake to 46%

Now founder Servaas (Faasie) Malherbe has sold out his and his family's 26,4% trust holding, or 6,26m shares, at 56c a share to First National Corporate & Investment Bank (FirstCorp), which is acting in concert with Bison, or its nominee

Bison has a two-year option to acquire all the shares bought by FirstCorp at 56c plus holding costs If this is not exercised, FirstCorp is then entitled to put all the shares to Bison In either event, Bison will end up with 73,5% of Penhold In effect, FirstCorp is warehousing Malherbe's shares for Bison

In terms of the rules of the Securities Regulation Panel, an offer to minority shareholders, also at 56c, is being prepared Acceptance is not recommended by the Penhold board — not surprisingly, as the market price ahead of the announcement was 75c and it has since actually firmed 5c — but FirstCorp will provide any cash needed

The group has grown rapidly Since the listing in 1986, it has twice come to the market (*Companies*, June 1 1990) with rights issues to ease the growing dependency on borrowings which, by December 1990, had taken debt equity to 0,94

Till now, Malherbe, with his management team, has been the prime motivator of branch managers He will be missed Band reckons management is competent to run the business and that Bison will simply play a supportive role, but it seems inevitable that its involvement will become deeper and more frequent No new CE has yet been named

Interim results just released are not good While turnover rose 24%, operating income after interest has swung R7,9m to a R4,4m loss and the interim dividend is passed Margins were hit by severe competition arising from the recession in the building industry and by the almost complete restructuring and refurbishing of the group and its outlets

Current liabilities rose by 28% over the past 12 months, partly because of the trading loss, but total liabilities have dropped R5,8m since December NAV has declined to 94c from 120c, according to company figures.

Band and financial director Percy Bishop believe that performance will improve over the next six months and expect a return to profitability in 1992 Since the probability is that recessionary conditions will persist until at least mid-year, a return to profits by then will be quite a triumph But the response of the market price suggests investors (or speculators!) are hopeful *Gerald Hirshon*

IN THE RED

Six months to	Jun 30 '90	Dec 31 '90	Jun 30 '91
Turnover (Rm)	96,0	132,3	119,7
Pre-tax profit (Rm)	3,5	2,6	(4,4)
Attributable (Rm)	1,9	1,3	(4,5)
Earnings (c)	10,3	4,9	(19,1)
Dividends (c)	4,0	3,0	—

Government 'will have to intervene'

JOHANNESBURG. — Limited future government intervention would be essential and the option of nationalising specific bodies should not be ruled out, claimed Thabo Mbeki.

Addressing the UCT Graduate School of Business Association in Sandton, the head of the ANC's Department of International Affairs stressed that the basis for his claims was economic and not ideological and did no contradict National Party policy.

Backing ANC leader Nelson Mandela's claims that in order to correct racial imbalances, there would have to be intervention by the government in terms of the economy, Mr Mbeki said: "There must be redistribution. We cannot continue to retain racial disparities in South Africa if we want a stable, free country".

Singling out the Land Bank, he said it was impossible to allow it to continue in the present manner.

The South African Defence Force, which was one of the biggest landowners in the country, was also highlighted as an area where limited government intervention could address the question of land.

"Depending on what needs to be achieved, the option of nationalising something or other should not be ruled out."

Claiming sanctions would have to go, Mr Mbeki said it was impossible to achieve the necessary growth level without foreign capital.

He planned to urge overseas businessmen during his coming five-country international tour, to come to this country to see and discuss investment.

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But he warned that foreign investment would not be attracted until after the interim government was in place.

Predicting a clear direction for South Africa's future political system would be established before the end of the year as arrangements for an interim government shaped up, he warned unless the economic question was satisfactority addressed, the result of political negotiations in South Africa would not survive.

Progress was vital towards settlement of economic problems centred on intolerable poverty levels and millions of unemployed and homeless people who in addition to wanting the vote, also needed a job, a house, enough food, access to health services and better education.

Addressing the crisis in the South African economy, Mr Mbeki said it would have to be able to deliver if the country was to achieve a peaceful, stable democracy.

But first, in order to become competitive, it was essential to change from being an exporter of raw materials to one of manufactured goods and then to improve productivity through upgrading the level of education, Mr Mbeki said.

BUSINESS

Nationalisation: All stunned at Mandela uttering

(232) ARGUS 5/10/91

DUMA GQUBULE
Weekend Argus Correspondent

JOHANNESBURG — The debate over nationalisation is far from over — judging from the outcry caused by the ANC'c apparently renewed commitment to future state ownership of mines and banks.

Most commentators had never taken seriously the ANC's threats of nationalisation, and even the movement's own technocrats seemed to have shelved the idea in recent months

ANC economist Tito Mboweni recently told a radical audience nationalisation was dead and even the South African Communist Party's economist Phineas Malinga recently said nationalising the mines was not a viable option

Then out of the blue came ANC president Nelson Mandela's bombshell statement that they still intended to nationalise the mines and banks Some analysts thought maybe he actually meant what he was saying

The ANC's own economic advisors and sympathisers were shocked by the latest revelations "He might be playing politics, but it is extremely irresponsible considering the uncertainty and confusion such statements create," one economist said

Sources say the ANC's department of economic policy was completely surprised and very irritated by Mr Mandela's comments and the fact that he had unilaterally made the statement without consulting them

University of Stellenbosch economist Servaas van den Bergh, who also acts as an advisor to the ANC, said he was taken aback by the statement

"I am disappointed I thought the mood had shifted away from nationalisation," he said

Professor Van den Bergh said nationalising the gold mines was a strange way of helping the poor

"It would cost R70 billion to buy the mines and tie up enormous state resources which could otherwise be used for the poor Only R7 billion would be enough to electrify every black home in the country Alternatively R7 billion would be enough to build 200 000 houses"

To put it another way in the unlikely event of R70 billion being available, nationalising the gold mines would be the equivalent of taking R2 000 from every black person

Economist Nikki Nattrass from the University of Stellenbosch was "flabbergasted" and decribed the comments as "weird"

"They would be doing the mine owners a favour Many of them would love to have their mines nationalised, given that so many gold mines are making losses," she said

ANC tax expert Lieb Loots from the University of the Western Cape said he thought the ANC's formal position was that there would be no nationalisation unless there was a good reason He could not think of a good reason for nationalising mines and banks

"Nationalising the mines would not be wise if the intention is to generate revenue for the state The industry is shrinking, the gold price is not increasing and the revenues the state has been collecting from the gold mines have declined to almost nothing"

"The policy would probably result in capital flight followed by a balance of payments crisis The government would then go to the International Monetary Fund (IMF) which would reverse the policy"

Professor Loots said a stronger, but not convincing case could be made for nationalising the banks

Open invitation to catastrophe, says Absa chief

Business Staff

THE nationalisation of South Africa's financial industry would have catastrophic consequences, says Piet Badenhorst, chief executive of Absa

He was commenting on a statement by ANC President Nelson Mandela that financial services and the mining industry would be nationalised if it came to power

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"A healthy economy can survive only with a healthy financial sector Normal market forces must be allowed to play their part in controlling money supply and interest rate levels within a well disciplined environment," said Mr Badenhorst

He said

- Unless black borrowers paid the instalments on their mortgage bonds, financial institutions would not be able to do much to ease the chronic shortage of housing;
- The banking industry was experiencing large-scale fraud costing it millions of rands. It was also suffering from a huge drop in business morality

Standards to be tightened

S/Times (B455) 6/10/91. (232)

BECAUSE of the abuse of company profit history adjustments in the 1986-87 listings boom, the JSE is to tighten standards for reporting auditors

JSE chief operating officer, Mike Thompson said this week: "We were concerned over the manner in which adjustments were made to companies' profit histories by reporting accountants.

"We commissioned Deloittes Pim Goldby to prepare recommendations. Their report, amended and approved by the SA Institute of Chartered Accountants, was approved by the Listings Advisory Board at its last meeting. The new requirements will be included in the listing requirements shortly."

Mr Thompson said the listings criteria have been constant since 1984 but were amended to take account of inflation last week.

"The JSE has never conducted its own diligence tests on companies. If the minimum criteria are met and these are backed up by reporting experts, for example reporting accounting or technical experts, the JSE will grant the listing."

Mr Thompson said about 60% of development capital market listings had been promoted to the main board. He added that SA needs capital for entrepreneurs and the JSE provided the means.

"A lot of the hype during the 1986-87 boom must be due in part to the company surveys in leading newspapers.

"These are nothing but hype exaggerating the positive aspects of a company and very often downplaying negative aspects. They were written mainly by financial journalists and I think there is a lesson to be learned from this."

The good and the bad of the listings boom

S I Times (Buss) 6/10/91. (232)

TWO-THIRDS of the shares listed in the world's greatest ~~new~~ listings boom on the JSE in 1986 and 1987 are priced below their original issue prices

And, while the JSE has given the holders of quality shares higher returns than any other investment medium, less than a fifth have given capital growth equal to the rate of inflation

–These are some of the findings of a Business Times investigation of a listings boom that set a world precedent by increasing the number of counters on the JSE by 50% in two years

For thousands of JSE investors, the great new listings boom on the JSE in 1986 and 1987 was as catastrophic as the Great Crash of 1969

For thousands of others, those two years were the most lucrative of their lives.

Those who subscribed for shares such as Liberty Investors and Sun Bop, entrepreneurs who sold dubious shares at outrageous prices and stockbrokers merchant bankers and auditors who earned fat fees are still laughing

But the many who lost billions of rands in shares such as Lefko Joel, Punch Line, Columbia and Computermatic, are unlikely ever to hold shares again.

The table shows the average annual compound rate of growth (or shrinkage) of the prices of shares listed in 1986 and 1987 It takes no account of dividends paid and omits those companies that listed through cash shells and reverse takeovers.

Joel and Lefko each left shareholders out of pocket to the tune of more than R1 billion. The value of Lefko (now Barplat) has shrunk from R1,2-billion to R41,1-million in the past four years. Joel, worth R1,7-billion in September 1987 is today worth R460-million.

A warning of tears

AUTHOR DAVID CARTE extracted this table because the 1986-1987 listing boom has long fascinated him.

The spate of new listings brought dozens of new names to the fore in business. Many looked potential superstars.

In an article at the time, he observed; "The next generation of Bill Venters, Raymond Ackermans, and Donny Gordons will undoubtedly come from this crop of new entrepreneurs. But there is little doubt that many of today's high fliers, like Icarus, will plunge to earth, hurting many investors in the process

In September 1987 he observed It appears nobody loses — not the entrepreneur bringing his company to the lists and not the shareholder who subscribes, so it is hardly surprising that South Africans are watching the boom with delight. And yet... we all know it is too good to be true and there is a fear that it may not last and that people could be hurt."

Gains

On the other hand the value of Sun Bop has increased to R3,8 billion from R661,3-million and that of Liberty Investors to R1,5-billion from R469-million.

Metropolitan Life is now worth R765-million compared with the issue value of R136-million

Investec is worth R400-million compared to R102-million when it listed and Imperial Group and its holding company Imphold are now worth R440-million against R78 4-million at the initial listing Tempora, the investment trust with important holdings in Dalys Suncrush and Cadswep has gained six fold to R263 7 million from R45 5-million.

In terms of share price performance Safcor, the clearing and forwarding arm of Curries Finance, did best of all rocketing in value to R152-million from its issue value of R59 9-million

Safcor managing director Peter Desilla said this week. Our performance reflects the attention of management to our day-to-day business. Some of our competitors are struggling to break even. You can gather from that that we have increased market penetration. We are also expense conscious and we pay attention to asset management."

Another factor in Safcor s favour Mr Desilla admits, was that Curfin chairman, Mackie Brody did not try to extract the last few cents from the listing While Safcor shares were valued at 350c in the listing, Curfin shareholders received them free Business Times described the listing as a 'freebie A cherry on top was a R5 million dividend after only one year That was not taken into account in the Business Times table

Few JSE watchers in 1986 could have expected Mr Desilla and others at the top of the table such as Willem Pretorius of Metropolitan Life Bill McAdam of Board of Executives and Allen Ambor of Spur Holdings to emerge as the possible Donald Gordons of tomorrow

UBS was valued at R1,2 billion four years ago while ABSA today is worth R4,3-billion

ABSA comprises far more than UBS and it has issued many shares acquiring Allied Volkskas and Sage Financial Services. But even on a per share basis UBS subscribers have done well receiving a return of 38 8% pa since the listing

The indices are so high today that a spate of new listings could start again quite soon But because of the bitter experience of 1986-1987, only top quality companies will be able to count on investor support.

Tim Sewell, head of corporate finance at UAL Merchant Bank said. "There are some clear patterns among the top 30 and bottom 30 companies Fourteen of the top 20 companies had good managements with long track records before they listed.

Patterns

"And, with hindsight, they were in the right sectors — fast food banking, insurance.

If you look at the worst 30, it was mostly a case of indifferent management and the wrong sectors Mining has been a dog and so have electronics and textiles

Mike Barnes head of corporate finance at stock broker Martin & Co said. "Many of these companies might have done very well in a better economy and several poor performers could recover well if there is an upturn.'

One lesson of 1986-87 was that most of the best companies came early — examples include Southern Life, listed in 1985 worth R1,2 billion today worth R3 3-billion. Other good ones early into the market were Metropolitan Sun Bop Trans Sun and Liberty Investors

Smaller high quality early arrivals on the JSE were. Mike s Kitchen, President Medical Pactape and Tempora all of which were listed by June 1986

The success of the quality companies whetted the appetites of investors who expected the best in subsequent listings It also brought rats and mice into the game. The only quality late arrival was Fidelity Bank in December 1987

Many of the suspect listings engaged in Chinese accounting in their prospectuses. Their auditors, for instance, permitted them to deduct interest charges from their historical profits on the grounds that had the equity capital being raised in the listing been there, the interest cost would have been lower

Another popular dodge was to sell off dodgy subsidiaries before the listing and then to subtract their prior year's losses from track records.

Solid

Auditors, merchant banks, sponsoring brokers and the JSE listings committee did not object.

Doug Gair at the time chairman of the listings committee of the stock exchange, and today head of the Securities Regulation Panel, said this week. 'While some have foundered others have prospered and quite a few companies which listed through the Development Capital section are solid and listed on the main board.

'We could have had tighter listing requirements but you must remember that this country does not have all that many companies worthy of a listing We shouldn t be too exclusive With hindsight, perhaps we could have had a closer look at management in each case

How the new listings fared *

Co compound growth pa

Safcor	57,5	Highgate	8,8	IB Joffe	–9,9	Aroma	–24,1
BOE	54,5	Jaqmar	8,6	Titaco	–10,5	Faircape	–24,3
Furnfair	52,9	Tamboti	7,9	Time	–10,7	Spescom	–25,2
Imperial	50,3	TR Serv	7,6	Transpeco	–10,7	Anjet	–26,3
Tempora	47,0	CMH	7,3	Aida	–10,9	Vadek	–26,3
Presmed	46,1	Lebaka	7,2	Macadams	–11,1	Rooikraal	–26,7
NBS Hold	45,9	Panprop	6,9	Priceforn	–11,2	Rho–ex	–26,8
FidBank	44,7	Jasco	6,9	Audiodek	–11,3	Barbrook	–27,0
Spur	44,0	Sondor	6,9	Corwil	–11,3	Southgo	–27,1
Lovasz	42,4	Leplats	6,9	Presto	–11,3	Sanlic	–27,7
Shoprite	41,2	Afcom	6,3	Evhold	–11,6	Maxmech	–28,3
Allied	40,8	RMS Prop	6,2	C'matic	–11,7	Clyde	–28,6
Unitrans	39,7	Midas	5,9	Gomma	–11,7	Glodina	–29,1
Pactape	39,3	Metprop	5,8	Milstan	–11,7	Trimtex	–29,3
UBS/ABSA	38,8	Supalek	5,4	Tafelberg	–11,8	Skirtskip	–29,4
Investec	38,7	Bowler Met	5,1	Natrawl	–12,0	Macmed	–29,6
Squires	35,6	City Inv	5,0	Dukel	–12,2	GBS	–30,0
Spurhold	34,9	Momentum	4,9	Kemtrade	–12,4	Minetech	–30,6
Cashbuild	32,1	Penpin	4,7	Pride	–12,4	Swimline	–30,6
Mike's	31,6	Crulife	4,5	Masterbore	–12,4	GntAndrews	–31,1
Libvest	31,5	Salters	4,0	Focus	–12,8	Cashworths	–31,3
Hunts	30,7	Solid Doors	3,5	Columbia	–12,9	Goodall	–32,0
Toco	30,7	Gropoint	3,6	PenBoard	–13,1	Drop–Inn	–32,0
Fedsure	30,7	T&N	3,2	Racy	–13,2	Springtex	–32,0
Bergers	29,2	Dab Inv	3,3	ABS Hold	–13,3	Barnetts	–32,1
Ass Diesel	28,0	Basread	3,0	Datakor	–13,6	Debonair	–32,1
Marshalls	26,9	Adcorp	2,7	Long Dist	–13,7	Disa	–32,7
Metlife	26,6	FS Group	1,7	Lithosaver	–13,8	Kopp	–33,1
NTH	28,3	Clinic	1,1	Reggies	–13,8	ElexElect	–33,4
Conshu	24,2	Drivetech	0,0	SpicerM	–13,9	Prestige	–34,3
Dispatch	24,2	Shield	0,0	Penrose	–14,4	Coast Cloth	–34,6
Klipton	23,8	CCTV	0,0	Vic Lewis	–14,8	Unispin	–35,5
Autopage	23,1	PDS-Midmacor	0,0	Yelland	–15,0	Ohio	–36,6
GDM Fin	22,4	Dashaus	0,0	ME Stores	–15,3	Romano	–37,0
Elgro	22,8	Prochem	0,0	Aimark	–15,6	Markinor	–38,0
Uniserv	21,8	Unitech	0,0	Mewa	–15,8	Sub Nigel	–38,7
Didata	21,7	Mast	–1,0	Smithmin	–15,9	CWH	–39,2
Mashold	20,5	Morkels	–1,1	Crown	–16,0	Osprey	–39,5
QData	20,1	Tiger Wheel	–2,2	SureGroup	–16,2	Milly's	–39,8
Anbeeco	19,9	Bolwear	–3,4	Clegg	–16,5	Lefko	–40,0
CMI	19,6	Longmile	–3,6	Vansa	–16,7	Lyntex	–41,6
Keeley	19,4	Video Lab	–3,8	Grovewalk	–16,8	Tvl Min	–42,5
Da Gama	18,1	Joel	–4,6	Molyslip	–16,9	Cont Instr	–43,0
Sunpak	18,0	Mielielkip	–4,6	NEI Africa	–16,9	Dialamovie	–45,2
Northam	17,2	Shoredits	–5,1	Cargo	–17,3	Leppin	–45,2
Medicin	16,8	Solchem	–5,2	Autoquip	–17,7	Filati	–46,8
Deal&Huth	16,7	Techhire	–5,6	Arban	–18,0	Barplats	–52,7
Grincor	15,9	Concorde	–5,6	Romens	–18,1	Eersteling	–53,9
Transun	15,5	Cutrite	–6,1	CMS	–18,3		
Marlin	15,7	Laser	–6,2	Pals	–18,3		
Searcon	14,9	Reichmans	–6,7	Funa	–18,6		
Phoenix	12,5	Strebel	–6,8	Alex White	–18,8		
Market Mot	12,4	Rusfurn	–7,0	Might yMeat	–19,0		
Sasfin	11,1	Pointer	–7,8	Nu–World	–19,1		
Teljoy	11,0	Curnow	–7,9	IlcoHomes	–19,8		
Vaaltrucar	10,7	Advtech	–7,9	Afmin	–20,0		
Fenner	10,2	Bloch	–8,0	Kudu	–20,1		
SDH	10,0	Aries	–8,0	IEM Prod	–20,8		
Sycom	9,5	Sho–Craft	–8,3	Don Gray	–21,7		
Sageprop	9,4	Rubenstein	–8,7	Darmag	–22,7		
Sabvest	9,2	Adprom	–8,9	Brenner	–23,5		
Saambou	9,2	Zoto	–9,7	Bakoven	–23,6		
Citizen	8,8	A Kaplan	–9,8	Tvl Cloth	–24,0		
		Jaguar	–9,9				

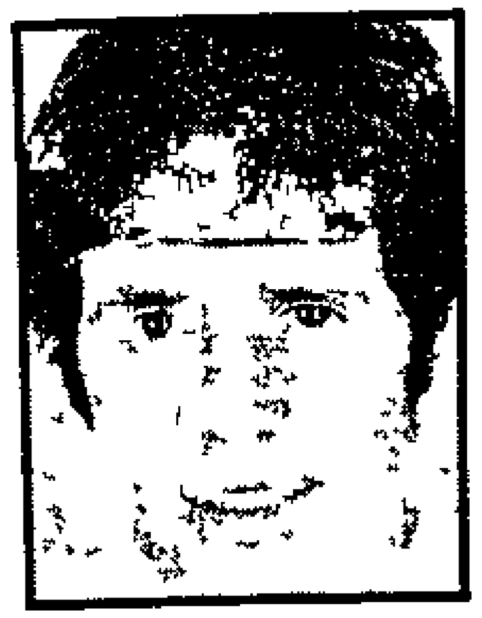
LISTINGS terminated Spectrum, AOS, Quality Tyres, UME Brokers, Staalchem, Spareco; World of Music; Transvaal Distillers, CRB Holding, Cortech, Wedge, Arontex, Movie Camera, Fred Whitehead, CDS; Supertrans

* Growth or shrinkage of share price compared to the issue price expressed as average annual compound return (%)

THE HIGH FLIERS OF THE JSE WHO CRASHED IN FLAMES

S I Times (Buss) 6/10/91 (232)

BARRY SCHECHTER



GORDON POLOVIN

RONNIE PRICE

THE highest fliers in the 1986-87 listings boom were Punch Line's Barry Schechter, Eureka group's Ronnie Price and Columbia's, Gordon Polovin

All three were overseas this week, so could not be interviewed Four years ago, Punch Line was worth R200-million Today its descendant, Fintech Informatics, is valued at R23-million.

Mr Schechter, a young, diminutive chartered accountant, managed to persuade anyone who met him that he was SA's answer to Apple s Steven Jobs

Busy

Even Altron's Bill Venter was dazzled. He bought increasing stakes in Punch Line at a terrible cost to his own bottom line — and to the rating of his entire empire.

Mr Schechter surrounded himself with clever technical people proficient in computerese They could glaze over the eyes of the most critical analyst in just a few minutes

Punch Line's offices buzzed with young, long-haired folk in jeans, smoking, slugging coffee and looking terribly busy

Formula

Boxes, supposedly containing hardware and software were piled high, even in the boardroom. Barry Schechter took centre stage in a convincing scene from Silicon Valley

He disappeared, apparently to the west coast of the US, as the Punch Line share price started to disintegrate from 870c to 30c Few South Africans have ever heard of him again.

Gordon Polovin listed Columbia at 75c A few months later the price was 800c and the company was valued at R200-million Now it s worth R11-million

Mr Polovin s formula was convincing. He steered small, high-quality companies for which he had consulted for years to listings on the JSE

Each time Columbia took a minority stake and sold when investments matured

Toco was the best but Milstan, Crusader Life (now Anglovaal Insurance Holdings) and several of the others are still highly regarded

But not all of the investments were sold at a profit. In 1990, Columbia provided R11-million in capital losses

After cashing in on its investment banking activities, Columbia sought a large acquisition, which it could control

It chose Acrem, a hire-purchase retailer of big ticket consumer goods in the platteland.

While Acrem initially reported good profits investors were unimpressed and marked Columbia shares down

A final nail in the coffin of the rating was the shock news that changes to Section 24 of the Income Tax Act would force Acrem to pay at least R10-million of additional tax in the next four years.

At one stage Ronnie Price's listed companies were worth R300-million Today the three remaining counters are worth R36,6-million

Fall

Shareholders who came into Eureka, the top company, for effectively 6c a share are still ahead, since the price is now 18c and have received dividends of 1,27c

Those who started with 10 000 Eureka shares who exercised their rights in Eurefin for R6 000 and accepted Spareco s later offer of R47 200 and received R9 700 in dividends, also made handy profits

But those who exercised their rights to 12 000 Computermatic at the initial 125c have seen their investment fall in value from R15 000 to R3 450

They have had cash bonuses of R5 400, dividends of R5 000 as well as further shares.

Steven Courtney and Archie de Jongh of the Brokers Investment Company disappeared as mysteriously as the company's money just a few months after listing

The collapse of Transvaal Distillers, Rico Breweries and Cape Investment Bank has been acrimonious and depending on a Section 417 investigation, some parties have threatened to press criminal charges against others

Two high fliers have ended up in the criminal courts — Alex Hawes of Quality Tyres and Ed Dutton of Interboard both well chronicled disasters for shareholders

Standards to be tightened

S I Times (Buss) 6/10/91. (232)

BECAUSE of the abuse of company profit history adjustments in the 1986-87 listings boom the JSE is to tighten standards for reporting auditors.

JSE chief operating officer, Mike Thompson said this week: "We were concerned over the manner in which adjustments were made to companies' profit histories by reporting accountants.

'We commissioned Deloittes Pim Goldby to prepare recommendations. Their report, amended and approved by the SA Institute of Chartered Accountants, was approved by the Listings Advisory Board at its last meeting The new requirements will be included in the listing requirements shortly"

Mr Thompson said the listings criteria have been constant since 1984 but were amended to take account of inflation last week

"The JSE has never conducted its own diligence tests on companies. If the minimum criteria are met and these are backed up by reporting experts, for example reporting accounting or technical experts, the JSE will grant the listing"

Mr Thompson said about 60% of development capital market listings had been promoted to the main board He added that SA needs capital for entrepreneurs and the JSE provided the means

"A lot of the hype during the 1986-87 boom must be due in part to the company surveys in leading newspapers.

"These are nothing but hype exaggerating the positive aspects of a company and very often downplaying negative aspects. They were written mainly by financial journalists and I think there is a lesson to be learned from this"

SMALL BUSINESS DEVELOPMENT

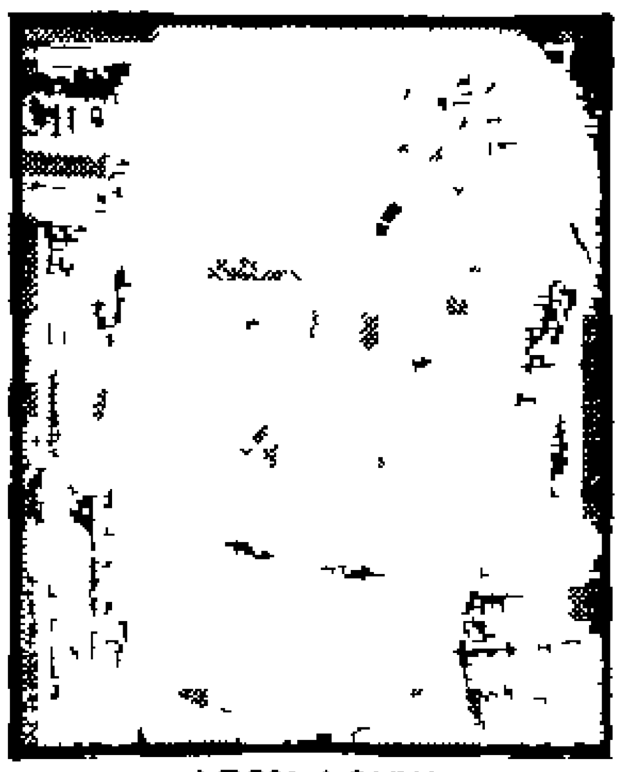
Bureaucratic shackles slowly being shaken off

SI Times (Buss) 6/10/91 232

THERE has been a considerable shift in the deregulation of small business since the mid-1970s, in spite of enormous resistance to change from various lobbies and vested interests.

Leon Louw, director of the Free Market Foundation, says that on a scale of 0-100 (100 being the starting point in the mid-1970s and zero being the ideally deregulated situation), the shift has probably been from 100 to 50

The executive officer of the Wits Law Review Project, Professor Louise Tager (currently chairman of Vatwatch), said the new Businesses Act, recently passed by Parliament, would abolish all trading licences, except in certain instances relating to the preparation of food where health and safety issues were at stake She described this as "a major step in the deregulation process"



LEON LOUW

Order

But Professor Tager cautioned "The process of deregulation has just started It is not something that can happen overnight What has to be achieved are appropriate laws We obviously need some basic legislation in order to have an ordered society

"But there is a tendency in health legislation to write laws that prescribe aesthetic standards, when it is necessary only to look at cleanliness and hygiene"

Conversely, every shop owner is entitled to hawk and vend on his or her shop front — with the same rights as every hawker and vendor

The one remaining adverse control, says Mr Louw, is that relating to food handling These provide opportunities for inspectors to harass and fine traders and vendors on the streets

Mr Louw says conventional restaurants are a potentially greater health hazard, because food is stored overnight whereas hawkers and vendors do not have storage facilities and sell out their entire stock every day

Hawkers

Restrictions on small businesses, other than hawkers and vendors, vary in degree

Taxi regulations have been relaxed but not abolished Mr Louw observes "Black taxis have succeeded — despite restrictions, lack of subsidies, harassment and obstruction — in smashing protected monopolies such as Putco It is the classic David versus Goliath scenario All those who hanker after nationalisation should observe that with the small amount of freedom granted to the poor, they have smashed a big white, subsidised and protected monopoly"

Road haulage has been almost totally deregulated to the extent that virtually anyone can now get a road haulage permit, says Mr Louw

With regard to businesses that occur on properties, such as backyard operations, small service industries and the like, much remains to be deregulated

The main constraints on these businesses are not licencing laws, but zoning laws, building standards and occupational licencing laws

Mr Louw says zoning laws are being used by local authorities who are reluctant to deregulate, as a means to re-regulate small business by not allowing them to carry on business — except on properties approved by the local authority These in effect are "licencing laws in disguise"

Mr Louw argues that these should be replaced with the common law of nuisance, or "neighbourhood law" This should be strictly enforced by courts, easily accessible to the ordinary man, which would hear complaints in the form of a summary hearing, without legal costs and without being subject to the limitations which obtain in the small claims courts

Building codes had been extensively relaxed, but there were still considerable constraints on small businesses, especially those operating in townships

There remained about 250 professions and occupations with unreasonably restrictive entry laws For instance, a motor mechanic requires either a standard 7 or 8 education, plus three or four years of formal apprenticeship regardless of competence

Entry

Mr Louw notes "This immediately excludes 80 percent of all blacks from the prospect of lawfully becoming motor mechanics" However, in some industries, such as construction, formal entry requirements had been replaced with a competency test.

The simple law of contract and fraud, whereby anyone who misrepresents himself as being suitably qualified will be deemed to have committed fraud and breach of contract, would do away with the apparent need for occupational licencing barriers, says Mr Louw

He says there is room for much more deregulation in traditional professions such as medicine, law and architecture These professions should be allowed to advertise and to specialise

Para-professionals should be permitted, for example, to collect debts A practitioner would not require an LLB degree but a debt-collecting certificate at a technikon

The stokvel system basis of success story

SI Times (Buss) 6/10/91.

A UNIQUE blend of First and Third World financing, which offers credit to aspirant black businessmen without the traditional credit criteria, is provided by the Pretoria-based Get Ahead Foundation.

It draws on the traditional stokvel system, a form of township "co-operative" consisting of family members or friends who contribute cash into a pool on a monthly basis to fund mutually agreed projects, or special social occasions.

Thabo Makgabo, credit manager of Get Ahead, says loans ranging from an average of R500 up to a limit of R1 000 are granted to individuals who form part of a group numbering between five and 10 people.

"We do not get into details of credit checks and such like. We depend basically on peer pressure between the people themselves. We say all the group members are jointly and severally liable for the whole debt"

Mr Makgabo says that if the recovery rate for a particular area drops below 90 percent, Get Ahead will consider stopping credit to that particular area until such time as the situation improves. But the recovery rate is more than 95 percent

Mr Makgabo says Get Ahead considers applications from groups which were formed for "income generation and business-related purposes" who would multiply their initial outlay, very much on the five loaves and five fishes principle

"Peer pressure is our security which we would like to strengthen by forming established stokvel associations Then we believe our recovery rate could be 100 percent"

The basic interest on stokvel loans is 32 percent. But 10 percent of that is a compulsory "savings initiative" that Get Ahead has introduced for the client. This 10 percent is put aside for the client and once the loan is re-paid the money is refunded — so the effective interest rate is 22 percent.

If Get Ahead believes the products are good enough, it will initiate contact with big business on its client's behalf. The foundation also has a business loans programme, with loans ranging from R1 000 to R20 000, negotiated by Get Ahead through the Standard Bank.

Jobless rate edges down

B Day 7/10/91

WASHINGTON — The US unemployment rate edged down to 6,7% in September, the first improvement in three months, the government reported on Friday

The 0,1 percentage point decline in the jobless rate, which had been frozen at 6,8% since July, came despite a failure by US companies to hire back many workers during the month

The department said that little hiring activity occurred It said that a separate payroll survey showed just 24 000 jobs added — a relatively small gain for an economy trying to snap back from a recession

An analyst said while there had been no further worsening, there were no sustained signs yet of a rebound in the labour market

The jobless numbered 8,4-million in September, about 1,6-million higher than when the recession started in July 1990, the department said

Money supply in the September 23 week fell $3bn to $3 392,7bn, the Federal Reserve said The broader M3 fell $6,8bn to $4 136,7bn M1 rose $1,2bn to $870,7bn — Sapa-AP-Reuter

'Nervous investors may check industrial share bull drive'

B Day 7/10/91

(232)

SEAN VAN ZYL

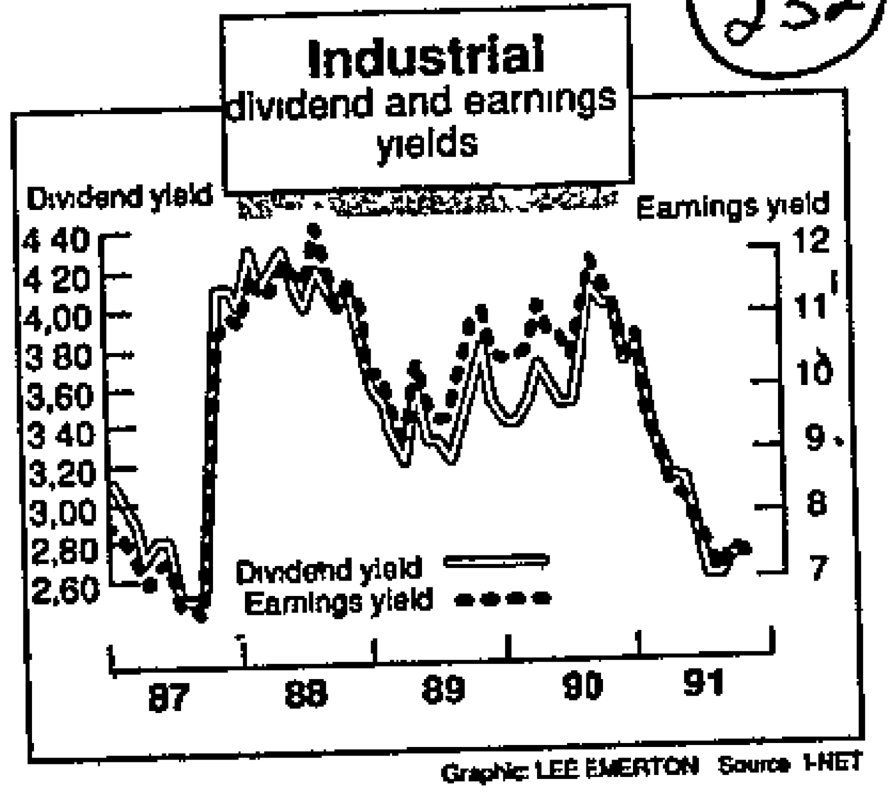
THE bull drive behind industrial shares in the first half of 1991 could falter due to investor nervousness in the last quarter, institutional portfolio managers said

Although institutional investors expected to maintain their current equity exposure, they felt blue chip industrials would lose direction, and perhaps drift downward by the end of the year

The Reserve Bank's intention to stick to its guns on maintaining interest rates has also dampened the equity market Managers said further upward pressure on rates would erode investor confidence of an early recovery in the economy, and share prices would probably drop

The apparent failure of monetary policy to curb inflation has also undermined investor sentiment. Portfolio managers generally did not expect a significant drop in the inflation rate over the next 12 months

The JSE overall index has made a 21% gain over the past nine months while the industrial index has climbed by more than 33%. The overall mining index notched up a more sedate 10% gain. Portfolio managers noted earnings and dividend growth over the period fell far short of the price gains made by the market



Graphic LEE EMERTON Source I-NET

Earnings and dividend yields were also drifting down to 1987's low level, which resulted in the market's most recent crash

Southern Life GM equity investments Paul Beachy-Head said the JSE — across the board — was far from cheap, relative to dividend and earning ratios Yields in the industrial and mining sectors were at very low levels, and could be compared with periods where the market had fallen back sharply

Although prices were expected to make further gains in 1992, he said the risk potential of equity investments had increased, and were offering "less downside protection"

However, he expected foreign investment to hold the bullish momentum of prices in the long term Although offshore investors had adopted a wait-and-see approach to new investment, Beachy-Head said there had been no massive selling by these parties

Old Mutual assistant GM investments Rowland Schute expected the market to be "a bit bouncy" for the next few months Investor sentiment was not positive, largely due to scepticism that the economy had reached the bottom of its cycle "Investors are going to need evidence that the economy will turn around"

Sanlam senior GM investments Ronnie Masson also did not put any weight behind the recent gains in the international gold price He said it was difficult to be bullish concerning gold shares, and felt the gold price would not be able to sustain its upward movement in the long term

Although the market was looking fully priced, he said Sanlam had no intention of reducing its equity exposure, currently more than 60% of its portfolio However, Sanlam would concentrate on selective equity investments for the medium term

Considering that the market looks pricey, Masson did not expect institutional investors to push equity holdings to the maximum 75% allowed under new investment guidelines

JSE and London listings for PP Rust

MARCIA KLEIN

POTGIETERSRUST Platinums (PP Rust) is to list on the JSE on October 31 and on the International Stock Exchange in London on November 4, Johannesburg Consolidated Investment (JCI) announced today

This follows an earlier announcement that PP Rust was to raise about R400m in a rights offer to its equal shareholders Rustenburg Platinum (Rusplat) and Lebowa Platinum to finance the R600m development of the PP Rust open cast platinum mine The JSE has granted a listing for 120,3-million shares of 2,5c each, at a subscription price of R3,33 a share

JCI says mining will start at Sandsloot on the Platreef in mid-1993 at a production rate of 200 000 tons a month, increasing to 300 000 tons after about nine years when the Overysel pit is started

Initial capital requirements for a 200 000 tons a month operation are R600m, including capex, the cost of acquiring the Platreef project from Rusplat, working capital and interest charges

The projected internal rate of return of the proposed open pit mine — based on the low August platinum price base — is 15% a year in real terms PP Rust could begin to pay dividends in 1995

R1bn Sankorp reshuffle will see Malbak emerge as major player

B Day 7/10/91

MARCIA KLEIN and
BRENT VON MELVILLE

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SANLAM's investment arm Sankorp is set to reshuffle the major industrial companies within its stable in a complex deal worth more than R1bn

While details have not been announced, the reshuffle will see diversified industrial group Malbak emerge as the dominant force in SA's pharmaceutical industry and a major player in the food industry, while Murray & Roberts (M & R) will obtain a foothold in the cement market

A joint cautionary today warns shareholders of a possible change in Federale Volksbeleggings' (Fedvolks') shareholding in Fedfood and SA Druggists (SAD), and Malbak's shareholdings in Standard Engineering and Darling & Hodgson (D & H)

Sankorp holds 47% of M & R and 100% of Fedvolks, and controls Malbak through Gencor Malbak executive chairman Grant Thomas yesterday said Malbak would acquire Fedvolks' 68% stake in SAD and its 70% holding in Fedfood

Sources have pegged the price of Fedvolks' holding in the two companies at more than R600m, with the SAD stake valued at about R260m and Fedfood at R380m. In exchange, M & R will acquire half of Malbak's 73% holding in Standard Engineering, as well as Malbak's 62% interest in Darling & Hodgson (D & H), which holds a majority share in cement group Blue Circle

Malbak's interests in D & H and Standard Engineering are worth R265,4m and R193,8m respectively in terms of their market capitalisations Even without disclosing the terms, Thomas said Malbak was "definitely getting the better deal"

He said as a result Malbak would be more focused and more dominant in its markets With Fedfood and SAD in its fold, Malbak is set to make its presence felt in SA's food and pharmaceutical industries Its food interests, at present housed in Kanhym, will grow to an annual turnover of more than R2bn after the deal

Thomas confirmed that the acquisition of SAD would make Malbak "by far" the biggest player in pharmaceuticals

The SAD acquisition will follow Malbak's announcement last week of a series of inter-group mergers in a move to strengthen the health care division The purchase of Fedfood would make Malbak one of the biggest players in the food sector, in league with Tiger Oats, Premier Food, and Rembrandt's HL & H

An industry source said yesterday it made perfect sense for M & R to take over Malbak's interest in D & H, the main attribute of which is its 42% holding in Blue Circle, SA's third largest cement producer

M & R will also acquire about 36% of Standard Engineering, which deals in similar markets The source said its foundry and piping interests would dovetail well with M & R's interests

Fedvolks' diversified interests will be diminished significantly, with SAD and Fedfood (with a collective turnover of R2,3bn) out of its stable Its remaining interests include holdings in Interleisure, Price Forbes, Avis, Teljoy and Fedics

Sources said it appeared Fedvolks would be left simply as a services conglomerate

Tues 22 sept

Witbank

7pm.

Bidvest banks on upturn and political changes

BIDAY 7/10/91

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MARCIA KLEIN

BIDVEST expects continuing pressure on margins and relatively low market demand in the immediate future

But the restructured group, whose major businesses now include Afcom, Cater Plus and Steiner, is well poised for growth given an upturn in the business cycle and progress towards solving SA's socio-political problems, chairman Brian Joffe says in the group's annual report

Significant changes to the group's structure during the past financial year include the acquisition of Cater Plus, the businesses of Steiner Services and 50% of Justine cosmetics. It also increased its interest in Afcom In financial 1991 Bidvest's earnings increased by 10% (on a fully diluted basis) on a substantial turnover increase However, changes to the group's structure make comparisons between results of financial 1990 and 1991 meaningless

The Cater Plus division distributes food and other products to the hotel, catering, food processing, baking and frozen food industries Joffe says the spices division, housed in National Spice works, had a very successful year with operating profits for the year increasing by 99,7% on a 27,4% sales increase Other divisions performed relatively well.

In May Bidvest acquired Steiner Services for R86m Steiner, which rents towel cabinets, garments and hotel and restaurant linen, "will offer the group the stability and cash generating capabilities of an ongoing rental business"

In the two months that Steiner contributed to the group's results, it recorded R15m in sales

Joffe says Steiner will adopt a more aggressive marketing stance in the future The fundamental shift in the attitude of employers to invest in their workforce, especially in the area of industrial hygiene, will benefit Steiner in the future, he says

Packaging and stationery products manufacturer Afcom's turnover and operating profit fell in financial 1991, but attributable income rose 35,2% on the back of a reduction in taxation.

Despite poor operating results, a focus on asset management resulted in a drop in gearing. Joffe says Afcom will aggressively focus its attention on improved local and export sales, an increase in market share, product leadership and improved service He expects a satisfactory earnings increase in financial 1992

Joffe says Justine had a difficult year, as a decline in disposable income was reflected in increasing price consciousness within the skin care and beauty products market

While sales "barely kept pace with inflation", it broke even due to a change in the method of writing off promotional expenses

Post-sanctions SA must be ready, says Hersov

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8/10/91

BRENT VON MELVILLE

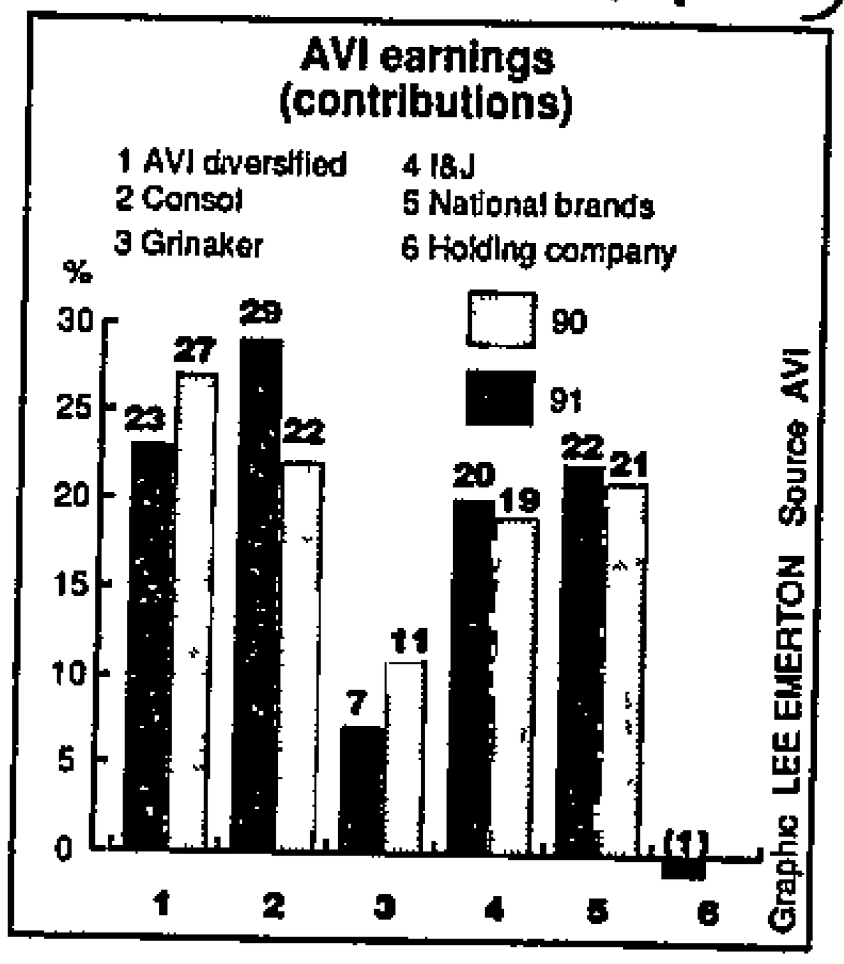
GOVERNMENT's attitude towards local protection of chosen industries needs to be urgently clarified to assess timeous and appropriate business decision-taking, says Anglovaal Industries (AVI) chairman Basil Hersov.

Hersov says the prospect of global competition in the wake of the removal of sanctions will be challenging, but SA business will have to be properly prepared "Future pay awards will increasingly have to be related to productivity to enable the best SA goods to compete in world markets, and thus to preserve and increase employment," he says in his annual review

Despite these intangibles, Hersov says he fully expects an improvement in AVI earnings for the current year AVI showed a 12,6% rise in earnings to 825c (733c) for the 1991 financial year

Divisionally, packaging and rubber company Consol Limited turned in the strongest performance, pushing up pre-tax profit 54% to R288m (R187m), and improving its contribution to AVI earnings to 29% (22%)

Hersov, however, warned that government policy with regard to the relaxation of the conditions governing the importation of tyres could have a significant negative effect on the industry



Irvin & Johnson (I & J), which markets and distributes frozen and chilled foods, also turned in a stable performance, with a 12% rise in pre-tax profit to R101m (R90m). Its contribution to earnings moved up slightly to 20% (19%)

Subsequent to the year end both Consol and I & J announced their intention to raise a total of R397m in separate rights issues In tandem with the announcements and in order to follow its rights, AVI indicated that it would raise R388m by way of a share issue

The issues will erase net group borrowings of R278m, as well as expanding the group's capital base for growth opportunities Consol currently has net borrowings of R159m I & J's borrowings are at R44m

The consumable goods division, represented by 98%-held National Brands, put in a relatively healthy performance for the year, bolstering its pre-tax profits 23% to R91,5m (R74,4m), and leaving contribution to AVI earnings at 22% (21%)

Hersov says the divisionalisation of the operating entities of the division is now complete Subsequent to the year-end this division disposed of its 16,2% interest in Cadbury Schweppes (SA) for R177m, resulting in a capital profit of R153,7m Of the proceeds about R90m will go towards paying off the division's debt

The improved net results of the engineering activities of AVI Diversified Holdings offset the reduced profits of the Avtex textile operations to some extent Profit before tax showed a slight gain to R106,5m (R105,7m), although contribution to group earnings fell to 23% (27%)

Hersov warns that the profitability of the textile industry and its role as a major employer will be determined by the action government takes "in respect of the dire need for the creation of an environment in which the industry can develop and grow"

The Grinaker division also showed slumping markets, with a decline in contribution to group earnings to 7% (11%) Hersov attributed the decline to the vulnerability of both construction and electronics to the present economic environment

General unit trusts beat JSE index

B/Day 8/10/91 (232)

Business Day Reporter

GENERAL equity unit trusts of Sage, NBS Hallmark and Guardbank have beaten the gains made by the all-share index over the past 12-months by disclosing total returns in excess of 30%, the latest September quarterly performance figures show

Performance figures disclosed by funds' managers showed returns had outpaced the JSE all-share index's 20% increase and the 15,6% average inflation rate

The Guardbank Growth Fund's repurchase price climbed by 25,9% which, combined with distributions, resulted in a total unit return of 34,34% for the 12 months

Its specialist Resource Fund achieved a total return of 14,6% and the Income Fund an 18% return for the 12-months

The Growth Fund increased its liquidity to 23,6% from the previous quarter's 18,8%, while the Resource Fund's liquidity was lifted to 24,3% (19,6%) However, Guardbank reduced the Income Fund's liquidity, boosting its equity to 73,3% (67,5%)

The Sage Fund also achieved gains for unit holders by disclosing a return of capital plus income of 38% for the six months Its Resource Fund notched a 12% return

Sage has reduced its general equity fund's liquidity to 15,1% and the Resource Fund's liquidity to 19% of total assets The NBS Hallmark Mutual Fund achieved a return of almost 30% for the 12-months Liquidity was reduced to 22%

Fund managers feel equity market is at the top

Star 8/10/91

232

The NBS Hallmark Fund has achieved a total return of almost 30 percent over the past year, compared with a 20,2 percent rise in the JSE overall index.

The fund managers have declared a half-yearly distribution of 26,73c per unit, making a total of 57,23c (52,51c) for the 12 months to September

The distribution lifts the fund's yield to 7,04 percent

Managing director Ken Burns notes "We took advantage of the strong market trend and during the quarter reduced our liquidity by 2 percent to 22 percent.

"The JSE stock market, on a valuation basis, is selling at present in an area that is characteristic of a market top"

NBS Hallmark's relative holding of industrials fell from 53 percent of the equity portfolio to 50 percent

On gold, Mr Burns comments "Long-term fundamentals are inching in favour of the metal If the Western economies recover soon, and if the world then moves into an era of expansion, precious metals will rise on industrial and jewellery demand"

At the quarter-end, the fund's top 10 holdings were Suncrush, Anglo American, De Beers, Engen, Higate, BTR Dunlop, Cadbury Schweppes, Powertech, JCI and Berzack.

New entrants in this list are De Beers, Berzack and Cadbury Schweppes Making way for these counters in the ranking were Consol, Pick 'n Pay and Amcoal

Sage Fund performed well during the six months, showing a total return of capital plus income of 38 percent

Sage Resources achieved a total return of 12 percent for the same period

The fund managers still feel that the JSE industrial index is too high and that the need for consolidation remains valid, particulary because of the inflation picture and the fact that interest rates are likely to remain at their current levels for some time to come

Liquidity continued to decline and reached a level of 15,1 percent Holdings were increased in Aanamint, De Beers, Gencor, CNA/Gallo and Driefontein

At **Sage Resources** liquidity declined to 19 percent of assets and a new holding was established in Fregold

The top 10 holdings in the fund were Gencor, Engen, De Beers, JCI, Sasol, Anglo American, Gencor BEH, Midwits, Anamint and Tongaat

Although **Guardbank** is not optimistic on the outlook for shares, its fund managers feel there is a measure of underpinning support for the market

In its latest quarterly report, the group says "The demand for assets, burgeoning institutional cash flows and a more positive post-sanctions environment over the medium term should provide a measure of support from current levels"

Guardbank Growth Fund reduced its holdings in equities, which fell from 81,28 percent in the June quarter to 77,41 per cent in the quarter to September

The repurchase price was up by 25,98 percent over the September 1990 figure at 2070,63c

The fund managers state that after allowing for reinvestment of attributable income, the overall increase was 34,4 percent

During the quarter, a new holding was established in Kloof with the purchase of 200 000 shares, while holdings in Charter, GFSA, FIT and Nampak were increased

Anglo's, Breweries, Gencor and Adcock were disposed of

In the **Resources Fund**, holdings in equities were reduced from 80,45 percent in June to 75,70 percent

The repurchase price of 133,78c together with an income distribution of 8,81c gave an increase in the unit price of 14,69 percent over the period

Equity holdings in the **Income Fund** were increased during the three months to September They rose from 67,54 percent in June to 73,35 percent in September

Including income distributions over the past 12 months, the unit value rose by 18 percent — Sapa

Steps to protect 20 000 investors

Govt mounts bid to rescue Masterbond

B/Day 11/10/91 232

CAPE TOWN — Government is to launch a rescue bid for the 20 000 financially threatened Masterbond investors by trying to prevent the final liquidation of the six Masterbond Trust companies provisionally wound up 10 days ago.

It is believed that details of some form of salvage action can be expected in the next week.

The intervention comes amid indications that Masterbond's R450m short-term debenture activities are collapsing, and that as much as R600m could be involved as Masterbond companies' affairs could be in a more serious state than first thought.

A high-powered team under the chairmanship of the Finance Minister's special adviser Japie Jacobs has been appointed to look into the options available to prevent the Cape Town Supreme Court from granting a final order of liquidation on the return date at the end of the month

"We would like to take action to protect the interests of investors," Jacobs said yesterday.

Financial Services Board (FSB) executive director Piet Badenhorst said government would like to prevent a final liquidation to protect the interests of investors.

"We care about these people and even though we are not the regulating authority for all the activities of the Masterbond group, we are concerned about protecting the interests of investors," Badenhorst said, adding this was the FSB's normal function. A final order would mean that investors would, if lucky, get a portion of each rand they invested, depending on the extent of the assets and liabilities.

LINDA ENSOR

Possible options to prevent a final order include a judicial management order, curatorship or the financing of Masterbond Trust's liabilities to bring it out of provisional liquidation. This would not entail government financing, Badenhorst said.

He would not be drawn on further details but financial sector speculation suggested one option open to government would be to set itself up as a facilitator for the formation of a private sector consortium to rescue Masterbond.

Some members of the team — which includes Badenhorst, registrar of Deposit-Taking Institutions Hennie van Greuning, FSB inspector Sydney Miles, FSB legal adviser Francois van Zyl and Fergusson Brothers economist Gad Ariovich — will visit Cape Town next week.

Once the team has investigated the situation, a special application to the Supreme Court could materialise.

Badenhorst said the team would see what could be done to protect the interests of short-term debenture holders, who have invested about R450m in the Masterbond group. The management of the other part of Masterbond's activities, its R70m Participation Bond Scheme, has been taken over by the Board of Executors but the team will also check that this is in order and legislation has been complied with

Badenhorst said the FSB was not the governing authority for the issue of short-term debentures, which were self-regulating in terms of the Companies Act, but that Finance Minister Barend du Plessis had

☐ To Page 2

Masterbond

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☐ From Page 1

requested it to look into Masterbond's short-term activities.

Du Plessis had also instructed the team to take matters further and look into what legislation and other regulating disciplines were necessary to prevent a recurrence of the Masterbond collapse

Meanwhile, liquidators are reported to be investigating the relationship and flow of funds between the provisionally liquidated Masterbond Trust Participation Bond Managers and its holding company, Masterbond Trust Investment Holdings, which is controlled by the directors

Badenhorst disclosed that since the provisional liquidation on October 2, a special team of people had been appointed by the FSB to be on call to answer the public's inquiries

Another salvo fired at conglomerates

w/mail 11/10 - 17/10/91 (1869) (232) (2025) (1880)

By REG RUMNEY

THE Competition Board has given the green light to the Columbus Stainless Steel Project — but warned that it might take action in future.

This is the second occasion in recent weeks when Competition Board (CB) chairman Pierre Brooks has issued an apparently favourable finding about an acquisition or merger, but added his note of caution and disquiet about the state of affairs.

The decision was there will be no formal investigation of the deal in which Barlow Rand sold Middelburg Steel & Alloys and Barlow's chrome interests to a "consortium comprising companies in the Sanlam and Anglo American/De Beers groups".

But Brooks concludes: "In view of the potential negative effects the transaction could eventually have on competition between these two groups the clearance thereof perforce only signfies qualified approval of the venture "

In the Board's Report No 30 which investigated Anglo and De Beers building up their share stake in Gold Fields of SA, it was found that no monopoly situation had been created, and no further action needed to be taken by the board or the minister

But the GFSA report has an extensive postscript, apparently to spur debate, which notes "the indications are that both from an economic and poltical point of view the degree of concentration in this country is probably too high".

In his latest report, Brooks, outlining a possibly more active role for the board, notes: "... it is important for competition policy to be directed not only at arresting the drift towards coalescence of the different groups but also at purposeful group disentanglement and the identification and elimination of restrictive practices spawned by an excessive concentration of economic power."

In clearing the Columbus deal, the CB struck a compromise between the desirability of domestic competition and industrial development. This Anglo spokesman Michael Spicer identifies as one of the problems with the CB's approach. In reference to the successful newly industrialised countries, he poses the rhetorical question: "Why do small countries have big companies?"

There are a number of issues which he says are not dealt with adequately in the purely theoretical framework of the CB's views How to deconcentrate? To whom to sell off companies? Since big foreign investors would probably be frowned upon, only other conglomerates would be able to buy. What to do with the money? For example, a conglomerate investing money abroad from sold-off companies here would be accused of being unpatriotic. But if it bought new South African companies with the money it would be accused of spreading its tentacles again.

Spicer reckons a corollary of deconcentration would have to be liberalisation of markets.

UAL unit trust reports 49% total return for its investors

B Day 11/10/91 (232)

SEAN VAN ZYL

UAL's specialist Selected Opportunities unit trust has reported an outstanding 49% total return for unit-holders for the 12 months ended September, the latest quarterly performance figures show

UAL's general equity trust, UAL unit trust, achieved a 32,6% return on investments and income for the period The specialist Mining & Resources unit trust beat the mining financials index's 12-month gain of 8,1% by reporting a total return of more than 18%

The UAL Gilt unit trust notched up a satisfactory return of 14,8% for the 12 months

UAL management company chairman Geoff Richardson said the real returns on investment showed the unit trust industry was the most effective vehicle for the man-on-the-street to protect his savings "The equity route continues to look appropriate as a meaningful part of one's savings."

UAL stated that, in view of the present uncertainty of the stock market, the UAL unit trust had increased its portfolio liquidity to R78m by the end of the September quarter, representing more than 14% of the fund's total assets

The Mining & Resources unit trust's liquidity at the end of the quarter was R25m — 11% of total fund assets In line with the fund's year-end to September, it has declared an 18,1c a unit distribution

The UAL Unit trust's total income distribution for the 12 months was 95,9c a unit, while the Selected Opportunities fund has declared a 63,2c a unit distribution for the year The Gilt unit trust has distributed 164c a unit for the 12 months

7. DIE BLOKHUIS UIT DIE ANGLO-BOEREOORLOG (1899–1902), TE WARRENTON

Beskrywing

Die blokhuis uit die Anglo-Boereoorlog (1899–1902), tesame met die gedeelte grond voor die gebou, strekkende tot teen die grens van die padreserwe, asook een meter grond aan weerskante en aan die agterkant daarvan, gelee op 'n gedeelte van Watererf 8, Blok Y (nou bekend as Erf 381, Warrenton), in die munisipaliteit Warrenton, afdeling Kimberley.

Transportakte T1791/1981, gedateer 29 Oktober 1981 (par. 1)

8. DIE BLOKHUIS UIT DIE ANGLO-BOEREOORLOG (1899–1902), TE DANIELSKUIL

Beskrywing

Die blokhuis uit die Anglo-Boereoorlog (1899–1902), tesame met vyf meter grond daaromheen, gelee op Erf 754 ('n gedeelte van Erf 1), Danielskuil, in die administratiewe distrik Barkly-Wes

Transportakte T261/1976, gedateer 9 Maart 1976

L. A. PIENAAR,
Minister van Nasionale Opvoeding.

No. 2428 **11 Oktober 1991**

WET OP NASIONALE GEDENKWAARDIGHEDE, No 28 VAN 1969

INTREKKING VAN GOEWERMENTSKENNISGEWING No 492 VAN 1984

Kragtens die bevoegdheid my verleen by artikel 10 (2) (b) van die Wet op Nasionale Gedenkwaardighede, 1969 (Wet No. 28 van 1969), trek ek, Louis Alexander Pienaar, Minister van Nasionale Opvoeding, hierby Goewermentskennisgewing No 492 van 16 Maart 1984 in sy geheel in

Transportakte 13252/1957, gedateer 17 September 1957

L. A. PIENAAR,
Minister van Nasionale Opvoeding

ALGEMENE KENNISGEWINGS

KENNISGEWING 937 VAN 1991

RAAD OP FINANSIËLE DIENSTE

DIE JOHANNESBURGSE EFFEKTEBEURS

KENNISGEWING BETREFFENDE WYSIGING VAN REELS

1 Ingevolge artikel 12 (6) van die Wet op Beheer van Effektebeurse, 1985 (Wet No 1 van 1985), word hierby bekendgemaak dat die Johannesburgse Effektebeurs by die Registrateur van Effektebeurse aansoek gedoen het om goedkeuring om wysigings aan sy reels (soos uiteengesit in Bylae A hiervan), en om wysigings aan die Reels van die Waarborgfonds van die Johannesburgse Effektebeurs aan te bring, soos in Bylae B hiervan uiteengesit

7. THE ANGLO-BOER WAR (1899–1902) BLOCKHOUSE, AT WARRENTON

Description

The blockhouse dating from the Anglo-Boer War (1899–1902), together with the portion of land in front of the building, extending as far as the road reserve boundary, and including one metre of land on the sides and at the rear thereof, situated on a portion of Water Erf 8, Block Y (now known as Erf 381, Warrenton), in the Municipality of Warrenton, Division of Kimberley

Deed of Transfer T1791/1981, dated 29 October 1981 (par 1).

8. THE ANGLO-BOER WAR (1899–1902) BLOCKHOUSE, AT DANIELSKUIL

Description

The blockhouse dating from the Anglo-Boer War (1899–1902), together with five metres of surrounding land, situated on Erf 754 (a portion of Erf 1), Danielskuil, in the Administrative District of Barkly West

Deed of Transfer T261/1976, dated 9 March 1976.

L. A. PIENAAR,
Minister of National Education

No. 2428 **11 October 1991**

NATIONAL MONUMENTS ACT, No. 28 OF 1969

WITHDRAWAL OF GOVERNMENT NOTICE No. 492 OF 1984

By virtue of the powers vested in me by section 10 (2) (b) of the National Monuments Act, 1969 (Act No 28 of 1969), I, Louis Alexander Pienaar, Minister of National Education, hereby withdraw in its entirety Government Notice No 492 of 16 March 1984

Deed of Transfer 13252/1957, dated 17 September 1957.

L. A. PIENAAR,
Minister of National Education

GENERAL NOTICES

NOTICE 937 OF 1991 232

FINANCIAL SERVICES BOARD

THE JOHANNESBURG STOCK EXCHANGE

NOTICE REGARDING AMENDMENT OF RULES

1 In terms of section 12 (6) of the Stock Exchanges Control Act, 1985 (Act No 1 of 1985), it is hereby notified that the Johannesburg Stock Exchange has applied to the Registrar of Stock Exchanges for approval to make amendments to its rules (as set forth in Schedule A hereto), and to make amendments to the rules of the Johannesburg Stock Exchange Guarantee Fund as set forth in Schedule B hereto.

2 Ingevolge artikel 12 (7) van genoemde Wet word alle belanghebbendes (uitgesonderd lede van die Effektebeurs) wat beswaar het teen die voorgestelde wysigings, hierby versoek om hul besware binne 'n tydperk van 30 dae vanaf die datum van hierdie kennisgewing by die Registrateur van Effektebeurse, Privaatsak X238, Pretoria, 0001, in te dien

BYLAE A

Algemene verduidelikende notas

1 Woorde tussen vierkantige hakies ([ ]) dui skrappings uit bestaande reels aan

2 Woorde met 'n volstreep daaronder (——) dui invoegings in bestaande reels aan

VOORGESTELDE WYSIGING AAN DIE REËLS VAN DIE JOHANNESBURGSE EFFEKTEBEURS

1. VOORGESTELDE WYSIGING VAN REEL 2.40:

"JE Bestuur" die President, die Hoof Bedryfsbeampte en die Algemene Bestuurders,

Nota: Ter opheldering, is dit nodig om die Bestuur van die JE te omskryf

2. VOORGESTELDE WYSIGING VAN REËL 3.300.7:

Tugsake—Aanklagte, vonnisse, ens

3 300.7 Sou die Komitee met 'n tweederdemeerderheid besluit dat 'n ondersoek na die sake van 'n makelaarsfirma aan die lig bring dat dit op so 'n wyse sake doen dat die gevaar bestaan dat sodanige firma moontlik nie sy verpligtings teenoor kliente, ander makelaarsfirmas of 'n JE-vereffeningstelsel sal kan nakom nie of dat dit sake op 'n wyse doen wat vir die belange van die JE of die welsyn van sy lede skadelik kan wees, is die Komitee geregtig om met sodanige meerderheid—

3 300 7 1 sodanige firma te verbied om sake te doen,

3 300 7 2 die sakebedrywighede van sodanige firma op sodanige wyse te beperk as wat dit dienstig ag,

3 300 7.3 aan sodanige firma sodanige instruksies te gee wat dit in die belang van sy kliente, ander makelaarsfirmas of 'n JE-vereffeningstelsel nodig ag

2. In terms of section 12 (7) of the said Act all interested persons (other than members of the Stock Exchange) who have any objections to the proposed amendments are hereby called upon to lodge their objections with the Registrar of Stock Exchanges, Private Bag X238, Pretoria, 0001, within a period of 30 days from date of this notice.

SCHEDULE A

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General explanatory notes

1. Words in square brackets ([ ]) indicate omissions from existing rules.

2 Words underlined with solid line (——) indicate insertions in existing rules

PROPOSED AMENDMENTS TO THE RULES OF THE JOHANNESBURG STOCK EXCHANGE

1. PROPOSED AMENDMENT OF RULE 2.40:

"JSE Executive" means the President, the Chief Operating Officer and the General Manager,

Note: For clarification purposes, it is necessary to define the Executive of the JSE.

2. PROPOSED AMENDMENT OF RULE 3.300.7:

Disciplinary matters—Charges, sentences, etc.

3 300.7 If the Committee should resolve by a two-thirds majority that an investigation of the affairs of a broking firm reveals that it is trading in such a manner that there is a danger that such firm may not be able to meet its commitments to clients or to other broking firms or to a JSE settlement system or that it is conducting its business in a manner which could be detrimental to the interests of the JSE or the welfare of its members, the Committee shall be entitled by such majority to—

3.300 7.1 prohibit such firm from trading;

3.300 7 2 restrict the trading activities of such firm in such manner as it deems fit;

3 300 7.3 give such firm such instruction as it may deem necessary in the interests of its clients or other broking firms or a JSE settlement system.

Kennisgewing van sodanige verbod, beperking of instruksie sal vergesel gaan van besonderhede van die beweerde oortredings van die Wet, reels, voorskrifte en spesiale koerante wat makelaarsfirmas beheer. Die vereistes van die Komitee om die beweerde oortredings reg te stel sal vermeld word ten einde die betrokke firma in staat te stel om by die Komitee aansoek vir die opheffing van die bevel te doen

In elk geval kan enige optrede deur die Komitee ingevolge hierdie reel voortduur totdat die Komitee tevrede is met die finansiele toestand en die bedryfsgedrag van die betrokke firma. Met dien verstande dat sodanige optrede minstens een keer per maand deur die Komitee hersien word en daarna voortgesit word slegs vir soverre met 'n tweederdemeerderheid oor sodanige voortsetting besluit is

Nota: Die wysiging van die reel lê 'n verpligting op die Komitee om beweerde oortredings van wetlike verpligtings te identifiseer wanneer hy die handelsaktiwiteite van 'n makelaarsfirma verbied of beperk Die wysiging laat die Komitee ook toe om die verbod/beperking te verleng totdat hy tevrede is dat die besigheidsbestuur van die makelaarsfirma verligting regverdig.

3. VOORGESTELDE WYSIGING VAN REEL 4.100.1.5:

4 100 *Algemene vereistes vir, en verantwoordelikhede van, lede en hulle personeel*

4 100.1.5

4.100 1 5.1 . .

4 100.1.5.2 'n opdrag wat deur 'n bankinstelling wat ingevolge die Wet op Depositonemende Instellings, 1990 **[**Bankwet, 1965**]**, geregistreer is, op sy eie naam namens 'n werknemer van 'n makelaarsfirma geplaas is en wat deur die makelaarsfirma wat sodanige werknemer in diens het, uitgevoer word. 'n Makelaarsnotas wat op die naam van die bankinstelling uitgereik is, moet die naam van die werknemer namens wie die transaksie uitgevoer is, aangee. Ten opsigte van transaksies in prima effekte geld hierdie subreel ewe-eens, hetsy die makelaar as agent of as prinsipaal optree

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Notice of such prohibition, restriction or instruction shall be accompanied by particulars of the alleged breaches of the Act, rules, directives and special gazettes governing broking firms The Committee's requirements for rectification of the alleged breaches shall be stated to enable the firm in question to apply to the Committee for the removal of the order

In any event, any action taken by the Committee in terms of this rule may continue until such time as the Committee is satisfied as to the financial position and business conduct of the firm in question provided that such action shall be reviewed by the Committee at least once each month and shall thereafter only continue to the extent that such continuation is resolved upon by a two-thirds majority

Note: The amendment of the rule imposes on the Committee the obligation to identify alleged breaches of statutory requirements at the time it prohibits or restricts the trading activities of a broking firm. The amendment also permits the Committee to extend the prohibition/restriction until it is satisfied the business conduct of the broking firm warrants relief

3. PROPOSED AMENDMENT OF RULE 4.100.1.5:

4.100 *General Requirements for and Responsibilities of Members and their staffs*

4 100 1 5

4.100.1.5.1 . . .

4.100 1.5.2 an order placed by a banking institution, registered in terms of the Deposit-Taking Institution Act, 1990 **[**Banks Act, 1965**]**, in its own name on behalf of an employee of a broking firm which shall be executed through the broking firm employing him. Brokers notes issued in the name of the banking institution shall specify the name of the employee on whose behalf the transaction has been executed In regard to a transaction in gilts, the requirements of this subrule shall apply equally whether the broker acts as agent or principal.

Nota: Gevolglike wysiging wat voortspruit uit die herroeping van die Bankwet, 1965, en die Bouverenigingswet, 1986, en die invoering van die Wet op Depositonemende Instellings, 1990

4. VOORGESTELDE WYSIGING VAN REËL 4.100.5.5:

4.100 *Algemene vereistes vir, en verantwoordelikhede van, lede en hulle personeel*

4 100.5 . . .

4.100.5.5 2.2 'n sodanige makelaarslid of werknemer om 'n direkteur of aandeelhouer te wees van die in 4.100.5.5 1 bedoelde soort maatskappy waarvan die effekte ingesluit is in 'n lys wat 'n effektebeurs ingevolge artikel 16 van die Wet hou of van 'n bankinstelling soos in die Wet op Depositonemende Instellings, 1990 **[**Bankwet, 1965**]**, omskryf of 'n direkteur of polishouer van 'n maatskappy wat kragtens die Versekeringswet, 1943, geregistreer is en wat die in 4.100.5.5.1 bedoelde sake doen nie.

Nota: Gevolglike wysiging wat voortspruit uit die herroeping van die Bankwet, 1965, en die Bouverenigingswet, 1986, en die invoering van die Wet op Depositonemende Instellings, 1990.

5. VOORGESTELDE WYSIGING VAN REËL 5.200.1.2:

"Handelsprosedures—Deursittransaksies

5 200 5.200 1 . . .

5.200.1.1 . . .

5 200 1.2 die volgende prosedures moet nagekom word·

5.200.1 2 1 die makelaar of sy agent toets die mark in die betrokke effek op die handelsvloer om vas te stel welke koopaanbod- en verkoopaanbodpryse onder die heersende marktoestande toepaslik skyn te wees.
Indien so 'n makelaar of agent in besit is van kennis om redelikerwys in besit behoort te wees van kennis deur sy eie navraag in die mark op daardie dag verkry wat aantoon dat daar 'n besliste koper of verkoper is van die effekte wat deurgesit staan te word, moet hy verskuldigde aandag aan sodanige kennis skenk by die uitvoering van die transaksie en redelike stappe doen om die betrokke persone van sy voorgenome handeling te waarsku

Note: Consequential amendment arising out of the repeal of the Banks Act, 1965, and the Building Societies Act, 1986, and the introduction of the Deposit-Taking Institutions Act, 1990

4. PROPOSED AMENDMENT OF RULE 4.100.5.5:

4.100 *General Requirements for and Responsibilities of Members and their staffs*

4 100.5 . .

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4.100.5.5 2.2 any such broking member or employee from being a director or shareholder of a company of the kind referred to in 4.100.5.5.1 the securities of which are contained in a list kept by a stock exchange in terms of Section 16 of the Act or of any banking institution as defined by the Deposit-Taking Institutions Act, 1990 **[**Banks Act, 1965**]**, or a director or policyholder of any company registered in terms of the Insurance Act, 1943, which carries on the business referred to in 4.100.5 5 1.

Note: Consequential amendment arising out of the repeal of the Banks Act, 1965, and the Building Societies Act, 1986 and the introduction of the Deposit-Taking Institutions Act, 1990

5. PROPOSED AMENDMENT OF RULE 5.200.1.2:

"Trading Procedures—Put-throughs

5 200 5 200.1 . .

5.200.1.1

5.200 1.2 compliance with the following procedures·

5 200.1 2.1 the broker or his agent shall investigate the market in the security in question on the trading floor in order to establish what bid and offer prices appear to be appropriate in the prevailing market conditions,
If such broker or agent is possessed of knowledge or ought to be reasonably possessed of knowledge gained through his own enquiry on that day in the market indicating that there is a firm buyer or seller of the securities to be put through, he shall have due regard to such knowledge when executing the transaction and take reasonable steps to alert the persons concerned of his intended action

[5 200 1 2 2 Die makelaar of sy agent] Hy neem dan naby daardie afdeling van die prysebord waar die effekte genoteer word, plek in [.] en roep die naam van die effek (voorafgegaan deur die woorde "wat is") drie keer in 'n harde en duidelike stem. Indien in sodanige optrede die makelaar of sy agent nie genader word nie, mag hy ingevolge 5 200.1 2 2 voortgaan;

5.200.1.2.2[3] Die makelaar of sy agent maak in 'n luide stem 'n dubbele prys (dit is 'n prys waarteen hy gewillig is om te koop en 'n prys waarteen hy gewillig is om te verkoop) en noem die effek en vergewis homself daarvan dat sodanige pryse op die prysebord aangeteken word.

Reels 5 200 1 2 3[4] tot 5 200 1 2.12[13] word hernommer".

Nota: Die wysiging skryf die prosedure wat gevolg moet word, voor sodat die mark behoorlik ondersoek word voordat 'n deursittransaksie afgesluit word

6. VOORGESTELDE NUWE REEL 5.326:

"Betaling van surplusgelde aan JSET

5.326 5 326.1 Wanneer 'n makelaarsfirma surplus marge en ander betalings of ontvangstes ten behoewe van kliente hou vir die doel om termynkontrakte aan te gaan, moet sodanige gelde, voor die sluiting van besigheid op die dag waarop die gelde ontvang is, aan JSE Trustees (Edms.) Beperk betaal word

5 326.2 Gelde wat ingevolge hierdie reeling by JSE Trustees (Edms.) Beperk gedeponeer is, moet onttrek word onmiddellik nadat sodanige makelaarsfirma daartoe geregtig is ingevolge die bepalings van die Reels van die Suid-Afrikaanse Termynbeurs, in welke geval die makelaarsfirma—

5.326 2 1 enige geld so onttrek moet aanwend om enige verpligtings of verliese wat voortspruit uit termynkontrakte aangegaan ten behoewe van kliente, te vereffen, of

[5 200 1 2 2 the broker or his agent] He shall then position [station] himself in proximity to that section of the prices board where the security [stock] is listed and call the name of the security (prefaced by the words "what are") three times in a loud and clear voice If in so doing the broker or his agent is not approached, he may then proceed in terms of 5.200.1 2 2;

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5.200.1 2 2[3] the broker or his agent shall in a loud voice make a double price (that is, a price at which he is willing to buy and a price at which he is willing to sell) naming the security and shall ensure that such prices are recorded on the prices board.

Rules 5.200.1.2.3[4] through to 5 200 1.2.12 [13] to be renumbered"

Note: The amendment prescribes the procedure to be adopted so that the market is properly investigated before a putthrough transaction is concluded.

6. PROPOSED NEW RULE 5.326:

"Payment of surplus monies to JSET

5.326 5.326 1 Where a broking firm holds surplus margin and other payments or receipts for the account of a client for the purpose of entering into futures contracts, such monies shall, before the close of business on the day on which the monies were received, be paid to JSE Trustees (Pty) Limited

5 326 2 Monies deposited with JSE Trustees (Pty) Limited in terms of this arrangement shall be withdrawn by the broking firm immediately upon such broking firm being entitled to withdraw such monies by virtue of the provisions of the Rules of the South African Futures Exchange in which event the broking firm shall—

5 326 2 1 utilise any monies so withdrawn to settle any liabilities or losses arising from futures contracts entered into on behalf of the client; or

5.326 2.2 in die geval waar alle posisies in termynkontrakte gesluit is en geen verpligting ten opsigte daarvan oorbly nie, sodanige gelde onmiddellik aan die klient moet terugbetaal

5 326 3 Gelde ten opsigte waarvan die bepalings van 'n bestuurde rekening van toepassing is, sal nie ooreenkomstig hierdie reel hanteer word nie "

Nota: Hierdie nuwe reel wettig die betaling aan die JE van surplus marge en ander betalings of ontvangstes vir die rekening van 'n klient met die doel om termynkontrakte aan te gaan

7. VOORGESTELDE WYSIGING VAN REËL 5.390.1.2:

Geldmarktransaksies

5.390.1.2 By die toepas van hierdie reel beteken "instelling"—

'n bank wat ingevolge die Wet op Depositonemende Instellings, 1990 [Bankwet, 1965], geregistreer is,

bouvereniging wat ingevolge Wet op Depositonemende Instellings, 1990 [die Bouverenigingswet, 1986], geregistreer is;

maatskappy of 'n filiaal van 'n maatskappy waarvan die aandele op die JE genoteer is,

onderlinge bouvereniging wat ingevolge die Wet op Onderlinge Bouverenigings, 1965, geregistreer is,

regeringsliggaam, plaaslike owerheid of openbare korporasie

Nota: Gevolglike wysiging wat voortspruit uit die herroeping van die Bankwet, 1965, en die Bouverenigingswet, 1986, en die invoering van die Wet op Depositonemende Instellings, 1990

8. VOORGESTELDE WYSIGING VAN REËL 6.20.8:

6 20 *Skale van makelaarsloon op effekte, opsietransaksies en Krugerrande* (vervolg)

6 20 8 [6 20 8.1] Ten opsigte van transaksies in Krugerrande word 'n gelyke basiese vordering van R30 en 'n makelaarsloonkoers ooreenkomstig die skaal in 6 20.2 2 uiteengesit, gevorder

[6 20 8 2 Daarbenewens kan 'n makelaarsfirma uitgawes wat aan vervoer, versekering en veilige bewaring in verband met 'n in 6 20 8 1 bedoelde transaksie aangegaan is, vorder]

5.326.2.2 in the event of all futures positions being closed out and no liabilities remaining in respect thereof, repay such monies to the client forthwith

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5 326 3 Monies to which the provisions governing a managed account apply shall not be dealt with in terms of this rule "

Note: This new rule formalises the payment to JSE Trustees of surplus margin and other payments or receipts for the account of a client for the purposes of entering into futures contracts.

7. PROPOSED AMENDMENT OF RULE 5.390.1.2:

Money Market Transactions

5.390.1 2 For the purpose of this rule, "institution" means any—

bank registered in terms of the Deposit-Taking Institutions Act, 1990 [Banks Act, 1965];

mutual building society registered in terms of the Mutual Building Societies Act, 1965;

building society registered in terms of the Deposit-Taking Institutions Act, 1990 [Building Societies Act, 1986],

company or any subsidiary of a .

Notes: Consequential amendment arising out of the repeal of the Banks Act, 1965, and the Building Societies Act, 1986, and the introduction of the Deposit-Taking Institutions Act, 1990

8. PROPOSED AMENDMENT TO RULE 6.20.8:

6.20 *Rates of brokerage on securities, option transactions and Krugerrands* (contd)

6 20 8 [6 20 8 1] In respect of dealings in Krugerrands, a flat basic charge of R30 and a brokerage rate [shall be charged] in terms of the scale set forth in 6.20 2 2 shall be charged

[6.20 8 2 A broking firm may in addition charge transport, insurance and safe custody expenses incurred in connection with a transaction referred to in 6 20.8 1]

Nota: Die wysiging maak voorsiening vir die heffing van 'n basiese vordering op Krugerrande ooreenkomstig die basiese heffing op effekte.

9. VOORGESTELDE SKRAPPING VAN REËL 10.50:

[*Outomatiese beeindiging van notering*

10 50 10 50.1 Ondanks enigiets in hierdie reels of in 'n noteringsvereistes van die JE vervat, is dit 'n voorwaarde van 'n notering van 'n effek dat indien 'n bevel toegestaan word wat die uitreiker van die effek onder voorlopige geregtelike bestuur of likwidasie plaas, die notering van die effek outomaties beeindig word.

10 50 2 'n Uitreiker wie se notering ingevolge 10 50 1 beeindig is, kan indien sodanige bevel agterna ter syde gestel word, by die Komitee aansoek om 'n notering van sy effekte ingevolge hierdie reëls doen In so 'n geval word die aansoek as 'n nuwe aansoek behandel behalwe waar die Komitee anders besluit]

Nota: Die bepalings van hierdie reel bots met artikel 17 (2) van die Wet op Beheer van Effektebeurse, 1985, wat vereis dat die Komitee die persoon wat die effekte uitgegee het die geleentheid moet gun om vertoe te rig vir die voortgesette opname van die effekte Bygevolg kan die reel nie afgedwing word nie en behoort dus geskrap te word

10. VOORGESTELDE WYSIGING VAN REEL 12.10:

JSE TRUSTEES (EDMS.) BPK .

12.10 Die Komitee stig 'n maatskappy wat as JSE Trustees (Edms) Beperk bekend sal staan om van kliente van makelaarsfirmas van die JSE alle gelde aan te neem wat van tyd tot tyd uit bestuurde rekenings wat makelaarsfirmas namens sodanige kliente bestuur en uit reelings van die in 5 310, 5 320, [en] 5 325 en 5 326 bedoelde soort voortspruit, en om aan sodanige kliente of hulle order gelde wat aldus aangeneem is terug te betaal

Nota: 'n Gevolglike wysiging wat voortspruit uit die invoering van nuwe reel 5 326

Note: The amendment provides for a basic charge to be levied on Krugerrands in line with basic charge on securities

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9. PROPOSED DELETION OF RULE 10.50:

[*Automatic termination of listing*·

10 50 10 50.1 Notwithstanding anything contained in these rules or in any listing requirement of the JSE, it shall be a condition of a listing of a security that should an Order be granted which places the issuer of the security under provisional judicial management or liquidation, then the listing of the security shall automatically terminate

10.50.2 An issuer whose listing has been terminated in terms of 10 50.1 may, if such Order is subsequently set aside, apply to the Committee for a listing of its securities in terms of these rules In such event, the application shall be treated as a new application except where the Committee determines otherwise]

Notes: The provisions of this rule are in conflict with section 17 (2) of the Stock Exchanges Control Act, 1985, which requires that the Committee shall grant the issuer of the security the opportunity of making representations for the continued listing of the securities The rule consequently cannot be enforced and should therefore be deleted

10. PROPOSED AMENDMENT OF RULE 12.10:

JSE TRUSTEES (PTY) LIMITED

12 10 The Committee shall establish a company to be known as JSE Trustees (Pty) Limited to accept from clients of broking firms of the JSE all monies arising from time to time from managed accounts operated by broking members on behalf of such clients and from arrangements of the kind referred to in 5.310, 5 320, [and] 5 325 and 5 326 and to repay to such clients or their monies so accepted

Note: A consequential amendment arising out of the introduction of new rule 5.326

11. VOORGESTELDE WYSIGING VAN REËL 12.50:

JSE Trustees (Edms) Beperk

12.50 Alle gelde wat JSE Trustees (Edms) Beperk aanneem, word by bankinstellings en bouverenigings (wat anders as voorlopig kragtens die Wet op Depositonemende Instellings, 1990 [Bankwet, 1965,] of die Onderlinge Bouverenigingswet, 1965, geregistreer is) [of die Bouverenigingswet, 1986)] wat deur die direkteure goedgekeur is, gedeponeer

Nota: Gevolglike wysiging wat voortspruit uit die herroeping van die Bankwet, 1965, en die Bouverenigingswet, 1965, en die invoering van die Wet op Depositonemende Instellings, 1990.

12. VOORGESTELDE WYSIGING VAN REËL 14.20:

14.20 *Omskrywings* (vervolg)

"marge" die kontant of kollateraal wat gedeponeer is [sal word] aan die order van KVO om te verseker dat die skrywer van 'n opsie te alle tye sy verpligtinge kan nakom;

"KVO-bank" 'n bank wat anders as voorlopig ingevolge die Wet op Depositonemende Instellings, 1990 [Bankwet, 1965], geregistreer is, wat deur die Komitee goedgekeur is en ooreenkomste met die KVO gesluit het om 'n stelsel van rekeninge onder die beheer van KVO daar te stel,

Nota: Gramatikale regstelling, en Gevolglike wysiging wat voortspruit uit die herroeping van die Bankwet, 1965, en die invoering van die Wet op Depositonemende Instellings, 1990.

13. VOORGESTELDE WYSIGING VAN REËL 14.100.1:

14 90–14 100 *Algemene besigheid* (vervolg)

14.100 14.100 1 Sekuriteite en finansiele instrumente wat deur die Komitee goedgekeur is en wat as marge vir 'n verhandelde opsitransaksie gedeponeer is, sal by die KVO-bank gedeponeer word en sal—

14.100.1.1 geregistreer word soos deur KVO voorgeskryf;

14 100.1.2 aangeteken en so onderskei word dat eienaarskap ten alle tye bepaal kan word, en

14 100 1 3 onherroeplik tot die order van KVO gehou word

Nota: Grammatikale wysiging.

11. PROPOSED AMENDMENT OF RULE 12.50: (232)

JSE Trustees (Pty) Limited

12.50 All monies accepted by JSE Trustees (Pty) Limited shall be deposited with banking institutions and building societies (registered otherwise than provisionally in terms of the Deposit-Taking Institutions Act, 1990 [Banks Act, 1965,] or the Mutual Building Societies Act, 1965) [or the Building Societies Act, 1986)] approved by the directors.

Note: Consequential amendment arising out of the repeal of the Banks Act, 1965, and the Building Societies Act, 1965, and the introduction of the Deposit-Taking Institutions Act, 1990.

12. PROPOSED AMENDMENT TO RULE 14.20:

14.20 *Definitions* (Contd.)

"margin" means cash or collateral which is [shall be] deposited to the order of TOCH to ensure that the writer of an option can at all times fulfil his obligations.

"TOCH bank" means a bank which has been registered, other than provisionally, in terms of the Deposit-Taking Institutions Act, 1990 [Banks Act, 1965], and which has been approved by the Committee and has entered into agreements with TOCH to create a system of accounts under the control of TOCH;

Note: Grammatical amendment; and Consequential amendment arising out of the repeal of the Banks Act, 1965, and the introduction of the Deposit-Taking Institutions Act, 1990

13. PROPOSED AMENDMENT TO RULE 14.100.1:

14 90–14.100 *General Business* (Contd.)

14.100 14.100.1 Securities and financial instruments approved by the Committee which are lodged as margin for a traded option transaction shall be deposited with the TOCH bank and shall be—

14.100.1.1 registered as directed by TOCH;

14.100.1.2 recorded and so distinguished that ownership can be established at all times, and

14 100.1 3 irrevocably held to the order of TOCH

Note: Grammatical amendment

14. VOORGESTELDE WYSIGING VAN REEL 14.230.2:

14 200–14 230 *Marge* (vervolg)

14 230 14 230 1 By oordrag van 'n opsie sal marge wat gehou word nie aan die skrywer teruggegee word nie tot tyd en wyl hy sy verpligting ingevolge die opsie afgelos het

14 230.2 14.230.2.1 Onderhewig aan 14 230 1, mag marge slegs by skriftelike versoek deur 'n KVO-deelnemer onttrek word.

Nota: Wysiging in belang van duidelikheid

15. VOORGESTELDE WYSIGING VAN REËL 14.320.1:

Beperking of opskorting van handel deur 'n KVO-deelnemer

14 320 14 320 1 'n KVO-deelnemer of klient wat nie sy verpligtings kan nakom nie of wat insolvent is, moet KVO onmiddellik telefonies daarvan verwittig en sodanige kennisgewing deur telefax of telegram bevestig of sorgdra dat sodanige kennisgewing en bevestiging vir hom gedoen word

Nota: Grammatikale wysiging van slegs die Engelse teks

BYLAE B

Algemene verduidelikende notas

1 Woorde tussen vierkantige hakies ([ ]) dui skrappings uit bestaande reels aan

2. Woorde met 'n volstreep daaronder (——) dui invoegings in bestaande reels aan

VOORGESTELDE WYSIGING VAN REËL 6.2 VAN DIE REËLS VAN DIE WAARBORGFONDS VAN DIE JOHANNESBURGSE EFFEKTEBEURS

VOORGESTELDE WYSIGING VAN REËL 6.2 VAN DIE REELS VAN DIE WAARBORGFONDS:

6 2 minstens [50 persent] R10 miljoen van die totale bates van die Fonds moet belê word—

6 2 1 op deposito by 'n bankinstelling, 'n onderlinge bouvereniging of 'n bouvereniging (wat anders as voorlopig ingevolge die [Bankwet, 1965], Wet op Depositonemende Instellings, 1990, of die Onderlinge Bouverenigingswet, 1965 [of die Bouverenigingswet, 1965], geregistreer is),

14. PROPOSED AMENDMENT TO RULE 14.230.2:

14 200–14 230 *Margin* (contd) 232

14 230 14 230.1 On the assignment of an option, margin held by TOCH shall not be returned to the writer until he has discharged his liability under the option

14.230 2 14 230.2 1 Subject to 14 230 1, margin may be withdrawn only upon written request by a TOCH participant.

Note: Amendment in the interests of clarity

15. PROPOSED AMENDMENT TO RULE 14.320.1:

Restriction or Suspension of Trading of a TOCH Participant

14 320 14 320.1 A TOCH participant or client which is unable to meet its obligations when due or which is insolvent shall immediately notify TOCH by telephone and confirm such notification immediately by telefax or telegram or cause such notification and confirmation to be made on its or his behalf

Note: Grammatical amendment

SCHEDULE B

General explanatory notes

1 Words in square brackets ([ ]) indicate omissions from existing rules.

2 Words underlined with solid line (——) indicate insertions in existing rules

PROPOSED AMENDMENTS TO THE RULES OF THE JOHANNESBURG STOCK EXCHANGE GUARANTEE FUND

PROPOSED AMENDMENT OF RULE 6.2 OF THE RULES OR THE GUARANTEE FUND:

6 2 not less than [50 per cent] R10 million of the total assets of the Fund shall be invested—

6 2 1 on deposit with a banking institution, a mutual building society or a building society (registered otherwise than provisionally in terms of the [Banks Act, 1965], the Deposit-Taking Institutions Act, 1990, or the Mutual Building Societies Act, 1965 [or the Building Societies Act, 1965]),

6.2 2 in wissels, obligasies, skuldbriewe of effekte wat deur die regering van die Republiek uitgereik of gewaarborg is;

6 2 3 in effekte van 'n plaaslike bestuur in die Republiek wat by wet gemagtig is om belasting op vaste eiendom te hef,

6 2.4 in skuldbriewe of effekte van die Reserwebank, die Randwaterraad, ESKOM, [die Elektrisiteitsvoorsieningskommissie] of sodanige ander dergelike liggaam wat by of kragtens wet saamgestel of ingestel is,

6.2 5 vir die doeleindes van hierdie reel beteken die uitdrukking "totale bates van die Fonds" al die bates van die Fonds teen markwaarde van tyd tot tyd gewaardeer

Nota: Die uitwerking van die wysiging van 6 2 sal wees om 'n Rand bedrag te stel vir die niegewone aandele gedeelte van die Fonds om sodoende likwiede fondse te voorsien om enige eis te vereffen, en om die basis waarop die bates van die Fonds gewaardeer staan te word, op te helder Gevolglike wysigings wat voortspruit uit die wysiging van die Bouverenigingswet, 1965, na die Onderlinge Bouverenigingswet, 1965, en die invoering van die Bouverenigingswet, 1986, en 'n latere wysiging as gevolg van die herroeping van die Bankwet, 1965, en die Bouverenigingswet, 1965, en die invoering van die Wet op Depositonemende Instellings, 1990.

26 September 1991.

(11 Oktober 1991)

6 2.2 in bills, bonds, debentures or stock issued or guaranteed by the Government of the Republic;

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6.2 3 in stock of any local authority in the Republic authorised by law to levy rates upon immovable property,

6.2 4 in debentures or stock of the Reserve Bank, the Rand Water Board, ESKOM [the Electricity Supply Commission] or such other similar body constituted or established by/or under law;

6.2 5 for the purposes of this Rule, the expression "total assets of the Fund" shall mean all the assets of the Fund valued at market value from time to time

Note: The effect of the amendment to 6.2 will be to set a Rand figure for the non-equity portion of the Fund so as to provide liquid funds to meet any claim, and to clarify the basis on which the assets of the Fund are to be valued Consequential amendments arising out of amendment of the Building Societies Act, 1965, to the Mutual Building Societies Act, 1965, and the introduction of the Building Societies Act, 1986, and a subsequent amendment due to the repeal of the Banks Act, 1965, and the Building Societies Act, 1965, and the introduction of the Deposit-Taking Institutions Act, 1990

26 September 1991.

(11 October 1991)

KENNISGEWING 938 VAN 1991

DEPARTEMENT VAN LANDBOU

WET OP VEEBRANDMERKE, 1962
(WET 87 VAN 1962)

OPGAWE VAN VEEBRANDMERKE GEREGISTREER

Ingevolge artikel 11 (1) van die Wet op Veebrandmerke, 1962 (Wet 87 van 1962), word die bygaande lys hiermee gepubliseer vir inligting van veebrandmerke wat vanaf 1 Julie 1991 tot 30 September 1991 geregistreer is

J. P. CAMPHER,
Registrateur van Veebrandmerke

NOTICE 938 OF 1991

DEPARTMENT OF AGRICULTURE

LIVESTOCK BRANDS ACT, 1962
(ACT 87 OF 1962)

STATEMENT OF LIVESTOCK BRANDS REGISTERED

In terms of section 11 (1) of the Livestock Brands Act, 1962 (Act 87 of 1962), the following list of livestock brands registered from 1 July 1991 to 30 September 1991 is hereby published for information

J. P. CAMPHER,
Registrar of Livestock Brands

Brandmerk Brand	Naam van eienaar Name of owner	Adres van eienaar Address of owner
ΩLA	De Lange, A S	"Turffontein", Ludorfstraat 16, Warmbad, 0480
ΩLB	Bronkhorst, J D B	Geministraat 34, Sterpark, Pietersburg, 0700
ΩLC	Scheepers, G C	"Goedgedacht", Posbus 737, Groblersdal, 0470
ΩLD	Lottering, D J	"Droogekloof", Posbus 11, Warmbad, 0480
ΩLE	Spies, E E	"Plot 139, Noodhulp", Warmbad, 0480
ΩLF	Swanepoel, C F	Posbus 159, Rouxville, 9958

SANKORP/MALBAK/MURRAY & ROBERTS

FM 11/10/91 (232)

Shuffling the assets again

Malbak appears likely to emerge as overall winner of the latest Sankorp reshuffle revealed this week There was strong speculation after Federale Volksbeleggings was delisted last year that its main operating companies would eventually be swallowed by Malbak

Though this was denied at the time, a year later Malbak has announced it will acquire Federale's controlling stakes in Fedfood (70%) and SA Druggists (68%) Malbak chairman Grant Thomas says that Malbak has been trying to expand its food and pharmaceutical businesses Group policy is to operate only in sectors in which it has a strategically significant presence

No price has been announced for the Fedfood or SA Druggists transactions, but at market prices the stake in Fedfood is worth R370m and in SA Druggists about R240m

Thomas says Malbak will buy shares but sell certain of its own assets for cash, so its balance sheet will be greatly strengthened Fedvolks, on the other hand, will have been dismembered, with only its services and motor components divisions remaining

Fergusson Bros analyst Steve Rubenstein says that Sankorp is baling out of nonperforming conglomerates and moving its investments into businesses with more marketable paper Malbak — controlled by Gencor — and Murray & Roberts are considered to be among Sankorp's star performers

Murray & Roberts also looks set to do well out of the deals It will buy Malbak's 62% stake in Darling & Hodgson, gaining joint control of Blue Circle and outright control of Rocla, which has major piping interests Analysts say that Malbak was unable to establish a strategically significant stake in building materials, so it decided to withdraw from that fray by selling D & H Malbak says the sale was the price it had to pay for strong gains in other markets

Murray & Roberts also gets half of Malbak's 70% interest in Standard Engineering, which operates in many of the same sectors as Murray & Roberts, such as automotive components, petrochemicals, piping and metal industries Thomas describes the deal as an elegant solution to the competition which was emerging between the two groups At market prices, the D & H stake is worth about R265m and the Standard stake about R100m, which would still be within M & R's self-imposed cash and borrowing ceiling of R405m, but it is likely that some shares will be involved

Sankorp CE Marinus Daling says the three industrial conglomerates under its control — Malbak, Murray & Roberts and wholly owned Fedvolks — have reshuffled their businesses in the best interests of the holding company "These deals were not driven from the centre," he says, "but we are glad to see a more logical refocusing of interests "

For all the logic being cited for the refocusing, Malbak still retains significant engineering interests, mainly its stake of 36%-odd in Haggie and the remaining interest in Standard Engineering

Malbak's Thomas *will be a logical rationalisation*

Moreover, Fedvolks may not have been a completely willing participant, as neither Fedvolks MD Peet van der Walt nor Fedfood MD Jan du Toit were involved in the negotiations But the association of Fedfood and SA Druggists with Fedvolks had done nothing for their image in recent years

Initially, Malbak itself will house SA Druggists and Fedfood, but Thomas says there will be a logical rationalisation, and possibly mergers with companies in the sectors He promises that he will have in-depth discussions with management before anything is contemplated

SA Druggists MD Johan van der Walt sees exciting synergies in the pharmaceutical sector Malbak has its own pharmaceutical interests, which are unlisted — particularly in the area of branded products and marketing skills SA Druggists looks set to acquire Protea and Akromed, Malbak's existing — and much smaller — pharmaceutical interests

A merger between Kanhym and Fedfood, both listed companies with few cash resources of their own, might be more problematic Fedfood's Du Toit is retiring in March, which would probably leave Kanhym chairman Dirk Jacobs as top man in Malbak's food interests The joint company would almost certainly take a third name Fedfood has lingering associations with the image attached to Federale, while Kanhym is associated with feedlots and the cyclical nature of the red meat industry

Effects of the deal on the earnings and net worth of Malbak and Murray & Roberts cannot be determined until more numbers are revealed But Malbak is selling interests which trade on multiples of around seven and buying companies with multiples of around 10, so there is potential for a dilution in earnings in the short term — though much would depend on how the assets are managed afterwards

If the deals are struck at market values, Malbak could have a shortfall of about R250m to finance In theory, that could imply issue of a further 23m shares, at R11 a share Daling says Sankorp has assured Thomas it will make the appropriate finance available, but says no rights issues have been scheduled

Fedfood and SAD both have unexciting growth records and returns on capital In the past Malbak has had some success in improving returns on capital in particular, so it may well be able to help its newly acquired companies to perform better

Murray & Roberts also has a strong record, so a good performance from D & H and Standard Engineering can be predicted with confidence *Stephen Cranston*

STANDARD ENGINEERING

FM 11/10/91

Exports to the rescue

There was a major deterioration in domestic sales but, thanks to export incentives, Standard Engineering showed much better earnings The group has been upgrading plant to

Continued

Standard's Brown *should at least maintain earnings*

INDUSTRIAL SELECTIONS

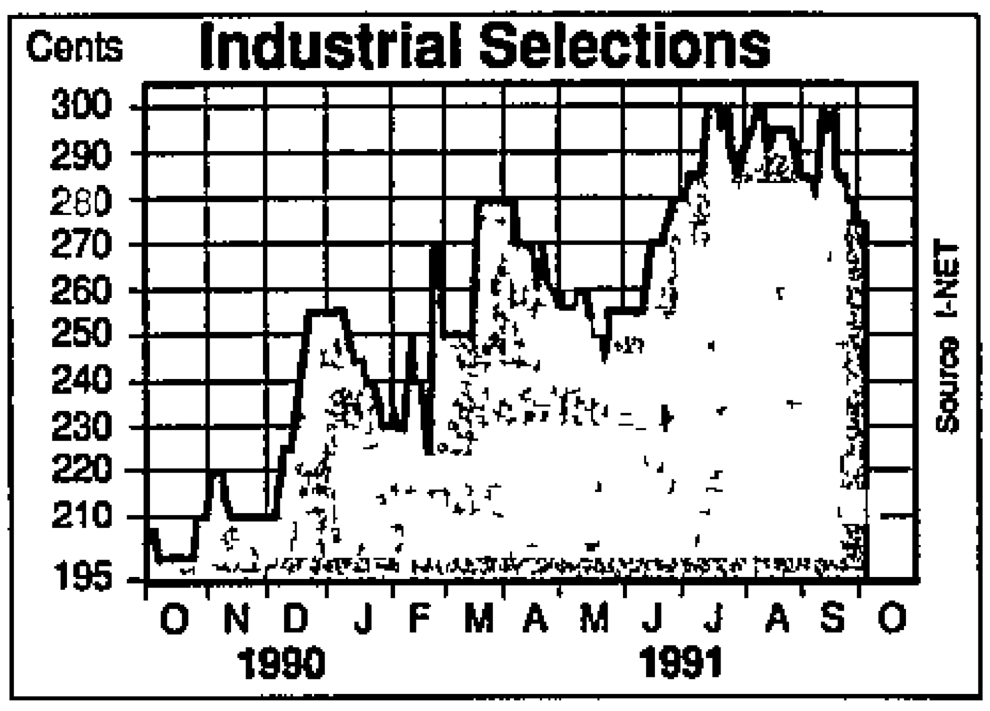
Capital gains

Activities: *Investment company holding listed and unlisted shares of companies engaged in manufacturing and beneficiation of minerals*
Control: *Held by Industrial Development Corp from which almost all investments are acquired*
Chairman: *P J van Rooy*
Capital structure: *273,8m ords Market capitalisation R753m*
Share market: *Price 275c Yields 4,2% on dividend, 5,1% on earnings, p e ratio, 19,8, cover, 1,2 12-month high, 300c, low, 200c Trading volume last quarter, 2,8m shares*

Year to June 30	'88	'89	'90	'91
Taxed income (Rm)	29,1	36,9	42,8	38,0
Earnings (c)	10,64	13,49	15,61	13,88
Dividends (c)	8	10	11,5	11,5
Net worth (c)	148	273	309	291

Though the 1991 dividend was maintained at 11,5c, shareholders have enjoyed good capital appreciation, with the share having risen by about a half over the past 12 months

A couple of years ago, the share was trading at a fairly wide discount to NAV as calculated on market valuations of listed investments and directors valuations of unlisted holdings The gap has now been largely eliminated, as the share stands about 5,5%



below the year-end NAV of 291c

Adjustment of the NAV for present prices of listed investments results in a lower figure of 270c, which is below the price of 285c At current prices, listed investments are worth some R587m, of which about 86% relates to only three shares — CG Smith (33,3%), Impala Platinum (24,2%), and Sappi (28,2%) Other listed investments are Bankorp (1,7%), CG Smith Foods (4,8%), Gubb & Inggs (0,5%), Palabora (4,2%) and Sasol (3,2%)

Unlisted investments were valued by the directors at R126,9m at year-end, based on a 10% dividend yield formula Important holdings among these include 2,5m shares in Industrial Finance Corp (IFC), as well as 243 shares each in Richbay Mine Holdings (Pty) and Richbay Smelter Holdings (Pty) Half of IFC's investment portfolio is attributable to Indsel, it holds shares in C G Smith and Sentrachem, now worth a total R86,7m, and 10,5m shares in Alusaf (Pty)

During the year, the company sold several of its smaller listed holdings These comprised 200 000 AECI, 100 000 Barlow Rand, 1,2m Federale Volks, 165 000 Federale Volks conv prefs and 323 950 Tongaat-Hulett The balance sheet shows a cash balance of R31m Since year-end, however, the proceeds from the sales, with available cash, was used to buy a further 216 shares each in the two Richards Bay companies

Richards Bay Minerals is involved in a major expansion This, and the likelihood of a listing for Alusaf, should help to add value to the portfolio over time Indsel's share looks fully priced for now but should remain a good investment given the quality of the major holdings *Andrew McNulty*

DATES TO REMEMBER

Last day to register for dividends:
Friday Oct 18: Burlington 2,5c; Elcentre 21c; Elgro 10,5c; Pals 1,5c; Sappi 80c; Tafelberg 1,5c; TPN 2c; Voltex 4,75c.
Meetings:
Monday Oct 14: Randex.
Tuesday Oct 15: GFSA; Grinaker; Grintek; Primrose GM (Ord & S); Siltek.
Wednesday Oct 16: Barmine (S); Barplats (S), Bloch (Bisho); Panprop (Sandton); SFW (Stellenbosch).
Thursday Oct 17: Genbel; Sappi (S); Wooltru (Cape Town).
Friday Oct 18: Afcom; Bidcorp; Bidvest; CMI; Daby; I & J (Cape Town).
All meetings are in Johannesburg unless otherwise stated.
S = Special meeting.

FM 11/10/91.
NATIONAL SELECTIONS

Closing the gap

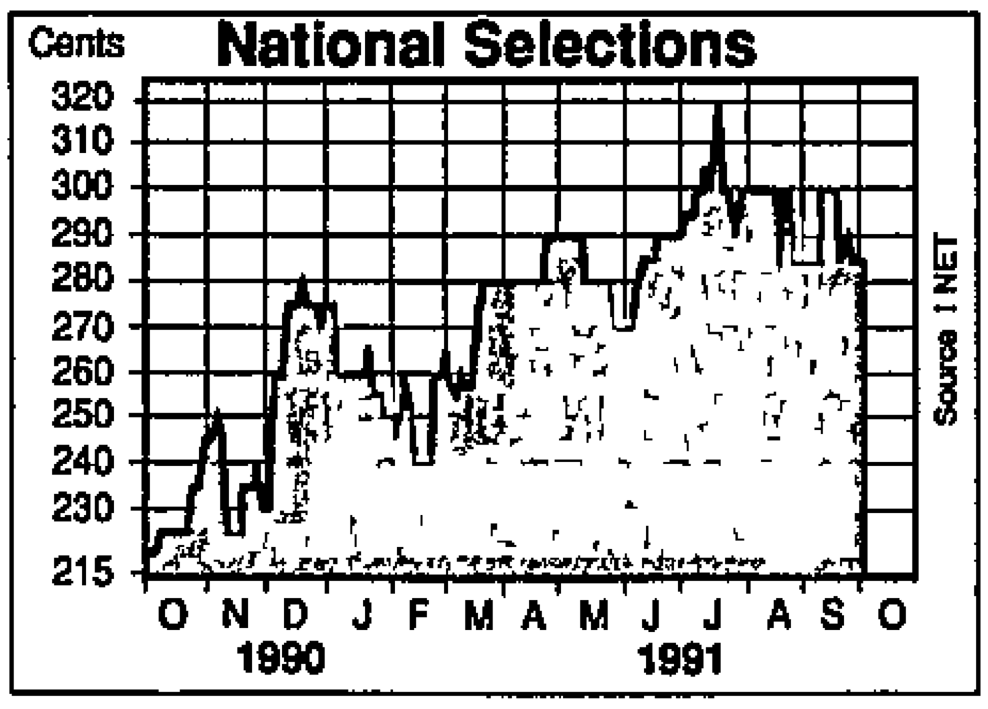
(232)

Activities: *Investment company holding listed and unlisted shares of companies engaged in manufacturing and beneficiation of minerals*
Control: *Held by Industrial Development Corp, from which almost all investments are acquired.*
Chairman: *P J van Rooy*
Capital structure: *230,2m ords Market capitalisation R656m*
Share market: *Price 285c Yields 4,9% on dividend, 5,8% on earnings, p e ratio, 17,3, cover, 1,2 12-month high, 320c, low, 215c. Trading volume last quarter, 5,1m shares*

Year to June 30	'88	'89	'90	'91
Taxed profit (Rm)	27,5	37,5	43,1	37,9
Earnings (c)	11,95	16,28	18,74	16,47
Dividends (c)	9,0	12,0	14,0	14,0
Net worth (c)	160	289	336	304

Natsel is in much the same position as Indsel (see above) The value of its portfolio is concentrated in a few core, good quality holdings and the share price has performed well over the past year

The 285c price is now 5,5% below the year-end NAV of 291c When NAV is adjusted for the current value of listed investments, the NAV drops to 282c Total market value of the listed shares is about R493m, of which four shares account for just over 90%



These are: C G Smith (24,8%), Impala Platinum (28,8%), Palabora (12,3%) and Sappi (24,2%) Other listed holdings are Bankorp (25%), C G Smith Foods (4%) and Sasol (3,8%)

Important unlisted holdings include 243 shares each in Richbay Mine Holdings (Pty) and Richbay Smelter Holdings (Pty), as well as 2,5m shares, or a 50% stake, in Industrial Finance Corp, whose portfolio has shares in C G Smith and Sentrachem, as well as 10,5m shares in the unlisted Alusaf. Directors' valuation of unlisted shares was R140,8m

During the year, Natsel sold 100 000 Barlow Rand and 153 141 Tongaat-Hulett, helping lift the cash balance to R25,5m. Since year-end, the company bought from the IDC a further 182 shares in the two Richards Bay Minerals companies. Value attached to these holdings as well as Alusaf will undoubtedly help to boost the worth of the share over the long term.

As a greater proportion of Natsel's portfolio is in mining companies than is Indsel's, the former's share may be a weaker performer in the short term However, it should prove a rewarding long-term hold. *Andrew McNulty*

DEFINITIONS

Shareholders' interest: Total shareholders' funds expressed as a ratio of capital employed.
Pre-interest profit: Pre-tax profit plus net interest paid.
Gross cash flow: Profit after tax and redeemable preference dividends, but before minorities, plus depreciation and deferred tax
Interest and leasing cover: Pre-interest profit plus financial lease charges expressed as a multiple of net interest and financial lease payments
Capital commitments: Contracted and authorised capital expenditure commitments.
Cover: Earnings attributable to ordinary shares divided by ordinary dividends paid.
Total shareholders' funds: The total of ordinary, minority and irredeemable preference shares plus all capital convertible into equity, less intangibles and adjusted for the market and/or directors' valuation of investments.

The message is simple It's a matter of time and time is running out ■

PART BONDS FM 11|10|91

Picking up the pieces

The participation bond industry is putting on a brave face, but last week's collapse of the Masterbond Trust group has spooked thousands of potential investors (see page 68). Damage control will depend on how successfully the provisionally liquidated group's affairs are wound up — and that could take months (232)

The group relied heavily on small investors — many of them pensioners — who were attracted by higher than average interest rates What they were not told was that Masterbond's borrowers — often group subsidiaries involved in leisure property development — were relatively high risks

continued

FM 11|10|91 (232)

Colin Hickling, chairman of the Association of Participation Mortgage Scheme Managers of SA, which represents all major players in the industry (Masterbond was not a member) points out the failure is the first since the original Participation Bond Act came into effect in 1964 He says most part bond funds are managed by companies associated with or owned by major banking groups and the assurance industry

Investments in any scheme operated in terms of the Act and the guidelines of the Financial Services Board should be safe, "given the underlying fixed property mortgaged provides adequate security "

Masterbond had nearly R740m under administration and about 20 000 investors on its books But the number could be far higher because, in many cases, groups of small investors, mainly pensioners, banded together to make single investments

Many investors depend on their monthly interest for living expenses Last week, the joint provisional liquidators appointed the Board of Executors (BoE) as interim administrator of Masterbond's part bond scheme

BoE's Philip Biden says interest will be collected from borrowers and passed on, via the liquidators, to investors What amount — or whether — investors are paid depends on borrowers' ability to meet interest payments as well as the documentation relating to the scheme Incoming payments will probably be kept in trust until the use of each investor's funds can be determined, so that none of them is prejudiced

Biden expects clarity on the state of Masterbond's part bond scheme by early next week BoE is also advising the liquidators on its debenture mortgage bond scheme, which is being treated as a separate issue

Chris Mostert, Deputy Registrar of Unit Trusts, whose jurisdiction includes the Participation Bond Act, says his department will "closely monitor" the liquidation of the Masterbond Trust group but will play no direct role for the time being

Mostert says part of his department's function is to ensure companies operate part bond schemes in terms of the Act As part of the process, Masterbond's activities were monitored and he is satisfied that the group was operating in terms of the Act In his opinion, it was the group's ancillary business as a property developer that caused its financial problems, not its part bond activities

Mostert says it is difficult to say at this stage if investments in Masterbond's part bond scheme are safe "It depends on the valuation of the properties If valuations were realistic and bonds of no more than 66,6% of the valuations were granted — as stipulated by the Act — then the investments should be safe If this procedure was not followed, then the scheme was being operated outside the terms of the Act and criminal action could be instituted "

However, industry sources point out problems may arise in cases where Masterbond used part bond investors' funds to finance its own developments or property acquisitions In these cases, the properties or developments could become assets within the liquidation net and investors, whose funds were used to finance the projects, would simply have to join the creditors' queue In cases where Masterbond lent to genuine third parties the investments should be safe

As a rule of thumb, funds should be reasonably safe provided borrowers can continue servicing debts and repay capital owing when the bond matures, or refinance it Where this cannot be done, the security of investments could depend on what the property or development can be sold for — and that is when Masterbond's system of internal valuations of developments by borrowers who were subsidiaries will be tested ■

FOCUS: *SA shareholders ignore their chance to press the business community*

The right to question wrongs

W/Mail 11/10 - 17/10/91. (232)

CRITICAL CONSUMER

Pat Sidley

THERE'S a little old lady in the United States who holds shares in many large companies She attends annual meetings and asks the directors blistering questions, like the one she asked Mariott Corporation directors: Why does the company only sell Pepsi Cola, and not Coca Cola, in its hotels?

The company directors are forced to take the questions seriously and answer them

Company directors face the same kinds of pressures regularly from many shareholder groups. those interested in the attitudes of the company to doing business in South Africa, those who do not believe in animal experimentation, environmentalists and aggressive corporate raiders, to list a few

Shareholders can be huge pension funds, large corporate investors, church groups, trade unions or activists The investments can be worth billions of dollars or just a few. It makes no difference to the procedure. shareholders are consumers and in the United States, like other consumers, they exercise their rights.

Unfortunately, local shareholders, in common with other consumers, do not see themselves as having rights to exercise over companies in which they hold stock.

Although South African shareholders don't have as many rights as their American counterparts, they do have some rights which can be used here. They would have to fight hard to use them, as company directors here, like Nationalist members of parliament, are not used to anyone questioning their decisions. But it is an area of consumer responsibility and action worth looking at

The Investor Responsibility Research Center (IRRC) in Washington is an organisation which provides institutional investors with the research and analysis they need to make independent investment decisions

According to IRRC research analyst, Bill Moses, who is here updating the centre's information on South Africa "Shareholders, through pension funds, or activist groups or management groups, use the shareholder process as a democratic forum to introduce ideas and issues, the most famous one of which is the South African issue."

The IRRC started in the early 70s largely around investor queries on South Africa but now, according to Moses, American shareholders ask for information on anything and everything, from executive compensation to whether a company should be buying coffee from El Salvador, to whether it is practicing affirmative action.

What US shareholders cannot do is raise issues that are the preserve of the normal running of the business — like what paper clips are bought.

This situation is similar here. But in the US, it is built into a democratic culture and practised as a fine art.

In both countries, the annual report sent out to shareholders contains a "proxy" report for the benefit of shareholders who need to vote on certain issues but may not actually be at the meeting to cast the vote.

In the US, however, much may have taken place behind the scenes which will affect the proceedings

Before the proxy report goes out, a group of shareholders will have notified the company of its desire to have the company change (or adopt) a particular policy. If the company refuses, the group may ask for this to be taken up at the next shareholders' meeting. And so the proxy report will contain the resolution the group wants voted on, as well as resolutions placed by management, and its point of view

In South Africa, shareholders have the right to put resolutions and ask questions at annual meetings, but directors don't feel obliged to circulate what a shareholder lobby may place before the meeting

Using shareholders' rights to question company directors at annual meetings is a technique available to South Africans if they want to influence companies listed on the stock exchange, but it is never used

It could be used to change companies' political policies Or it could be used by consumer groups like the Housewives' League to place pressure on supermarkets or food manufacturing firms — not to mention motor car companies

Moses says that to date none of these resolutions have actually succeeded, but the issues become public and may force the hand of the company in some other way

As we know, shareholders in the United Kingdom as well as in the US did not meekly accept the refusals of the board of Barclays Bank and other major companies to withdraw from South Africa, but continued to apply pressure in the shareholders' forum as well as other arenas until the aim was achieved.

Perhaps in these trying VAT times it's worth a thought to consider this avenue to force the hand of the business community. Certainly Vatwatch could use the technique, as could any shareholder/consumer who wants to ask questions of some of the companies seen as problematic on the VAT issue

Score to be delisted

B/Day 11/10/91

Business Day Reporter

THE Metcash scheme proposed to members of Score Food to delist the company has been approved. The scheme was proposed following the Premier Group's purchase of a controlling interest in Metcash, formerly the Metro Group, earlier this year.

In order to rationalise the wholesale and retail interests within the Premier Group, the decision was taken to merge Metcash and Score Foods. (232)

Metcash has acquired the entire issued share capital of Score Foods which will result in the termination of the supermarket chain's JSE listing at the close of trade today.

The retail operations of Metcash/Score Food are to be hived off to Score Supermarkets, which in turn will be listed on the JSE from October 14.

BIDVEST FM 11/10/91 (232)

Needs more clarity

Activities: *Conglomerate with interests in industrial catering, roller towel rental, packaging products and skin-care preparations*
Control: *Bidcorp (54%)*
Chairman: *B Joffe*
Capital structure: *6,6m ords Market capitalisation R182m*
Share market: *Price 2 750c Yields 4,2% on dividend, 12,8% on earnings, p e ratio, 7,8, cover, 3,1 12-month high, 2 825c, low, 1 800c Trading volume last quarter, 6 210 shares*

Year to June 30	**'89**	**'90**	**'91**
ST debt (Rm)	—	0 4	0,9
LT debt (Rm)	—	3,7	40 4
Debt equity ratio	nil	nil	0,38
Shareholders interest	0,85	0,66	0,35
Int & leasing cover	49,7	n/a	2,9
Return on cap (%)	23,3	22,3	11,3
Turnover (Rm)	86	115	412
Pre-int profit (Rm)	11,5	16 9	35,4
Pre-int margin (%)	13,1	14 6	8 6
Earnings (c)	268	241	352
Dividends (c)	100	96	115
Net worth (c)	1 789	1 199	743

The year to June 30 was the first year of operation for the Bidcorp group in its restructured form From the start of the year Bidcorp itself became a pyramid holding company when it down-sold its operating assets to Bidvest which, accordingly, became the focal point of all operating activities

Anyone hoping that this change would bring greater clarity on the group's strengths and general performance will be disappointed The first financial statements to reflect the revised format still provide little more than a glimpse of what the whole thing is about

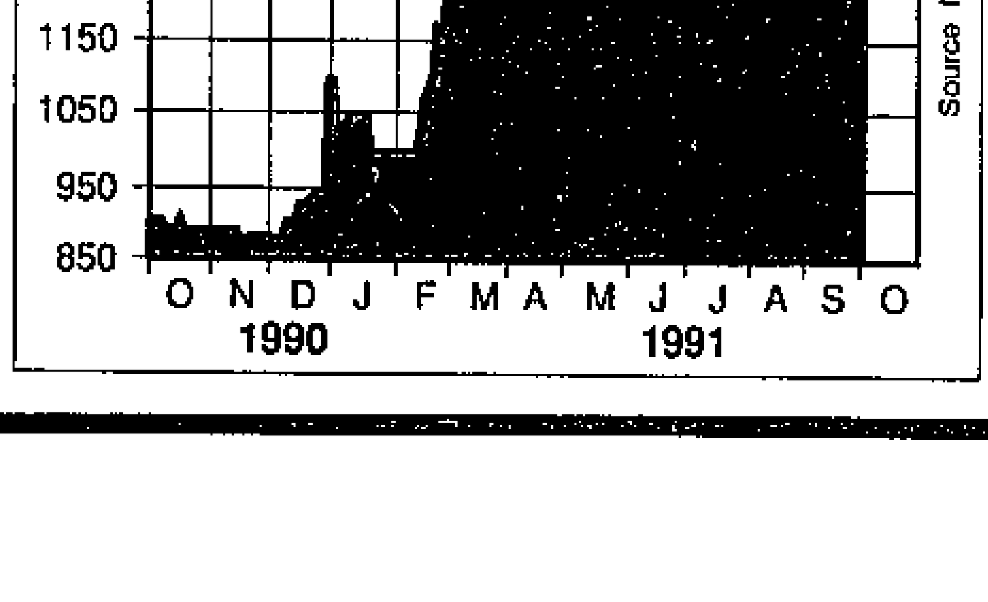
Perhaps the biggest shortcoming is the lack of disclosure on the source of profit With the group invested in four distinct and vastly different sectors, a breakdown of profit contributions is no longer a luxury but vital to any meaningful assessment of performance and prospects

Bidvest's Joffe *trading conditions to remain difficult*

A second factor, but this time one that management could not reasonably do anything about, is that two months before the end of the financial year Bidvest acquired Steiner Services The acquisition itself was hardly a problem but the timing means a distortion in the relationship between the income statement and balance sheet, since the latter reflects a full consolidation of Steiner while the income statement includes income from this source only since May 1 Given that the purchase consideration was R85m — roughly one-quarter of the group's June 30 total asset base — a conventional calculation of most profit ratios is more likely to produce answers that are misleading rather than informative

A third factor is that Bidvest has been active in the pref share market, taking advantage of the turn between tax-free dividends and tax-deductible finance charges In this instance, the Bidvest consolidated accounts reflects dividend income from these shares of R6,8m (including, presumably, the R1,4m which acrued to Afcom) while the balance sheet shows a corresponding investment in prefs (classified as liquid securities) of R50m

Contrary to the situation in subsidiary Afcom, which does not appear to have had any significant surplus cash available during the past year, this seems to have been a case of making the best use of funds temporarily available — bearing in mind that at year-end there was still R57m owing to the vendors of Steiner If so, the impact on Bidvest's bottom line was probably not significant



Having dealt with these aspects, we can look at some of the numbers Starting with the balance sheet, reconstruction of the group together with the acquisition of Steiner resulted in Bidvest's total asset base increasing from R75,5m to R311m Main sources of funding the R236m of additional assets was a net R58m in the form of permanent capital (including R55m in convertible debentures), R56m in net borrowings, which moved from a net cash position of R15m in 1990 to net borrowings of R41m (excluding the R50m holding of pref shares), and the rest from an increase in current liabilities, which includes the R57m owing in respect of the Steiner acquisition at year-end

As regards the income statement, perhaps the most significant comparison is between the respective growth rates of operating income and attributable earnings

Whereas pre-interest profit was only double the 1990 figure, there was a threefold rise in net earnings reflecting, in particular, the enhanced leverage behind the 1991 results This enabled Bidvest to absorb comfortably the effect of a doubling of its weighted average issued capital and still show a 46% gain in undiluted EPS

Looking ahead, the group will have the benefit of a full year's contribution from Steiner Against this chairman Brian Joffe expects trading conditions to remain difficult at least until the first quarter of calendar 1992 And, as far as Bidvest is concerned, this year's EPS will be based on an issued capital 31% greater than 1991's weighted average

Indications are, however, that investor sentiment is positive Bidvest has gained 41% since the start of 1991, while Bidcorp has risen at 57% as the price adjusted to the new group structure and its underlying relationship to Bidvest *Brian Thompson*

UAL trusts do well

UAL Mining and Resources Unit Trust achieved a total return of 18,08 percent in the year to September

Income distribution increased by 2,7 percent over the 1990 figures to 18,16c per unit The R25-million liquidity at year-end represented 11 percent of the fund Star 11/10/91

The UAL Unit Trust reflected an increase in the value of unitholders' investments of 32,6 percent, including reinvestment of income Total income distribution for the year was 95,91c per unit (99,92c the previous year)

The focus of UAL Selected Opportunities on small- and medium-sized companies has borne fruit over the last year, with overall performance, including income distribution of 68,22c per unit, ~~being~~ 49,67 percent. (232)

Institutional funds wishing to invest in relatively illiquid shares used UAL Selected Opportunities as the investment medium, resulting in the value of the trust growing significantly by R33,5 million to R102 million

The UAL Gilt Unit Trust achieved a satisfactory return of 14,83 percent against a backdrop of political and economic uncertainty and increased volatility The income distributed to unitholders, at 164,07c a share, showed a 6,91 percent decrease

During the year the trust achieved a satisfactory return of 14,83 percent. — Sapa

FM 11|10|91 (232)

ELANGENI FM 11|10|91

Arabian control

(232)

The surprise acquisition of 70% of Durban-based Elangeni Holdings by the Dallah Group of Jeddah, part of an international Saudi Arabian consortium operating in more than 30 countries, has generated optimistic talk in Natal about the end of investment sanctions and prospects for more Arab interest in the region

However, no less notable than the R5,1m investment, which gave the Dallah Group 11,8m shares at 43,5c apiece, is the way the price of Elangeni has dropped recently

Since listing in the Food sector in 1988, Elangeni Holdings' price had risen to more than 200c, and has traded as high as 130c during the past 12 months A week before the announcement, when shareholders were warned that negotiations that could affect the price were in progress, the shares were trading at 90c When the Dallah Group took control at the beginning of October, the share price had dropped to 44c

Though the deal was struck at less than half the price at which the shares last traded on the market, industry sources believe that 43,5c is a more accurate reflection of the value of the business At June 30 last year, the date of the last full balance sheet, the net asset value was just less than 50c a share

Elangeni Holdings, through subsidiary Elangeni Oil & Cake Mills, is active largely in the manufacturing of edible oils and soap from its factory at Isithebe, one of the Kwa-Zulu Finance & Investment Corp's industrial estates near Stanger in Natal

Launched by a group of Durban-based businessmen about four years ago, including Jayaram Reddy, now chairman of the Ministers' Council in the House of Delegates, the company entered business initially by importing oil After securing an allocation of local seed about two years ago, it now manufactures edible oil Recent projects include the construction of a glycerine plant and the launch of a new toilet soap range

Results have not been sparkling, with EPS dropping from 8,8c in April 1989, to 3,2c in the year to June 1990 The company has not paid a dividend since listing in 1988

After the acquisition of control by the Dallah Group, a standby offer has been extended to minority shareholders, in terms of Securities Regulation Panel rules, to buy all or part of their shares at 43,5c a share It seems unlikely to attract much interest, and about 29% of minority shareholders, with 4,9m shares, have indicated that they will not accept the offer

Three members of the original Elangeni Holdings board are on the reconstituted board They are Aboo Mahomed, joint MD, Yacoob Paruk, former chairman of the company and the new chairman of New Republic Bank, and Ismail Paruk, also joint MD New board members are Sheikh Saleh Kamel, head of a wealthy Saudi Arabian family, and three Egyptian members, M Samir Zaki, Mahmoud Youssef and Jamal Afifi

Incongruous though the deal may sound, it seems that the Middle East interest in an SA company which has not produced good returns arises from an earlier business connection Kamel set up the Al Baraka Bank in Durban just over a year ago with Aboo Mahomed He is on the bank's board, as is Elangeni Holdings co-directors Yacoob and Ismail Paruk Kamel, through this business association, evidently became interested in Elangeni Holdings, as an opportunity to invest in SA at the right time and price

There is talk that Kamel is planning to help recapitalise Elangeni Holdings, either by a substantial loan or an injection of equity capital None of the new directors was available to confirm this *Shaun Harris*

Wide range of performances by unit trusts

(232)

S Times (BUSS) 13/10/91.

ALTHOUGH every unit trust management company professes to operate on excellent timing and selection criteria, the range of overall performances is remarkably wide

According to the figures of Hugo Lambrechts, of the University of Pretoria's Graduate School of Management, in the year to September 30 the worst return any general equity fund achieved was 15,3% by Allegro, now Commercial Union Growth, and Syfrets did the best with almost three times that growth, at 43,2%

By JULIE WALKER

Most of the funds were up by about a third, compared with the climb in the all-share index of a quarter

Specialist mining funds also had a broad spread, from 16% return by UAL Mining & Resources to below 2% by Southern Mining

Both the gold funds took a dive — Old Mutual's by 26% and Standard Bank's by 13%

Industrial funds were the most handsome performers over the 12 months, with the top pair giving returns of more than 53% Sanlam Dividend trust and UAL Selected Opportunities both squared up with returns approaching 50%

The high income funds on balance outpaced the CPI by a few points, but the gilt funds returned between 13% and 15%

Sanlam's funds continued their recent strength On their shopping list were Sasol, Iscor, Samancor, GFSA, Metpol, Driefontein, Holdains and Genbeheer and liquidity of the funds was generally reduced.

Sage also bought Dries and Gencor, as well as diamond stocks and CNA Gallo It sold a little Impala and Southvaal

Guardbank was a buyer of Kloof, Charter, GFSA, FIT and Nampak and a seller of some Anglo American, Gencor, SA Breweries and Adcock Ingram

Platinums

Metfund bought CMI 10% prefs ahead of the expected upturn, and switched its Safren into Sunbop when Safren looked expensive. Shoprite was another good pick, as was Toco

BOE Growth fund bought recession-proof counters Foschini, Wooltru and Trencor and viewed the strength in Barlows and Sasol as switching opportunities

Safegro added Saflife and Royal Foods to its holdings, but sold out of platinums

Norwich NBS bought ICH, Lebowa Plats, Ergo and Iscor and sold Barlows and Engen NBS Hallmark picked up Kinross and sold nothing

Most of the funds expect a dull fourth quarter of 1991, possibly with a correction in share prices because many top companies are still reporting poor results

Tedelex rides tide despite the recession

S/Times (BUSS) 13/10/91. (232)

By JULIE WALKER

TEDELEX took the honours with a 42% rise in earnings a share and a 40% climb in dividend in the year to August 1991.

The lifting of selective hire-purchase curbs in the second quarter of 1990 precipitated a strong demand for consumer electronics, which gave Tedelex a buoyant first half year in which sales were 37% more than previously

But as the recession gripped harder, the pace of sales growth fell. In the six months March to August 1991, sales were only 4% higher than in the same period of 1990 Sales for the full 12 months were 19% up at R512-million

Tedelex's gearing remained at 34% The directors say that high inflation, high interest rates, high unemployment, wavering consumer confidence and political uncertainty make it unlikely that next year's earnings will match the 1991 figure

Altron also brought home the bacon in the six months to August On only a 2% climb in turnover to R1,33-billion, the holding company of Powertech, Fintech and Altech raised attributable earnings from R38-million to R45-million

Strong

Instead of an interest bill of R7,7-million, Altron earned R7-million, so although operating income was down, pre-tax profit rose

The amount paid to outside shareholders also fell and the share of income of associates more than trebled to give a rise in earnings a share of 17% to 237,6c Altron does not declare interim dividends

The directors say Altron's strong balance sheet and committed management make it ready to meet the challenges They expect the second half year's performance to match the first, providing the business climate holds up

Darling & Hodgson could find nothing worth buying with its cash pile of R50-million

In the year to August 1991, the cement producer's turnover edged down 3% to R610-million and attributable earnings were 9% off at R57-million D&H is waiting for the economy to lift, as are so many South African companies

Fidelity Bank had a record year to September Income before operating expenses, tax and transfers to internal reserves grew by 23% to R20,7-million and earnings a share of 77c were 35% higher than in 1990

The directors say few problems have been encountered in complying with the provisions of the the Deposit-Taking Institutions Act as the bank already practised in that way.

Beneficial

Additional capital is required to fund expansion plans and although the real necessity is still years away, the directors have decided that an early approach to the market will be beneficial and a rights offer is to be made

Perskor easily managed to raise earnings a share by more than the inflation rate In the year to June the newspaper group's turnover improved 14% to R600-million, and pre-tax profit was up by a quarter to R32-million

Perskor bought 65% of Voortrekkerpers, so raising its effective stake in Press Corporation to 92% Of the 43% rise in earnings a share to 330c, 9% was attributed to

the acquisition Stringent cost control and higher contributions from associates accounted for the balance

Copi (Canadian & Overseas Packaging) produced good results two weeks ago

Momentum shares slipped off their recent peak of 400c on the announcement of modest growth in earnings a share and a likely rights issue.

In the year to June 1991, total group income climbed 12% to R1,55-billion, of which two-thirds was from premium income After claims, benefits, expenses, commissions and tax there was R701-million left, of which R683-million was transferred to the life fund

Minimum

This left a round R18-million as net disclosed taxed surplus, a round R2-million up on last year

The arrival at the bottom line looks a touch arbitrary Total assets grew by 19% to R7-billion.

The only comment is that the board of directors is of the opinion that the capital base needs to be expanded The profit announcement discloses the absolute minimum to shareholders

Results over the past fortnight were the poorest for months Among the 27 companies reporting preliminary results, five made losses and only 10 made more profit than previously

DONNIE BREAKS THE ICE IN EUROPEAN MARKETS

S/Times (Bus) 13/10/91 (232)

By JULIE WALKER

LIBERTY LIFE's foreign fundraising operation breaks new ground for SA's private sector.

Not only is the placement of shares to raise between \$141-million and \$236-million from United Kingdom and Continental European investors the first such deal chairman Donnie Gordon can remember, its scale also matches the South African government's first foray after the debt standstill into the European capital market.

Usually, shares can be issued by a company either for an acquisition or in a rights offer to all members. In this deal, Liberty will issue shares of R37 or thereabouts to foreign institutional and other investors.

UNDERWRITTEN

A blue-chip team of European finance houses and merchant banks — comprising SG Warburg Securities, Paribas Capital Markets, UBS Phillips & Drew and NM Rothschild — have already underwritten the offer, guaranteeing acceptance of the minimum 12-million shares on offer.

Liberty's minority shareholders hold the power to thwart the deal if more than 10% of those present at the general meeting on 28 October vote against it.

But Mr Gordon says he would be very disappointed if shareholders did not back his judgment on this issue. "Why should they block it when it is clearly in the interests of the company?" he asks.

Liberty Holdings with 56%, and certain other large blocks of shares, have already undertaken to support the proposal.

Raising the money offshore kills two birds with one stone.

It builds a war chest of funds to be invested in existing offshore operations, such as TransAtlantic and Sun Life, or it can be used to pick up any bargains that might be had during the recession.

It also means that TransAtlantic's debt can be brought down without the company having to apply for funds to be taken out of SA through exchange controls.

"We have always had to operate overseas with relatively high debt," says Mr Gordon.

DONNIE GORDON: 'This is a major step forward for SA'

"This is a major step forward for SA. It takes years to build up credibility and respect. This is a pathfinder move to see if we have gained acceptance among international investors. I hope it is a success."

Liberty Life, whose market capitalisation of about R8-billion makes it the largest financial institution listed on the JSE, will move closer to its objective to become a "significant international participant" in the financial services industry.

The issue should also improve the marketability of Liberty Life shares in SA and internationally, says Mr Gordon.

DISCOUNT

The deal provides for the issue of a minimum 12-million shares, but if there is strong demand, the number can rise to 18-million. A further two-million are available to cover over-allocations.

The price will be determined between October 28 and November 4 and will be at the lower US-dollar equivalent of either R37 or a discount of not more than 5% to the closing middle-market price on the day the price is arrived at.

Liberty Life shares traded at R39 on the JSE on Friday and Libhold's lost 100c to R96. If the full 20-million shares are issued, Libhold's stake in Liberty Life will be reduced to 51%.

Foreigners back as gilt buyers

MERVYN HARRIS (232)

FOREIGNERS were back as net buyers of SA gilts on the JSE in the week ending October 4 after a sell-off the previous week

The off-loading of gilts in the week to September 27 — only the second outflow this year — heightened fears that foreigners would sell SA gilts in a relatively low yielding market BDay 14/10/91.

There was, therefore, some relief that no such trend has emerged

Latest figures show that net purchases of gilts totalled almost R36m compared with a net outflow of R13m in the week ending September 27

However, foreign sales of SA equities increased from R47,4m to R66m in the week ending October 4

The figures represent only that portion of the financial rand market where non-resident transactions are executed through the JSE

The figures for the overall market also show a dramatic decline in Krugerrands traded in the week ending October 4 to 1 065 from 2 484, pulling down the value from R2,2m to below R1m

The decline in recent market turnover is also reflected in the statistic which shows the number of shares purchased falling to 34,6-million (worth R344m) from 53,2-million (worth R476m) in the week ending September 27

Mandela challenges business on options

(232)

CT 14/10/91

Own Correspondent

DURBAN — The ANC is prepared to abandon the policy of nationalisation completely — if big business and the government can present a viable option for addressing economic imbalances in South Africa

ANC president Mr Nelson Mandela made the challenge to the government and the private sector at a banquet for Indian businessmen here at the weekend

He said the ANC accepted its "obligation" to provide more details of its plans for the economy in a post-apartheid South Africa.

The ANC would ensure that the new economy addressed economrc imbalances but excessive taxation was not on the agenda

The ANC had taken note of concerns over nationalisation and had gone out of its way to bring the business community into the debate, but business people had failed to provide an alternative, he said

"We have no ideological attachment to nationalisation We say to the business community 'If you have a better alternative tell us, and if it's effective, we'll abandon nationalisation'"

BUSINESS DAY, Monday, October 14 1991

Committee begins to free up the unit trust industry

B/Day 14/10/91

(232)

SEAN VAN ZYL

THE first step towards deregulating the unit trust industry was taken last week when the newly formed Unit Trust Advisory Committee convened for the first time

A well-placed source said an increase in equity investment allowances, at present determined by the authorities, was a key issue taken to the table by the industry

Portfolio managers have often felt the investment decisions of the industry have been over-regulated by the authorities following the fall of share prices in the 1969 stock market crash

The industry has long had reservations over being what it termed "dictated to" by government

The advent of the advisory committee — although chaired by the Financial Services Board's Piet Badenhorst — would give the industry a voice in regulating itself

The source said a number of legislative changes were proposed and discussed at the meeting held on Wednesday One of the proposals was the lifting of the 5% of asset restriction of investment in any particular share

Unit trusts are restricted to investing no more than 5% of their portfolio assets in one share

As a result, trust managers have been limited in investment choice by not being allowed to increase holdings in high performing blue chips

The scarcity of quality shares has aggravated the problem

Unit Trust Association chairman Clive Turner said the lifting of the 5% investment restriction had been discussed at the committee meeting in line with other industry issues

He declined to comment further

Badenhorst was also not prepared to comment

However, the source said a decision would probably be taken tomorrow when the next advisory committee meeting was scheduled

He expected the investment limitation to be increased from 5% to 10% of portfolio assets

JSE 'might be due for a slowdown'

B/Day 15/10/91 (232)

SHARON WOOD

ASSOCIATION of Unit Trusts (AUT) chairman Clive Turner yesterday warned unit trust investors that the JSE might be due for a slowdown

"The JSE has risen quite far quite fast, and the generally held investment view is that it is due for a slowdown, if not a correction," he said in the AUT's quarterly analysis of the unit trust industry

Unit trusts had, however, traditionally delivered real growth and should be viewed as medium- to long-term investments This was indicated by above-inflation returns in the third quarter and during the past five years

Total returns on the 17 general equity unit trusts in the third quarter, which included capital appreciation and distribution, provided returns of 31,1% in the past year compared with the JSE all-share index's return of 20,2%

Turner pointed to unit trusts' excellent performance over five years The seven funds which could be measured achieved average annual returns of 19,1% during the period

Investors opened more than 150 000 new unit trust accounts during the year This amounted to a total of almost 858 000 unit trust accounts with a combined total asset value of just more than R10bn.

Unit trusts sales had continued to climb, and in the third quarter total sales were R790,6m Total sales for the year were about R2,6bn

Turner said this reflected the strength of the JSE, which had shown the greatest appreciation of all major international bourses in dollar terms during the year.

Repurchases almost doubled to R556,5m as investors took profits, and the net inflow into unit trusts since the third quarter last year was R1,2bn

The total market value of the 38 unit trusts had climbed 39,3% since September last year

Returns on five more volatile specialist equity trusts were mixed during the year, ranging from a 57% rise to a 26,2% fall

Over five years the average total return of the specialist equity trusts ranged from 11,5% to -1,6%

Continued high interest rates saw high income trusts flourish, giving a total return of 16,5% during the year

General equity trusts' liquidity levels were maintained during the quarter.

They held an average of 15% of assets in cash, compared with 16% in the second quarter

Foreign firms interested in SA Futures Exchange

B/Day 15/10/91. (232)

ROBERT GENTLE

SECURITIES firms from Europe and Australia had expressed interest in joining the SA Futures Exchange (Safex) so that they could deal directly for non-resident clients, CE Stuart Rees said yesterday

Safex would welcome their presence as it would boost the liquidity and sophistication of the local market, said Rees The matter was being studied

Foreign securities firms and investors had expressed "great enthusiasm" about the prospects of non-residents being allowed to trade futures on Safex through existing exchange members.

"Everything is on schedule for the first non-resident trade to take place in the first week of December," Rees said

The only reservation expressed by non-residents concerned Safex's required registration of clients with the exchange as an added measure of client protection

Foreign securities firms were worried that this would result in the local market being aware of the identities of their clients, Rees said

"We are addressing this concern over client anonymity and a satisfactory solution will be proposed shortly," said Rees

Meanwhile, the exchange's financial position continues to improve after a cost-cutting and rationalisation programme undertaken early this year to combat the effect of falling volumes

Rees said Safex had run up an operating surplus of R450 000 for the first three months of the present financial year, which started in July. The surplus, the result of improved volumes and the rationalisation programme, enabled the exchange to wipe out a R324 000 net loss recorded at the end of the past financial year

This loss comprised an operating loss of R96 000, with the balance resulting from write-offs conected with the terminated futures trading floor and the default of Davis Ralph Sadleir (DRS) The exchange was now debt free, recapitalised and on a sound financial footing, Rees said

"If we continue to generate revenue at the present rate, we should have a surplus of R2m by the end of the present financial year," he said.

However, Safex still had its ups and downs, he said. Friday's overall volume of a mere 594 contracts worth R26,2m was probably the worst on record

Speaking on the exchange's plans for the coming year, Rees outlined three key areas the introduction of options on futures, measures to boost liquidity in interest rate futures and an investigation into the introduction of commodity futures

Masterbond liquidation

Star 15/10/91 (232)

An application for the liquidation of Masterbond Trust Investment Holdings was yesterday postponed to October 30 in the Cape Town Supreme Court Six of the companies — Masterbond Participation Bond Trust Managers, Mykonos Weskus Beleggings, Club Mykonos Langebaan Resort Managers, Club Mykonos Langebaan Beperk, CML Developers and Rosenfontein Masterprop — were provisionally liquidated on October 2

Govt blessing for securities depository

(232) ROBERT GENTLE

GOVERNMENT has thrown its weight behind the formation of a central securities depository which would reduce stockbroking overheads, allow instantaneous cash settlement of securities transactions and increase market sophistication.

At present, securities are moved around the country by air at great cost, with inevitable errors and delays. Dispatch riders whiz around Johannesburg carrying piles of share certificates, bonds and related paperwork. Transactions take up to two weeks to be settled

The new depository would confine all securities to one centrally controlled place. Transactions would be settled virtually instantaneously, with only the title to the securities being changed.

Speaking at an SA Futures Industry Association regulatory conference yesterday, Financial Services Board CE Piet Badenhorst said government had in principle approved enabling legislation for the formation of the depository.

"The approach will be that the depository will operate on a voluntary basis and the owners of securities will have a choice to use it nor not," said Badenhorst.

The depository would in principle allow stockbroking firms virtually to eliminate their costly scrip departments — estimated at about 20% of the salary bill — where teams of people perform the administrative tasks associated with shuffling share certificates back and forth.

JSE officials were not available for comment

The SA Futures Exchange (Safex) welcomed the news, saying it would enable deliverable bond futures to be established. At present, the E-168 bond future is not deliverable because of the counter-party risk associated with the underlying asset

"A central scrip depository, which would in effect dematerialise the paper and allow instantaneous cash settlement, would automatically solve the problem," said Safex CE Stuart Rees.

"Issuers like Eskom would find bond futures more useful while investors could perform arbitrage operations more effectively."

Star 16/10/91 232

Liquidations soar by 28 pc

Liquidations of companies are continuing at an unprecedented rate because of the weak economy, high interest rates and declining consumer spending

The latest figures released by the Central Statistical Services show that the number of liquidations of companies and close corporations in the past three months rose by almost 28 percent by the end of August.

Sectors showing the biggest increases included financing, insurance and business services.

Insolvencies of private people and partnerships increased by 4,6 percent — Sapa

Rise in interest boosts Anglovaal

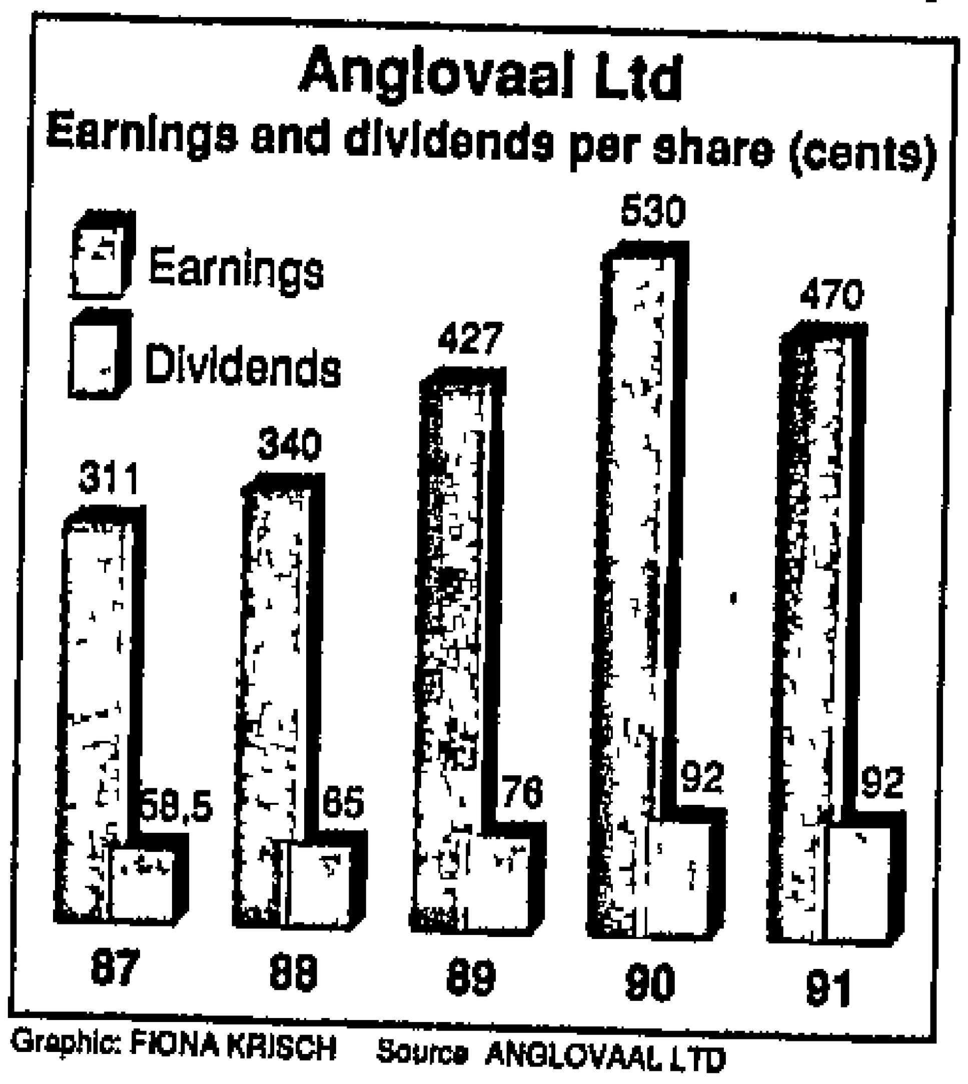
(232)

B|Day 18|10|91

MATTHEW CURTIN

A THREEFOLD hike in interest earnings on funds raised through two rights issues in 1990 was the main reason behind the 18% increase in consolidated earnings from the Anglovaal Group in the year to end-June 1991.

The diversifed financial, mining and industrial group, whose activities range from gold mining to biscuit making, insurance, packaging and rubber industries, turned in attributable earnings of R280m in 1991, against R238m in 1990.



Graphic: FIONA KRISCH Source ANGLOVAAL LTD

However, the 33% increase in the group's share capital diluted earnings a share by 11%, falling from 530c to 470c year on year.

Anglovaal's dividend was maintained at 92c a share, entailing a R16m increase in the total dividend distribution to R56m.

Chairman Basil Hersov said in his annual review that the fall in earnings a share was the first in seven years. He said the substantially higher interest earnings in the wake of last year's Anglovaal and Middle Witwatersand rights issues and the 13% improvement in Anglovaal Industries' (AVI) earnings were responsible for the overall increase in earnings.

Hersov said improved performances from Consol Limited, Irvin & Johnson and National Brands were partially offset by poorer results from Grinaker Holdings and Avtex Consol's packaging and rubber divi-

☐ To Page 2

Anglovaal

B|Day 18|10|91 (232)

☐ From Page 1

sions did particularly well in the year

He said AVI's proposed R786m rights offers would ensure that adequate funds would be available to take advantage of future business opportunities as well as further strengthen the capital bases of AVI, Consol and Irvin & Johnson

The cost/price squeeze which gripped the gold mines in the past four years continued in 1991 The group's Loraine mine was in danger of closing, he said

"If all the group's mines are to contain increases in the rand/kilogram costs of gold produced to levels substantially below the national inflation rate to maintain already low profitability then the retrenchment of a portion of the group mine's employees is now more of a probability than a possibility," he said

Weak ferrochrome and ferro-manganese demand hit Assmang's earnings, knocking the base metal division's contribution to group earnings from R74m to R49m Base metals contributed the largest portion to earnings in 1990

Hersov said Anglovaal would spend R87m in exploration in the current year and said the major Sun gold exploration venture in the northern Free State was continuing

Altron's UK arm to be listed on JSE

(232)

ROBERT LAING

TELEMETRIX PLC, Altron's UK-based subsidiary, is to be listed in the JSE's electronics sector next month.

In a statement published today, Altron offered its shareholders Telemetrix shares at 140c each The offer is in the ratio of 270 Telemetrix shares for every 100 Altron shares held and should raise R70m.

The deal accompanied the restructuring of unlisted offshore interests for R30m.

The total R100m raised would boost Altron's and its holding company Ventron's earnings by about 11% a share, while reducing gearing to less than 6%, the statement said. BDay 18/10/91

Altron chairman Bill Venter said: "In the past, local groups wanting to be global players had to make offshore acquisitions to use as export channels. These acquisitions were expensive because of the weak rand and had to make a lot of money to service SA's high interest rates.

"With the improvement in SA's position worldwide and the abolition of restrictive laws applied against local companies, the board decided there was no longer any need for the complex structures we evolved to export our products."

By selling 51 221 924 Telemetrix shares on the JSE, Altron would reduce its stake in the UK electronics group from 67% to about 7%.

Telemetrix's turnover for the six months

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Altron

BDay 18/10/91.

(232)

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to end-June was £40m, 20% higher compared with £33m in the same period last year However, earnings a share remained at 1p due to increased minority interests

Telemetrix shares traded at 27p (R1,30) in London this week, 25% below their net asset value of 36p (R1,74) a share This equates to a market capitalisation of £23m (R111m) and a net asset value of about £32m (R155m). Its US-based subsidiary, GTI traded on Wall Street at $8,50 a share, valuing Telemetrix's share of the US group at £27,3m

The sale of Telemetrix would not affect Altron's and Ventron's net asset value, the statement said

Altron financial director John Sayers said as a result of the transaction directors had changed their forecast made at the time of Altron's interim results It should now show growth in final earnings of 20% as opposed to 17%

● See Page 9

Do company directors deserve their huge salaries?

W/Mail 18/10-24/10/91 232

Are South African directors overpaid fat cats or misunderstood kingpins in the economic structure? SINCLAIR DAVIDSON argues for big pay packets for the people at the top

AMID appalling poverty (and declining profits) should directors award themselves pay increases?

Recently, there has been much debate about director remuneration. There are two sides to this debate: the first is that directors earn too much; the other is that directors do not earn enough.

The former argument stems from the recent Labour Research Service (LRS) study into director salaries. The latter is a pro-corporatist reaction to the report. The LRS is a union-affiliated body, no doubt it has its own agenda.

The strategic impact of directors is well known and understood by most. Marxists are the exception — they do not believe that directors create value as they do not produce tangible goods.

There are several determinants of directors' salaries. Human capital is scarce in South Africa: given this scarcity it can be argued that scarcity and monopoly rents attach themselves to director salaries.

The average director's value to the firm is far greater than that of the average worker, so we expect that they should earn more than workers.

A major consideration is the fact that no barriers to exit exist within the South African economy. If directors are not compensated for their human capital then various exit options are available — not least of these is emigration. At best, the director will be tempted away from the firm by competitors.

In economics, the concept of economic rent is well established. This is the payment that a factor of production receives in excess of the payment necessary to retain that factor within a particular occupation. Ensuring that the directors' services are retained is ensuring that the assets of the firm are maintained. After all, good management is probably the most important asset a firm can have.

We should not fall into the trap of thinking that this opportunity cost is constant. When the profits of the firm decline (through no fault of the director), the opportunity costs for the director increases, thus the firm needs to pay him or her more to retain his or her services. This is especially so when the director owns shares in the firm — a pay increase will partially offset losses on the market.

Once the director is earning enough to stay with the firm, we can then consider the effect of incentive structures on remuneration in the firm. This is where the pay-for-performance debate enters the picture.

Directors' remuneration can be divided into two components: the amount necessary to retain their services and that necessary to provide incentives. Incentives should include both the directors' and the shareholders' interests.

It has been argued that director remuneration should be tied to performance — but how to do this?

An obsession with accounting profits can and does lead to that favourite bogey man of the corporate critic — short-termism.

On the other hand, if performance is measured by the stock market a myriad of other problems arise.

The most important consideration is that the market evaluates the firm as a whole, it does not evaluate the performance of individual directors. Directors cannot be held responsible for the crash in 1987; having their pay linked to such occurrences seems unusually cruel.

Having said this, we should also recognise that there is scope for abuse of the system. In the final analysis, directors set their own salaries.

If shareholders feel that the system is being abused, their only recourse is to fire the director(s). In the United Kingdom, we have seen examples of this. To my knowledge, no South African director has been fired for paying himself too much. Similarly, no director has been castigated for paying himself too little.

If directors are abusing the system, how are they getting away with it?

It is generally held that there are three mechanisms that will monitor directors.

The first mechanism is corporate control. The second is the market for managers.

Both of these market mechanisms need active competition in order for them to operate successfully. In their absence, the scope for opportunism can be quite high.

As for the third mechanism, the relationship between outside directors and boards has recently been described as incestuous.

The pyramid structure within our economy inhibits shareholder activism and ensures an almost complete separation of ownership and control. The pyramid structure has the same effect as issuing dual-class shares.

While some academics have argued that pyramids are an alternative monitoring mechanism, the present corporate structure provides few incentives to maximise wealth. (With the pyramid structure all the directors have to do is to meet the objectives of the parent company — these objectives need not be wealth maximisation.) It is for this reason that investor power is not well developed.

The whole debate in South Africa is exacerbated by the lack of shareholder power.

If there were constraints on directors, or at least, if constraints on directors were perceived to exist, then the debate would not be a ferocious as it is.

This is an example where the perceived lack of legitimacy in the South African corporate world becomes apparent.

If we wish to avoid non-market intervention, we need to address the question of corporate legitimacy. This is a perfect example of where perception, valid or not, can have a far-reaching impact on our environment.

● SINCLAIR DAVIDSON is a junior lecturer in the Department of Business Economics at the University of the Witwatersrand

'155 businesses a month go bust'

B Day 18/10/91

(232)

Business Day Reporter

BUSINESS failures this year in SA are occurring at an aggregate of 155 a month

In a statement analysing latest figures on liquidations and insolvencies released by the Central Statistical Service (CSS), Credit Guarantee senior economist Luke Doig said company liquidations surged to 217 in August from July's 146. This was the highest monthly figure since 253 liquidations were recorded in October 1986.

The 1991 year-to-date figure of 1 244 is 10,8% up on the corresponding period in 1990 (1 123).

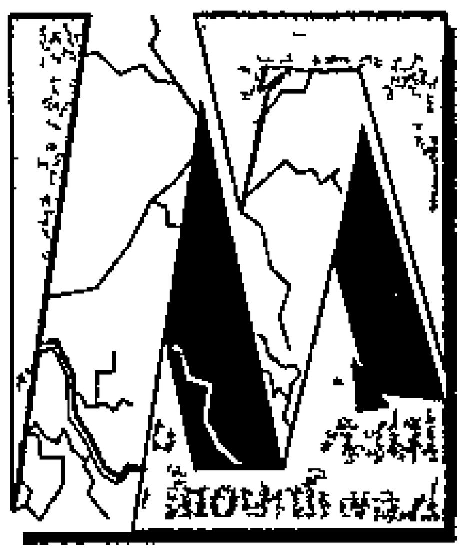
The incidence of liquidations is spread across the economy. All sectors, excluding agriculture and financial services, have fared worse than last year, with most severely affected being mining (up 91%) transport, storage and communication (up 69%), construction (up 44%), and the wholesale and retail trade 15% higher.

Doig says liquidations last peaked six months after the business cycle had bottomed out in March 1986.

THE MASTERBOND MESS (232) FM 18/10/91

Into the deep blue sea

Responsibility is being evaded even as the effects ripple out



The collapse of Masterbond Trust (MBT) has shaken the investment community and will take months to unravel Heated debate has arisen over what happened — and why Are the directors personally liable? And what of the role of professionals such as attorneys and others involved on the selling side of the whole business?

The ramifications of the debacle are spreading

MBT was formed in 1984 as a participation bond company — but it had a clear intention of casting its net far wider than that A rapid decline in investor confidence stopped the flow of funds essential to the group's momentum and it came down like a house of cards Now those involved in the management of the interlocking schemes are looking for a scapegoat

MBT chairman Koos Jonker blames the Deposit-Taking Institutions (DTI) Act, which outlaws (with obvious reason) the very core of Masterbond Trust's business — short-term debentures But there are also other reasons for the disaster

The failed merger with Pretoria Bank (*Economy* July 5) and an outcry at attempts to increase levies for unit-owners at the group's Club Mykonos resort, near Langebaan, undermined investor confidence Inept management and serious miscalculation of the leisure property market appears to have played a significant role in this

The result has been the provisional liquidation of six MBT companies — five involved in the development of Mykonos Applications for the liquidation of Marina Martinique at Jeffreys Bay, for which MBT provides development finance, and for the group's holding company, Masterbond Trust Investment Holdings, have been postponed until later this month

MBT's partbond operation — in terms of the Participation Bond Act — appears to be unaffected and is being administered for the moment by the Board of Executors

At risk are about 12 000 investors who pumped R420m into short-term debentures — more than 56% of the R740m under MBT's administration

Government has appointed a committee of experts under Finance Minister Barend du Plessis' special adviser Japie Jacobs to assist the liquidators While the committee's main aim is to protect the interests of investors, Jacobs will hold talks with the provisional liquidators of the six affected companies next Tuesday Jacobs stresses that a bale-out is not intended and there is no intention to pump State funds into MBT

The group went under mainly because it could no longer attract sufficient funds to facilitate the issue of short-term debentures by property-owning companies needing development capital The debentures were issued for 6-60 months with interest paid monthly Bonds were registered in favour of MBT subsidiary Masterbond Participation Bond Trust Managers, which also acted as trustee for short-term debenture holders and managed the schemes

Among the main borrowers were companies controlled by MBT directors or in which they had a substantial share At least R175m went into Mykonos and Marina Martinique, according to court documents, but the figure could be far higher

The group dominated the short-term debenture market, offering good interest rates, advertising aggressively and selling services through IPC brokers, a nationwide network of 30 independent financial services brokers closely linked to MBT

But it was always controversial Short-term debentures operated in a "grey" area under the Companies Act, and the leisure property market where its main borrowers were active was high-risk indeed

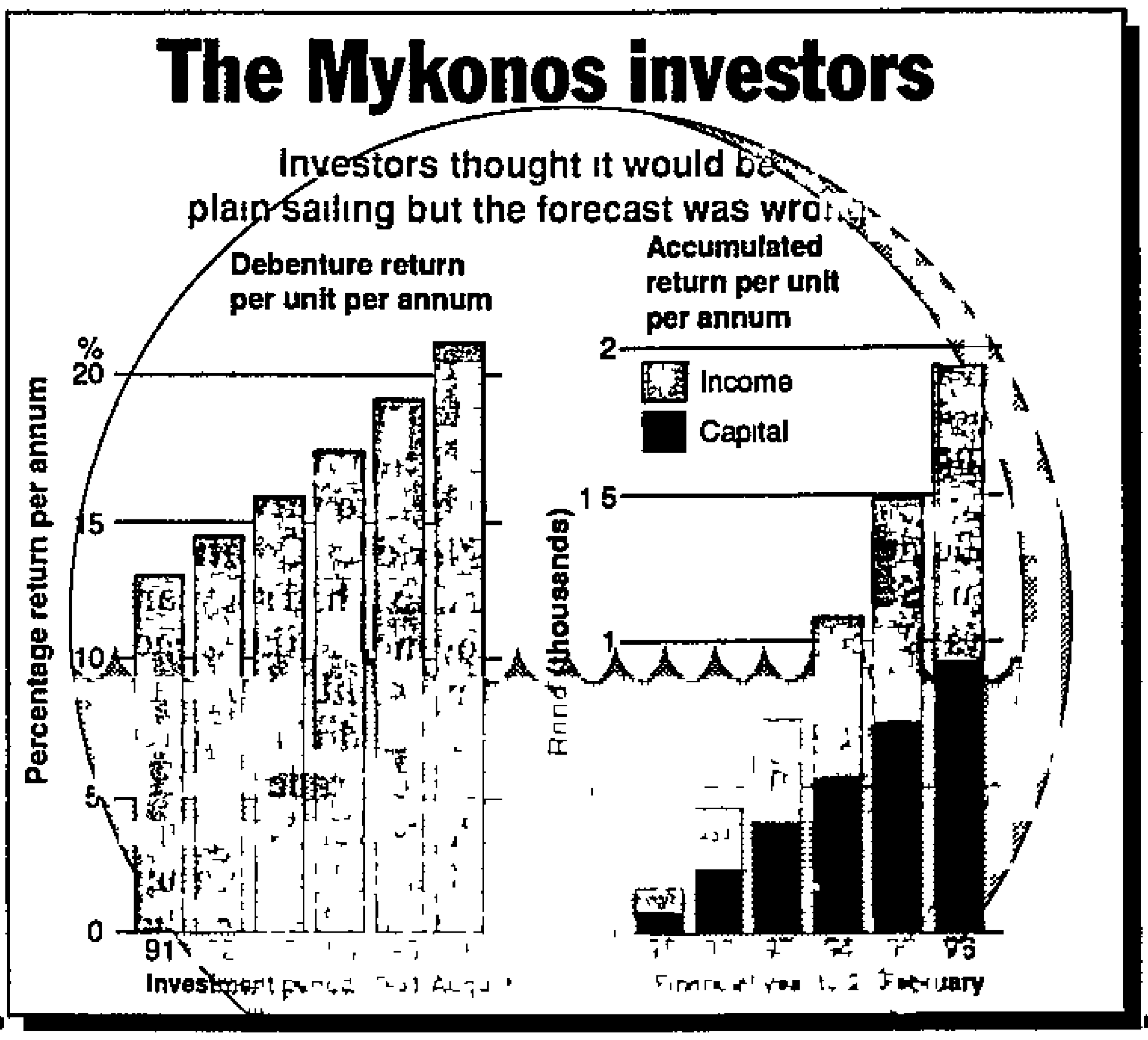
About five years ago, MBT was investigated by the office of the then Registrar of Financial Institutions and a report was forwarded to the Cape Attorney-General who was apparently asked to assess the legality of some of its practices No action was taken, though Jonker says the issues referred to the Attorney-General were "technicalities" and the group complied with suggested changes

In general, there are two views of MBT·

- That it was an innovative company that exploited a market gap for short-term debentures, but ran foul of a bad press because of inept public relations, bureaucrats determined to either regulate the company or close it down and an unexpectedly long recession, or
- That Masterbond Trust is a morally questionable operation run by incompetent managers who nevertheless attracted huge investments and used them to finance high-risk developments by subsidiary companies They did not adequately explain the risks to investors who were often unsophisticated

Naturally, Jonker holds the first view He and group MD Johann Brits took the partbond industry by storm seven years ago and considered themselves market leaders (see *People*) But then, three years ago, they were warned of pending deposit-taking legislation and advised to merge with a bank Jonker says that, at about that time, DTI Registrar Hennie van Greuning investigated MBT's debenture operation and had no objection to it — but then the DTI Act removed the platform on which the group did business

In July, Jacobs, as deputy chairman of the Financial Services Board (FSB), told Jonker the board believed it was risky for banks to be too exposed in the property development market Jonker says the board also refused to sanction the rationalisation of the balance sheets of Pretoria Bank, Spectravest and Finanzhaus — two MBT subsidiaries that financed the sale of leisure products, mainly timeshare, at Club Mykonos and Park Avenue Hotel in Cape Town



Restating a ruling

Jacobs told Jonker that the FSB's view was that banks and building societies could provide short-term bond finance, but this was risky and should not comprise a significant share of the institution's total book Jacobs confirms this, but says he was merely restating a ruling already made by the Registrar of DTI It was not a board function to make such decisions

Earlier, however, the authorities had agreed to MBT selling its

FM 18\10\91 (232)

AA LIFE BUILDING

End in sight

The AA Life building, one of the largest assets of the liquidated short-term business of the AA Mutual Association, finally looks set to be sold — five years after liquidators took over management of the property

One of the liquidators, Syfrets regional GM David Rennie, says sealed bids have been invited both locally and from abroad for the purchase of the 23 000 m² building in Johannesburg. Closing date is November 20 but the liquidators could opt to negotiate a deal if no realistic bids are received.

Sale of the property has been held up. Nearly two years ago it was conservatively valued at R40m-R60m (*Property* January 26 1990) but then came an ownership dispute between the liquidators and the AA Mutual company, settled in favour of the liquidators in November last year. "Since then we've been doing some reorganisation and exercising certain options in order to make it more saleable," Rennie says.

According to the schedule of tenants the building, in a prime location at 27 Diagonal Street, next to the JSE, is almost fully let (just over 2 000 m² is vacant). It has basement parking for 460 cars and brings in a monthly rental of nearly R500 000 Operating costs run at just over R100 000 a month.

Most tenants are on five-year leases with 15% escalations. They include Deales Restaurant on the ground floor, stockbrokers, a bank, other financial services companies and the AA Life insurance company — the largest tenant, occupying nearly 5 700 m².

Of the liquidators' decision to invite tenders from abroad — through advertisements in US, British, and Far Eastern financial publications — Rennie says: "Several inquiries were received from abroad while the ownership issue was being resolved, and we've decided to offer them an opportunity to bid for the property To date the liquidators have handed out about 100 tender forms and brochures on the building."

Market slump

The liquidators could get a good price because of the standard and location of the building together with the high level of occupation

Against them is a slump in the property market at home and abroad which might just encourage institutional buyers — the most likely bidders — to sit on the fence or at best offer a low price

Rennie concedes it may not be the best time to sell the property but the liquidators can't simply hold on and wait for the market to improve. "It is very seldom that buildings like this come on to the market so it really is an opportunity to buy," he argues ■

LIBERTY LIFE

FM 18|10|91 232

Gordon goes for the big time in London

What more has Donald Gordon up his sleeve in the remaining 10½ weeks of 1991 for Liberty Life and its UK subsidiary, Trans-Atlantic Holdings (TAH)? TAH's deal with Union des Assurances des Paris (UAP), which brought Sun Life firmly under joint control, looked a climactic conclusion to the year after the spate of activity — from Richemont's departure to the rights issues by TAH subsidiary Capital & Counties and First International Trust (FIT)

But the pioneering Euro-equity issue by Liberty Life caps the lot for boldness, not least by its London underwriters, S G Warburg (which has done the lion's share), Paribas, UBS Phillips & Drew and N M Rothschild Undeterred by three conspicuous failures to launch SA equity funds in London, Liberty is to issue 12m shares at the lower of US$11,78 (R37) or a 5% discount to the average market price between October 28-November 4 — as presaged in the *FM* (Cover story September 27)

That portion has been fully underwritten Barring accidents, Gordon has $141m in the bag to add to TAH's cash of about £150m ($257m). More important, as the *FM* went to press, Mark Katzenellenbogen of Warburg Securities revealed "We have found demand for the shares. Most of the underwritten portion has been placed"

The 48-hour feat of selling an SA share — even one with Liberty's record — on a 2,5% yield, when UK life assurers languish on yields of close to 6% in a buoyant market, is a tribute to the Warburg sales force, headed by Oliver Baring And the roadshow had not started It will take Gordon and his team from London to Edinburgh and Glasgow, Zurich, Geneva and Paris to talk to institutions to see whether demand will stretch to an additional 8m shares

If it does, the new issue will total $236m and increase Liberty's share capital by 9,3%

Gordon's ultimate aim is the recognition which will enable him to use Liberty paper for European acquisitions and hard currency earnings TAH, while quoted in Luxembourg, is unlisted in London because of its pyramid status Meanwhile, the cash, funnelled through TAH, will come in useful in a market littered with opportunities, especially in the ruins of the UK property sector — where some desperate landlords are offering office space rent-free for one to two years

And, of course, Sun Life is now a considerable platform from which to pick up offerings in the whole financial services area *Financial Times* columnist Lex notes that several UK mutual assurers could use "a helping hand"

In selling Liberty Life, Warburg has played heavily on the record and gone trawling for hidden treasures A dollar investment via the financial rand (then US75c) in 1981, would have outperformed an inflation-adjusted stake bought in rands The total return (capital gain and dividends) to an SA investor of 36% compound over the past decade, compares with almost 24% to a dollar buyer

Liberty's Gordon *more up his sleeve?*

But in relative terms, while the SA investment has beaten the consumer price index average annual rise of 14,7% by a factor of 2,5 times, a dollar investor has enjoyed five times the US CPI average increase of 4,5%

In terms of hidden value, Warburg has emphasised Liberty's conservative "cash accounting" culture New business costs go straight through to the profit and loss account By comparison, 90% of new business strain in UK with-profit insurance is borne by policyholders "We estimate that new business strain reduced the net taxed surplus in 1990 of R218,1m by approximately R120m (excluding the impact of any release of strain on prior years' sales)," it says

The bottom line is also struck after financing general growth

Liberty does not equity account strategic stakes in Stanbic, Premier and SA Breweries, while capital appreciation goes straight into reserves Nor is there any accounting for the premium these holdings would attract under "Texas auction" arrangements with JCI and Anglo American

Overall, the suggestion is that Liberty's true p e ratio at R37 is not 37 but something under 15 As to net worth, Warburg estimates that about half the R2,6bn total reserves in the life fund is attributable to shareholders and sees "substantial embedded value in the existing book of business" — though no attempt is made to quantify this

Warburg, which considers the issue "a big feather in our caps" and is confident it will be followed by other SA equity offerings, believes the share will be a more liquid market in London than in Johannesburg, where even in an active period a £1m buying order could take a fortnight or more to execute. But Gordon's objective of "alpha stock" status must remain a long-term target

London no longer uses the terminology of alpha, beta, gamma to denote shares by capitalisation or liquidity But the constituents of the *FT*-SE 100 index are broadly the old alpha list With market capitalisation of £1,5bn, Liberty would feel at home there However, it remains to be seen whether it can qualify on liquidity the top 100 shares' "normal market size" for market-makers ranges from 5 000-200 000

At most, 20m Liberty shares will be held offshore The promoters' wish for a liquid market may conflict with their hope that the stock will find firm holders and not drift back to Johannesburg — as happened with the Barlow Rand shares placed in connection with the Bibby takeover in 1984 *John Cavill*

KANHYM

Adding value

FM 18|10|91

For most of Kanhym's history, earnings closely followed the red meat price cycle. Last time this collapsed, 1983-1985, Kanhym made losses But since executive chairman Dirk Jacobs took over in 1987 it has become more resilient Meat prices were on average 3% up on the year yet EPS rose by 10% Moreover, excluding discontinued mining operations, earnings from remaining businesses rose by 19%

Improved performance can be attributed to a swing towards branded products Kanhym has been scaling down feedlot throughputs and building up Enterprise processed meat It bought Hanni Leathers at the beginning of last year, the Mielie-Kip chicken business and Herti deli meats At year-end it acquired a tannery in Bophuthatswana

Added value accounted for just 7% of operating income five years ago — it's now 61% In that time Enterprise's share of the

MEATY RESULTS

Year to Aug 31	1990	1991
Turnover (Rm)	979	987
Operating income (Rm)	41	44
Attributable (Rm)	30	33
Earnings (c)	50,6	60,1
Dividends (c)	20,0	20,0

continue ->

FM 18/10/91 (232)

SAPPI FM 18/10/91 (232)

Tight rights?

The rights offer is being pitched not only at the top end of the previously announced R800m-R1bn range but also at a very fine price Terms are 35-for-100 at R32, to raise R1,024bn net, in the second largest issue ever by an SA industrial company It is just short of R1,1bn by Gencor stablemate Engen earlier this year

Sappi repeats that gearing will ease from the current 68% to about 27% and interest cover will rise while it has the use of the funds pending their application on a R700m expansion at the Saiccor subsidiary — which may well not be for another couple of years

Sappi's van As *building during a downturn*

Even allowing for inflation in the interim, this will leave a handy balance — presumably to improve the financial ratios

The share was last quoted at R35,50, the best buyer on Tuesday afternoon being at R35 Even at the higher price, the issue is at a discount of only 8,9% — pretty tight at the best of times but, with a number of voices warning that the JSE could be due for a period of consolidation, even more so On the other hand, the share was R38,50 only a few weeks ago when the interim report (*Fox* September 27) was published, so subsequent easing may have been in anticipation of the huge cash call The 1991 high is R44,50

Chairman Eugene van As said in the interim that the intention was to "build during a downturn" and take advantage of generally buoyant share prices The last time Sappi came to market with a major issue was also during a downturn in the mid-Eighties.

When we discussed the interim, we projected earnings this year of 330c a share To avoid diluting this, Sappi would have to earn 10,3% after tax on R32 — even at present interest rates, a close-run thing

But Martin & Co's Richard Stuart points out that cheap debt incurred to finance Ngodwana is now maturing and would have to be replaced with expensive debt — for which there is no tax shield Martin accordingly believes the issue will boost EPS by about 7% for the balance of the current financial year and up to 25% in a full year.

Stuart adds that Sappi must be seen as a highly cyclical stock which is now probably at the bottom of the cycle Martin's projections are for EPS to peak at about 950c in 1995, which would give an average p e on the new money of only about five over the cycle

The issue is being underwritten by Gencor, which will have to take up at least half of it, anyway, and probably won't mind if it ends up with more But in spite of all the long-term plus factors, it'll be an intriguing tussle between the perennial shortage of quality scrip on the JSE and fears of an impending share price consolidation *Michael Coulson*

CAPITAL RESOURCES

FM 18|10|91 (232)

Battle on the home front

An application for the liquidation of home loan, administration and management company Capital Resources was submitted to the Witwatersrand Division of the Supreme Court by one of the companv's founders, Bernd Pichulik, on September 25

Pichulik wants Capital Resources' assets distributed among shareholders but the company intends opposing the application and has until October 29 to file an answering affidavit

Existing bonds granted by Capital Resources are held by SA Mortgage Securities No 1 — a vehicle created especially for the securitisation, so not directly owned by Capital Resources

There is a dispute over whether the application for liquidation is founded. The issue hinges on whether Pichulik is a creditor of Capital Resources Liquidation would be prejudicial to the main creditor, Prima Bank, because Capital has no real assets It could also lead to the liquidation of both Pichulik and the third party in the venture, Roland Ackerman, because both provided sureties against Prima's loan

Pichulik, a major shareholder when Capital Resources was formed, who designed its computer system, says Capital owes him R539 000 — including salary, provident fund and car allowance from April 1991-January 1993, the date when the shareholders' agreement will end

In his affidavit, Pichulik accuses Prima and Ackerman of reneging on the shareholders' agreement, signed by the three, and of unlawfully forcing him out of the venture

Bellingan

His affidavit also claims he developed the concept of securitising endowment-linked mortgage bonds within the SA legal, financial and taxation framework He and Ackerman conceived the idea of forming a single company which would provide both mortgage finance and endowment bonds

Prima Bank was approached to finance the operation Once Prima had evaluated the viability of the project and decided to enter into a joint venture, an agreement was concluded between Pichulik, Ackerman and Prima (signed by MD Johan Bellingan) Prima appointed Bellingan and Prima GM Louis Greyling to the board in terms of the agreement

Both Pichulik and Ackerman were required by Prima's credit committee to sign personal sureties for Capital Resources' debts to Prima During June 1990, Prima provided the first funds for the venture.

Pichulik says the company started on August 6 1990 in new offices in Wierda Valley, Sandton Over the next six weeks he supervised the installation and commissioning of computers, furniture, and so on

Business was slow and, on February 25, it became obvious that additional funding would be needed to pay overheads of about R70 000 a month.

Prima was apparently willing to provide more funds if it could increase its stake but Pichulik was not prepared to sell shares to Prima

On March 26, Pichulik was given the option of resigning but refused and was subsequently summarily dismissed in terms of the directors' resolution "due to gross misconduct comprising a breach of trust and rules." Pichulik says this was in contradiction of the shareholders' agreement as there had to be written consensus between Prima, Ackerman and himself on decisions like this.

He says an argument that arose over the loan account was "a ruse" to take control of a potentially viable business (The credit limit was based on his original projection of funding needed)

He says he was told in March that Prima would "pull the loan" unless he "chipped in." He also alleges he was told he would not be welcome on the board and was made a settlement offer of R36 000 and commission on the securitised book. Pichulik refused

There is now disagreement over who owns the shares in the company Pichulik alleges he still owns 35%, Ackerman 35% and Prima 30% Prima claims it owns 62%

At the AGM on June 12, when Pichulik was voted off the board, the 3 900 unissued shares were put under the control of the directors and then issued in terms of the memorandum and articles

According to the register, shareholdings are now Pichulik 35 (under 1%), recently appointed MD Hannes van der Berg and nominees 480 (12%), Ackerman and nominees 1 000 (25%), and Prima and nominees 2 485 (62%)

However, Pichulik says the shareholders' agreement prevented the issue of unissued shares without his approval and claims the AGM was unlawful because he was not told of it and financial statements were not attached to the notice sent to other shareholders He claims further that, on September 19, the allocation was not reflected in the register He says he attended the AGM only because he learnt of it from an independent source.

Pichulik alleges that both Ackerman and Prima attacked him on the basis that the computer system didn't work properly

Pichulik says his computer system was running in late October From January, he claims downtime was about 4% of the working day.

This, however, was never proved as the system never worked at full capacity

Prima declines to comment, saying the case is *sub judice* ■

By JULIE WALKER

Ellerine star of the prelims

S/Times (Buss) (232)

20/10/91.

ELLERINES raised earnings and dividends by 16% in the year to August, making it the best performer among those companies announcing preliminary results.

The leading furniture retailer increased sales by 23% to R592-million and taxed earnings a share to 774c The share was offered at R57, seven times historic earnings The thrice-covered dividend was lifted 16% to 257c

Profit margin improvement at SPL, the computer systems programming company, helped earnings to rise tenfold in the six months to August

Turnover jumped 37% to R40-million, the products division making the biggest increase in contribution

The Auto-Mate motor dealer system has been installed at 24 sites and is running well

There were no finance costs compared with R532 000 at the previous interim Pre-tax profit reached R3,9-million, against R144 000 But a R1,78-million tax bill compared with the previous credit of R60 000 meant a bottom-line rise to 13c a share from 1,1c The dividend was lifted 2c to 5c

Investec justified its premium rating with another good rise in earnings In the six months to September, the banking group stressed the strength of its earnings base and played down the view that its income depended on striking deals

Distorted

Interest income now exceeds 50% of the total R85,2-million made after provisions for bad debt

Chairman Bas Kardol is confident that growth in the second half-year will match the 30% rise achieved in the first The group paid 25c in dividend, half the 1991 total and 40% more than the previous year's interim

Investec's acquisition of Reichmans distorted the net income figure of R18,2-million as opposed to the previous interim's R10,7-million Preference dividends accounted for R5,2-million

Economies of scale were achieved and the capital-to-assets ratio is a comfortable 7,5%

Investec Holdings , which owns 75% of Investec Bank and subsidiaries, mirrored Investec's performance Earnings a share reached 41,6c and the dividend 14c

Investec's shares are at a high of R21 — 15,6 times historic earnings

Trouser outfit Cutrite excelled in the six months to August Sales rose by 15% to R26-million and a reduction in interest pushed income up by the same amount to R3,4-million

Tax took half and earnings a share grew by 16% to 10,1c The dividend was maintained at 3c

The directors believe the company can do better in an economic upturn free of boycotts and other disruptions

Carlcor's earnings in only eight months to August exceeded those for the 12 months of 1990

Strong volume growth, stable raw material prices, productivity improvements and exports helped earnings a share to reach 187,2c in the eight months A dividend of 75c was declared.

Carlcor sees no indication of an economic upswing and prudently forecasts a modest growth in earnings

White and decorated coloured foam trays did well for Sunpak, but its synthetic paper labels business incurred a large loss in the year to August 1991 in spite of good exports

A manufacturing facility will be set up in America through the transfer of equipment It is expected to eliminate SA losses

Sunpak's income fell, the interest bill rose and a tax reversal of R1,5-million helped earnings a share a shade higher to 17,4c

Prudence:
The application of this concept ass
neither profit nor net assets have
Accordingly, any decision by the us
advance money to, the business, wil
(over-optimistic) expectations.

Matching:
This concept assures the user that
earning the income specified in the
period have been matched against th
profit has accordingly not been ove

Going concern:
By knowing that the business will c
the future and will not be liquidat
that assets (and liabilities) are s
amounts written off) and not at liq
may differ considerably.

Consistency:
By knowing that the same bases and
like items from one period to the next, the user can feel
confident when comparing financial statements of different
periods.

Ups and downs on the way to R3bn portfolio

S/Times (Buss) 20/10/91 - 232

BY 1968, Investors' Fund topped R20-million Many new shares were in the portfolio, including Standard Bank and Murray & Roberts

One was Meritex Holdings, but not the one that is listed today

There was a Comair Holdings The JSE had sectors called retailers & wholesalers and one for stores, which seem to overlap

Mr Werdmuller's picture appeared with the chairman's statement in this bumper year He recalled the words of the Minister of Finance when he introduced the Bill to amend the Unit Trusts Control Act in 1962

"I cannot fail to point out at this juncture that the open-ended trust will present an ideal opportunity to the small saver and to the investor from all walks of life in this country to demonstrate their confidence and their faith — which I am convinced are not lacking — in our own commerce and industry

Benefit

"And I should go further and express the personal conviction that, if this movement should catch on properly, our economy will benefit in that it may become less inhibited in some respects than it has been in the past"

At June 30, 1969, Investors' portfolio's value had almost quadrupled to R78-million Share prices peaked in May, then dived

Pick 'n Pay made its debut, but so did a few shares that came unstuck — Glen Anil for example

The collapse of one or two high-flyers underlines the importance of having a wide spread of shares such as a mutual fund offers

Omitted

Latter-day disasters include Barplats, but in isolation one share's demise is not enough to pull down the empire

The stock-market crash of 1969 damaged the unit trust industry in SA for almost all the 1970s

The chairman's statement in 1970 stressed the long-term nature by which investment in unit trusts should be made

Dividend growth also became more important, according to the chairman

He believed it prudent to repeat the stock-market ditty about meeting needs before buying equity

The protection of capital against inflation first got a mention in 1969 — and has hardly been left out since

Every year, the chairman's statement recorded the number of companies that raised, maintained or reduced their dividends

A new chairman, J G van der Horst, came in 1974, but the formula varied little

The portfolio continued to be adjusted By 1977, the fund had held Barclays Bank shares for several years, Trust Bank had been sold and it owned stock in Nedbank & Syfrets-UAL Holdings

There was a platinum sector, with Bishopgate and Rustenburg shares in it Municipal stocks still yielded less than 7%

The following year was the first in which Investors' Fund bought individual gold shares It took aboard Ergo, Randfontein, Southvaal and Kloof

Decade

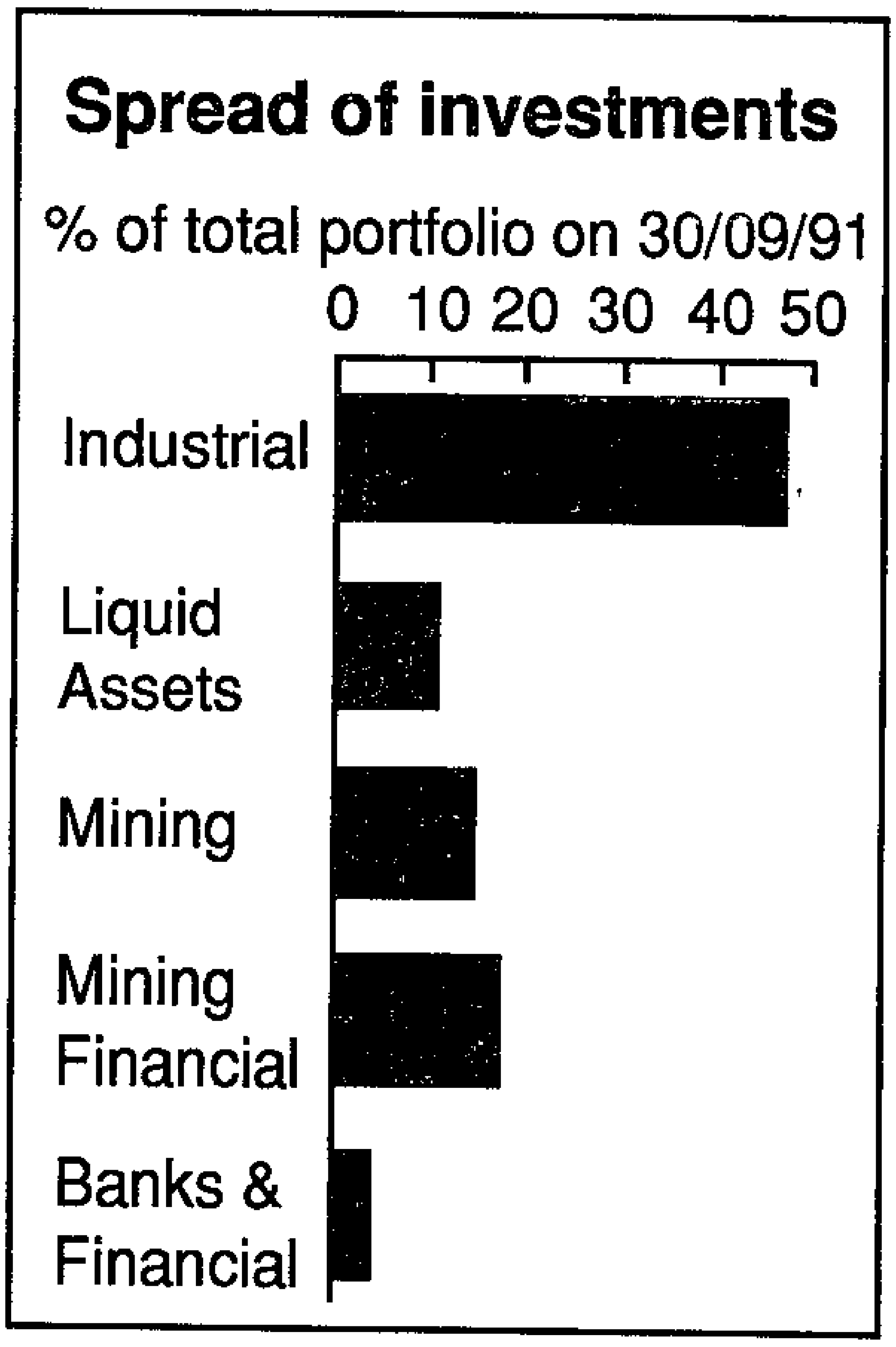
The investment in the Rembrandt quartet was worth R5,1-million in 1988

Liquid assets yielded as low as 4,625%

In 1979, a graph showing how Old Mutual's unit trust had outpaced the cost of living was given with the chairman's statement

The next decade was to be one of unprecedented growth for the fund In 1980 its total worth was R146-million, 10 years later it topped R2,2-billion

It is now worth nearly R3-billion



Pick 'n Pay was sold in 1982 The original 24 800 shares worth R124 000 in 1969 had become 28 300 worth R1,5-million

In 1985 when Safren was formed from the merger of Safmarine and Rennies, Old Mutual Investors' holding was 457 000 worth R7,2-million They are still in the portfolio, the June 1991 2,4-million shares being worth R168-million

Merger

Five years ago, the fund piled into golds ahead of a boom in share prices Deelkraal, East Dagga, Ergo, Freegold, Joel, Ofsil, Randfontein, Welkom and Western Deeps joined long-stayers Kloof and Southvaal

The gold portfolio was worth R47-million at June 1986

Another great year was 1987 The portfolio had grown from R57-million in 1977 to R496-million at June 1986

The gold portfolio's worth had doubled by June 1987

Ripe

The 1987 chairman's statement came a few weeks before the equity market crashed

Dr Van der Horst referred to the formation of the Old Mutual Mining Fund, and spoke of a third fund, for primary shares of new issues, to be launched when the time was ripe

It never ripened because the market died and new issues became a thing of the past A gold fund was launched instead a year later

The 1988 chairman's statement came after the market had had a chance to rally in the wake of the October 1987 collapse

In retrospect the only people who lost out as unitholders were those who cashed in when the market was in a panic

From June 1987 to June 1988 — the period incorporating the crash, the value of Old Mutual Investors' Fund slipped by only R40-million on assets worth more than R1-billion

Mission

Since then, it has been plain sailing

More money and investors than ever have hastened to join the fund

Mike Levett took over as chairman in 1990 He defines the Old Mutual unit trusts' mission It is to satisfy a wide spectrum of investment needs and this is why additional funds have been launched, such as mining, gold and industrial Another is to be launched shortly

There has long been an income fund

But to compete with the original and best Investors' Fund, they will have to do some running

Incidentally, the value of the Rembrandt shares plus Richemont at June 1991 was more than R420-million and the most recent yield given on the stock is 15% in 1988

Partners sue The Wheel for R12m

By DON ROBERTSON

A CONSORTIUM of Durban businessmen is suing The Wheel Shopping Centre, 90% owned by Momentum Life and First National Bank (FNB), for more than R12-million S TIMES (BUS)

The R90-million Durban shopping and cinema complex was completed in October 1989, but the consortium claims contractual obligations by the life assurer and the bank have not been fulfilled 20/10/91

The consortium consists of Ivan Dodd, Len Hudson, Derrick Lobban and Francis Whitby, who owned the property

The Wheel Shopping Centre is owned 78,5% by Momentum, 11,5% by FNB and 10% by the consortium.

The consortium issued a summons in the Supreme Court, Durban, for R3,7-million on September 10 and a declaritor was submitted in the Supreme Court, Johannesburg, for R9,5-million this week. This will ask the courts to establish the legality of this claim.

The consortium has taken legal advice about other claims. BD 232

Stalemate

Letting agent Ellis Associates has sued The Wheel for R153 000

Momentum executive director Peter du Toit says the position between his company and the consortium has "reached a stalemate and the matter will be decided by the courts"

Mr Du Toit says Momentum was obliged to repair alleged sub-standard work on the project and rectify problems with the air-conditioning system

He says The Wheel has been a good investment and is 96% let.

Mr Dodd, head of the consortium, says Momentum and FNB have not funded the loan account as agreed and have not paid other amounts due in terms of the development agreement.

"Management fees, the balance of the professionals' fees, certain rents and the funding of the loan account and interest have not been paid"

Mr Dodd denies that the project was sub-standard He says all electrical work was approved by the Durban City Council

A Business Times Corporate Feature

A trip down the quarter-century

S Times (Buss) 20/10/91. (232)

OLD MUTUAL is the second oldest unit trust institution.

It took until 1978 for the fund to become the No 1 medium in terms of value and number of investors.

What was the mood 25 years ago? A good crop of the most numerous Old Mutual unit-holders today were only children or teenagers when the fund was launched.

Pick & Pay was still an unlisted family business — and inflation was 2% a year.

Mainstays

A trip through Old Mutual Investors' Fund annual reports provides an interesting insight into the past quarter of a century

The portfolio at June 30, 1967, a few months after its inception, contains many shares one would expect — and almost as many no longer in existence

Life-long members of the fund include mining financial mainstays Anglo American, Anamint, Anglovaal, De Beers, General Mining, Johnnies, Rand Mines.

Barlow Rand was then known as Thos Barlow & Sons.

Only three banks were worthy of inclusion, Netherlands Bank of SA, Trust Bank of SA and Volkskas.

SA Breweries was among a quartet of shares under the sector breweries, wines, mineral waters and hotels, which later gave way to beverages, hotels and leisure.

The building shares all look familiar, but Anglo-Alpha, Cullinan, Everite and Vereeniging Refractories are shares of yesteryear — only PPC merits a place in the 1991 portfolio.

AECI is still in there and ICS is common to both years. The other stalwart shares are those in the Rembrandt group

Gone are almost all the publishing, printing, packaging, iron and steel, engineering and clothing companies

Among the other securities in the 1967 portfolio was City of Durban 6,5% stock, Electricity Supply Commission 6,875% stock and Industrial Development Corporation 7% stock, all dated 1992

The total value of the fund's assets in June 1967 was R2 799 455.

The first chairman's statement was signed in August of that year by G C D Werdmuller, chairman of Old Mutual itself at the time

His maiden statement contains the startling admission that investment in the trust fund had initially been confined to policy-holders of Old Mutual and to such institutions as privately managed pension and provident funds

Furthermore, the amount anyone could invest in units depended on the sums assured of his or her policies and the length of time they had been in force.

But widespread demand from the public led to the scrapping of all restrictions by February 1967.

Another interesting point in the first statement is that increasing amounts of money was being received from the marketing of equity-linked policies by Old Mutual and by bonuses on policies being applied to the purchase of units.

Even then, when the competition for investment funds was a fraction of today's, the Old Mutual believed it necessary to market the unit trust in a responsible way.

Important

The chairman said. "Such a policy has as its basis the principle that investment in shares is a most rewarding form of investment, but that such purchases should not be made unless other important needs have first been met.

"These needs have been listed by the JSE in its booklet Common Sense About Shares, and are:

1) The need to cover living expenses — food, clothing, education, shelter.
2) The need for adequate insurance.
3) The need for ready cash to meet emergencies that may arise

"Your directors are happy to associate themselves with these views that have been so well expressed in the Stock Exchange booklet."

Last-ditch bid for cash by Masterbond bosses, but...

Shareholders foil Health Club sale

(232)

S Times (Buss) 20/10/91.

DIRECTORS Koos Jonker and Johann Brits tried to sell Masterbond's 40% interest in lucrative Health & Racquet Club shortly after six of the group's companies were placed in provisional liquidation this month

Their attempt was opposed by three other director-shareholders, some of whom represent a consultancy which has invested millions of its clients' funds in Masterbond schemes

By CURT VON KEYSERLINCK

JAPIE JACOBS Some time to go before everything is sorted out

To prevent the sale Masterbond director Ross van Reenen applied to the Supreme Court, Cape Town, for the provisional liquidation of Masterbond holding company Masterbond Trust Investment Holdings (MTIH)

The application is pending until October 30

It also appears that some of these directors may not have known about a financial statement placed in newspapers by Mr Jonker and Mr Brits It said MTIH had increased its turnover by 170% and profits by 307% It also claimed that Masterbond would maintain profit growth barring unforeseen events

Interest

The announcement appeared on August 29, a month before the provisional liquidation of the six Masterbond companies

Masterbond auditor Ernst & Young says it has not issued its report on the financial statements because it has not completed the audit

Health & Racquet owes Masterbond R1,2-million But it is unlikely to be affected by Masterbond's collapse because other investors are interested in buying it

The 14 000 to 20 000 individuals who invested an estimated R520-million with Masterbond will wait months to find out how much of their money will be repaid They are unlikley to receive full interest payments

A reason is that the Masterbond group is a network of more than 80 separate companies and other business entities which conducted numerous transactions among themselves Only six are in provisional liquidation and MTIH is not among them

Leader of the Government investigation Japie Jacobs said on Friday that the inquiry would be extended to the entire group

This should provide all the answers, but it will take time

Dr Jacobs and the liquidators refuse to discuss the matter

It appears that R70-million of funds invested with Masterbond were in mortgage participation bonds and R450-million in debentures

Legislation forbids a partbond management company from lending to companies with which it is connected One of the investigation group's tasks will be to find out if this took place

It is also likely to examine the valuations of the properties involved in the partbond scheme Legislation requires that valuations be made by independent experts and that the value of partbonds bonds for a property may not exceed 75% of its value

Masterbond offered investors higher interest on part bonds than others in the business It is not a member of the Association of Participation Bond Managers Most members involve themselves primarily in commercial and industrial properties, flats and farms which are considered better risks than leisure properties, such as those in the Masterbond portfolio

Insolvent

A spokesman for the association says membership is not "compulsory." Members may have refrained from warning against investing in Masterbond because that could have been construed as knocking the competition

He says no member has gone insolvent since the association's inception in 1964

Debentures account for most of the Masterbond debt. But it is not known how many are secured by fixed assets because investors essentially gave Masterbond the right to use their money where it thought fit

Legislation governing the issue of debentures is vague But proposals by the Reserve Bank, if enacted would make it impossible to issue debentures for unspecified purposes as apparently happened with Masterbond

Financial sources decline to criticise the regulatory authorities for allowing the Masterbond fiasco to occur

They say the authorities knew something about its activities for some time and that the swift action of the high powered investigation task force suggests the government may be trying to make amends for possible lapses in its supervisory functions

Paul Weiner, a partner in Werksmans law firm which represents financial consultants Berns Block and IPC, says everything will be done to protect investors who placed cash in Masterbond through the consultancies

Curatorship move possible 'first step'

CAPE TOWN — The application for curatorship of provisionally liquidated Masterbond Trust Participation Bond Managers (MTPBM) in the Cape Town Supreme Court today could at a later stage extend to the group's holding company, Masterbond Trust Investment Holdings (MTIH), and all its subsidiary companies.

LINDA ENSOR

There are about 88 companies in the R750m Masterbond empire, many of them linked in a complicated system of intercompany loans. Only six have so far been provisionally wound up, while an application for the provisional liquidation of the holding company has been postponed until the end of the month.

It was announced last week that an application would be made today to have the provisional liquidation order on MTPBM lifted so that it could be put under the control of a curator

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Legal technicalities prevent today's application from incorporating the holding company and its subsidiaries, but it is believed that an attempt will be made later to have them placed under curatorship.

Court approval of such a scheme would give the curator the freedom to act with regard to the whole Masterbond group, a source said yesterday

He said it was thought the situation would be chaotic were the curator to be limited only to the activities of MTPBM, as

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Curatorship

BDay 21/10/91 (232)

☐ From Page 1

the other companies would continue to operate. There was also a need for other companies in the group to be provisionally wound up.

However, Finance Minister Barend du Plessis's special economic adviser Japie Jacobs, who is heading a committee investigating the Masterbond Trust collapse, would not comment yesterday.

It is believed the committee decided to go the curatorship route as this would make possible the adoption of flexible strategies

"Whereas liquidation means the selling off of all the assets, the curator would have the freedom to look at each company to see if it has a viable future.

"In some cases the sale of assets could be deferred to get them into shape, so that more could be realised on behalf of investors," the source said

BUSINESS DAY, Tuesday, October 22 1991

TOM expected to start running soon

ROBERT GENTLE

SIMULATED trading in options on equities has started at the JSE, sparking speculation in the market that the R15m Traded Options Market (TOM) is finally set to start operating.

A consultant who worked at the London Traded Options Market as head of market operations is helping out with the simulated trading

Brokers said the simulated trading involved 16 firms and included six of the big-name stockbrokers It was aimed at seeing how the system coped with various trading volumes and patterns.

Their impression was that though the system was shaping up and things were moving forward, it would be another couple of months before TOM was ready to be formally opened.

December was ruled out because it is normally a quiet month.

"It will probably open early next year," a broker ventured.

JSE chief operating officer Mike Thompson said yesterday: "I believe we will be ready before year-end. We are doing final system testing."

Two Cape-based institutions said yesterday they were not aware of any recent indications about when TOM would start.

They are expected to be the major users of options on equities.

Syfrets portfolio-manager Rob Nichol said: "We will wait until TOM is actually operating before we decide whether or not to use it. Based on what the JSE has told us on the cost of the options, TOM will be too expensive to be worthwhile."

TOM will offer investors options on key blue chip shares and indices. According to the latest JSE handbook, equity options will be traded on Anglo-American, Barlows, De Beers, Rustenburg, Sasol and Vaal Reefs. Index options will be traded on the all share, all gold and industrial indices.

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16/01/22

Gn 018

Personal savings 'not at risk'

SHARON WOOD

SCALING down tax privileges given to contractual saving institutions would not necessarily change the composition or level of personal savings, Finance Department special economic adviser Japie Jacobs said yesterday

Addressing a marketing managers seminar in Pretoria, he said the move towards contractual savings and away from discretionary savings was part of a worldwide trend.

However, SA's contractual saving institutions were more prominent in financial markets than those in other countries

It was quite possible that pension funds' tax relief would eventually be phased out internationally, said Jacobs

"But it is difficult to visualise such a change in SA," he said

Government paid out between R6bn and R8bn a year in tax incentives to the pension industry

"This is substantial but nevertheless regarded as worthwhile as the demands on state finances for social pensions would otherwise be much higher," he said.

SA pension funds also enjoyed greater freedom in deciding on the composition of their asset porfolios than in other countries, and were often criticised for not financing new productive investment.

In view of extensive socio-economic backlogs, the contractual savings industry would have to expect their employment of savings to become subject to critical scrutiny, he said

"The modern sector of SA is adequately served with office buildings and shopping centres, and it is . difficult to justify additional outlays on these structures," he said

"Discussions have been held with the industry to find ways in which the institutions can provide finance for socio-economic projects"

However, proposals for prescribed investments were ill-conceived and fraught with unresolved issues

16/01/22

Gn 018

Malbak benefits from interest cut

(232)

B/Day 24/10/91.

BRENT VON MELVILLE

INDUSTRIAL conglomerate Malbak, which has turned its attention to the consumer market, gave a stable performance for the year to end-August, with bottom-line earnings up 10% to R256m (R233m)

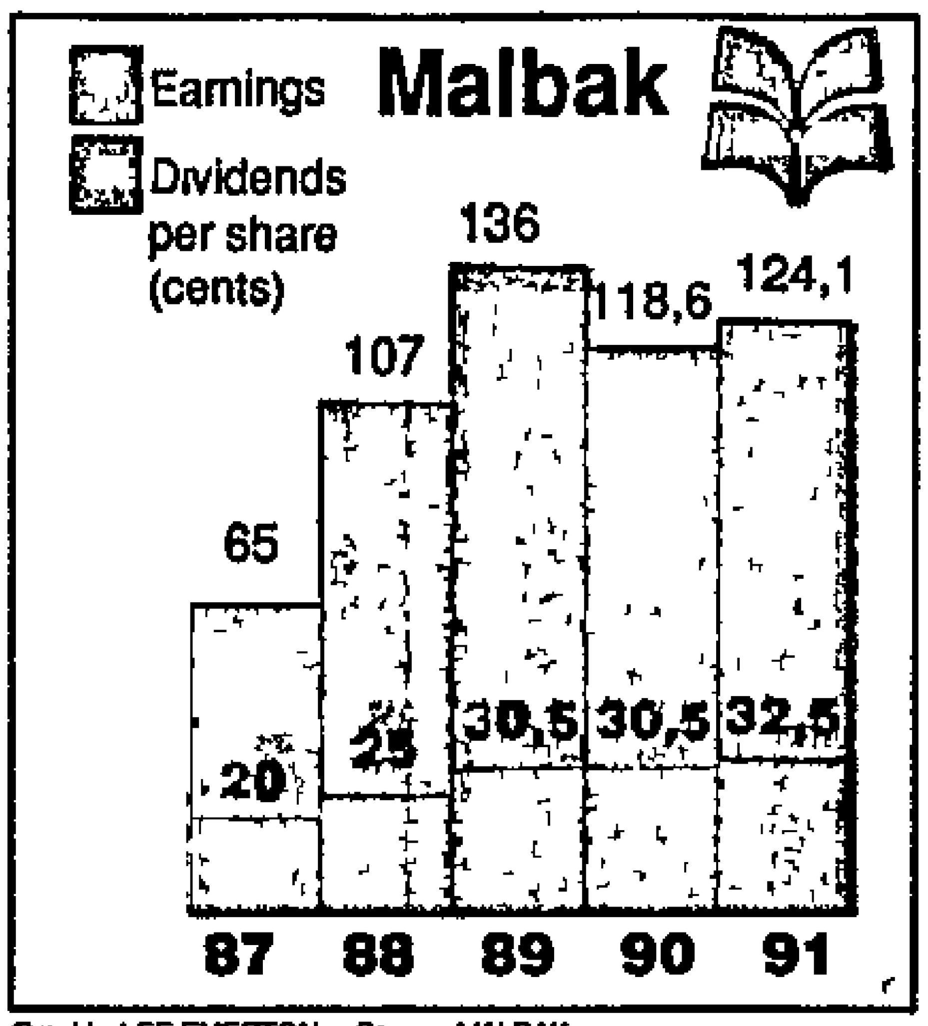
The results, which saw a total dividend for the year of 32,5c (30,5c), put the group on a p e rating of 9,9 times and a dividend yield of 2,7% Malbak shares climbed 35c (3%) to R12,25 yesterday

The performance was largely the result of a reduction in interest payments, which fell 19% to R176m (R218m) on a decline in borrowings to R739m (R827m). The reduced interest bill saw profits before tax improve 7% to R544m (R506m) despite static turnover and operating profits, at R8,4bn and R720m respectively.

Executive chairman Grant Thomas attributed the reduction in borrowings to improved asset management. Interest cover climbed to 4,1 (3,3) times and gearing was reduced to 35,3 (45,8) times

Moves during the financial year under review included reduction of the group's holding in paper and packaging division Holdains and food division Kanhym.

Thomas said gearing would fall further, to about 20%, following the group's recently announced acquisitions of Fedfood and SA Druggists, and the sell-off of its 50% stake in Standard Engineering and 61% holding in Darling & Hodgson



Graphic: LEE EMERTON Source MALBAK

Had the transactions taken place at the start of the year under review, the effect would have been to reduce earnings by 5,4% to 117c a share, and increase net asset value by 10,7% to 758c a share Cash proceeds on the sales amounting to more than R400m would go towards reducing borrowings

☐ To Page 2

Malbak

B/Day 24/10/91. (232)

☐ From Page 1

During the year the group wrote off goodwill on acquisitions of R89m, and losses of R17m on the sale of Malcomess, R11m on the disposal of Crescens Bushill and R10m on the sale of Quality Tyres

Divisionally the group's branded consumer products division, led by improved performances from Ellerines and Tedelex, upped its contribution to group bottom line to R70m, or 27% (25%).

Engineering and mining supplies, under Standard Engineering, contributed R57m, leaving its percentage to bottom line at 22%, while packaging and paper (housed under Holdains) saw its contribution drop slightly to 23% (R59m) During the year Holdains acquired control of the Sun Packaging group and increased its stake in Carlton Paper Corporation to over 50%

The group's food division under Kanhym, in which Malbak reduced its holding to 70% from 85%, increased its contribution to group attributable profits slightly to R27m (25m), leaving its percentage contribution at 11%

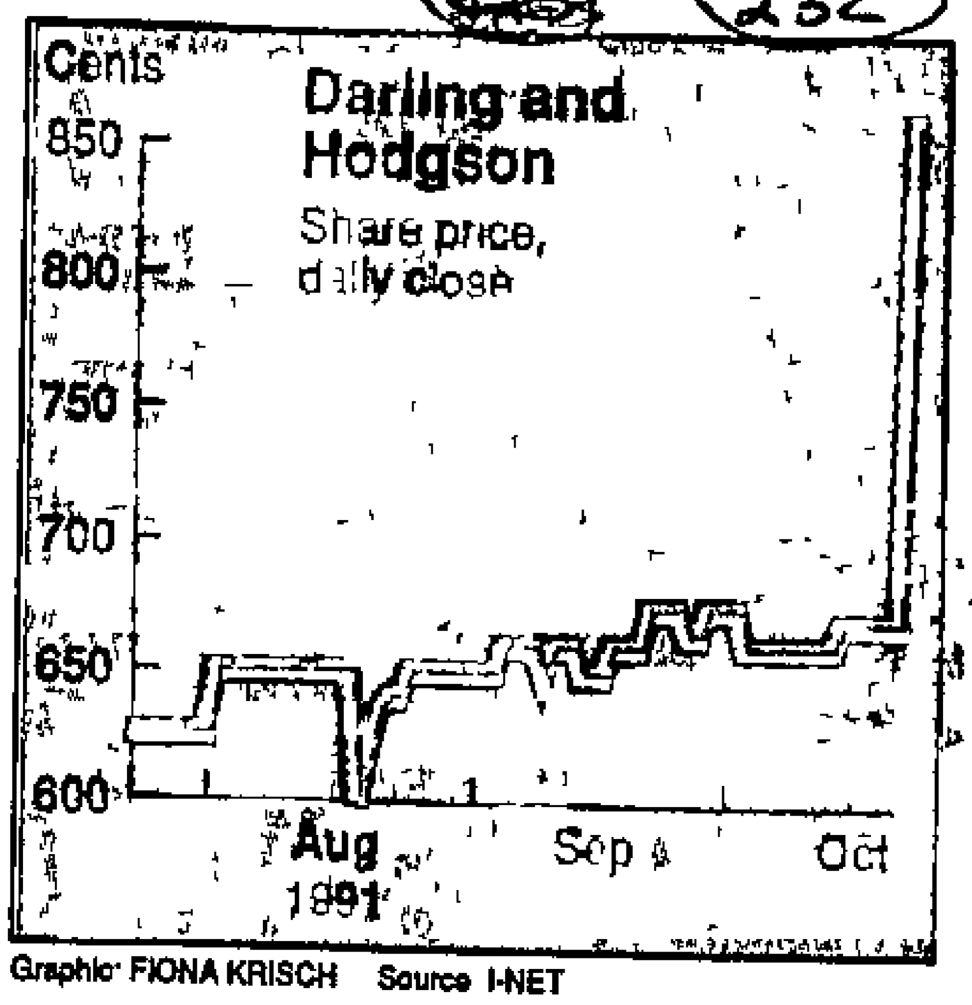
The motor retailing division, which operates Mercedes and Toyota franchises, has, subsequent to the year-end, acquired the Market Motors Group, expanding its operations to the western Cape and becoming SA's second largest Toyota dealer

Malhold, which holds 56,2% in Malbak, saw earnings up 8,9% to 350,3c (321,7c) a share, and increased the dividend 6% to 91c (85,5c)

As to prospects, Thomas warned that the second half of the financial year under review had seen an acceleration in the economic downturn, and even if the high level of interest rates was reduced, it was unlikely any benefit would be seen before the second half of next year

JSE applauds the Sankorp shuffle

(232) B Day 24/10/91



Graphic: FIONA KRISCH Source I-NET

MERVYN HARRIS and
BRENT VON MELVILLE

DIAGONAL Street yesterday gave a favourable response to the R1bn reshuffle by Sankorp of its industrial interests

Darling & Hodgson (D & H) was the major beneficiary as the shares soared to a high of 870c before slipping back to close 28,3% or 190c up at 860c. This surpassed the previous peak of 675c reached at the end of September and is more than double the low of 400c almost a year ago

Under the reorganisation, Malbak is to sell its 61% stake in D & H to Murray & Roberts (M & R) for R297,2m D & H was valued at 750c a share for purposes of the deal, or 16,67 M & R shares for every 100

☐ To Page 2

Sankorp

B Day 24/10/91

D & H shares

M & R traded yesterday at its recent peak of R55 with dealers reporting difficulty in obtaining stock The price is higher than the R45 value placed on the shares for purposes of the deal, and helps explain the rise of D & H shares

As D & H has a 43% stake in cement group Blue Circle, the deal will give M & R joint control of Blue Circle.

The transactions will also propel Malbak into top position in the pharmaceutical industry and make it a major player in the food sector, with the acquisitions of SA Druggists and Fedfood respectively from

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Fedvolks Malbak, valued at R12 for purposes of the deal, shot up 35c yesterday to equal its recent high of R12,25

After a year devoted to sharpening its image with investors and reducing gearing, Malbak has seen its share price more than double since its 600c level last end-August, and its market capitalisation jump to almost R2,6bn

The benefits of the latest moves spilled over to holding company Malhold, which climbed 125c to a new high of R31,75

Of other shares involved in the transactions, SA Druggists firmed 10c to 250c while Fedfood, at a peak of R18 last week, was offered at the ruling price of R17,50

SAB 'set to acquire PGSI'

B Day 24/10/91

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MARCIA KLEIN
and SEAN VAN ZYL

SA BREWERIES (SAB) seems poised to take control of Plate Glass & Shatterprufe Industries (PGSI), according to market and industry sources. 24/10/91

A joint cautionary annoucement issued today by SAB, PGSI and its holding company Placor warns shareholders in Placor and PGSI that negotiations are taking place between SAB and Placor's shareholders controlling more than 50% of the company's issued share capital. Placor holds 49,7% of PGSI.

According to McGregor's Who Owns Whom, Liberty Life holds 31,7% of Placor and SA Mutual 25,8%, while directors hold 22,8%. This would indicate that SAB may acquire both Liberty and the directors' interests Liberty is also a large shareholder in SAB through Bevcon

The recent death of Placor group co-founder Harry Brodie sparked speculation that the Brodie family would dispose of its interest in PGSI. A deal could also see the Lubner family reduce its stake In March Bertie Lubner said he intended to reduce his executive responsibilities to pursue his personal business interests.

Placor chairman Lubner and PGSI chairman Ronnie Lubner said yesterday they were unable to add any comment to the cautionary notice.

An analyst said yesterday there was speculation that SAB was planning a deal pegged at R1bn, which was about the market capitalisation of Placor.

PGSI and SAB said further details could be expected in the next few weeks

Capital rates take 10-point tumble

B/Day 24/1/91 ANDREW GILL 232

CAPITAL market rates fell more than 10 points yesterday as some market players were caught short of stock after a morning of "some strong buying from institutions"

Two camps emerged as rates dropped across the board Some dealers said the move was a technical one after weeks of climbing rates but others felt it could signal a turning point for the bearish market.

"It was either a big order or a little order badly done," said one broker who had not been part of any buy orders on the day. The fall came despite the violence in Soweto which some dealers felt the market had now hardened itself to

The benchmark E168 ended the day 13 points lower at 16,81% from 16,94% on Tuesday and a 16,79% low on the day Government's R150 stock ended 14 points lower at 17,30% from 17,44%

After weeks of jobbers trying to push the E168 above the 17% level, they were caught short ahead of today's settlement period.

Dealers cite declining money market rates as a reason for possible renewed interest in the market

Also, with jobbers attempting to breach the 17% level they had tended to ignore any positive developments on the political and economic fronts, a dealer said

The anticipated hike in the inflation rate as a result of VAT had "mostly been discounted" by the market.

A dealer, who felt the move was a technical one, said he could not see anything bullish about the market

JSE is ready to act on behalf of Crest minorities

B/Day 24/10/91 (232)

SEAN VAN ZYL

THE JSE is to ensure an offer is made to minority shareholders of suspended cash-shell Crest Holdings.

A majority interest in the Crest cash-shell was acquired by Colfin Holdings last year for 106,5c a share. This was sold in January this year to the Keswick Trust for 106,5c a share.

From its suspension as a cash-shell in July 1990, no offer has been made to Crest's minority shareholders, the JSE said in a statement yesterday

The JSE statement referred to a report which appeared recently in the Press, "apparently emanating from Dergra Mining", that Dergra was to be reverse-listed into the Crest cash-shell before the end of 1991

The JSE said that the documentation submitted so far by Keswick regarding the listing of Dergra was inadequate

Until the outstanding documentation was supplied, the JSE intended "exercising its rights under the listing requirements" by not considering the Dergra listing until it received the requested documentation

A statement issued by Dergra's directors last night said they were surprised at the JSE statement.

The last submission of documentation was made to the JSE yesterday, the directors said

They added that "the directors of Dergra Mining wish to make it clear that they have no intention of neglecting their responsibilities either to the JSE or to the minorities of Crest Holdings"

In addition, they added, Dergra had already indicated formally its willingness to make an offer of 108c a share to minorities

The offer price was 13c higher than Crest's last ruling price before the suspension

The statement noted the offer to minorities would be made after the lifting of Crest's suspension It noted, too, that bank guarantees were lodged with the JSE from July 26 this year to cover the offer to minorities

Malbak sets up a good deal for shareholders

Star 24/10/91.

By Ann Crotty (232)

Malbak shareholders will probably be paying less attention to the 10 percent hike in financial '91 earnings reported today than to the implications of the Sankorp asset shuffle announced yesterday.

Most significant in the short-term is that the reorganisation in effect sees Malbak undertaking a R400 million rights issue at a pricey-looking R12 a share.

Malbak chief executive Grant Thomas accepts that a straightforward rights issue through the market would probably have been closer to R10

Disposals

The deal involves Malbak buying and selling assets — paying shares for the acquisitions and receiving cash for the disposals The shares will be issued at a price of R12 — an all-time high for the Malbak share which 12 months ago was trading at 500c

Leaving Malbak will be a 35 percent stake in Standard Engineering and a 61 percent stake in Darling & Hodgson — both are going to Murray & Roberts.

Standard Engineering is being valued at 850c a share for a sale value of R102,1 million. D&H is valued at 750c a share for a sale value of R297,2 million The combined sale value of R399 million will be funded through the issue of 8,9 million M&R shares at an issue price of R45 per share

Grant Thomas ... double benefit to Malbak gearing.

Malbak will be renouncing these shares — 7 million in favour of Sankorp and the remainder to other parties.

So instead of picking up M&R shares, Malbak will get the R399 million cash

On the acquisition side, Malbak is issuing 25,3 million shares to Federale in exchange for its 60 percent stake in Fedfood And a further 21,6 million shares for Federale's 68 percent stake in SA Druggist. This means an additional 46,9 million shares are being issued at R12 a piece for a total purchase consideration of R563 million.

Benefit

The deal therefore has a double benefit to Malbak's gearing — it increases the equity base and also increases the cash level. The combined effect would see gearing, on a pro forma end-August balance sheet, at 19 percent compared with the actual level of 35 percent.

And it's not as though these balance sheet benefits are being made at the cost of income performance. Malbak is picking up a controlling stake in two companies (Fedfood and SA Druggist), that are better placed than many to ride out the economic storm

In Fedfood's case the long-term benefit could be considerable Eventually Kanhym and Fedfood interests will be merged into a food conglomerate that will benefit from enterprising Kanhym management and will have the advantage of considerable size.

For those shareholders who feel that a R12 Malbak share price is a bit heady and perhaps not sustainable, it is worth noting that the group's portfolio now has a heavier weighting in better rated sectors

Pro forma earnings contribution in the new group structure by sector sees paper and packaging little changed at 24 percent; consumer goods little changed at 28 percent, food which enjoys a sector p/e rating of almost 17 times will be contributing 24 percent and, health care, which hardly featured before and has a sector rating of 16 times, will be accounting for 15 percent of earnings

By contrast engineering, which has a rating of 9 times, will contribute 12 percent of earnings compared with 22 percent ahead of the restructure. And construction supplies, which is now out of the portfolio, has a rating of 8 times

Features of the solid '91 performance includes virtually unchanged sales and operating income (R8,4 billion and R720 million respectively), a commendable 19 percent drop in interest payments, a 7 percent increase in pre-tax income to R544 million, a reduced tax rate and earnings up 10 percent to R256 million

Earnings per share were 124,1c (118,6c) a share from which a dividend of 32,5c will be paid.

Keswick surprised by JSE warning on Dergra listing

Star 24/10/91

Finance Staff (232)

The JSE has called upon Keswick, the new controlling shareholder of cash shell Crest, to submit complete documentation on the reverse listing of Dergra into Crest.

It warned yesterday that failure to do so could lead to the JSE exercising its rights under listings requirements to prevent Dergra getting a listing

In a counter statement, the directors of Dergra expressed surprise at the JSE's statement.

"The deputy listing manager of the JSE has called on a number of occasions for clarification of aspects to the documentation and it is believed that these have been submitted as promptly and efficaciously as possible whenever requested," it said

The JSE said it regarded the documentation as "inadequate and incomplete".

Keswick said the last submission was made by Dergra on Tuesday "and the directors and their professional advisers were of the view that all requirements had been met".

The JSE claimed no offer had been made to Crest minorities comparable to the offer for control (108c a share).

The directors of Dergra said that they had no intention of neglecting their responsibilities either to the JSE or to Crest minorities

Keswick's statement said it had been indicated that Dergra would make an offer to minorities at a share price 13c higher than the last ruling price of Crest upon the lifting of the suspension

"To this extent, prime bank quarantees have been lodged with the JSE since July 26, 1991," it said.

SAB set to acquire Plate Glass

Star 24/10/91

Plate Glass and Shatterprufe Industries (PGSI) is involved in negotiations with SA Breweries, which market sources speculate will result in a R1 billion takeover of PGSI by SAB.

SAB, PGSI and its holding company Placor cautioned shareholders today that shareholders of Placor controlling in excess of 50 percent of its shares are involved in negotiations with SAB Details were expected soon.

Placor's shareholders include Liberty Life with 32 percent, Old Mutual with 26 percent and 23 percent held by company directors

Privatise harbours, African states urged

Argus Africa News Service (232) ARG 24/10/91

ACCRA — Africa needed a comprehensive transport policy and the privatisation of all port facilities on the continent was essential to encourage efficiency, a five-day symposium on African ports here has concluded

The symposium, attended by more than 200 delegates from 31 countries, and 15 international organisations, including the European Community and Unctad, agreed that the pervasive role of the state in the running and management of ports was no longer desirable

All ports should therefore be privatised, and a competitive spirit encouraged It also agreed to discourage cartels and price-fixing agreements

Although governments regarded ports as national assets which should be protected from foreign ownership, delegates said African governments should understand that national interest was best served when ports rendered efficient and value-for-money services to all their customers.

Mr R U Kumedzo, chief organiser of the symposium, said inefficiency at African ports was so widespread that it was seriously affecting economies

Delegates felt however that the modernisation of ports alone would not be enough to regenerate economies, unless accompanied by a comprehensive transport policy, which would result in the efficient movement of goods both sea and on land.

Surplus cash to fund RMP shareholders' bonus payout

B/Day 25/10/91 (232)

MATTHEW CURTIN

SHAREHOLDERS will be pleased with year-end results from Rand Mines Properties (RMP) thanks to a bonus dividend payout, but lacklustre performances from the company's gold recovery operations continued to offset a stable showing from property sales and expropriations

Attributable profit fell 10% in the year to end-September, and the total ordinary dividend declared dropped from 140c to 120c a share, in line with company forecasts at the interim stage

However, an RMP spokesman said· "The cash surplus the company has accumulated is in excess of the company's requirements and a special dividend of 100c will also be paid"

RMP had R53m in surplus cash in the bank at year-end against R58m last year

MD John Turner said in a statement that the payment would not affect RMP's ability to take advantage of any opportunities which might arise. He said RMP had done well under difficult trading circumstances

The earnings contribution from gold recovery operations fell 26% year on year, as operating profit fell from R4,4m to R3,3m, hit by weak gold prices and rising working costs

Increasing costs at the Crown Mines and City Deep plants offset improved gold revenue which rose due to a small improvement in grade and tonnage treated

Operating profits from the 50%-owned Pilgrim's Rest plant plummeted from R612 000 to R352 000

The spokesman said operating profit from RMP's property side fell only R1m from R18m despite the difficult market conditions which prevailed in the sector That contrasted with improved profits in the first half of the year which were buoyed by good gross profits from sales of township land

Merchant banks object to bond transaction proposals

8/Day 25/10/91 (232)

ROBERT GENTLE

MERCHANT banks were yesterday up in arms over proposals that would force them to have their bond transactions monitored by the five big banks.

The proposals are part of the rules and regulations which will govern the trading of bonds when the market — known as the Bond Market Assocation (BMA) — becomes formalised next year

The proposals have been circulated to BMA members Although they have been known for some time, they have taken on a certain urgency now that a formal bond market draws near and final decisions have to be made

The controversy concerns the specific clause that all bond transactions be guaranteed by a well capitalised company known as a risk manager.

These are the big five banks — Amalgamated Banks of SA (Absa), Nedcor, Bankorp, First National Bank and Standard Bank

Gripe

These risk managers would determine the extent to which bond market players would be able to trade, based on standard risk parameters like capital adequacy and market exposure

The gripe of the smaller trading banks — notably well known merchant banks — is that they are quite capable of handling their own risk management, which they say is in many cases better than that of certain commercial banks

"We've been managing our own risk for years," said one merchant banker, who like the others spoke on condition of anonymity "We don't see why we should now pay to get it done by someone else"

Another fear expressed was that these risk managers could well trade on the privileged information they would have on their clients Confidentiality might not be achieved.

Greg Grigoratos, vice-president corporate banking at Firstcorp and representative of the clearing banks on the BMA, said the concept of guaranteeing bond trades was important to achieve a high level of security and liquidity on the one hand, and the elimination of counterparty risk (the risk of one party defaulting on a deal) on the other

"Security and guarantees are the norm in international markets today, and new overseas investors will not invest here without them," he said

Provision

Grigoratos said it was no different in concept from the SA Futures Exchange where trades are also guaranteed through well capitalised clearing members, most of whom are also big banks

Fears of lack of confidentiality were unfounded, he said. In SA's competitive banking market, any bank exploiting its privileged client information would run the risk of its clients turning elsewhere.

BMA CE Graham Lund said the issue of risk management should be seen in the wider context of the Financial Markets Control Act, which already governs futures and will cover bonds next year

Section 17-1-u of the Act says provision shall be made "for ensuring the performance of transactions effected on the financial market in question either by the financial exchanges' own arrangements or by means of arrangements made by the exchange with a recognised clearing house"

He said the present list of risk managers was not permanent, and there was no reason why other firms — including certain merchant banks — could not join later on subject to BMA rules

Lund added that there was a further group of risk managers who, by virtue of their financial standing, would be allowed to manage their risk themselves These included parastatals like Eskom and Transnet, insurance giants Sanlam and Old Mutual, and the JSE

Abcon Properties to list on JSE at cost of R210m

(232)

B Day 25/10/91

PETER GALLI

IN A R210m listing Abcon Properties is to come to the Property Loan Stock sector of the JSE on December 2.

In terms of the prospectus published today, a total of 41,84-million linked units will be issued, with 2,4-million offered to the public at a listing price of R5, 27,599-million units issued to the vendors and 11,841-million units to be privately placed

Each unit consists of an ordinary share of 1c linked to an unsecured debenture of 493c to be issued at a premium of 6c BOE Merchant Bank is to underwrite the public offer and the private placing

"The main reason for Abcon's listing is to establish our own property portfolio and an ongoing relationship with institutional investors who have a constant need for investment property," MD Niki Vontas said in an interview yesterday

Abcon has been in business for 11 years and the portfolio has 29 properties valued at R182m, almost all of which are located within 15kms of the Johannesburg CBD The company is holding R25m in cash for future acquisitions

"The portfolio is concentrated in the Sandton area, with 23% of our properties in the Sandton CBD, 8% in Woodmead, 6% in Rivonia 4% in Wynberg, 4% in Kramerville and Eastgate and 55% in other locations including Randburg and Cape Town," Vontas said.

The portfolio has a 59% spread in offices, 22% in high-tech/industrial space and 19% in the Motorcity One and Two development in Industria and Strydom Park

Dividends of 0,058c a share and interest of 55,384c per unsecured debenture, giving a total return per linked unit of 55,442c, are forecast for an annualised 15-month period to end-February 1993.

"This translates into a dividend yield of 5,8% on the issue price of 1c and an earnings yield of 11,09% on an issue price of R5,00," Vontas said

Loans to the value of R15,04m had been secured against the property portfolio as at September 30 but would be cancelled at listing, leaving the portfolio ungeared, he added.

"The portfolio has high quality properties, all of which are less than eight years old It has 103 tenants with a total lettable area of 90 000m² Most of the space has been let and that that is vacant is covered by rental guarantees," Vontas said.

Frankel Max Pollak Vinderine property analyst John Rayner said it was a good portfolio consisting of low maintenance face-brick buildings

"The portfolio has an excellent profile and consists of top-quality properties that are desirable to the institutions"

The shares were expected to open at a small premium to their listing price, probably at about R5,20 to R5,30, he said. In addition, Abcon was well priced and offered good value to the institutions, who were major players in this sector, Rayner said

Vontas said most of the lease renewals were effective after February 1993 which was a positive factor as the rental market was expected to be far better placed then

"The property loan stock sector is extremely cheap for the investor at the moment, with the index showing a dividend yield 3,8 times that of the financial and industrial index," Vontas said

However, the index was heavily exposed to Compass, which recently held a right issue, he added

While the property market was not expected to show much growth in 1992, the listed property vehicles would start to discount rental improvements in 1993, Vontas said

PUBLISHING

(232)

Who goes bust

FM 25/10/91

International Business Contacts (IBC), the overseas-funded company which publishes a business and industrial "who's who" and which landed major advertising contracts with SA organisations, is under provisional liquidation. At the same time, one of the partners of IBC's firm of attorneys who had been a director of the publishing company, has ceased to act for the company

The *FM* reported last year that according to files at the Registrar of Companies, a senior SABC official, communications manager Theo Vorster, had been a director of IBC at the time the SABC concluded an R80 000 advertising contract with IBC. Vorster denied this but admitted that IBC had paid him certain fees and footed the bill of his American Express card. He also admitted opening an overseas bank account for future IBC payments

Transnet also concluded a R100 000 contract and had already paid for the ads to appear in IBC's next issue of *Southern African Trade Business and Industry Who's Who* The next edition was due in July this year but publication has been postponed to next year

The provisional liquidation of IBC came before a PR company recently obtained summary judgment against IBC for R1 500. In a letter to the PR company, the IBC attorneys advised that IBC had been placed under provisional liquidation.

Mervyn Cirota, one of the IBC attorneys, confirmed this to the *FM* on Tuesday. Cirota, who had been a director of both IBC and its affiliate, International Who's Who (Pty), said that he had resigned from both boards last year.

IBC MD Arno Ofenheimer told the *FM* this week that IBC's clients need not fear that the business *Who's Who* will not be published. "With the new SA emerging, we decided to go back to our old established name of *International Who's Who*," said Ofenheimer. "IBC had, in effect, only been an agent for the overseas company, IBC AG. All contracts and payments for ads had been concluded with the overseas company. Our clients will not lose out."

Ofenheimer says that IBC has stopped trading and has been placed under provisional liquidation after an application by TrustBank. "We are opposing the matter and the return date is October 27. We made TrustBank an offer which they did not accept." Ofenheimer says an amount of R100 000 is involved.

He says all the material for the next edition has now been approved by IBC's various

Continue →

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clients and will be sent overseas by courier next week to be printed.

On June 1, Ofenheimer wrote to Transnet's Kim Rowland, saying that Transnet could expect its copy of the *Who's Who* by early 1992 Ofenheimer's letter followed a telephone conversation on May 30 between Rowland and IBC employee Trish Nicholls, who had indicated that Rowland was "concerned about our forthcoming publication "

In response to *FM* questions earlier this year, a SABC spokesman said on September 10 that IBC's date of publication had been the second half of 1991, with December 31 as deadline, "whereafter we will take steps if necessary." The spokesman said the corporation had already paid R40 000 (in Swiss francs) for the advertisement The balance of R40 000 is due 30 days after publication "This followed after negotiations arising from a summons which IBC had served on the SABC "

Eddie Botha

SANKORP/MALBAK/M & R/FEDVOLKS

FM 25/10/91

A better portfolio

(232)

Details of the latest reshuffling of Sankorp's interests (*FM* October 11) reveal transactions with a total value of almost R1bn Sankorp CE Marinus Daling says significant rationalisation opportunities have been taken, and Sankorp is now holding three major companies — Malbak, Murray & Roberts and Federale Volksbeleggings — "in excellent financial shape "

Malbak and M & R have long been good performers Sankorp believes these transactions will strengthen them further, while resolving problems at Federale, which emerges as a focused group in the services industry

Malbak chairman Grant Thomas describes his group's purchase of control of SA Druggists and Fedfood from Federale Volksbeleggings as a quantum leap, enabling it to become a major player in the food and pharmaceutical industries

Malbak now has a clear focus on its chosen sectors of the consumer market

The reshuffle would have diluted Malbak's EPS by around 5% this year, but increase net worth by 11% A further 47m shares have been issued, expanding Malbak's issued shares by a quarter. But its balance sheet will be greatly stengthened It will receive R400m from its sale of 35% of Standard Engineering and 62% of Darling & Hodgson to M & R Gearing drops to less than 20%

On the whole, Malbak has bought and sold at favourable prices Malbak shares, priced at R12 (Tuesday's closing market price), will be swapped for Fedfood shares priced at R14, a 20% discount on the market price of R17,50 SA Druggists, however, is being bought for 270c a share, 8% above the 250c market price

M & R believes that its acquisition of D & H and joint control (with Malbak) of Standard Engineering will help it to participate in new fixed investment and exports M & R MD David Brink says Standard Engineering is an excellent fit with his group's existing engineering interests Through D & H's Rocla division, M & R has a concrete piping operation for the first time.

D & H will give M & R joint control of Blue Circle, with which M & R has built up "an excellent working relationship" through a joint company, Ready Mix Materials.

On present market values, though, M & R has paid a full price It will issue 8,9m shares at R45, a 22% discount on the market price, and buy 35% of Standard Engineering for R8,50 a share, which is 6% above the market price It gets Malbak's 61% interest in D & H for R7,50 a share, a 12% premium Malbak will sell on 7m of these shares to Sankorp, and the remainder to institutions nominated by M & R

M & R's issued share capital increases by a quarter The pro forma effect on 1991 earnings is neutral, but NAV per share rises by 24,6%

There was no further news of a possible merger of Kanhym and Fedfood But Thomas says speculation that such a merger is imminent is "way off the mark "

He says that offers of Malbak shares will be made to SA Druggists and Fedfood shareholders on the same terms But he expects shareholders "to stay for the ride" in both companies Both are rated lower than their sectors, Malbak hopes to change this

Fedvolks MD Peet van der Walt has been made executive chairman of the new Fedservices, the rump of Fedvolks, which will be listed next year The future of Fedvolks' motor components division is to be reviewed and Continental China will be sold, possibly to management These deals should finally bury the Fedvolks ghost

The Fedservices portfolio includes market leaders such as Avis, Fedics, Interpark, Interleisure and Price Forbes, which could offer an attractive investment package.

Stephen Cranston

FM 25|10|91 (232)

UNIT TRUST QUARTERLIES

Less liquid

FM 25|10|91 (232)

The trend from liquidity towards quality industrial shares continued in the third quarter But some important funds are already reducing their exposure to industrials in anticipation of a correction in the market

Association of Unit Trusts chairman Clive Turner says the JSE has risen quite far, quite fast, and it is generally believed that it is due for a slowdown, if not a correction Many unitholders are assuming the market has peaked. Repurchases of units by trusts rose to R556m, double the amount in the June quarter Nevertheless, the total value of funds exceeded R10bn for the first time. The average total returns for the past 12 months in general equity funds was 31,1%.

Capital growth was more pedestrian in the third quarter, hardly surprising as the All-Share index fell by 0,3%. While all the general equity funds appreciated between April-July, by end-September prices had levelled off Most unit prices made small gains but Momentum, Norwich NBS and BoE Growth all fell All three, however, provided good returns over 12 months (see table).

The same cannot be said of the more volatile specialist equity funds There was a negative return of 26% from the Old Mutual Gold Fund The older Standard Gold Fund has proved a poor investment over the longer term and provided a negative return of 1,6% over five years, even though it has kept a large proportion of its assets in cash.

The two largest funds took opposite views on portfolio direction Old Mutual Investors' Fund increased its industrial portfolio from 46% to 47% of total funds and cut liquidity from 14% to 12%. Guardbank, the second-largest, lightened holdings it considered to be at high levels, such as SA Breweries and Adcock Ingram, reducing industrials by a percentage point to 34% of total funds. It increased liquidity from 15% to 18%.

The five Sanlam funds reduced liquidity overall and made substantial purchases in Sasol, Iscor, Samancor, GFSA, Metpol, Dries, Holdains and Gencor Beherend.

There was a move back to mining, with a gain of one percentage point in assets held in "other mining " Mining accounts for 32% of total assets and industrials 43%

Consolidated Fund Managers' Clive Fox says there is a broader trend towards full investment and, as industrials are now expensive, the mining sector must offer opportunities He adds that there should be more interest in gold "Funds claim to be taking a long-term view but the market is so competitive that they are forced to look at short-term performance, and gold provides no guarantees in the short term "

All the general equity funds now concentrate on blue chips The old Allegro Fund, renamed CU Growth Fund, when managed by AA Life, had a portfolio weighted towards second-liners but under Commercial Union, it has acquired a more traditional portfolio, with increased investments in Gencor, Anglos, De Beers and Barlows

A more high-risk investment is still available in UAL Select Opportunities, a specialist fund that returned 49% for the year.

Stephen Cranston

Eskom in line for 25% of Alusaf

232 By CURT VON KEYSERLINGK

ESKOM has acquired an option to buy a 25% stake in Richards Bay aluminium producer Alusaf.

Gencor is the main shareholder.

An Eskom spokesman says it was given the option free because it identified the opportunity for Alusaf's capacity expansion programme, now under review, and played a key role in feasibility studies.

Eskom is a statutory body and has never held shares in manufacturing concerns But the spokesman says there is nothing to prevent it from doing so

Eskom will become involved if the opportunity improves its cost effectiveness in supplying electricity to its customers generally

He says if Eskom takes up its option, it will not try to influence day-to-day management

S/Times (Buss) 27/10/91

Discounts

The cost of the 25% shareholding is not known because the debt equity ratio of the undertaking, if it goes ahead, has not been determined.

If the expansion takes place, it will use 800 megawatts of power and could account for 16% of surplus generating capacity in 1994 This could result in the reactivation of some generators six months earlier than expected.

Electricity accounts for much of aluminium's cost. The project depends on a low tariff from Eskom linked to the price of aluminium. If this formula were applied now, Alusaf's electricity tariffs would fall by about 40%.

The spokesman says the project will benefit other customers through reduced tariff increases in future because all carry the cost burden of Eskom's surplus capacity

The arrangement is in line with a plan announced last year by Wim de Villiers shortly before his death when he was Minister of Economic Co-ordination and Administration

The plan involved helping new export industries with discounted tariffs for rail transport and electricity.

Senbank rescues Rusfurn

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S Times (Buss) 27/10/91

LAURIE KORSTEN Toughest negotiations ever — on both sides of the table Picture. SUE KRAMER

By JULIE WALKER

RUSFURN's 14 bankers, 80 management buyout executives and 12 000 employees can look to a better future after the furniture retailer's Senbank-led bail-out.

Rusfurn chief executive Laurie Korsten — a former merchant banker — came to the helm in July after Geoff Austin resigned. Mr Korsten says the negotiations were the toughest he has ever undertaken from either side of the table.

Mr Korsten scrutinised the 17-chain group and concluded that the underlying businesses were sound. But he found two critical problems

"The top 80 who were part of the management buy-in from Tradegro two years ago were without incentive. They borrowed to pay 140c a share in the hope that dividends from Rusfurn would cover the interest. In the first year, they did, but not the next.

"Now Senbank has agreed to take those shares and wipe the slate clean — provided the executives stay with Rusfurn until April 1994."

Mr Korsten says the other problem was the group's capital base. Banks' direct and indirect exposure topped R1,1-billion and Rusfurn had made inadequate provision against bad and doubtful debt.

Results to be announced tomorrow with the recapitalisation details show an accumulated loss of R96-million at June 30 compared with the previous year's retained revenue reserves of R100-million Not only did Mr Korsten have to do something about debt, the balance sheet had to be overhauled

He believes that Rusfurn should provide for deferred tax on a fully comprehensive basis — a departure from previous policy. The result is that R60-million must be deducted from shareholders' funds

Other assets have been revalued and the outcome is a reduction in shareholders' funds from R240-million to R51-million Net asset value (nav) is down from 1990's 149c a share to 29c.

If conservative policies had been in place in 1990, nav would have been 85c.

Terms

As a result of taking over the management buyout shares, as well as three-quarters of Unidev's 22% stake, Senbank now has 42,2% of Rusfurn. Since it will underwrite a R250-million rights offer of convertible debentures, Senbank is likely to win control.

Senbank has also undertaken to substitute R145-million of redeemable preference shares in Rusfurn when they fall due.

Terms of the rights offer, set for January, will be made final soon. Trade in the ordinaries resumes tomorrow after being suspended four weeks ago at 55c The price is likely to fall closer to nav.

Ordinary shareholders

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☐ From Page 1

S Times (Buss) 27/10/91.

Rusfurn

have suffered the worst — at its peak, the price was 160c

Mr Korsten says the other banks have agreed to extend their facilities of R461-million and to provide fresh debt funding of R200-million to Rusfurn for four years.

So Rusfurn returns to the Sankorp fold it left two years ago Sankorp has 90% of Senbank parent Bankorp and until a week ago controlled Tradegro, which sold Rusfurn in 1989

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THE MONEY MARKETS by Sharon Wood

Nothing on the horizon to upset money markets

BDay 28/10/91.

NOT even a Halloween pumpkin or the imminent month-end look as if they will break the endless monotony in money markets

Rates remained static, with the BA rate cemented at 16,65% throughout the week and NCD rates easing only slightly on Thursday

Demand for assets remained strong but there was not enough to meet the demand The demand is based on current low call rates, which at 16,26% are a full 74 points below the rediscount rate and are yielding less than 17%

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Matured

Call rates tried to kick up to 16,5% but held at about 16%

The emphasis was on the three-month area with Treasury Bill rates at 16,26% down from last week's 16,36%. The R500m Treasury Bills which matured last Thursday were not rolled over, leaving them in the market.

A source of interest was higher money market shortages during the week, which moved up to within the usual R1,5bn and above range The previous week saw shortages below R1bn and markets at one stage thought the Reserve Bank had changed its thinking and was happy with the smaller shortages, but last week's events wiped out this wishful thinking

On Thursday the shortage reached R1,9bn but analysts say they do not think the Reserve Bank wants the shortage to be as high as R2bn and is content with a shortage of R1,5bn

No one in the money market is holding his breath for movement over the month-end In fact, October and November are relatively easy month-ends and only December will give markets some activity

October is devoid of any tax payments and nothing is going out of the system, other than interest payments on stock Shortages are not expected to change through the month-end

Lack of movement in the money market saw dealers looking at another bull run on the capital market on Friday afternoon which made gilts even more attractive

JSE trade volumes in the capital market were more than R1bn higher than usual at R2,8bn on Friday The bull run was seen as a technical correction with no quality buying of stock and a dearth of supply

As long as Reserve Bank Governor Chris Stals ignores business calls to relieve the pressure by bringing down the Bank rate and high government spending remains out of kilter with the Bank's tight grip on monetary conditions, it will be optimistic to look forward to an eye-catching money market

Eskom still looking at its option on Alusaf

ROBERT LAING

ESKOM had entered the second phase of its investigation into the purchase of 25% of aluminium producer Alusaf, Eskom CE Ian McRae said at the weekend. Bday 28/10/91.

"Our option is still very open and we will only take a decision once the study has gone further. Eskom's decision will not affect Alusaf's expansion programme," he said.

Eskom was given the option free because it assisted in making a proposed expansion project more feasible by agreeing to tie electricity rates to the aluminium price for the next 25 years.

Alusaf hopes to expand its smelting capacity from 172 000 to 638 000 tons a year at a cost of about R4,5bn. The expansion, scheduled for completion in 1994, would raise Alusaf's power consumption to 800 megawatts — 16% of Eskom's spare capacity.

A R7m feasibility study, scheduled for completion in April, will indicate profitability of the project. (232)

Gencor holds 31% of Alusaf, the Industrial Development Corporation 41% and Swiss aluminium group Alusuisse 22%.

McRae said the tariff deal enabled Alusaf to produce at competively low prices.

Power costs account for as much as a third of aluminium production costs. The deal should reduce electricity costs by 40%.

No figure could be placed on the 25% stake yet, McRae said.

Alusaf forecast that aluminium consumption would grow by 3% a year. MD Rob Barbour recently said he wanted to impress upon 15 other producers planning to increase production that the SA project was unstoppable.

If competing projects went ahead, markets would be flooded and the already low aluminium prices would fall further.

Unidev recovers from huge loss

BIP cn 28/10/91 (232)

MARCIA KLEIN

AFTER losing R87m in financial 1990, investment holding company Unidev has managed to show a small profit for the six months to end-June

Unidev also announced the disposal of its 22% stake in Rusfurn to Senbank for about R50m.

In the few months since joint MDs Alan Chonowitz and Jon Brett took over the company, they have recapitalised it, cleaned up the balance sheet, disposed of Unidev's interest in the ailing Rusfurn as well as Equikor and turned around a massive loss.

Results cannot be compared to the previous period as former Unidev directors did not publish results for June 1990.

However, after the loss to end-December, Unidev showed an operating profit of R991 000 and attributable profit of R705 000 No interim dividend was declared

Chonowitz said Unidev had disposed of its Rusfurn stake as Rusfurn did not enable Unidev "to participate in a meaningful way in the management of the company".

"This is contrary to Unidev's objective of being directly involved with the strategic development of each of its core businesses," he said.

In March Unidev disposed of the major

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Unidev

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(232)

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portion of its investment in Equikor holdings for R6,5m cash

Although no disposal amount is given, Unidev has published a pro-forma balance sheet showing the effect of the disposal of Rusfurn and Equikor, in which redeemable preference shares have been reduced from R49,4m to R5m and other liabilities from R37,6m to R30,9m

The disposals leave Unidev with 100% of houseware company Prestige, 50% of private hospital group Medicor and 33% of convenience supermarket retail chain Hyperette

Unidev has been recapitalised by a R23m rights issue, the proceeds of which have been used to repay borrowings Holding company Unicon raised R13m in a rights offer in order to follow its rights

Chonowitz said Unidev would continue the consolidation and re-organisation of its existing business and the disposal of peripheral interests in the next six months

He said the group had invested in key growth areas in SA

Bull-run on capital market in full swing

SHARON WOOD (232)

THE bull-run on capital markets ~~remained~~ in full swing on Friday, with benchmark Eskom E168 plunging to 16,625% by the end of the day from Thursday's close of 16,74%. BDay 28/10/91

Markets were short of stock and the fall was a "technical correction" rather than a surge in foreign demand, some capital market analysts said.

But others said that, although there was an element of technical correction, something must have triggered the move.

There were rumours that it was on the back of overseas buying, they said.

"The capital market has been terribly bearish and has ignored any good news for some time," one analyst said.

The charts showed a technical correction to 17,66% but rates went below this which indicated that something else had prompted the move.

The bull-run was across the board and government's R150 stock dropped to 17,14% from the previous 17,225%.

Dealers said market volumes were expected to be R1,5bn, down from Thursday's hefty R2,7bn

But the JSE's trading volume of R2,8bn was over R1bn higher than usual.

Trading volumes were still relatively low however, with trading at between R200m and R400m daily over the course of the week.

This compares with turnover of more than R1bn daily a year ago

Gencor rights issue could raise R2bn

(232)

B/Day 29/10/91.

MATTHEW CURTIN

GENCOR could raise as much as R2bn from the market in 1992 to finance its part of the Columbus stainless steel project and follow its rights in Sappi's R1bn rights issue

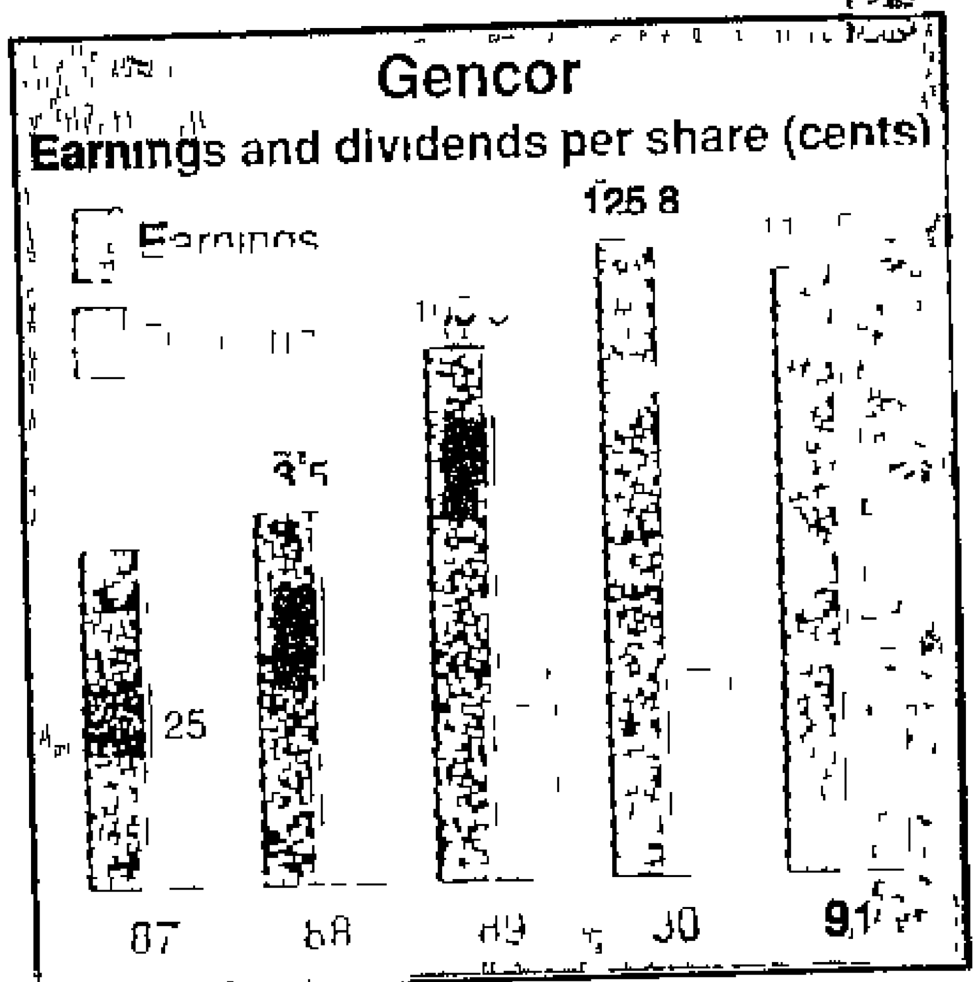
Chairman Derek Keys said yesterday the rights issue would take place early next year and would be "in the order of R2bn", but that no fixed sum was envisaged at the moment

The rights issue looks set to be one of the largest in SA's history It comes hot on the heels of the R1,1bn rights issue by Engen, the group's energy division, in April this year That was the largest issue the JSE had seen since Gencor raised R1,4bn in July 1989

Keys said the timing and size of the issue would depend on market conditions, but as Gencor had R1,9bn in liquid resources there was no "time pressure" on the group to go to the market

Keys's comments end months of speculation as to whether the group would raise funds from a rights issue Market sources have said Gencor's exposure to possible projects was as much as R3,3bn altogether, making a rights issue inevitable

The group is committed to the R2,5bn Columbus project — a joint venture between Samancor, in which Gencor has a 43% stake, and Anglo American's Highveld Steel & Vanadium Gencor has a 50% stake in paper giant Sappi, and a 31% holding in aluminium producer Alusaf, which announced a R4,5bn expansion programme earlier this year, the go-ahead for which depends on government export incentives



Graphic FIONA KRISCH Source GENCOR

Keys said the cash would be raised to finance these large projects, but Gencor was also keen to boost cash reserves

Gencor had defied difficult economic conditions to provide shareholders with an above-average real rate of return on their

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Gencor

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(232)

□ From Page 1

investment, worth 2,7% in the year to end-August "Success on this scale in our aim of real growth means that we will have to give attention to replenishing the cash resources at the group's centre With this in view, we shall be increasing our authorised share capital at the next AGM in January, and having the rights issue in due course thereafter"

In the year to end-August, Gencor's earnings dropped 5% from 125,8c to 119,5c a share However, the group declared a dividend of 43c a share, 7,5% higher than the 40c in 1990

Keys said the group's dividends were fixed to "the longer-term trend in total return rather than one or two years' reported earnings".

He said he was satisfied with Gencor's performance because as a resource-based group it had weathered particularly tough conditions in the year.

The contribution from the group's mining arm Genmin tumbled 31% year on year from R624m to R482m Coal producer Trans-Natal improved its contribution to group earnings, while Impala Platinum held its contribution The contributions from Gengold and Samancor plummeted by 20% and 30%, respectively

Sappi's contribution to earnings fell from R240m to R154m, but Keys said of some consolation was the ability of its operations to remain profitable despite tough local and international conditions

Keys said Engen was the "absolute star" in 1991, providing the biggest single contribution to group earnings for the second year running He noted that Malbak had weathered the domestic recession and improved its contribution from R116m to R128m, one which was likely to improve again in the coming year.

Attributable income for the group fell from R1,48bn to R1,41bn in the year.

Frame's discount of price to net asset value widens

B/Day 30/10/91

WILLIAM GILFILLAN

THE discount of Frame shares to net asset value has widened further with the price of the textile group hitting new lows of around 200c a share

In the group's annual report at June 1990, net asset value was published as 3 282c a share This figure was reduced to 2 846c a share at December 1990 after the group had recorded extraordinary losses which followed from the closure of mills and operating losses

Analysts believe that the group's net asset value would have dropped even further since December, as they expect the operating losses experienced up to December to have continued this year They are also of the opinion that it would record a further large extraordinary loss following its announcement in August that it would dispose of its blanket operation

Ordinary shareholders' interest at June 1990 was recorded as R622,3m which, with the 18 963 280 shares in issue held outside the group, gave Frame a net asset value of 3 282c a share. At December this was down to 2 846c as ordinary shareholders' interest had dropped to R539,7m.

An attributable loss of R48,8m for the six months to December and extraordinary losses following the closure of three mills (one in Harrismith and two in East London) had contributed to this drop in net asset value.

But since December the group's blanket operation and its hand-knitting yarn operation have been sold Also the group announced in September that a spinning mill in East London was to close Industry sources expect these developments to result in further extraordinary losses. This, with the expected continuation of operating losses since December, would have reduced the net asset value from its 2 846c a share at December. But by how much?

They expect Frame would receive between R80m to R100m for the blanket operation As they estimate the blanket operation was valued in Frame's books at about R170m, they expect the extraordinary loss resulting from this disposal to be between 475c and 369c a share

Attributable losses for the period from December to the end of this month would be about R81m, on the assumption that losses recorded to December continue at the same pace this year. This works out to an attributable loss a share of 427c

Taking into account the losses from the blanket disposal and the assumed operating loss, Frame's net asset value is probably down to between 1 944c and 2 050c a share. Extraordinary losses arising from the disposal of the hand-knitting yarn operation in April and the East London spinning mill operation, announced in September, would also need to be taken into account.

New unit trust from Old Mutual

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SEAN VAN ZYL

~~OLD~~ Mutual has launched its sixth unit trust — the Top Companies Fund — based on the view that blue-chip industrial shares are still sound in the medium- to long-term, portfolio manager Adrian Allardice said yesterday.

Allardice said trading in the new specialist fund would begin on November 1. He added the fund would provide investors with a means of investing in the JSE's top performing shares, although it would avoid investing directly in gold and property counters.

"The fund is designed for investors who want a diversified portfolio which does not include direct gold and property developments. Investors who require a gold content can select their exposure to that sector by investing in the Old Mutual Gold Fund."

Allardice said income from the fund would be distributed twice a year — at the end of February and in August. B/Day 30/10/91

Although industrial shares were expected to ease back in the short-term, Allardice said continuing demand for quality shares by financial investors would limit the down potential of industrial shares, many of which are currently trading at all-time highs.

Furthermore, he did not expect a major comeback in gold shares which appeared too expensive relative to the gold price

PROF

Timeshare 'over the worst'

B/day 30/10/91. (232)

Reports by
PETER GALLI

INSOLVENCIES, liquidations, large levy increases and related timeshare problems were unavoidable and necessary for the growth of the industry and awareness of the consumer, Resort Condominiums International (RCI) MD Stephen Griessel said in an interview recently

"This year has been tough in terms of timeshare credibility, but this is natural in any developing industry However, the industry remains strong and continues to show good sales," he said

None of RCI's customers had lost their investment or right to occupy, but a number had had to pay additional money and special levies

Sales for the year were expected to be 5% down at R200m, but this was still good in comparison with other industries, he said.

While the Masterbond incident had further affected sentiment towards the industry, this was only in the short term It was unfortunate that consumers had to learn from experiences such as this, but they were growing more aware of the pros and cons of timeshare, Griessel said.

"The worst has now passed for timeshare and I believe that, although there will be a few more problems in the industry, we are moving into a new period of growth," he said

Apart from the continual upgrading of requirements for timeshare developers and salesmen by the SA Timeshare Institute (Tisa), SA had very modern, effective legislation governing the issue A number of new, large corporations and developers were looking at the timeshare market.

First National Bank, in association with RCI, last week announced the launch of the Leisure Card The card guarantees all existing and future RCI members 15 years of holidays should they lose their investment and occupancy rights

However, to qualify for this they would have to continue making the repayments on any outstanding loans on their timeshare and the annual levy The levy would be escalated at the CPI rate for that period, he said

"All the levies will be pooled and used to subsidise space in other resorts should this happen This guarantee costs the consumer nothing," Griessel said

In addition, the card allowed the owner to pay off his levy on revolving credit

Asked why the timeshare industry had not done more to educate the consumer about the pitfalls, Griessel said it had adopted a "performance before promotion" attitude where it tried to "clean up its act" before educating people

However, an educational campaign was planned for the new year "Prospective timeshare owners must buy from the established, big organisations and should not buy off-site or off-plan for unbuilt resorts unless from a large developer of national repute," Griessel said

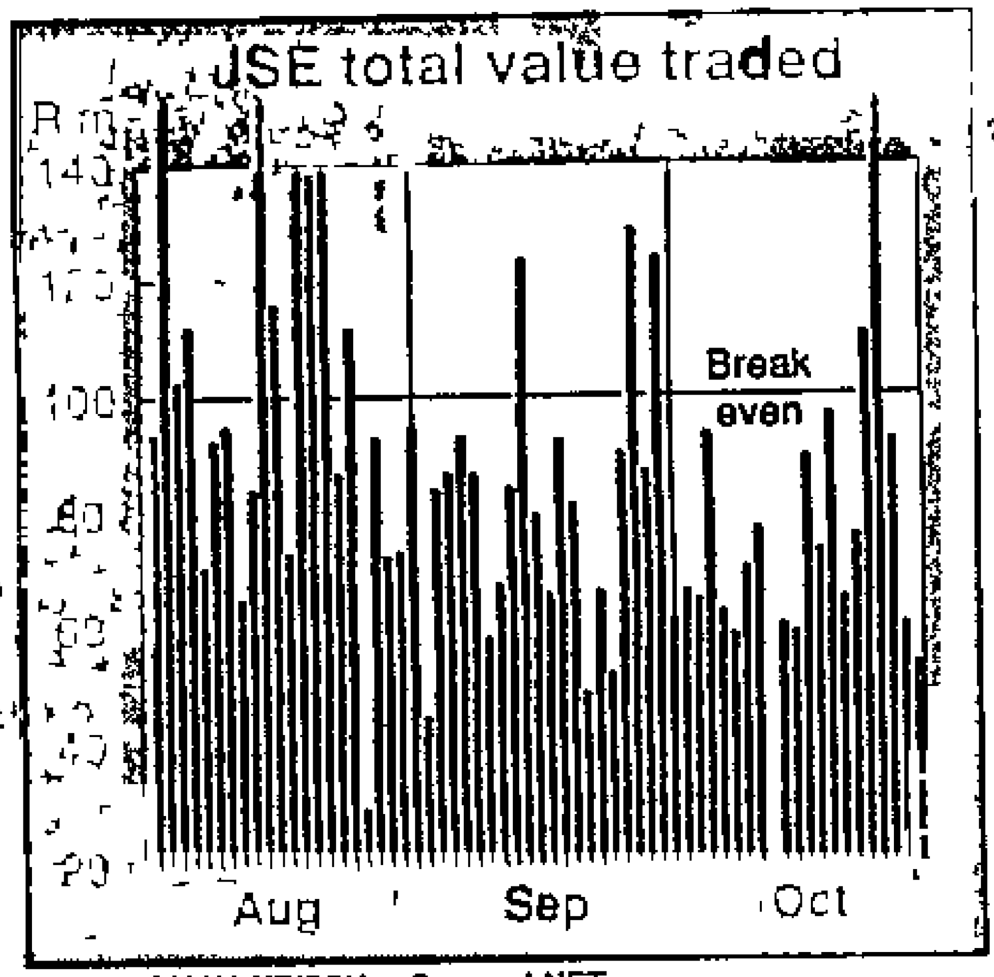
In addition, they should look at the balance sheet and the size of the bond in relation to the size of the development They should also check whether the resort was affiliated to RCI and Tisa, both of which could be contacted for assistance in this regard

The political situation in Natal had seen timeshare sales at RCI-affiliated resorts in Durban almost halve to 1 074 in the nine months to end-September from 2 014 in the same period last year The western and eastern Cape were growth areas, with sales rising 25% and 6% to 4 440 and 2 682 respectively.

Total sales were 10% down at 15 535 from 17 237 previously "RCI is not easily affiliating new resorts in the present climate and the total tmeshare market in SA is about 70% sold out," Griessel said

Dismal JSE trading raises spectre of retrenchments

BDay 30/10/91



Graphic FIONA KRISCH Source I NET

ROBERT GENTLE and MERVYN HARRIS

THE JSE ended another trading session yesterday barely above its break-even level, deepening the gloom among stockbroking firms and raising the spectre of a new wave of retrenchments.

The JSE needs a daily trading volume of R100m to break even. It has exceeded this only 15 times in the past three months, meaning it has been running at a loss three days out of every four.

The market was abuzz yesterday with talk that Frankel Max Pollak Vinderine was about to lay off about 40 people in a move aimed at cutting about R200 000 a month in overheads

The firm's chairman Leslie Frankel said: "We have taken no decision as yet. We have to look at it in the light of the low level of business being done on the JSE."

He painted a gloomy picture of the trading situation "When you see turnovers of R60m, we're losing money. It's not good at the moment."

While conceding that the firm's involvement in the Old Mutual affair — which saw many institutions withdraw their business — had not done any good, Frankel said the real problem was the general market condition. "We're all in the same boat"

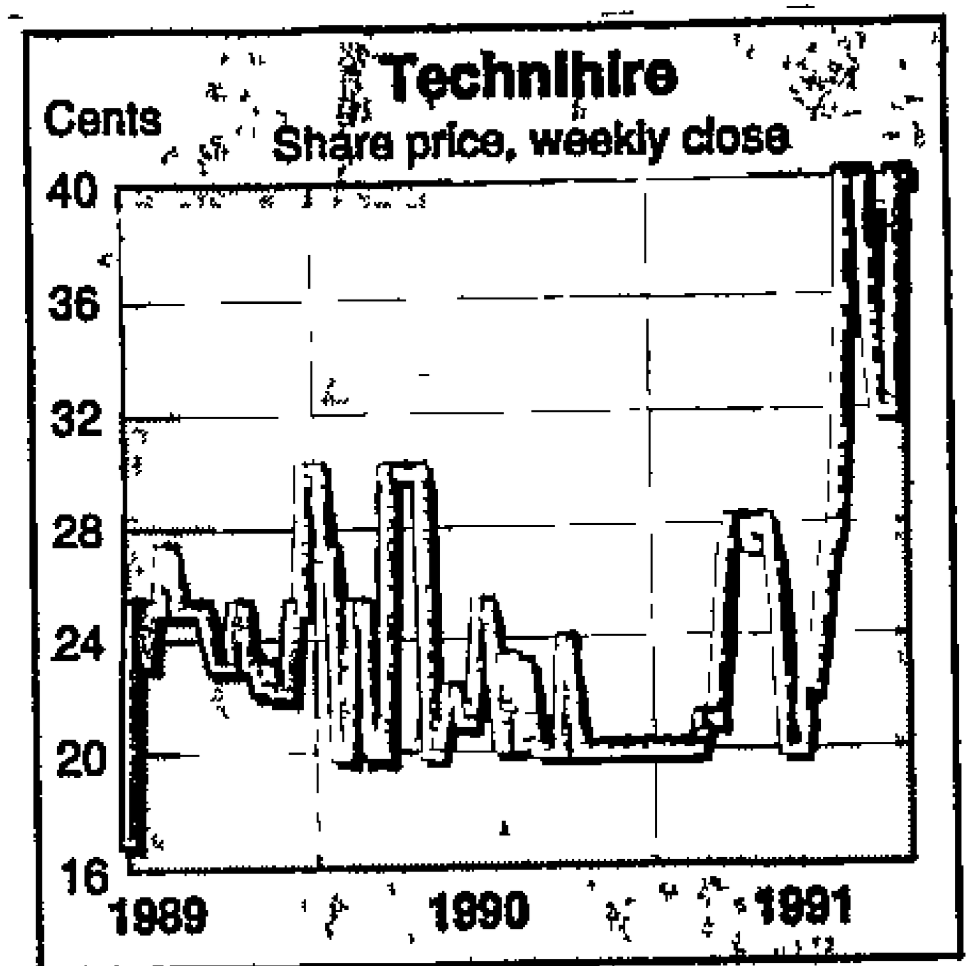
The latest retrenchment talk at Frankel's comes barely a month after the firm closed its capital market operation because of flagging volumes. About 70 people were retrenched late last year when the firm was formed through the merger of Frankel Kruger Vinderine and Max Pollak Freemantle.

A broker said if low volumes continued the JSE would end up with a handful of big, technologically advanced, full-service firms and about 10 small, low-cost niche firms. The entire "middle class" of stockbroking firms, which have the cost structure of the big firms without the accompanying business, would be wiped out.

The consensus in the market was that the bulk of equity business was currently going through firms like Ivor Jones Roy, Martin & Co, Simpson McKie, Fergusson and Davis Borkum Hare. The opinion was expressed that institutions should spread their business more evenly because the whole stockbroking community shared the infrastructure costs.

Besides jobbing by professionals for their own account, nearly all other business on the JSE was provided by institutional investors

Private client business, which brokers said had been hit by the R30 minimum share fee, remained insignificant.



Graphic FIONA KRISCH Source I-NET

B/Day 30/9/91

French firm set to acquire Technihire

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MARC HASENFUSS

FRANCE's human resources group Ecco is set to acquire the JSE-listed Technihire Group for R4m as part of a strategy to expand into Africa.

Ecco was ready to expand and diversify Technihire and use the group as a springboard into Africa for French interests, a joint statement at the weekend said.

The deal, believed to be the first post-sanctions acquisition by French interests, involves R4m cash for 60% of Technihire's share capital at 45c a share. A similar offer will be made to minorities.

Technihire peaked at 40c on the JSE last week, recovering strongly after languish-

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Technihire

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ing at a 20c low in May. The share has seen unusually heavy trading volumes since late July.

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Technihire CE Jack Eliasov will retain his post under a management agreement and three Ecco executives will be appointed to a reconstituted Technihire board.

The core business of the group will remain the same: hiring skilled and semi-skilled personnel through Drafthire, Draftcraft, Draftrite and Tradehire.

Eliasov said: "The Ecco Group is virtually a mirror image of Technihire and we see strong synergies between the two."

He said Ecco was in a strong position to pursue expansion in SA. The group is the third-largest human resources group internationally, with a turnover of more than R6bn and 600 branches worldwide.

Eliasov expected major benefits from the deal in terms of international know-how, business opportunities and financial resources.

The group was well geared. Ecco's initial cash injection would be "only the first step" to later investments as opportunities were identified and explored.

Ecco CE Philippe Poriel Destezet saw great potential for human resources services as the region recovered from political and economic problems.

SAB forecasts shadowed by weak Edgars results

(482) (232) BDay 31/10/91

MARCIA KLEIN

SA BREWERIES (SAB) results for the six months to end-September could be below inflation, measured off a high base and reflecting depressed consumer spending Results for the group, whose companies include Edgars, Southern Sun, OK Bazaars, Amrel, Afcol, Da Gama and ABI, are expected to show the effect of the dramatic reduction in consumer spending, and analysts said that more depressed earnings could be expected from other consumer-related companies

Yesterday analysts revised their forecasts for the group's interim results after seeing those of Edgars, where earnings grew by only 10% Analysts had expected a growth of around 14% from Edgars for the six-month period

They expect SAB to show earnings growth of 10% to 12% for the six months to end-September, although some expect earnings to be as high as 15%

Although the Edgars results would have only a 1% effect on SAB's earnings, analysts said, other companies in the SAB stable would probably also do worse than expected if Edgars' results were a reflection of the state of consumer spending over the past few months

One reason for their pessimism is that beer sales are expected to show a significant reduction compared with the previous year, when volumes were up by 12%

They said beer sales for the year could grow in the region of only 5%. However, an analyst said beer sales would be measured off an unusually high base, as the previous year included two Easters

In the six months to end-September 1990, beer sales had increased by 11%, contributing R140m or 65,4% to the bottom line of R214m At the March year-end, after beer volumes had grown by 12%, earnings rose by 18% to R711m

Good results were forecast for ABI, although at a lower rate than the previous year, and offshore operations were expected to be buoyant

The results of SAB's two listed furniture companies Afcol and Amrel would reflect the dramatic fall-off in furniture sales

Lion Match would show a steady performance, while Da Gama would show significantly reduced growth

OK Bazaars' share performance reflects market expectations of the group's results The share closed yesterday at 950c after declining steadily from its year's high of 1 560c in April

Southern Sun's results would also be down, with hotel occupancies being particularly bad over the period. An analyst said that Southern Sun had a break-even point of about 60% occupancy, which it would not have been able to achieve in the six months

Move could generate at least R1bn

IDC poised to sell off major stake in Sasol

BIDay 31/10/91

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BRENT VON MELVILLE

THE Industrial Development Corporation (IDC) is expected to make a major announcement today outlining details of the sale of part or all of its stake in Sasol. This could mobilise up to R3,2bn for new developments.

Sources said yesterday part of the IDC's 30% stake in Sasol, and possibly other interests, could go to state pension funds, although this could not be confirmed.

The sources said the IDC would probably hive off only about one-third of its holding, worth more than R1bn at Sasol's current price IDC MD Carel van der Merwe would not confirm the planned sale yesterday, but said a statement would be made today "which would involve Sasol"

In the past two days Sasol has stolen the limelight on the market, moving up more than 11% on heavy volumes Yesterday the share traded R10,6m worth of shares in 86 deals and rose 100c to a new high of R20 — a rise of nearly 40% since the release of year-end results on September 4.

Today's announcement will follow last week's report that the IDC intended to raise about R2bn for future and current industrial projects this year. The jump in approved funding is in line with government's restructuring programme, which will also see the IDC pay out R500m a year for the next two years to the Development Bank of Southern Africa, and about R10bn over the next six years.

In April Van der Merwe was quoted as saying that part of the holdings in either Sasol or Iscor would be disposed of in 1992, depending on the performance of the shares.

Analysts said the early decision to sell part of the Sasol stake was motivated by the recent strong share performance of the oil-from-coal and petrochemical producer, which has attracted strong investor interest recently. "Historically Sasol has been down-rated because of several factors, including the political danger of a change in government, and the oil price."

IDC senior GM Malcolm McDonald said it was well known that the IDC would have to realise certain of its investments to fund its commitments to industrial projects, but there were other continuing financing schemes, he said, adding that the sale of investments and subsidiaries could be as far as six years down the road.

Apart from its holding in Sasol, the IDC's quoted stock includes 16,2% of Iscor, 53% of Industrial Selections worth R374m, 51% of National Selections worth R330m, and lesser stakes in Sappi and Sentrachem.

Sasol was first privatised in 1979, largely to raise funds for the purchase of Sasol I from the IDC Sasol listed 375-million shares (of which the IDC held 112,5-million) at an issue price of R2 a share Of proceeds of R525m, R400m went to the IDC for Sasol I

The IDC also followed Sasol's R780m rights issue in November 1983, taking up 56,25-million shares at R4,15 a share. Analysts reckon the IDC's stake did not cost it more than R500m, meaning that at the current price, the IDC could net a profit of about R2,7bn for its total 30% stake.

Bid to lure blacks to unit trusts

Sowetan 31/10/91.

(232)

By JOSHUA RABOROKO

INSURANCE companies and financial institutions are to embark on a massive campaign to introduce blacks to unit trusts

The move is likely to enable millions of blacks to participate in the Johannesburg Stock Exchange - a place they regard as a glass palace where only the rich may enter.

Unit trusts are a communal way of buying shares in South Africa's public companies. Each participant in a unit chips in a small amount and the group shares the dividend.

Senior portfolio manager at Sanlam Mr Stafford Thomas says unit trusts sell shares at a minimum of R100 or R50 a month.

He says when the money of all the investors in a unit, big and small, is put together, the total may be millions of rands This money is used to build a profitable portfolio

"Most blacks who have already bought insurance policies may improve their participation by buying units trusts if they talk to their brokers," he says

Leading life insurer Metropolitan Life publicly has launched its first unit trust, with funds already under management totalling more than R10 million

Metro's managing director Mr Marius Smith said they intended launching a massive campaign to attract as many blacks as possible.

He said the mutual fund represented an important addition to the range of sophisticated products Metro had been introducing to the South African market in a major restructuring programme first embarked on in 1987

Announcing the formation of the unit trust, Smith said investment philosophy was to keep it as a general mutual fund, with a portfolio spread focusing on blue chip and good second-string South African equities, with the balance in fixed interest securities and cash.

Old Mutual's spokesman said that the company was already involved in selling units trusts to blacks, but the process would have to be accelerated if good results were expected.

The unit trust institutions were not afraid of the nationalisation lobby in the so-called new South Africa and said most of their assets belonged to the public

But, they all expressed fears that nationalisation would ruin the country's economy.

OWNERSHIP & CONTROL

1991

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Strong private sector — ANC

Own Correspondent

THE ANC wanted a strong private sector to play a central role in a future democratic SA but businessmen should not take this to be an invitation to become complacent, ANC secretary-general Cyril Ramaphosa told top businessmen yesterday

Speaking at the FM Investment Conference he said the ANC had to pursue policies that enhanced investment, did not alienate investors or drive away the skills necessary for SA

He stressed the vital importance of foreign investment and said competition for international investment would be fierce with eastern Europe, Asia and the Americas being strong contenders for investments and loans It had to be realised that with all these demands for capital it would not come cheap nor be abundant

Therefore a future SA would be dependent on its domestic resources to achieve very demanding objectives, Ramaphosa said

SA had a potentially dynamic private sector and the ANC saw a central role for it in the creation of wealth and jobs

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"But it does not mean business as usual The private sector, in co-operation with the public sector must go out and create job opportunities," he said

The ANC's general objective was to revive investment within a framework that maximised the capacity to eradicate poverty while being acutely conscious of the need to successfully reintegrate SA's economy back into the world economy

Most growing economies set aside at least 25% of GNP for investment and the successful industrialisers of the Far East invested about 30% of GNP during the 1980s SA's had invested no more than 20% of GNP over the last eight years, he said

It was vital to create a climate conducive to investment strong and growing domestic and regional markets; political stability, transparent and consistent economic policies

MALBAK FM 1\11\91 (NRO) (232)

Second-half pick-up

In his last annual review, chairman Grant Thomas listed, among Malbak's strengths, an ability to adapt to change This seems to have been a significant factor behind the results for the year to August

Against a continuously deteriorating economy, there are two outstanding features The first is the 18% EPS gain in the second half-year; the second is that this improvement is broadly based among the seven main operating divisions

The 18% earnings gain in March-August is the best half-yearly performance since 20% in the same portion of financial 1989, when EPS peaked at 136c Even then, however, it was obvious that the group was starting to feel the effects of the downturn, as growth had slowed from 40% in the preceding six months This deterioration continued through 1990, with earnings dropping 4% in the first half followed by a 24% plunge in the second six months

From then on, things started looking up There were signs in the first half of the year just completed that the group was starting to find its feet again EPS was up 1% This is, in a large measure, confirmed by the latest results, which benefit significantly from lower finance charges, attributed to a tightening-up of asset management and consequent reduction in borrowings

The second point supporting the premise that, as a group, Malbak has adapted well to current business conditions, is the broadly based nature of the second-half recovery Running through the major operating divisions and comparing interim performance with year-end results, it is apparent that packaging/paper and engineering/mining supplies both performed steadily throughout the year with, in the circumstances, satisfactory improvements in earnings

The remaining five divisions all performed significantly better in the second half than in the first. Particularly noteworthy improvements were recorded by food, whose contribution to group earnings rose 8% for the year, after being down 13% at the interim

cont

OVER THE WORST?

Year to August	1989	1990	1991
Turnover (Rm)	7 329	8 374	8 441
Operating profit (Rm)	683	724	720
Attributable			
Earnings (Rm)	251	233	256
EPS (c)	136,1	118,6	124,1
Dividends (c)	30,5	30,5	32,5

FM 1\11\91

stage, and the development sector, where there was a sevenfold increase in 1991 profits (NRO) (232)

Also supporting the view that Malbak (if not the economy) has seen the worst of the recession is that the final dividend is raised 2c, to give a total of 32,5c (1990· 30,5c)

On earnings alone, the increase is hardly justified, given that latest EPS of 124c are still 12c below the 1989 peak (when the payout was raised to 30,5c) and that, on a pro forma basis, this year's earnings will be diluted slightly by the asset shuffle between Sankorp, Malbak and Murray & Roberts (*Fox* October 25) But it is justified if management believes it can see light at the end of the tunnel as a result of efforts to structure the group to suit current conditions and, more particularly, if the effects of the asset shuffle turn out to be more positive than is indicated by the pro forma calculations.

On this front, Malbak's sale of D & H and half its stake in Standard Engineering to Murray & Roberts for just over R399m involves, in effect, the sale of R49,3m earnings on a p e ratio of 8. On the assumption that the proceeds are banked at an effective net return of 8,6%, the resulting R15m reduction in group earnings fully accounts for the envisaged 7c EPS dilution on existing issued capital This, in turn, means that attributable earnings from the acquisition of SA Druggists and Fedfood, on the 46,9m new shares that Malbak is issuing, will also be the equivalent of about 117c a share

The actual outcome will depend on how quickly Malbak can put its newly acquired cash pile to full productive use and the extent to which it can generate additional profits from the two new group members

For the moment, the group is saying nothing more than that it expects 1992 earnings to be maintained at the diluted 1991 figure of 117c But the way the share price has been run up suggests that the market is counting on this forecast — like that of last year — being conservative

Brian Thompson

Bank beats recession

B/Day 1/11/91

ROBERT GENTLE

BUFFETED by recessionary conditions, liquidations and insolvencies, Cape-based Boland Bank nevertheless turned in a 10,7% increase in earnings a share to 59,5c (53,7c previously) for the half-year ending September.

An interim dividend of 23c (21c) a share was declared, leaving dividend cover essentially unchanged at 2,58.

With the bank not operating on full disclosure, only the net income after taxation and transfer to internal reserves was shown. This rose 10,7% to R8m (R7,23m). (232)

Group GM Fanus Kemp was coy about details of net interest income, saying that margins "improved slightly" and costs were held "in line with inflation".

Liberty share price holding up

By Ann Crotty (232) Star 1/11/91

The Liberty share price has held up well in heavy volume trade over the last few days On Wednesday it slipped back to R37 but recovered to R38 yesterday

For the Liberty team it must be unsettling to see this level of activity so close to the issue of 12 million shares to European investors

The share started the week at R40 and came under selling pressure on Tuesday and Wednesday when around 1,5 million shares changed hands

At this stage, it is difficult to determine how much of the selling is coming from overseas, but initial estimates suggest around 800 000 shares

Liberty sources attribute much of the remainder of the activity to the sale of staff options exercised at end-September

Local analysts believe that some London traders are selling short into the Johannesburg market in anticipation of the Liberty share price coming under pressure next week

This sentiment reflects the weakness of the new issue market in London and the generally low levels of liquidity in the European equity markets

Much of the selling was done at R38, which leaves room for some profit if the issue price is pitched at R37

Liberty chairman Donald Gordon points out that in the early stages of an issue there tends to be heavy volume trade

He says that it is difficult to establish the identity of the sellers, but agrees that it could be short sales

The success of the issue must be decided on two scores — building up funds for Liberty overseas and getting a spread of international shareholders for the group

The first has already been achieved with the successful underwriting of the full issue The second will only be known at a much later date

Mr Gordon believes that if the flow-back of shares — from European to SA investors — can be restricted to 10 to 15 percent, the move will have been a great success

So far, he says, he's very encouraged by the response from European investors, but stresses that the establishment of solid investor relationships is a long-term exercise — particularly for an SA company operating in Europe

He also notes that the ability of the Liberty share price to hold up well in heavy volumes should be an encouraging sign for European investors who may have been concerned about the liquidity of the SA market

Industrial index 'will rise despite signs of a slump'

B/Day 1/11/91

ROBERT LAING

INDUSTRIAL share prices will continue to rise next year despite signs pointing to a slump, Sanlam MD Jan Calitz told the conference

Allotted the tough task of forecasting the industrial index at the same time next year, Calitz punted a rise to between 4 600 and 4 800 Yesterday's close was 4 263, after Wednesday's record 4 269

"I am by no means suggesting that the market will move ahead rapidly or without interruption The volatile political environment in which we operate must be expected to lead to periodic setbacks and a good measure of uncertainty," he said

According to historical criteria, the market should not rise much further — its average dividend yield of 2,6% was at a low level similar to that before the 1987 and 1969 crashes and its price-earnings ratio of 13,9 was exceeded only before substantial bear markets

However, the previous market peaks had been associated with frenzied interest and high turnovers — "features noticeably absent in the current market as every stockbroker will testify", Calitz said

Over the past year the earnings of companies making up the industrial index had increased by 2% while dividends rose by 5% Calitz estimated earnings and dividend growth over the next 12 months for the top companies making up the bulk of the index would be 16% and 14%

The SA economy was bottoming out after a long but relatively mild downturn The expected higher growth rate in developed economies augured well for a new upturn in SA next year, he said

The shortage of quality scrip against increased demand from institutional funds was another factor which should boost the index

Abolition

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Calitz said his prediction depended on three major factors offshore markets would not experience collapses reminiscent of October 1987, SA's political negotiations would not be derailed and the financial rand would not be abolished

Calitz estimated this year's institutional cash flow would be R33,2bn and next year's R40bn As a result of the abolition of prescribed assets in 1989 and recent changes to prudential investment regulations, at least 50% of this should be invested in equities

GENCOR FM 1/11/91 232

Back to the market

Gencor's plans for another big rights issue — probably as much as R2bn — have again drawn attention to the number of chunky projects the house has on its books Most of the funds will go towards ventures already announced or known

If all of them come off, the balance sheet will be left with a similar level of liquidity as at present This issue, coming only a couple of years after the house's last rights issue of some R1,5bn and after a period of steady growth in retained earnings, again emphasises Gencor's high rate of investment in ventures that should ensure long-term growth

Five major projects, all relating to large or burgeoning holdings in the Gencor stable, are cited as likely to require funding in the months ahead Most are for commodity or export-orientated ventures, with emphasis on production of more value-added, or beneficiated products Only one relates to a new mine

Pulp and paper producer Sappi, in which Gencor has a 50% interest, is holding a R1bn rights issue, of which the house's share will be about R500m If the second phase of Engen's expansion of the Genref refinery goes ahead next year, as is likely, it would probably require about R600m from Gencor

After the acquisition by Samancor and the Columbus consortium of Middelburg Steel & Alloys, that group's chrome and ferrochrome business will be moved into Samancor (held 41% by Gencor) and the stainless steel business in Columbus Chairman Derek Keys says Gencor will invest about R280m in an enlarged Samancor, which in turn will be "well placed to embark on Columbus with every prospect of seeing it through without further recourse to its shareholders"

The new gold mine, Oryx, will need bridging funds to see it through to April 1994, or until conditions in the gold sector have improved enough for a rights issue After reducing its stake earlier this year, Gencor still holds about 63% of Oryx Gencor's share of the bridging funds is about R500m

Another potential project for next year is an expansion of Alusaf's smelting capacity, at a cost of around R3bn Gencor holds an effective 31% of Alusaf and the house is assuming that a go-ahead for the expansion would involve Gencor injecting upwards of R800m. Keys notes that Eskom has agreed to consider entering into a long-term power supply contract with Alusaf, which would make new smelting capacity competitive with the world industry A decision could be taken in the first half of next year

In total, Gencor could thus put about R2,7bn into these five companies Its own balance sheet currently holds about R1,3bn cash, plus about R600m in marketable securities, giving net liquid assets of R1,4bn after loans of R500m are offset If a further R2bn in equity funds is brought in through a rights issue, that would leave a safety margin of R500m-R700m that could be available for other investments

"It doesn't hurt me to raise cash before we need it," says Keys "Running this group with a large cash resource at the centre has a very good effect on people It lends credibility to our view that we want to generate growth" The last issue was placed at 20-for-100 Keys feels that a R2bn issue at 15-for-100 would be "fairly received"

At this stage, however, the earnings growth lies in the future EPS for the 1991 year were down by 5% Attributable income from Genmin fell by R142m (largely due to a R74m drop by Samancor, a R30m drop by Gengold and a R44m fall in the minerals division), while Sappi's contribution was down by R86m

However, the group has safely weathered a severe swing in the pattern in income contributions A few years ago, nearly 70% of earnings was from Sappi and Samancor, their total has now dropped to about a quarter Malbak was up by R12m, but the real boost again came from Engen (up by R34m, excluding the previous year's attributable income), and from Genbel and investments, whose contribution rose by R106m, or about a third

Gencor's Keys *downward pressure on profits will continue*

LOSING GROUND

Year to August 31	**1990**	**1991**
Income (Rm)	1 098	1 056
Consolidated income (Rm)	937	766
Equity accounted retained income (Rm)	542	639
Attributable (Rm)	1 479	1 405
Earnings (c)	125,8	119,5
Dividend (c)	40	43

There have been encouraging signs, suc as the recent improvement in the gold div sion Overall, though, Keys says the dowr ward pressure on profits will continue, prot ably for the entire 1992 year With th dividend, nevertheless, increased by 7,5% the share yields 3,4% on the 1 285c pric about in line with the average for the minin house sector

Andrew McNult

UNIT TRUSTS FM 1/11/91

Launching into the wind

(232)

Market conditions are hardly ideal for launching a unit trust In the last quarter repurchases of units from unitholders doubled because it is widely believed that the market is due for a correction

Yet Metropolitan Life launched the Metlife unit trust on October 17 and on Friday Old Mutual launches its sixth fund, to be called the Top Companies Fund

Both institutions say the launches have been driven by client needs Old Mutual assistant GM unit trusts, Bastiaan van der Westhuizen, says the launch of a new fund does not mean that Mutual has a bullish view of the market The Top Companies Fund is being launched to complement existing funds, which include the Investors, Mining,

FM 1/11/91 **FOX**

Income, Gold and Industrial funds (232)

Top Companies will invest in all sectors except property and direct gold It will manage liquidity more aggressively than other funds As a rule Mutual's funds are fully invested but Top Companies will stay up to 30% liquid, when the portfolio managers take a bearish view It will select what it sees as tomorrow's winners, though all investments will be in companies with proven management and operations.

Portfolio manager Adrian Allardice says that some industrial sectors have over-extended. He believes, for instance, that retail shares are too high, mining financials and shares tied to Gross Domestic Fixed Investment and exports offer better value

Allardice expects "significant" government spending on infrastructure, which will boost construction and engineering shares.

Initially the fund will have a 40%-45% mining weighting He sees banks as a defensive sector because high interest rates will keep their margins high.

Metlife was launched into the black market, which is almost untapped Research showed that the average Metlife policyholder could save R47 a month with unit trusts, so a minimum of R50 a month has been set and a R500 lump sum, half the minima for the Top Companies Fund

Portfolio manager Jannie van der Westhuizen says the fund will concentrate on traditional blue chips which have proved capable of weathering the storm ■

Hundreds in line to lose their savings

S1 Times (Russ) 3/11/91

By ZILLA EFRAT (232)

HUNDREDS of investors with Parktown-based Selected Portfolio Brokers (SPB) could lose about R3,5-million if the company, which sold shares in unlisted ventures, is wound up

A Reserve Bank investigation has found that SPB unlawfully obtained money from investors because it acted as a deposit-taking institution when it was not registered as such

The company has been told to repay all money received, including interest, from these activities If it cannot, the Registrar of Deposit-taking Institutions will apply for SPB's liquidation The proceeds would go to depositors

It is believed several people invested some or all of their savings in schemes promoted by SPB

The Reserve Bank has appointed Deloitte Pim Goldby partner June Schultz to manage and control SPB's repayments and to investigate how much money was obtained and from whom

High

Miss Schultz says because many of SPB's assets are tied up in venture-capital deals, it could be a long investigation

She says those SPB activities found to be unlawful constitute a major part of its business and were begun about June last year

SPB offered investors high returns on shares in non-listed companies, many of which were considered by analysts to be high-risk investments

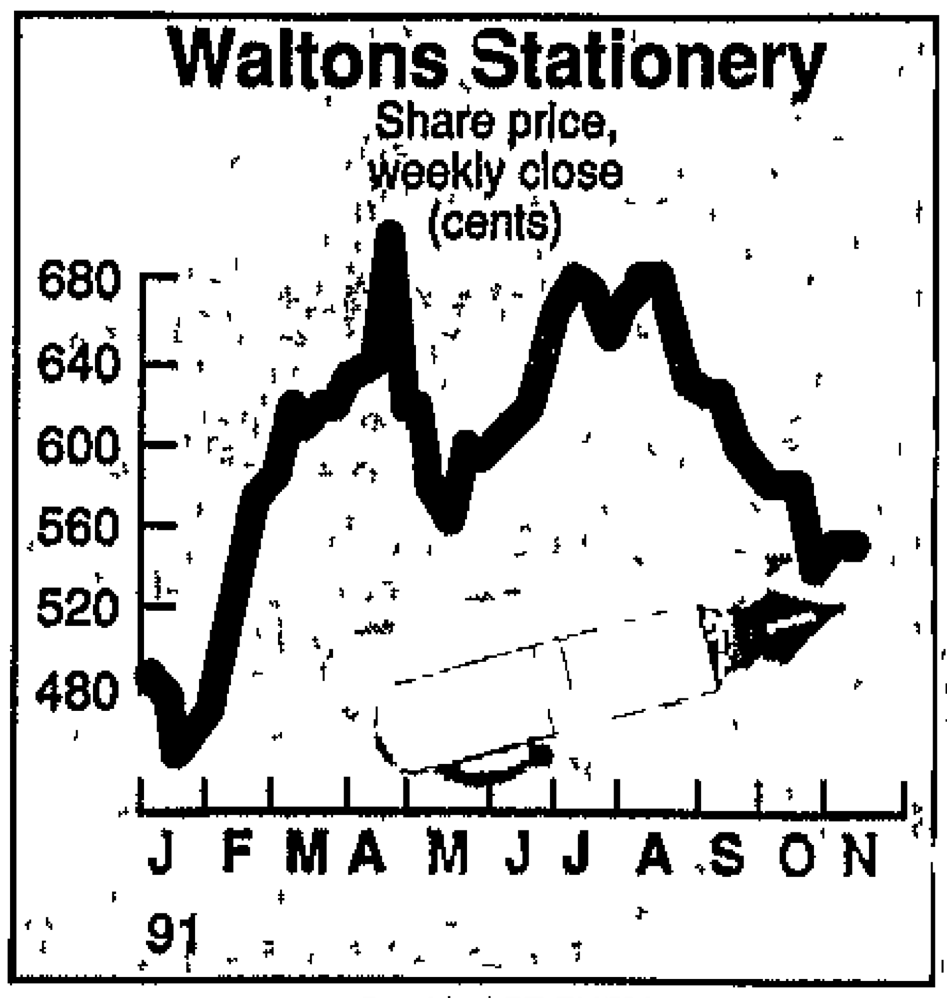
Earlier this year, it offered "the very conservative investor" a potential 20% annual return over three years and "the aggressive investor" 60% yearly on money placed in chicken franchiser The Rooster Group

Another offer promised a 66% capital gain on preferential shares in Anroda Construction Company SPB also promoted the collapsible wheelbarrow venture, Barrowmate, which police investigated for irregularities last year

Other shares sold by SPB included those in silver recovery company Silvercorp and in Comprovision, which markets employee data gathering profiles

A statement by the Registrar's office on the SPB investigation warns the public of the risk of entrusting money to companies not registered as deposit-taking institutions

It warns particularly about those offering a return markedly higher than the current interest rate on similar investments with registered institutions



Graphic LEE EMERTON Source: I NET

Waltons stifled by tough conditions

MARCIA KLEIN (232)

WALTONS Stationery's (Waltons) growth has been stifled by tough trading conditions in the office supply industry.

The group, whose interests include Helios, Minolta, Ozalid and listed toy company Reggies, has reported a 13,3% reduction in earnings to 18,7c (21,5c) a share for the six months to end-August. BIDay 4/11/91

Despite the reduction in earnings, the interim dividend was maintained at 7c a share by improving gearing levels.

At the February year-end Waltons reported a decrease in earnings — the first time in the past decade that it had not shown profit growth.

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Waltons BIDay 4/11/91

(232) ☐ From Page 1

This trend continued into the interim stage, where it showed a 13,3% decrease in attributable earnings to R12,7m (R14,7m).

Waltons' turnover grew by 6,2% to R356,3m (R335,6m) because of a depressed and uncertain economy, and operating profits dropped by 18,8% to R39,1m (R48,2m), reflecting a reduction in margins.

A tight rein on borrowings saw the interest bill reduced by 24% to R8,4m (R11,0m). A reduction in taxation from R18,7m to R15,2m resulted in a 16% drop in earnings after tax to R15,5m (R18,4m). Attributable earnings were 13,3% down after an increase in equity accounted earnings and slightly lower earnings for outside shareholders.

Chairman Frank Robarts said the core stationery business continued to perform satisfactorily.

Reggies would trade profitably for the full period, with the Christmas season still to come, and Lithosaver System's results had shown "a pleasing improvement".

Financial director Mark Davis said that borrowing levels were good, and Waltons was well placed for an upturn in the economy.

Waltons Consolidated Investment Holdings (Walhold), which has a 50,1% holding in Waltons, reported earnings of 17,9c (20,7c) a share, and maintained its interim dividend of 7c a share.

'Over-concentration' restricts takeovers

810 4/1/91 232

SEAN VAN ZYL

THE concentration of equity holdings in SA and limited access to risk funding had resulted in a sharp imbalance in the market for local corporate takeovers, said Ernst & Young partner Claire Herbst

As a result, she said, the SA business environment was becoming even more concentrated in the hands of a few major industrial and financial groups

Despite the sharp drop in merger and acquisitional deals worldwide after the collapse of the "junk bond" market of the '80s, Herbst said the past 12 months showed an extremely high level of acquisition activity in SA, mostly by local institutions

The increased activity was surprising considering the poor economic conditions About 249 acquisitions worth R8bn were made public over the past 12 months to June.

"This is a considerable level of activity for a country in recession. To put it in context, this is equivalent to 10% of the number of deals announced in the US last year."

Herbst noted acquisitional activity in the US, which reflected the greatest number of deals in the '80s, declined by 12% last year while the value of deals dropped by a massive 51%. A further decline in both number and value were shown for the first six months of 1991.

Herbst said the concentration of share ownership in SA and the limited number of potential acquisition opportunities still available had made it almost impossible to accurately price the value of takeover deals. "In essence, there are too many buyers chasing too few acquisitional opportunities."

Excessive demand had resulted in further concentration of local holdings when the market should ideally be looking to opening new enterprises and focusing on international growth

An example of over-concentration was the Rainbow Chicken acquisition of Bonny Bird, which created a dominant holding in the white meat industry Score Food's merger with Metcash had also united two of the largest operators in the wholesale cash and carry market, while Pep's recent acquisition of Checkers had created the largest retailing group in Africa

Although several SA companies had burned their fingers in expanding into difficult foreign markets in the past, Herbst said the international door was now open to local businesses

Conversely, she said, the easing of international pressure or SA had provided the opportunity for overseas companies to invest in the SA market. The keen interest displayed by offshore companies over the past six months would result in increased local competition for which SA businesses would have to gear themselves

UK trade inquiries flooding in

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Star 4/11/91.

By Neil Behrmann

LONDON — The South African Embassy in London is receving about 500 trade inquiries a week, says Kent Durr, South African Ambassador to the UK

Last year there were about 400 to 500 inquiries a month, embassy officials say.

Speaking at a recent conference organised by accountants Ernst & Young and the United Kingdom South Africa Trade Organisation (Uksata) in London, Mr Durr said "South Africa is entering a new renaissance.

"Many people compare the events in Eastern Europe and South Africa," said Mr Durr "However, if one subtracts communism in Eastern Europe, there is very little left

"Subtract apartheid and there is much left on which to build

"Their problem is one of construction, ours is essentially one of inclusion."

The seminar of 140 delegates illustrated the growing foreign business interest in South Africa.

Last month, Business International and Standard Bank South Africa held a conference in Frankfurt

It was attended ɔu 110 delegates

The Confederation of British Industry and Standard Bank will hold another conference at the end of next month

Speaking at the Ernst & Young conference, Max Tlakula, vice-president of the National African Federated Chamber of Commerce, said that foreign investors would do well if they backed the black business community

He forecast that in ten years' time 30 percent of the directors of JSE companies would be blacks, coloureds and Asians. Forty percent of these companies would be owned by black shareholders

This appears to be a remarkable prediction, considering the wealth disparity between whites and blacks

But delegates agreed that there was considerable room for listings of smaller companies owned by blacks. So far there is only one.

Mr Tlakula, who is managing director of Elim City Shopping Centre, noted that the African Bank's assets had expanded to R140 million from R23 million in the early Eighties and there were now 23 branches.

Foreign businesses could approach that bank with propositions, he said

Colin Hall, chief executive of Wooltru, delivered an almost evangelical speech about prospects for South Africa in the Nineties.

Provided black business leaders and management had the entrepreneural and leadership spirit, they would do well, he said

"It doesn't matter if some only have a Standard Five education," he said

The speech was well received and delegates were impressed by his dynamism and enthusiasm

South African businessmen and managers should not sit back and expect President FW De Klerk to carry out all the reforms, he said

They should do their utmost to make their own companies democratic

They should listen to opinions of employees, regardless of colour, and do their utmost to help blacks advance in management.

Nick Mitchell, executive director of Uksata, said that Britain's Department of Trade and Industry had designated South Africa as a target market

The Department of Trade was now able to provide a full range of export services for South Africa, he said.

UK government funding was now available to support trade missions and for participation in trade fairs.

Trade missions to South Africa had risen to nine this year from two a year in 1989 and 1990

There were applications for 27 missions in 1992 and parties included 20 members against a dozen or fewer previously, he said.

Malbak announces R400 million rights issue

Star 5/11/91

By Ann Crotty (232)

Malbak management certainly knows how to take advantage of a strong market.

Hot on the heels of the recent Sankorp restructuring, which involved Malbak receiving R400 million for the sale of some of its assets, comes news that Malbak is to have a R440 million rights issue pitched at R11 a share.

So in less than three weeks Malbak has announced deals that will substantially lift its equity base and boost its cash resources by over R840 million.

At August year-end, Malbak had 206 million shares (on full conversion this would be 213 million in three years)

Deals since then will see the share base surge to 305,8 million. (The rights issue should be complete before Christmas).

The bulk of the increase comprises the 47 million issued to Sankorp for Fedfood and SA Druggist and the 39,8 million in the rights issue announced today

After the issue Malbak (the company) will have R640 million in cash This does not include Malbak group's consolidated debt.

After using the proceeds from the restructuring to pay off Malbak debt, there are cash resources of R200 million The proceeds from the rights issue will lift this to R640 million

But even netting out the debt in the group's operating companies will show a comfortable picture — with consolidated debt of R50 million

It's a rather clever sequence of events The restructuring established a reasonably firm R12 for the Malbak share price

This was the result of negotiating by the various parties involved in the Sankorp asset swap, which saw each party vying to establish the best price for its assets

Analysts believe Malbak emerged relatively favourably from negotiations, a view sustained by the market which also saw the operating benefits of the new-look Malbak.

In the absence of the restructuring, an issue price of R10 might have strained the market

There are no specific plans for the cash It seems that management was keen to build up resources in line with the sizeable operating companies now under its wing.

If any of these want to fund acquisitions through rights issue, Malbak will have the resources to follow its rights The issue is expected to be earnings-neutral

Anglo to sell off most of Gencor stake

B/Day 6/11/91

MARCIA KLEIN

ANGLO American Corporation is to sell most of its stake in Gencor by tender in a deal which will see it raise about R600m for capital projects

Anglo had offered the majority of its 5,3% stake in the mining house, and a small amount of its holding in First National Bank (FNB), on tender to major institutions and pension funds, merchant bank UAL GM Nico van Heerden confirmed last night UAL is handling the tender (232)

An article in the London Financial Times says that Anglo's decision may not be a friendly one, as there could be a relationship between Anglo's willingness to sell and Gencor's announcement of a R2bn rights issue in January, which would see the price weaken

However in London, Gencor chairman Derek Keys told Business Day "It is not an unfriendly act at all Anglo American dis-

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Anglo

B/Day 6/11/91

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cussed it with us at an early stage of the Middleburg Steel & Alloys (MS & A) deal which would put Anglo directly into ferrochrome and stainless steel

"Their portfolio management indicated that to raise funds for the MS & A proposal it should involve the sale of the Gencor shares It was all discussed and Anglo waited until our results were out before revealing what it intended to do I don't see it as a problem for Gencor's rights issue The news has put our share price down but we are not coming to the market until next year," he said

Van Heerden said Anglo had substantial capital commitments, of which the MS & A Columbus stainless steel project was a major part, and its decision to sell shares in Gencor resulted from the fact that this was not a strategic holding

The decision was made prior to the announcement of the Gencor rights offer, but Anglo had decided to wait until Gencor's announcement of its results before it put its shares out to tender, Van Heerden said

He said that no date was given for the rights offer, so it could not be considered imminent Although Anglo had confidence in both companies, the sale of its stake was a satisfactory way to raise some of the substantial funds it needed

While the market value of its holdings at current prices would see it raise between R600m and R700m, Van Heerden said Anglo hoped that its shares would sell at a premium

It would sell only a small portion of its holding in FNB and retain some shares in Gencor

Keys has been having talks in London with Lonrho CE Tiny Rowland about their joint platinum interests in SA

On the JSE, the Gencor share price shed 10c yesterday on the news of the selloff Over the past few days the share has fallen from R13 to yesterday's R12,35

The tender offer closes on Friday

Futures option for emigrants

ROBERT GENTLE

THE Reserve Bank is to permit former SA citizens living abroad to invest the money they still hold onshore on the SA Futures Exchange (Safex)

Known in forex jargon as blocked rands, these monies are held in "blocked" accounts and constitute the excess of funds former SA citizens were legally allowed to take with them when they emigrated

The Reserve Bank's decision widens the avenues of investment available to holders of such blocked rands At present, they may be invested in assets like property or marketable securities like shares or gilts

Safex CE Stuart Rees welcomed the move, saying it broadened the pool of non-resident funds on which Safex would be able to draw and would boost the exhange's clientele

B/Day 14/11/91

There are no reliable estimates of the extent of blocked rands still onshore. Figures ranging from hundreds of millions to more than a billion have been bandied about In May this year the Reserve Bank sent a circular to SA banks requesting details on these blocked accounts for purposes of an update

(232)

The last such survey, a spokesman said, was done "about 10 to 15 years ago"

The Reserve Bank's decision to allow blocked rands to be traded on Safex comes in the wake of its decision in August to allow all non-residents to trade futures via the finrand

Rees said everything was on track for general non-resident trading of futures to be ready by next month

Foreigners would then be able to trade futures on Safex in much the same way as they traded shares on the JSE

Elangeni shares to be redeemed

(232) (86) (4-5)

WILLIAM GILFILLAN

FOLLOWING the October takeover of Elangeni Holdings by the Saudi Arabian Dallah Group of Jeddah, shareholders holding the 3,5% interest in Elangeni not yet held by the controlling shareholders are advised today that their shares are to be redeemed

The company has also announced it is to terminate its listing on the JSE

The 3,5% of ordinary shares not held by the controlling shareholders were to be converted into redeemable preference shares and then the preference shares were to be redeemed

The redemption was to be made by way of a cash payment of 50c a share which was at a 5c a share premium over yesterday's 45c closing price

Yesterday Elangeni reported earnings of R48 000 for the 12 months to June, which was substantially down on the R529 000 for the 14 months to June 1990

The Dallah Group took control of the soap and edible oil group in October with its R5,1m acquisition of a 70% interest in the group

S/ 9/ 12/ 4/ 3/ 8/ 5

COMPANIES

Windfall for JSE stockbrokers

ROBERT GENTLE

JSE stockbrokers can expect a Christmas bonus — of sorts — thanks to the exchange's decision to switch a portion of its R70m guarantee fund from equities to gilts

B|Day 13/11/91

The multimillion-rand transaction is expected to generate a substantial amount of brokerage which apparently will be split among the exchange's approximately 50 stockbroking firms

(232)

Brokers were unaware of the exact size of the deal or whether it had already been done Estimates varied from R10m to R50m One trader, working on the R50m estimate, reckoned total brokerage could come to R150 000

Divided among the brokers, this would result in a one-off cheque of R3 000 each — or an equivalent reduction in costs

"I wouldn't exactly call it a Christmas bonus," said the broker, noting it would probably pay for an office party "It certainly wouldn't take me to Paris"

JSE president Tony Norton declined to comment on how the proceeds would be split, saying only that he had been given total discretion in the matter However, it is reliably understood that names were drawn out of a hat to determine which stockbrokers would handle the deal with the resulting brokerage being equitably split among the stockbroking fraternity There was no indication of who the lucky firms might be

Another broker said "They must have had some method of splitting the business It would be unfair if they didn't. Anyway, we are not losing any sleep over it"

Star 12/11/91 (232)

Barlows beats market expectations

By Jabulani Sikhakhane

Barlow Rand, which beat market expectations with only a seven percent drop in earnings, is conserving cash to take advantage of investment opportunities

Shareholders are being offered the option to receive the unchanged final dividend of 119c in cash or shares

The additional shares are being issued at R48, but the price may change in line with the movement in the share price

Barlows' share price rose 40c to close at R52 yesterday

The scrip dividend represents a cheap way of raising money and saving just over R200 million (assuming a 90 percent acceptance of the offer)

Taken together with the R1 billion from the sale of Middelburg Steel & Alloys to the Gencor, Anglos and De Beers' consortium, cash resources should receive a big boost

It was announced in September that an agreement had been reached in principle for the sale of Middelburg for R1,075 billion

Although the deal (not yet finalised) is effective after year-end, the directors say the sale of Middelburg is material and has been given effect in the financial statements

During the review period, a better-than-expected performance by Middelburg and Rand Mines helped Barlows beat market expectations with earnings down only seven percent from 462,4c to 430,9c The dividend, covered 2,5 (2,7) times, is unchanged at 170c

At the interim stage, earnings dropped 14 percent and directors were expecting a similar decline for the second half, which would have meant earnings of around 397,7c for the full year

But an improved performance from Middelburg, which was the main contributor to the 14 percent drop in the first half) saw Barlows breaking even, with earnings of 244c for the second half

The directors say the improved performance at Middelburg was spearheaded by the continued strong showing in the stainless steel division.

This saw Middelburg reversing the first-half loss of R17 million into a small profit for the full year

After the inclusion of abnormal profits, Rand Mines showed a modest improvement in attributable profit

Performance from the industrial division was mixed, with consumer electrical products performing exceptionally well. Plascon increased market share and lifted earnings

The earthmoving equipment, steel merchandising, building materials and motor vehicles subsidiaries were affected by economic conditions

Group turnover rose 10 percent to R31,99 billion. Overall margins were under pressure, shaving growth at the pre-interest operating profit level to four percent at R2,57 billion.

An increase of R88 million in interest payments to R674 million meant operating profit was virtually unchanged at R1,895 billion (R1,885 billion)

Barlows' 7% decline betters expectations

BDay 12/11/91

232

BRENT VON MELVILLE

BARLOW RAND, SA's biggest industrial conglomerate, has reported a 7% decline in earnings to 430,9c (462,4c) a share for the year to end-September, bettering expectations of a 12% fall in earnings

The performance comes on the back of a stronger showing than forecast for Middelburg Steel & Alloys (MS & A) and Rand Mines Deputy chairman Derek Cooper said MS & A came in with a "small profit" None of the group's unlisted operations had shown losses for the year

The showing, and an announcement that the group would offer its unchanged final dividend of 119c to shareholders as either cash or shares, prompted a 40c share price rise to R52

In terms of the share offer, shareholders may take 2,48 shares for every 100 held, translating to R48 each, which, even deducting the final dividend from the current market price, represents a 5% discount Cooper said majority shareholders had already indicated a willingness to accept the offer

Operational turnover climbed 10% to just less than R32bn (R29,1bn) Operating profit before interest rose 4% to R2,6bn (R2,5bn) Interest charges rose 15% to R674m (R586m) reducing cover slightly to 3,8 times.

Contributions from equity accounted associated companies were bolstered 33% to R56m (R42m), although outside shareholders accounted for R799m (R716m), leaving attributable profits to ordinary shareholders down 6% at R806m (R855m)

Below-the-line extraordinary items absorbed a significantly higher R433m (R115m) related primarily to the write-off of Barplats Investments to market value The profit on the sale of MS & A was also incorporated into extraordinary items, meaning total below-the-line write-offs amounted to about R600m.

Barlows did not disclose the loss incurred on its trading venture in Zaire, hit by riots and upheaval Sources put it at about R20m Barlows chairman Warren Clewlow said it was a setback in that the group was only "just getting going" in Zaire However, this would not deter Barlows from moving further into African markets

In mining and mineral beneficiation, Rand Mines showed a 12% improvement before extraordinary items, while Pretoria Portland Cement increased its contribution 7% with bottom-line earnings at R114m (R106m) Cooper said MS & A produced a "small profit" with a strong performance from the stainless steel division

Firm demand for consumer products and a marked slowdown for capital goods saw Technology Systems International push earnings up 20% and Reunert post a marginal improvement to R74,6m in attributable earnings Cooper said reduced Armscor orders at Reunert would be offset by the move into other markets The recent R76m acquisition of African Cables was a step in that direction

A good performance from Tiger Food on the back of recent acquisitions helped boost Tiger Oats's earnings 13%, while ICS showed a 24% rise CG Smith Food recorded a 14% rise despite declining world sugar markets CG Smith's earnings were up 9%

Barlows' international arm J Bibby improved its earnings moderately Cooper said the group was in a position to spend about £100m this year

Total capex for the group would probably exceed last year's R1,4bn

EXECUTIVE SUITE

HL & H turns in poor performance

(232)

BDay 11/11/91

BRENT VON MELVILLE

REMBRANDT subsidiary Hunt Leuchars & Hepburn Holdings (HL & H) was adversely affected by poor results from associates Rainbow Chicken and HL & H Timber to report a decline of 17% in earnings to 33,7c (40,6c) a share for the half year to September.

While subsidiaries spice merchant Robertsons and Transvaal Suiker turned in 31% (18%) and 35% (27%) of attributable profits of R47,8m (R52,4m), Rainbow's contribution more than halved to 9% (21%) and HL & H dropped to 25% (34%)

During the period the group acquired an additional 15% of Rainbow to 40% and the trading assets of Trimpak, expanding the operations of the catering division and providing new products for Robertsons

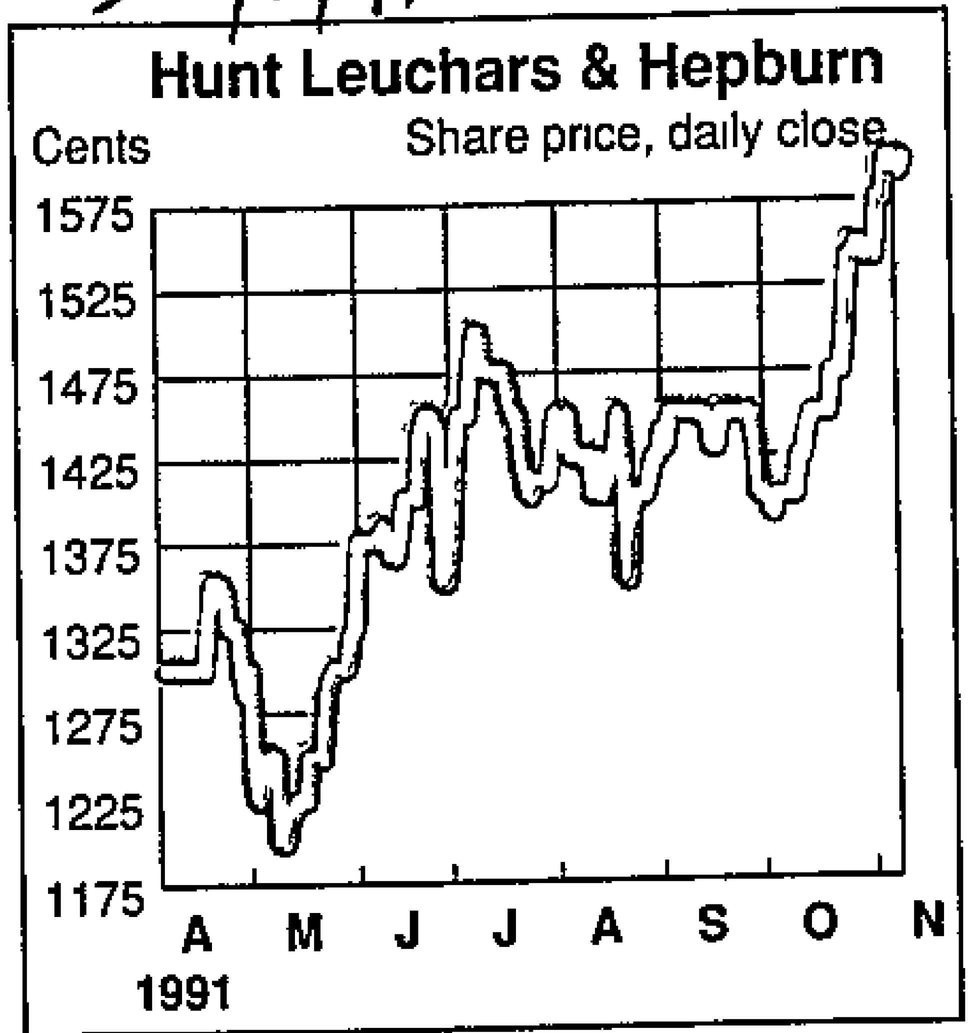
The acquisitions helped turnover to a 21% rise to R325,7m (R269,7m), off which operating income climbed 17,5% to R57m (R52m) The dividend remained unchanged at 13,5c

Dividends and interest received, however, fell to R4,8m (R11,8m), leaving income before interest and tax at R62m, down from R64m last year

Interest charges rose slightly to R13,9m (R11,4m), off a 43% jump in borrowings to R173m (R122m) Fixed assets climbed to R409m (R368m), while associated companies and investments jumped to R709m (R475m), leaving net assets above R1bn for the first time at R1,2bn (R917m)

The increase in fixed assets also includes the expansionary expenditure at Transvaal Suiker and the Trimpax acqusition At the same time the level of gearing remained at a relatively low 17%

Directors said that trading conditions were expected to remain depressed for the remainder of the year, although Rainbow Chicken was expected to up its contribution to profits, leaving group earnings to improve



Graphic FIONA KRISCH Source I NET

Investors fuelling a boom in unit trusts

Star 11/11/91

By Tom Hood (232)

CAPE TOWN — Speculators are climbing into unit trusts and fuelling a boom in sales

Two-thirds of sales are now in lump sums or are made irregularly and less than 20 percent come from the smaller investors on a regular monthly basis

Cashing in on the share boom, investors sold R556 million of unit trusts in the September quarter, double the sales of the June quarter In 12 months, R1,2 billion of units have been sold back

With many share prices being bid up to astronomical heights and the JSE industrial index at an all-time high — witness M-Net at R8,40 and De Beers at R96 — many speculators see unit trusts as a cheaper way of getting into the market and making a quick kill while prices continue to surge.

However, they could burn their fingers if a major correction comes to over-priced industrial shares — which several fund managers believe must come

"People forget they could lose their shirts, even with unit trusts, in a share market collapse," says Hugo Lambrechts of the Graduate School of Management at the University of Pretoria

Sanlam senior portfolio manager Stafford Thomas sees the market as outrunning underlying fundamentals

Company profits are under pressure, the recession has deepened and meaningful interest rate cuts are not expected this year

Clive Turner, chairman of the Association of Unit Trusts, says "We have noticed a trend that when the share market is rising, as it has this past year, investors flock to unit trusts"

He believes investors would do better to invest their funds over a period and adopt a regular investment programme.

"This way they can take advantage of rand cost averaging, which allows investors to accumulate more units when share prices are low, and so end up with a lower average cost per unit"

Experience has shown that this is the best way to invest in unit trusts, he says

Fewer than 20 percent of those investing in unit trusts do so on a regular, monthly basis, according to an analysis of sales statistics carried out by the association over 12 months

Of the R2,3 billion gross sales registered to the end of June, only R480 million worth arose out of monthly repeat business

However, Mr Turner feels this trend, where one in every five rand invested in unit trusts is put in on a regular monthly basis, to be encouraging

In those 12 months, R314 million was invested in unit trusts by way of income being reinvested

"By electing to reinvest their income to buy additional units, unitholders enjoy the considerable benefits of compounding - their earnings income"

"As an industry we encourage investors to see unit trusts as a medium-to-long-term savings medium, which protects investors from the ravages of inflation and offers real growth in value"

Total asssets of SA's 39 unit trusts have reached R10 billion for the first time — double the figure of four years ago, and representing an average annual asset growth of 19,7 percent

A new study by Mr Lambrechts and his team shows that the Cape unit trusts control almost R6,06 billion (57 percent) of all 39 unit trusts' total assets

Five management companies control 80 percent of the market

They are, in order of assets, Old Mutual, Sanlam, Guardbank, Syfrets and UAL

More heavy trading in Elangeni shares

By Jabulani Sikhakhane

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A further 2,730 million Elangeni Holdings shares — equal to 16,3 percent of the group's issued share capital — were traded at 45c on Friday Star 11/11/91

Control of the troubled Durban-based group changed hands on September 30 when the Dallah Group of Jeddah (Saudi Arabia) acquired 70 percent of the equity at 43,5c a share

After the deal the Dallah Group made an offer of 43,5c a share to Elangeni minorities

However according to the offer notice, minority shareholders holding 28,94 percent of the equity lodged letters with the Securities Regulation Panel (SRP) to the effect that they would not accept the offer, which closed on October 25.

New unit trust attracts R25m

SEAN VAN ZYL (232)

OLD MUTUAL's new Top Companies unit trust received a R25m cash inflow in the four trading days following its launch on the market, assistant GM unit trusts Bastiaan van der Westhuizen said at the weekend. B/Day 11/11/91

Van der Westhuizen said the initial inflow accounted for more than 10% of the unit trust industry's average monthly cash flow.

Unit applications were still streaming in. He expected the trust to mirror the success of Old Mutual's Investors' Fund which is currently SA's top fund with more than 285 000 members.

He said the greater proportion of unit-holders had opted for regular monthly investment. "This reinforces our view that the unit trust industry is continuing to be chosen as a prime medium- to long-term savings vehicle."

Senior portfolio manager Adrian Allardice said the Top Companies investment portfolio was already in place. The fund's investment strategy was based on acquiring blue chip shares and emerging quality equities.

Reichmans recovers

232

SHARON WOOD

RELIEF from heavy bad debt losses saw trade finance group Reichmans lift net income seven-fold in the six months ended September. B Day 11/11/91

However, long-term liabilities almost doubled to R5,3bn from R3,3bn

Net income rose to R6,55bn from R808m, and after payment of preference dividends retained income was R3,6bn compared with a previous interim loss of R162m

The company paid out R2,9bn in preference dividends

A statement said the results were considered to be satisfactory, with provision for doubtful debts strengthened in light of difficult economic conditions.

The results show no evidence of the sum to be set aside for doubtful debts and company spokesmen were unavailable for comment

In the 15 months to end-March, Reichmans had an abnormal loss of R14,4m which it wrote off through a single bad debt It made full provision for the exposure to a Ciskeian client whose fire claim was repudiated by its insurers

Reduced earnings likely for Barlows

B/Day 11/11/91 (232)

MARCIA KLEIN

C G SMITH, the main profit generator of the Barlow Rand group, has reported a 9% increase in earnings to 818,6c (751,0c) a share for the year to end-September, setting the stage for reduced profits from the conglomerate when it publishes its results later today

It is the last listed group in the Barlow Rand stable to report results, and analysts now expect a 12% to 16% earnings decline for Barlows following Rand Mines's R485m loss and a poor performance from unlisted Middelburg Steel & Alloys.

Although C G Smith subsidiaries Nampak and C G Smith Foods produced good results, these were offset by a sharp decrease in earnings at Romatex in the year to end-September

C G Smith's turnover was up 13% to R16,1bn (R14,2bn), but operating profit was up by a reduced margin of 11% to R1,3bn (R1,1bn). Pre-tax profit was only 9,8% higher at R1,1bn (R1,0bn)

A final dividend of 175c was declared, to bring the full year dividend to 286c (263c) a share — a 9% rise from last year's 263c.

Nampak's attributable profits grew by 16% to R147,7m, increasing its share of group attributable profits from 37% to 38,4%. C G Smith chairman Robbie Williams said Nampak had performed well

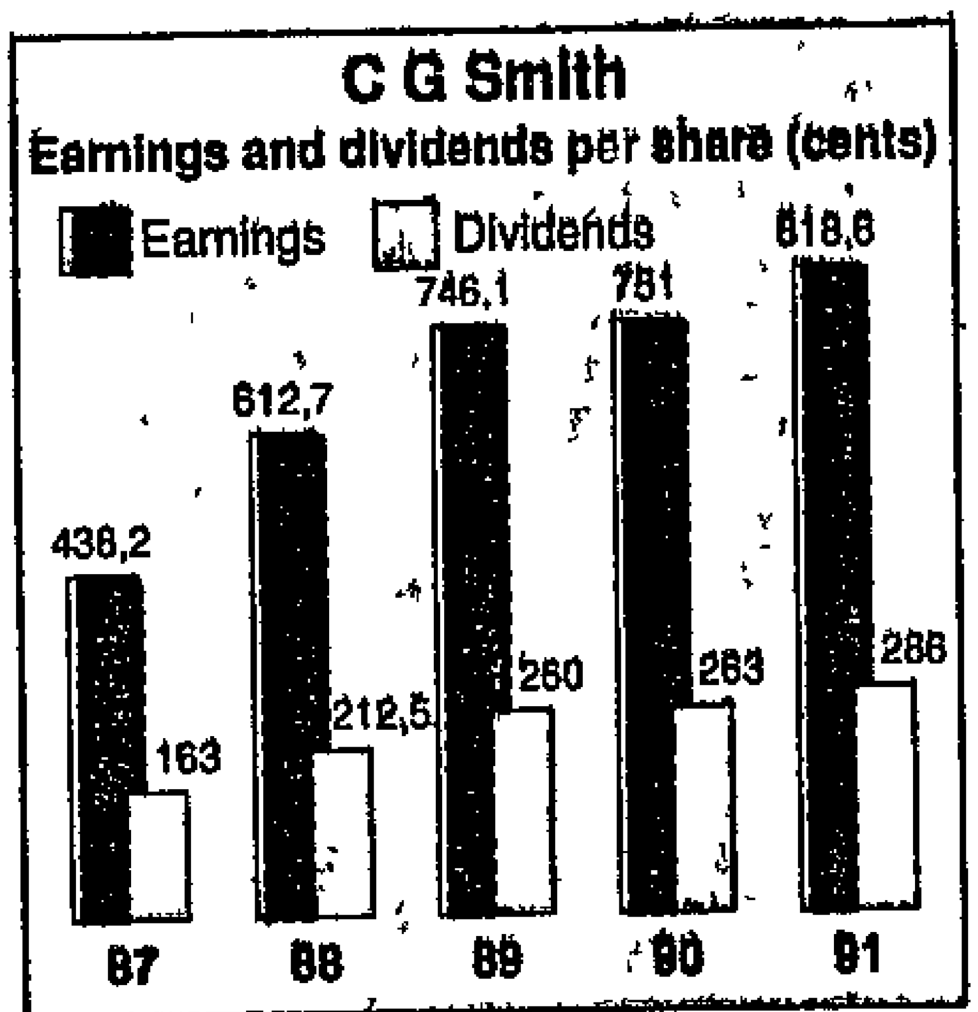
C G Smith Foods increased its profits by 14% to R231,4m, providing 61% of group profits. In this division, ICS's results reflected the benefit of its rationalisation programmes as well good results from its meat division and Sea Harvest. Oats' results showed the good performances of its pharmaceutical, canning, shipping and distribution divisions.

C G Smith Foods showed an increase in earnings despite the fact that its sugar interests were affected by the decline in the world sugar price

Romatex's earnings fell by 77% to R5,2m, contributing just 1,3% to the C G Smith group's attributable profits

Extraordinary items of R24,1m (R3,6m) refer to donations to private sector initiatives

● See Page 10



Graphic FIONA KRISCH Source CG SMITH

Liquidations still rising

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MARCIA KLEIN

THE high rate of company liquidations continued during September, with 171 companies going under during the month compared with 112 in September 1990, Credit Guarantee senior economist Luke Doig said yesterday

B/Day
19/11/91

The monthly average to date in 1991 was 157, or more than seven per working day, which represented the highest rate of liquidations since 1986's monthly average of 228, Doig said

Sectors which had been hardest hit included construction, manufacturing and the retail and wholesale trade, with the last two reflecting depressed consumer demand.

Doig said the preliminary August 1991 insolvency figure of 400 was the highest since the 429 liquidations recorded in March 1987

FM 8/11/91

MALBAK'S OPPORTUNISTIC FUND-RAISING

(232)

Barely a fortnight ago, Malbak's preliminary statement referred to the "strengthened balance sheet" as having permitted an increase in the final dividend (*Fox* November 1) Now it's coming to market with a R440m rights issue (15-for-100 at R11) As recent reshuffles initiated by Sankorp left it with R200m cash, this will build the cash mountain to R640m.

Executive chairman Grant Thomas says the proceeds will be used to eliminate net gearing and expand the potential of the core businesses, in packaging, food, pharmaceuticals and consumables

There appear to be no immediate plans in any of these directions But, with its latest earnings of 124,1c a share, Malbak needs to earn only 11,3% net on the new money to avoid diluting earnings In any event, 63% of the money will be put up by Gencor and Sankorp (who are underwriting the balance); to that extent, the issue is little more than formalising the rechannelling of group cash flow.

Against a market price of R12,75 (unlike fellow-subsidiary Sappi, whose share price weakened ahead of its recent rights issue, Malbak is close to its year's high), R11 is a fine but reasonably pitched take-up price

The shortage of quality industrial scrip should also preclude any significant shortfall in acceptances

But, given the lack of any pressing need for funds and the net ungeared position which will follow, one can only detect a touch of opportunism in this latest instalment in Gencor's succession of fund-raisings — not that there is necessarily anything wrong with that *Michael Coulson*

MERGERS & ACQUISITIONS

FM 8/11/91 (232)

Preparing for growth

In the year to June, 249 mergers and acquisitions (M&As), worth R8bn, took place in SA, according to Ernst & Young's Claire Herbst, who spoke on international and national M&A trends at the *FM* Investment Conference last week "This is surprisingly high for an economy in recession," she says

"Of course, some of the activity is a direct result of the recession, where minorities of underperforming groups have been bought out, followed by a delisting An example of this is the buyout by Sankorp of minorities in Federale Volksbeleggings, at a cost of R305m, as was SA Breweries' buyout of minorities in Southern Sun

"But a significant portion of the activity appears to indicate a more positive trend Liberty Life, in particular, has been active in investing offshore During the period reviewed, Liberty Life and First International Trust acquired a 67% holding in Transatlantic Holdings PLC, at a cost of R719m Subsequently, Liberty finally acquired joint control of Sun Life with a French partner"

She suggests three reasons for these developments

- ☐ The role of insurance companies as dominant players in the investment market,
- ☐ Lack of availability of quality scrip for local investment, and
- ☐ Increasing confidence on the part of SA businessmen, and the gradual erosion of restrictions placed on SA by the outside world

Almost all the acquiring companies were JSE-listed Only 53% and 54% of the selling and target companies were listed The sector which dominated activity was banks and financial services, with the R1,8bn merger of UBS Holdings, Allied Group, Volkskas Group and parts of Sage Financial Services, to form Amalgamated Banks of SA

The industrial holdings sector was most active by volume and second by value

FM 8/11/91 (232)

According to the review

- ☐ There were 13 management buyouts (MBOs), representing 5% of all transactions — only three involved a listed company,
- ☐ In 11 transactions, the investor was foreign, and
- ☐ In 14, SA companies invested abroad

Herbst points out that only one of the 13 MBOs identified involved a foreign seller — a reversal of the previous trend where buyouts were generally the result of disinvestment by a foreign parent ■

Gencor holds steady ahead of Anglo sale

B/Day 8/11/91.

MERVYN HARRIS

THE 45-million shares offered by Anglo American in mining house Gencor on tender todayfailed to make a dent in Gencor's price on the JSE yesterday

The shares comprise the 5,3% stake held in the mining house by Anglo American, which is offloading them on the market to raise about R600m for capital projects such as the Columbus steel venture (232)

Some dealers expected Gencor shares to come under pressure on the sale of such a relatively large holding. Instead, the shares rose 5,3% or 65c to close at R12,90, with more than 149 000 shares worth R1,9m changing hands in 50 deals

The rise of the shares was partly attributed to market talk that most of the holding could be bought for state pension funds by the Public Investment Commissioners

COMPANIES

Curbs on unit trusts to ease

SEAN VAN ZYL

LEGISLATIVE changes allowing unit trusts to increase holdings of blue chip shares could add price pressures to an already overheated JSE. (232)

A statement released by the Unit Trust Association (UTA) said amendments to the Unit Trust Control Act, to be promulgated soon in the Government Gazette, would allow unit trusts to increase their stake in any one share from the existing 5% limit to 10% of their total portfolio.

The proposed changes would also allow unit trusts to hold up to 10% of a company's issued share capital

Unit Trust Advisory Committee chairman Piet Badenhorst said the decision to increase the investment had been taken earlier this week The proposed amendments would be gazetted as soon as government approval was given He was confident the changes would not be opposed

Market-watchers expected the easingof the investment restrictions to boost institutional demand for equities, pushing up share prices BIDay 8/11/91

UTA chairman Clive Turner said the increased equity holding applied only to listed companies with a market capitalisation exceeding R2bn As a result, portfolio managers making use of the increased investment guidelines would be restricted to only 61 top shares at present market rates, or 7% of total listings

Cheerful news for trust managers

(232)

Star 9/11/91.

By Derek Tommey

A large number of second-rate shares could soon disappear from the portfolios of unit trusts because of a coming amendment to the Unit Trusts Control Act.

It will allow unit trusts to increase the proportion of their assets invested in one company from five to 10 percent where the company has a market capitalisation of more than R2 billion

Unit trusts have been trying to get the five percent provision changed for some time because it has severely limited their ability to invest in the larger and, in recent times, more profitable and more growth-oriented companies.

Clive Turner, chairman of the Association of Unit Trusts, says "Changing circumstances have brought about changes in the composition of companies in the marketplace

"There is now a need to differentiate, for the purpose of quantifying investment limitations, between companies with small and large market capitalisations

"The five percent rule meant that each fund effectively had to contain a minimum of 25 counters and in all probability 30 counters to comply with the provision."

Mr Turner does not support the contention of some analysts over the years that there were really only 12 top-class companies on the JSE

But he does say "Empirical evidence has shown that an investment portfolio need contain only 12 stocks to diversify itself against a specific risk in one counter," suggesting that the analysts are not all that wrong

Also expected to be changed is the provision preventing a unit trust from holding more than five percent of any company's shares

It now will be able to own up to 10 percent where the market capitalisation is more than R2 billion

State pensions will not push up share prices, says Jacobs

Star 7/11/91 (232)

By Derek Tommey

The proposed purchase of ordinary shares by the extremely wealthy state pension funds (total assets of R47billion) will not trigger a stock market boom

This was made clear yesterday by Dr Japie Jacobs, special economic adviser to the Minister of Finance and one of the Public Investment Commissioners (PIC) responsible for investing the funds

He said the PIC would not chase shares and push up prices

The PIC was still deciding on the investment strategy the state pension funds should follow

But Dr Jacobs said the transaction with the Industrial Development Corporation last week, in which the PIC paid R1 billion for a 10 percent stake in Sasol, could be the model they would follow

He said it was an interesting deal as everyone won

The PIC had obtained a substantial stake in Sasol at a market-related price, the IDC receiving the market price for its shares, while Sasol's other shareholders did not have to worry about the price of their shares being depressed by a heavy market overhang of Sasol shares

Dr Jacobs said it was possible that the PIC would buy more shares from the IDC in the years ahead

The IDC wants to raise R10 billion from the sale of shares from its portfolio in the next six years

The IDC still had a 20 percent stake in Sasol, but the PIC's present 10 percent was probably enough for the state pension funds, Dr Jacobs said

The PIC would not have to sell government stock to raise funds for equity investment It had been building up its cash holdings since the beginning of 1990, said Dr Jcobs

According to the latest Reserve Bank bulletin, these rose from R490 million at the end of 1989 to R3,1 billion at the end of 1990

Analysts are speculating on whether there is any connection between the PIC's direct purchase of Sasol shares and the decision by Anglo American to raise R650 million through the sale by tender of its 5,3 percent interest in Gencor and a two percent stake in First National Bank

Whoever takes up the Gencor shares will have to be flush with cash as they will also have to follow Gencor's R2 billion rights issue early next year So it seems to be a deal tailor-made for the PIC

JSE to move into gilts to assist brokers

BRENT VON MELVILLE

232

THE JSE is attempting to alleviate broking firms' difficulties by selling equities from its Guarantee Fund and replacing them with gilts

The fund, currently at about R70m, has been attracting return on equities of about 4% while the move into gilts, which currently return 17%, would show a yield differential of about 13% amounting to a yearly return of about R9m

It is understood that the decision was taken at the meeting of the JSE executive committee on Tuesday

Last week the exchange cut the costs of clearing house charges by 15% to help hard-pressed brokers who are struggling with low volumes

The purpose of the fund is to help in case of defaults by stockbroking firms.

JSE rules governing the fund provide that fund trustees may apply the income arising from the assets of the fund inter alia for strengthening the financial resources of the JSE

In the last financial year the JSE used R1,7m of the fund to cover the year-end deficit and help balance the books

JSE committee chairman Humphrey Borkum refused any comment on the transfer last night

JSE appoints Andersen as executive president

(232)

B Day 6/11/91.

MERVYN HARRIS

THE JSE has confirmed the appointment of Ernst & Young executive chairman Roy Andersen to succeed Tony Norton as executive president.

Speaking to Business Day from Hong Kong last night, Andersen said. "I am excited about taking up the position as I believe the JSE has an important role to play as we move into the new SA

"There are tremendous challenges ahead but I thrive on challenges and there will be opportunities to make the stock exchange relevant to all sectors of the population

"I have some ideas of what I would like to do and have done a fair amount of background work. But I have a lot to learn and it would be presumptious of me to say much more at this stage

"I only start work in March and I am looking forward to working with Tony Norton before his departure I would like to see an open relationship with the Press but I first need to understand the issues which will confront me," he added

Andersen is to take up the position at the beginning of March 1992 so there will be a two-month overlap with Norton who leaves at the end of April, the JSE and Ernst & Young said in a joint statement yesterday

JSE chairman Humphrey Borkum said Andersen's strength in strategic management made him well qualified for the position "We are delighted to have attracted a candidate of Roy Andersen's calibre"

Borkum added "In making this appointment, the JSE would like to stress that it believes the decision taken seven years ago to appoint an executive president was the correct one

"Thanks to the able leadership of Tony Norton, the position has been successfully established Andersen's proven leadership capabilities equip him well for the task ahead"

Another JSE member, who did not wish to be named, expressed dismay that details of the appointment had been leaked to the media before members were informed

Market talk yesterday was that Andersen's package would be in the region of R600 000 a year

Andersen, 43, who qualified as a CA in 1972, has been with the firm for 25 years in SA and the US, and was chairman and CE of Ernst & Whinney in SA at the time of the merger

Ernst & Young deputy chairman Tom Wixley said "We knew when we appointed an executive chairman of such a young age that the appeal of challenges beyond the firm was inevitable. Therefore our emphasis has been on building a strong team to support Roy Andersen."

He said that under Andersen's leadership, the firm had experienced significant growth and Ernst & Young had emerged from the merger as one of Southern Africa's largest accounting firms, with 186 partners and over 1 800 staff.

Andersen's successor at Ernst & Young will be voted by the partnership. An announcement will be made shortly

Born in May 1948, Andersen attended Wits University and was awarded prizes as the top student in two of five academic years. After completing articles with Ernst & Whinney in Johannesburg, he was transferred to the firm's Dallas office until 1975.

His promotion in the firm was rapid on his return to SA and in 1988 he was elected senior partner and CE of Ernst & Whinney at the age of 39, and later executive chairman of the merged group.

Andersen is married with three children

Bomb blast damages dam

JONATHON REES

A BOMB blast which damaged a dam wall near Schweizer-Reneke on Monday could be linked to the recent suspension of water supplies to nearby Ipalageng township for non-payment of bills, western Transvaal police said yesterday B Day 6/11/91

An arson docket has been opened following the pre-dawn explosion which blew an 18cm by 10cm hole in the dam wall, but did not penetrate the concrete

It has not yet been established what kind of explosive device was used in attempts to destroy the 10-million-litre dam There have been no arrests

Maggie Mines goes under with debts of nearly R12m

SUSAN RUSSELL

A COAL mining company which owes its creditors almost R12m was placed under final liquidation in the Rand Supreme Court yesterday B Day 6/11/91

The order winding up Maggie Mines Pty Ltd was granted by Mr Justice D van Zyl following an application by Pied Piper Investments Pty Ltd, a shareholder in ~~the~~ mining company

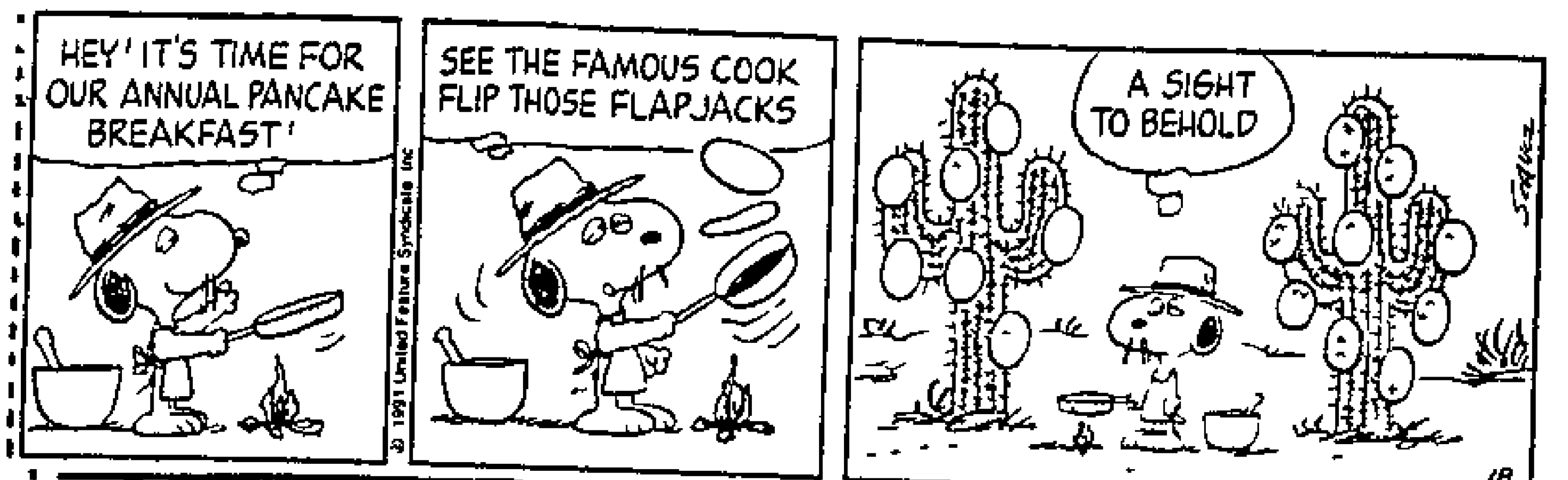
Pied Piper's sole director David Wassung, who is also a director of Basil Read Civil Engineering Pty Ltd, said Maggie Mines owed R2,6m to Basil Read

He said the mine's accountant had informed him in June that the company had financial and cash flow difficulties because sales of its processed coal had not materialised.

The company's books and financial statements as at May 31 showed Maggie Mines had liabilities of R11,9m and assets of about R3,9m

(232)

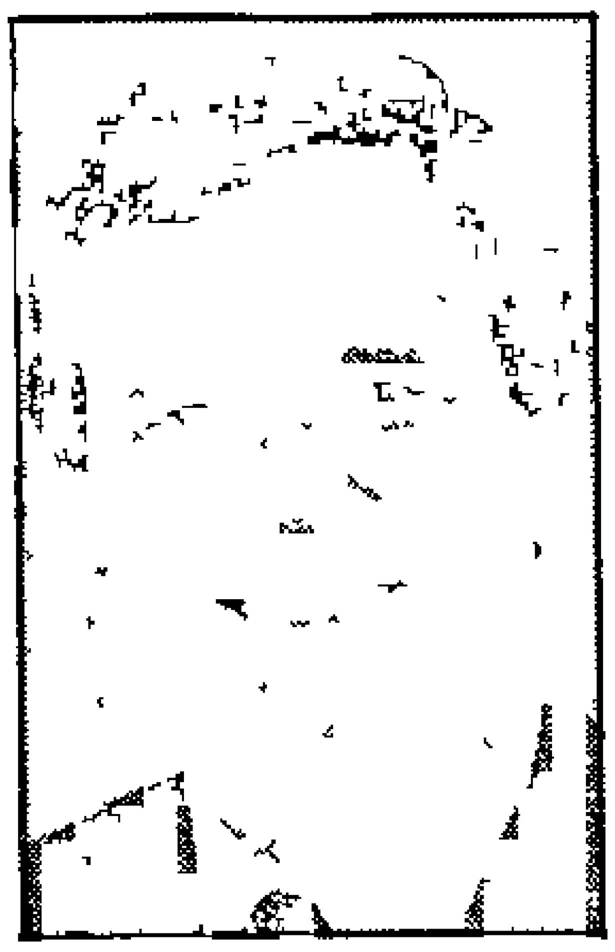
PEANUTS By Charles Schulz



Selling people on the stock exchange

Star 7/11/91 (232)

As South Africa enters a new political era, the role of the Johannesburg Stock Exchange is set to undergo a number of dramatic changes. Newly appointed JSE president Roy Andersen (right) discusses his views on the future of the market with SVEN LÜNSCHE.



STOCK markets are the key part of the free market system in all the Western countries

In South Africa this function has been fulfilled by the Johannesburg Stock Exchange for over a century, but the changing political environment has raised renewed questions about its relevance to the black population

The daunting task of making the JSE accessible to more than the so-called "white business establishment" will fall on Roy Andersen, the executive chairman of accounting firm Ernst & Young and newly appointed executive president of the JSE

Mr Andersen will succeed current president Tony Norton in March next year, but will have two months to work with Mr Norton, who leaves at the end of April.

"I will certainly have to gain a lot of hands-on experience from Mr Norton during the two months," Mr Andersen said from Hong Kong yesterday, where he is attending a meeting of the international Ernst & Young group.

But he is fully aware of the extent of the challenge he will be facing

The JSE has been attacked recently by both trade unions and the extra-parliamentary groupings for being an elitist club of the white establishment, which has little relevance to the lives of black people.

Mr Andersen stresses that he is not a "political animal", but he sees it as his task to make the JSE relevant to all sectors of the community.

"But the task of promoting the JSE falls within the wider spectrum of promoting the free market as the only system that allows the economy to grow strongly and efficiently

"It will be one of my major tasks to communicate this with all the relevant parties once I take office," Mr Andersen says

He also plans to make the JSE more attractive to international investors, which would allow for greater liquidity in share trading

Trading on the JSE is currently dominated by SA's large financial institutions, and the subsequent lack of liquidity provides little scope for private investors to play a role on the market

Mr Andersen (43) qualified as a chartered accountant in 1972 and had worked for Ernst & Whinney for 25 years in SA and the US, before he led the firm's successful merger with Arthur Young in 1989.

He says the merger has allowed him little time to pursue his hobbies — cars and tennis — or to be with his family

He is married and has two teenage daughters and a five-year-old son

Mr Andersen also had a successful career in the SA Defence Force, culminating in his appointment as senior staff officer of 7 Infantry Division and promotion to brigadier in 1989

He is also chairman of the Council of Military Veterans' Organisations

Mr Norton and his deputy Mike Thompson announced their resignation from the JSE earlier this year amid difficulties surrounding the administration of the enlarged stock market. □

VAT blamed for liquidations

B1 Day 6/11/91 SUSAN RUSSELL 232

THE imposition of VAT was partly responsible for the financial state of four companies in the United Storage Industries (USI) group, leading to their provisional liquidation yesterday, the Rand Supreme Court was told

Access Storage Equipment (Natal) Pty Ltd, Access Storage Equipment Pty Ltd, United Storage Industries Pty Ltd and Conveyall Pty Ltd were provisionally liquidated in terms of an order granted by Mr Justice D van Zyl. Their liabilities exceeded assets by about R1,5m.

The other seven companies in the USI group were provisionally liquidated in September

Financial director of the four companies Derek Fingleson, who submitted an affidavit in support of the application, said liquidation was necessary because the group's bankers had withdrawn all facilities

He said the reasons for the group's financial situation were the general slowdown of the economy and the reluctance of customers to place orders prior to the imposition of VAT

"As a result of the imposition of VAT, customers delayed purchasing material (from the companies) until the tax had been introduced," he said

Fingleson said the companies had been unable to generate sufficient turnover to maintain their cash flow and pay creditors.

PRIVATISATION AND CONSERVATION NOT A HAPPY MIX

PRIVATISATION is not a popular word at the National Parks Board.

Top officials believe neither the parks nor their principal tourist activities should be sold to the highest bidder

While there are no serious suggestions at the moment that the parks be sold off, there is debate about who should run the rest camps, restaurants and curio shops in places like the Kruger Park.

The official objection to privatisation of the parks has been made in recent reports on the future of tourism and is expected to be endorsed in a coming White Paper setting out government policy

The main argument is that conservation, the responsibility of the state and the principal function of the Parks Board, would suffer because privatised parks would concentrate on attracting visitors.

The public, it is said, would also suffer as private parks cater for the affluent.

Then there are fears that private sector buyers would rush for money spinners like the Kruger Park, ignoring smaller, less profitable parks where valuable conservation work is being done

The argument about commercial facilities within the parks has yet to be resolved

The National Parks Board says it should control and benefit from these facilities, and it has been supported in recent reports by the tourist authority Satour, the Department of Trade and Industry and the President's Council.

The dissenting view comes from the Development Bank of Southern Africa, which says all new commercial activities, including the expanded accommodation planned by the Parks Board, should be built and run by the private sector

It dismisses the cross-subsidation argument that Parks Board profits from accommodation, food and curios would reduce the need for state subsidies for conservation.

These profits are an essential part of the National Parks Board's belief that, given expanded capacity to attract more visitors, it can become financially self-sufficient within three years.

Other Parks Board arguments for controlling rest camps are that it would resist the temptation for discos or casinos to increase profits and that the advice of American conservationists is "don't make the mistakes we did"

Officials recount tales of neglected buildings and poor service because the contract is about to expire and the leaseholder either may not intend to renew it or cannot be sure of securing another term

They are quite happy with the term commercialisation, because they say all Parks Board activities are now run on business lines.

But privatisation, parks and conservation are not considered a happy mix at Parks Board headquarters.

The lucky few on a wilderness trail through the Kruger National Park.

Huge demand to hit the wilderness trails

THE Kruger Park can't keep up with the demand for wilderness trails and is not going to try

Too many people on too many trails would spoil the wilderness experience for those who want to spend two days walking in the bush.

Trailing in the Kruger Park started in 1978 and there are now seven of these two-day, three-night adventures, each with two trails a week.

They cover various climatic and vegetation areas from the northern tip of the park to the south all in pristine areas where no vehicles are allowed and entry is on foot only

The trails are so popular that they could be filled eight times over There is little chance of joining one unless you book a year in advance

Nature

Head of wilderness trails in the park Mike Landman says the trails are a nature experience, not a photographic expedition

People on a trail are told not to photograph big or dangerous animals without permission from an accompanying ranger

You'll get better pictures from your car because the animals are used to vehicles, on a trail, anyone who clicks a shutter near a angry animal charging at him.

"The main feature of the trails is not to observe the big and hairies at close range.

Trails make people feel, touch, smell and hear the bush."

The 'big and hairies" do get observed sometimes from closer than Landman would like.

Each group of eight trailers is accompanied by two armed rangers and when there is an unexpected encounter with a large animal in the bush they try for a quick and strategic retreat.

Threatened

They have had to shoot 16 times in 13 years mainly buffalo and hippo which threatened trailers.

The focus, however, is not on large animals

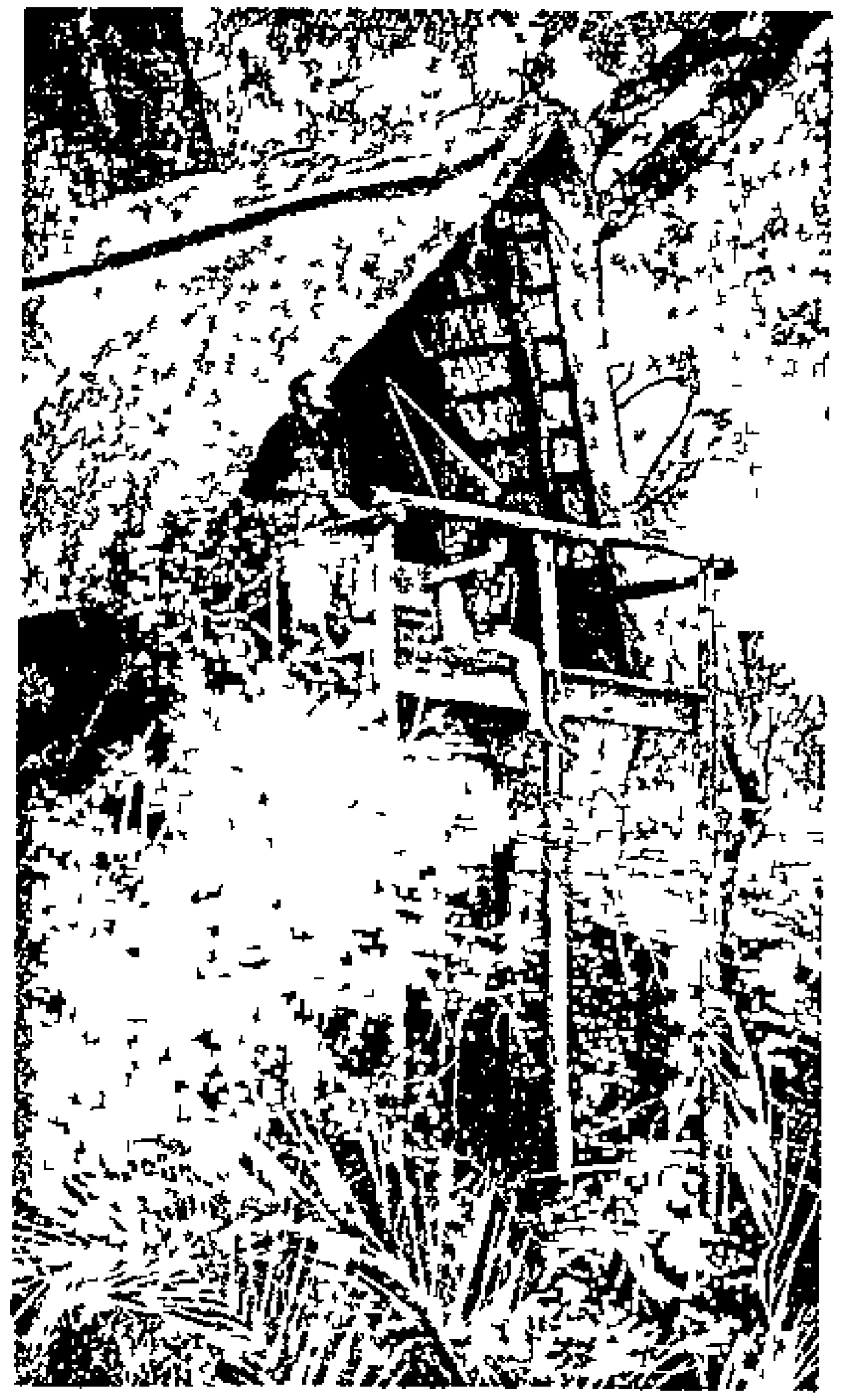
Each trail takes eight people and they are often booked by one group

There are no set paths to get to the night's rest camp, so the trails go where weather and the inclinations of the group take them.

If we have a group of birders, we will stick close to the riverine habitat.

Rangers spend a lot of time explaining what people are seeing.

Trailers learn about the feeding habits of various animals and find themselves examining rhino



A hut on the new Napi wilderness trail.

or a black rhino

"We can spend hours talking about dung beetles looking at termite nests or discussing the park's birds

says

It's the type of experience that has attracted 40 000 people and is one of the Kruger Park's most

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Trailers learn about the feeding habits of various animals and find themselves examining rhino dung to see if it was a white or a black rhino.

"We can spend hours talking about dung beetles, looking at termite nests or discussing the park's birds and reptiles," Landman says.

It's the type of experience that has attracted 40 000 people and is one of the Kruger Park's most popular features

A hut on the new Napi wilderness trail.

Whose trail are we on?

Computerised phones keep callers happy

THE days when prospective visitors to the national parks couldn't get through the Parks Board's reservations section are over

Thousands of calls are received daily in busy periods before February this year the reservations exchange was unable to handle the demand.

An organisation striving to become more customer-friendly found it was alienating people before they made contact.

The few who got through were angry and aggressive, but the majority would hang up in frustration and disgust The letters of complaint flooded in.

Not any more

A computerised telephone system fields all incoming calls, putting people on hold and connecting them with the first of up to 20 booking staff who is free

Senior reservations officer Ruth Manuels is delighted at the change, which has improved the efficiency of her staff and relations with the public

Computer monitors enable senior staff to watch the flow of calls and see where delays or difficulties may be

Inquiries

Many calls are inquiries, and some people who want a reservation don't know where they want to go, or even when

Despite these delays, most calls are handled in about three minutes — efficiently and to the satisfaction of callers

Other improvements to the reservations system are now being considered as the Parks Board reminds itself it is a service organisation

BARLOW RAND FM 15|11|91 (232)

A pleasant surprise in the second half

There are marked similarities between the year-end results of Barlow Rand, released this week, and Malbak, reviewed two weeks ago Both saw significant second-half profitability improvements

Of the two, the stronger performance was from Malbak, which achieved an 18% improvement in EPS during the second half of its year to end-August against a first-half gain of 1% At Barlow, on the other hand, second-half earnings level-pegged at 244c after a first-half decline of 14%, reducing the shortfall for the year to 7%

The difference in performance underscores a point of major importance in any interpretation of Barlow's results that a far greater proportion of earnings is derived from activities which depend on infrastructural spending, compared with Malbak's more consumer-orientated portfolio

This dichotomy is evident in Barlow's own results For instance, C G Smith's year-end earnings were up 9% The industrial division specifically mentions firm demand for consumer products (benefiting Barcep in particular), while there was a marked slowdown in capital goods markets (which hit, among others, earthmoving equipment, steel merchanting and building materials)

Indirectly, this brings us to the next point, the extent to which the group has suffered over the past two years from Middelburg Steel (MS&A) and its related ferrochrome interests, now in the process of being sold

While MS&A's results last year were better than expected, ending with a small profit after losing R17m at the halfway stage, this does not alter the fact that since 1989 (when Barlow's earnings peaked at 544c), its contribution to group earnings has declined by well over R200m

This exceeded the overall decline in group attributable earnings from 1989's R1bn to R806m last year, from which it is apparent that the rest of the group in aggregate has achieved a relatively steady performance despite the progressive tightening of the business environment

Contributing to this has been intensified asset management and the benefits of this will be seen when the balance sheet is published Chairman and CE Warren Clewlow says gearing is down even before allowing for the R1,1bn to be received from the sale of MS&A and chrome mining operations

Barlow Rand's Clewlow *will want higher dividend cover*

Something else that will contribute to strengthening the balance sheet is Barlow's decision to jump on the scrip dividend bandwagon, by offering shareholders the opportunity of taking up additional shares instead of the 119c cash final dividend The new shares are being issued at R48, giving a ratio of 2,47917 for every 100 shares held

A novel aspect is that shareholders are protected from any abnormal decline in Barlow's share price, virtually until registration date, by the group reserving the right, in such an event, to adjust the issue price downwards There will, however, be no corresponding adjustment to reflect any increase in the share price

With this safeguard, the offer is attractive At the current share price of R52, the ex-div value of the scrip alternative is 126c and increases the effective dividend total for accepting shareholders to 177c, from the 170c that shareholders taking cash will receive

No indication has been given at this stage as to the current year's prospects But after the sale of MS&A and the resolution of Rand Mines' problems, Clewlow believes the group is clean and operating as well as it can in present circumstances

EPS should reflect the productive employment of the R1,1bn from MS&A This alone could be worth at least an extra 50c a share On the face of it, therefore, 500c does not seem an unrealistic target If this is achieved, the group will have recovered more than half of the cumulative decline since earnings peaked at 544c in 1989

Depending on the outlook for 1993, this would probably warrant an increase in distribution, though it should be noted that by maintaining the payout in the face of lower earnings in the past two years, cover has slipped to 2,5 times It can be assumed that rebuilding cover to the favoured level of three will be among management's objectives so dividend growth may lag earnings until this is achieved *Brian Thompson*

LIMITED DROP

Year to September	1989	1990	1991
Turnover (Rm)	21 179	29 119	31 994
Operating profit (Rm)	2 705	2 471	2 569
Attrib earnings (Rm)	1 001	855	806
EPS (c)	544	462	431
Dividends (c)	170	170	170

NEDCOR FM 15|11|91

In from the cold

Looking at the Nineties-style Nedcor, whose operating and financial ratios match up to — and in some cases beat — those of its major competitors, it's hard to remember that this was the group so entangled in the debt standstill in 1985 that it had, in effect, to be bailed out by Old Mutual Three years later, Nedcor mounted a quasi-rescue of its own (though many would no doubt dispute the term) when it "merged" with the SA Perm

But in the long run, Mutual has no reason to regret the money it pumped into the rights issue 3½ years ago, at 630c a share — less than half the current R14,65 And it's the traditional banking interests that have made the running, with Nedbank, Nedfin and the Nedcor banking division kicking in R220m, or over 60%, of the latest R344m net profit Net profit of the Perm was barely changed, at R63m (R65m)

The sale of MIBSA affects some of the comparative figures, but as its net profit contribution in 1990 was only R3m, it does not really alter the overall picture

There are several features in the accounts. First, perhaps, is the impact of a relatively modest shift in interest margins on profitability For while interest received, up 16% (with contributions from both higher rates and larger books), rose only slightly more than the 15% increase in interest paid, the result was a 21% gain in net interest income

Then, "other" income (largely fees and commissions) grew a similar amount CE Chris Liebenberg finds this particularly pleasing, as such business generally carries no capital requirements and is also a better hedge against inflation He would like to see this trend extended and also a greater investment in inflation-hedge instruments

Cont →

STILL ADVANCING

Year to Sep	1989	1990	1991
Deposits (Rbn)	24,4	28,9	35,4
Advances (Rbn)	20,2	24,4	30,8
Net income (Rm)	257	287	344
EPS (c)	138	154	185
Divs (c)	46	51	57

Select few benefit from JSE surge

Star 15/11/91

By Ann Crotty (232)

Institutional investors were taking a breather yesterday, apparently allowing themselves to recover from the hectic scramble for blue-chip industrial shares that became frantic on Wednesday

But dealers were not interpreting yesterday's more restrained activity as the beginnings of a correction

More sedate

They believe that there is still more strong buying to come from the institutions between now and Christmas — although possibly at a more sedate pace

Since October '90 the industrial index has surged 68 percent (not 40 percent as incorrectly reported yesterday), with mounting institutional cash flow chasing a limited number of appropriate equity investments

This trend has been heightened by the lack of attraction of the gold board over the same period

The beneficiaries of this chase have been a limited number of large industrial conglomerates and financial/insurance giants

These are generally the counters that make up the index

Second-liners and smaller counters are being ignored in the rush

This means that it is becoming increasingly difficult for medium and small companies to reap much benefit from a listing in the short-to-medium term in so far as getting access to cheaper sources of capital is concerned

Unfortunately, this is occurring at a time when banks appear to be reluctant to lend to anyone but triple A corporate clients because of the high-risk trading environment

Interest costs

The triple A status depends not so much on current operating performance, but more on size, group affiliations and age as a blue chip

It is these triple A companies that are seeing their share prices move to dizzy levels

Falling outside this status means that management often faces proportionately higher interest costs and greater pressure to control gearing

So investment patterns on the JSE are reinforcing the difficulty and expense of getting funds necessary to support growth in the not-so-large companies

Many of the Gencor-related blue chips are using the current strong sentiment to have rights issues and take the strain off the balance sheet

Malbak is an extreme example After its R440 million rights issue it will have no debt on its balance sheet

Even Sappi, which is enduring very uncomfortable trading conditions, looks as though it will be able to get attractive funding from a market that is mesmerised by blue-chip status

Analysts believe that SAB is among a number of other top blue chips that may soon come to the market to take advantage of the current sentiment

Barlows clams up on losses in Zaire

S Times (Buss) 17/11/91

(232)

By JULIE WALKER

BARLOW RAND directors believe the group's figures should have pleasantly surprised both shareholders and analysts.

Chairman and chief executive Warren Clewlow and vice-chairman Derek Cooper replied to questions at a sparsely attended news conference this week.

Reporters who could not substantiate their speculation about the company's Zairean losses other than to say they were the estimates of analysts were put in their places by the pair

One estimate of the loss was published at R20-million Mr Clewlow made it plain that was not the kind of speculation the group approved of

Acceptable, however, is when Barlows' actual earnings a share are not down by as much as these self-same analysts speculated The news releases almost gloated on this point

Shareholders are not entitled to be told the extent of the Zairean losses No comment was offered, but the setback of the looting and pillaging — probably R25-million — in the central African country is not only a financial one

The amount is trifling in the greater order of the Barlows group where pre-tax profit was almost R2,2-billion Yet it seems high-handed that Barlows management should keep it a secret from its very owners

Cash

The group's turnover of R32-billion was a tenth more than in the year to September 1990 and taxed profit edged up 1% to R1,5-billion

More attributable to outside and preference shareholders and a higher number of shares in issue meant a 7% reduction in earnings a share to 431c The dividend was maintained at 170c, with paper offered as an alternative to a final cash payout of 119c

Below the line came an extraordinary write-off of R433-million arising from goodwill, losses on disposals of properties and shares in subsidiaries, namely Rand Mines' Barplats

Also included in the extraordinary items is the profit arising from the sale of Middelburg Steel & Alloys, which broke even in its final year with Barlows after last year's heavy losses.

Mr Cooper does not think it necessary to try to unlock the potential in Rand Mines, whose principal investment now is Witbank Colls.

The value of Wit Colls fully covers the Rand Mines share price, but if unbundling is taken to its logical limit and Barlows dished out all its holdings to members, there would be no cause for the beautiful Barlow Park and all who sail in her

Mr Cooper says it has never been proved that such unbundling is advantageous. Barlows has bought out minorities in recent years, the opposite of unbundling

Telemetrix scores on cheap labour

(232)

S/Times (Buss) 17/11/91.

DIAGONAL STREET by Julie Walker

LABOUR at a cost of only 27 American cents an hour in China is a plus for Telemetrix — holding company of Altron's foreign interests

Members of Altron have been offered 270 Telemetrix shares for every 100 Altron held for 140c each Altron will retain 7% and pass on 51,2-million Telemetrix plc shares to its own members

Its major shareholder, Ventron, is also passing on its rights to Telemetrix for free

Altron's current debt will be reduced by R100-million the rights offer is underwritten by executive chairman Bill Venter

Trade in the nil-paid letters of Telemetrix began November 8 on the JSE and the price has ranged between 15c and 30c in low volumes

Altron deputy chairman and Telemetrix director Charles Stride gave a presentation on Telemetrix this week

Altron bought control of the ailing London-listed company through a subscription issue in 1988.

The pre-listing statement says its principal activities are the manufacture and sale of specialised electronics products in Europe, America, Africa and the Far East It has a production capability in component and information systems, graphics, image processing, inter-networking and related services

CHARLES STRIDE Plenty of job-takers Picture DAVID SANDISON

The group structure houses four divisions — Communication & Data Systems, Zimbabwe companies, Components and 65%-held GTI

GTI is by far the backbone of the group through its 90%-owned subsidiary Valor

Since Altron's involvement, Telemetrix has acquired graphics cards company Rasterex in Norway

It also set up Zetex, which bought the semiconductor manufacturing businesses formerly owned by Ferranti then Plessey Zetex plc is 90% owned

Telemetrix bought communications and network specialist the Trend Group

It also bought control of American-listed GTI, which at the same time bought Esco, a distributor of electronic components, and later 90% of Valor

Valor develops, makes and distributes a range of signal processing devices based primarily on magnetics technology and power supplies used in local area network products

GTI's head office is in San Diego, but not its factories Five in China employ 2 600

Mr Stride says there is no shortage of people wanting jobs even for a low wage GTI first sub-contracted into China before engaging in its own operations

It will adopt a similar policy in the Philippines — the next area for expansion — because of the low cost and endless supply of labour there

In the year to December 1990, Telemetrix turned over £69-million and made £2-million before an extraordinary loss of £668 000 Earnings a share were 2,4p

The current UK share price is 27p, giving a price-earnings ratio of 11,3 In the six months to June, it made 1p a share

Mr Stride gave a rundown of the net asset value of Telemetrix At 27p a share the market capitalisation is £23,1-million But Telemetrix's stake in GTI alone is worth £27,5-million

He says Telemetrix shares are being sold to Altron members at a discount of 25% to net worth

Mr Stride says long-term borrowings in Telemetrix are £7,5-million, but about £5-million should be realised from the sale of a valuable property in Tewkesbury which is no longer required by the group

He told one analyst that gearing was 80% when measured by borrowings against tangible assets But goodwill was written off as incurred, so the 80% was not an accurate reflection of the debt to equity ratio

Mr Stride says research and development costs are also written off against profit in the year incurred

Net asset value a Telemetrix share at the end of 1990 before goodwill written off was 31,4p, but only 13,3p afterwards

Mr Stride believes that Telemetrix has good long-term growth opportunities He is optimistic about its future with new products and services

It hardly looks like setting the JSE alight, but it is certainly being floated at a time when the booming market is receptive

Telkom's R2bn seeks a new home

JSE rockets on State pensions

S/Times (Buss) 17/11/91. (232)

THE entry of State pension funds to the equity market is a major cause of the recent surge in industrial share prices, say stockbrokers.

The pension fund of commercialised State corporation Telkom has R2-billion of fixed-interest securities and cash for investment in equities The money has been divided into four equal parts to be managed on the fund's behalf in separate portfolios by Sanlam, Old Mutual, Momentum Life and UAL.

By CURT VON KEYSERLINGK

These institutions also have access to members' contributions to the fund of R400-million a year

The pension fund for the commercialised SA Post Office has made a smaller amount available for management in similar fashion to Sanlam, Old Mutual and Standard Merchant Bank.

SA Post Office and Telkom decline to confirm these details as do the institutions involved They will not say if any money from the pension funds has flowed into the market

But some stockbrokers confirm that they have handled large institutional orders in the past two weeks They can only presume the money is from the pension funds

Sharply

Sanlam senior general manager Ronnie Masson says "Even if no shares have yet been bought on behalf of these funds, the market knows the money is there There has been buying in anticipation by others who realise that this new demand for scrip will underpin prices"

The industrial index began rising sharply in mid-October — about two weeks before the new portfolio managers took over

Stockbrokers say it is unlikely that more than a fraction of the total amount available has been converted into shares through the JSE

A senior executive at one of the institutions says there is good reason to hold on to some gilts in his portfolio

There is also good reason to believe that some of the funds will buy part of the 45-million Gencor shares and 2-million First National shares recently put up for tender by Anglo American These transactions will not be made through the JSE

The tender invitation was oversubscribed and UAL Merchant Bank, which advised Anglo on the offer, says the shares have been allocated to "a wide range of institutional and other investors"

Even though the funds have acquired relatively few shares through the JSE, the deals have been enough to start the latest bull run, say brokers

They say many shares are tightly held and even a small increase in demand for scrip by a new player on the market can have a disporportionate effect on prices

This is a reason why blue chips have fared so well

"When you are starting a big portfolio from scratch you have lots of cash and no shares which means you must go for the big ones," says a broker

"Besides, you would be criticised if you did not build up a core of blue chips in the new portfolio"

The peaks reached by the industrial index have aroused new fears that the market is overpriced

"The market is extremely expensive and very near the top," says AFC Investment analyst Cathy Pott

She believes technical conditions in the Japanese market and the Soviet Union's debt problems could impact severely on share prices abroad That could depress the JSE

She says that for the past 26 years there has been a correlation of 0,97 between JSE industrial indices and the Dow Jones, but the figure has fallen to 0,90 for the past 16 months

A gap is opening between the two (see graph) If the Dow falls, downward pressure on the JSE index will be extreme

Syfrets portfolio manager Tony Gibson also believes prices are high and that a fall in the Dow would make itself felt here

But fears of inflation and huge cash flows to the institutions, which have nowhere else to go, are a positive factor

He says the share-price boom is not being driven by investments from the small man but by the institutions If and when a crack comes, it will not be as bad as in 1969

Bricks

"Political uncertainty is another factor keeping share prices high," says the investment manager of an institution

"Companies and individuals are reluctant to invest in bricks and mortar and prefer to hold cash and near-cash To them equities are near-cash because they can get their money at short notice

"The present high share prices are not a sign of confidence in SA's future but the reverse"

A more positive view of the industrial index comes from Southern Life managing director Jan Calitz

At this month's Financial Mail investment conference he showed how the industrial index had always bottomed and then started to climb before the start of each economic upturn (see graph)

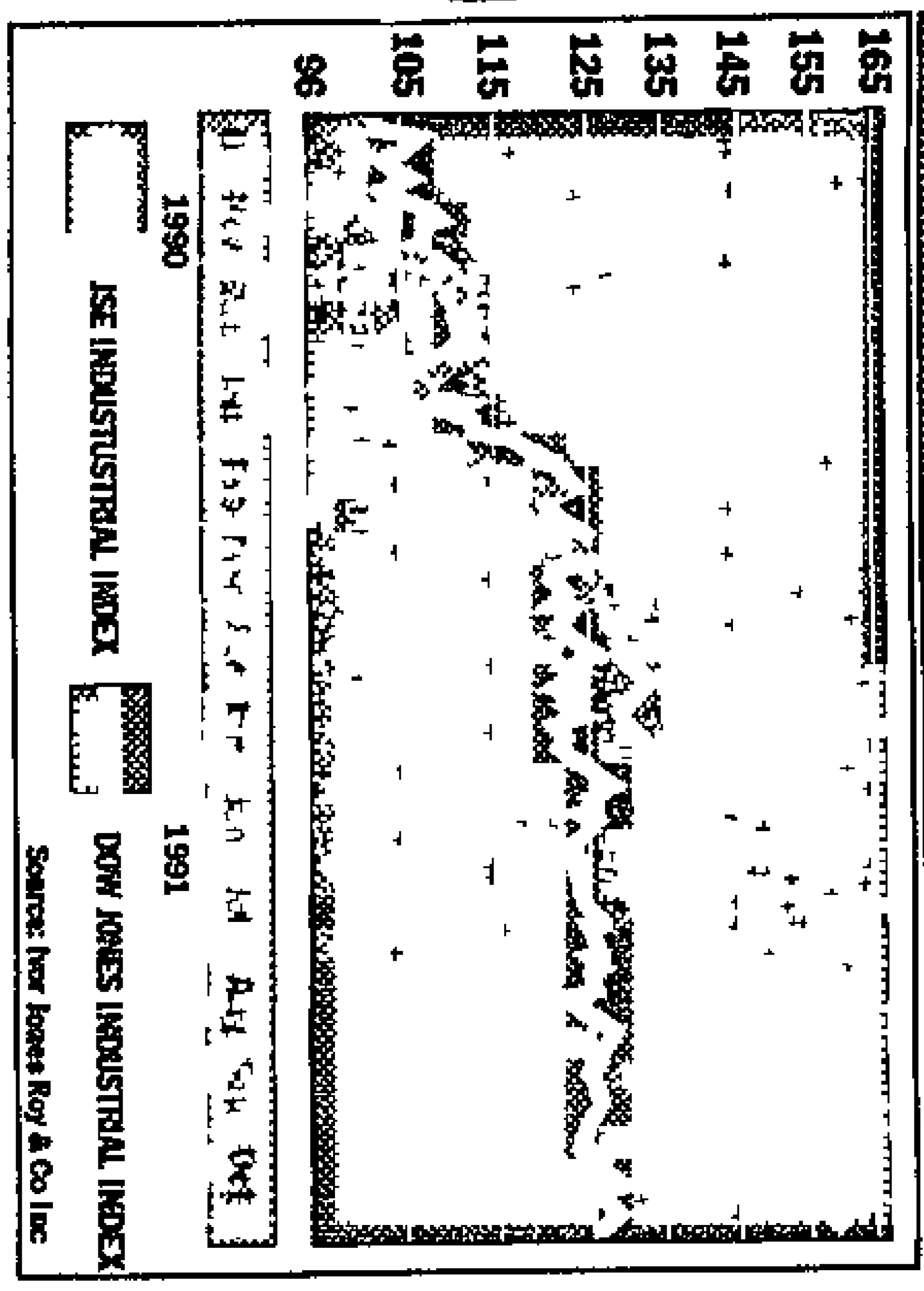
The growth in the index continued well into each economic upturn

He says that if the view is accepted that the next upturn will begin next year, the chances are good that the index will rise to between 4 600 and 4 800

But with a current level of 4 333 this peak is uncomfortably close

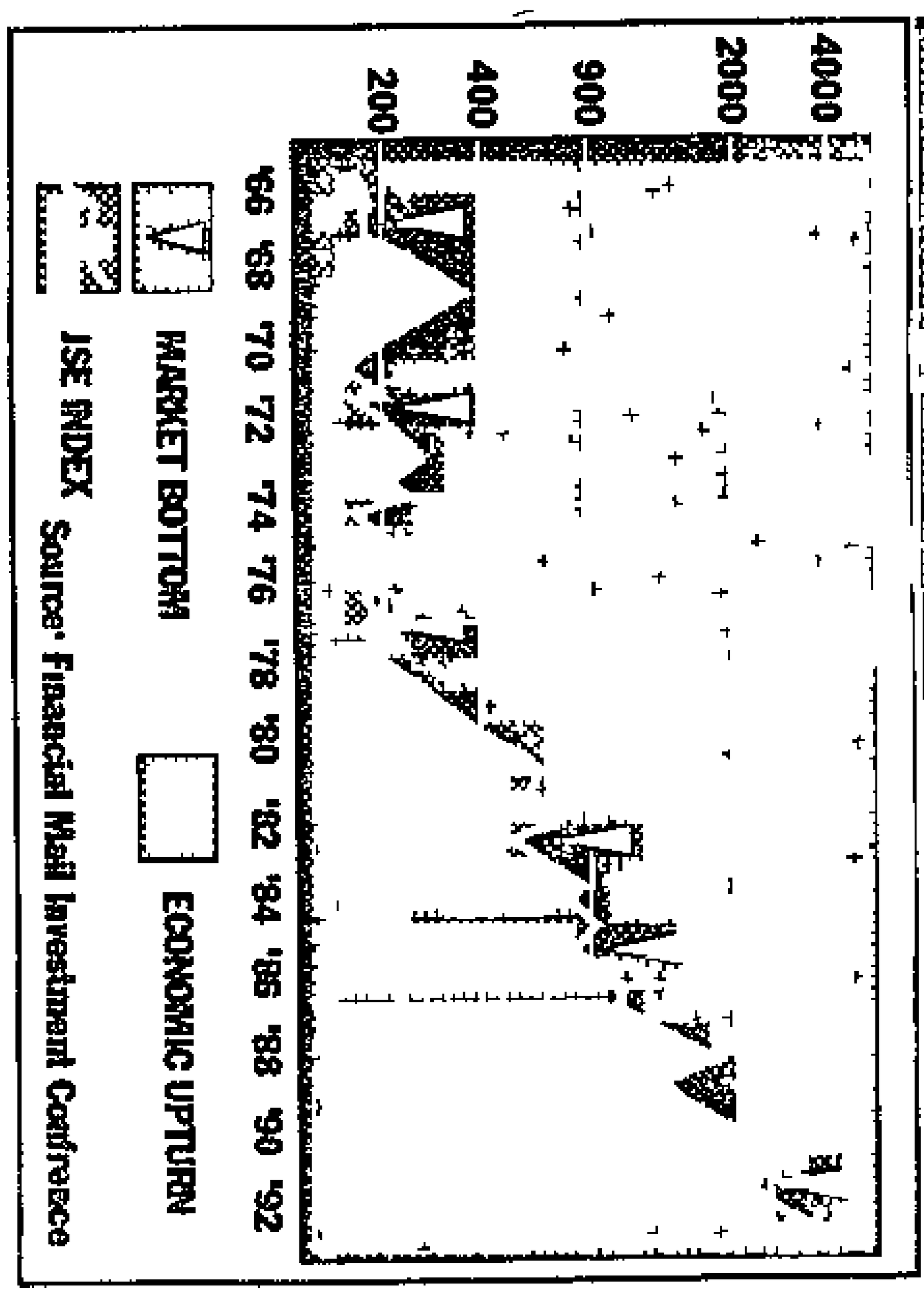
GLOOM SCENARIO

INDUSTRIAL INDEX



... AND BOOM

JSE INDUSTRIAL INDEX



COMPANIES

Broker: equities look bullish

LINDA ENSOR

CAPE TOWN — The political transition in SA lends support to a bull trend in the local equity market, stockbroker Simpson McKie believes (232)

In its latest market view, Simpson McKie says transition implies increased intervention in the search for an economic accord. Such intervention must favour job creation B/Day 18/11/91

And as quasi-interim government arrangements evolve, so will reconstruction of social infrastructure begin Increasing doses of fiscal, monetary and exchange rate stimuli are probable if the world economic recovery proves tardy

In summary, the report says the medium- to long-term macro fundamentals remain strongly supportive of a continuing bull trend in local equities

With these factors in mind, Simpson McKie says the transition favours real assets while the uncertainties in the prevailing situation favour a strong rand hedge component in share portfolios For the less pessimistic, an increased exposure to cyclical and capital goods-related industrials is recommended

On the international equity market Simpson McKie sees some short-term vulnerability, with positive trends emerging in the longer term

A 0,3% drop in gross domestic product is forecast for this year, increasing 1,7% in 1992 The gold price is expected to average $360 this year and $370 next year and the rand-dollar exchange rate to weaken from R2,76 this year to R3,10 next year

Simpson McKie recommends an equity portfolio weighted as follows primary rand hedge 24%; industrial conglomerates 16%, mining finance 15%, consumer stock 11%, precious metals 8%, financials 8%; chemicals 7%, primary export 7% and capital goods 4%

New era requires a narrower focus for SA conglomerates

B/Day 18/11/91

MIKE PERRY

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IN THE past, mergers and acquisitions have been driven by the acquisitive nature of corporate SA and the desire to improve share prices. In the closed economy of the sanctions era, they were fuelled by the wave of disinvestment. As we move into the new SA, and towards a more open economy, corporate SA will have to make critically important investment and disinvestment decisions.

SA businesses are now having to measure up to global competition both at home and abroad. The implication for businesses is that, at minimum, they have to become regionally strong in their market or industry; at best global players.

The likelihood of successfully becoming global players will be limited to the few businesses which have declared their intentions and started to move. The remainder will be forced to concentrate on regional dominance and strengths in their industries over the next few years.

In global terms, SA businesses start from a weak position for achieving regional dominance. This can be attributed to several factors:

- The economy was characterised by low growth in the 1980s which led to over-capacity in many industries,
- Businesses have experienced low rates of investment, generally resulting in non-competitive plant,
- The absence of global competition has allowed business inefficiencies to continue, and
- A "kindergarten view" of competition has prevailed, in which a few major corporations, each with a business in the same industry, have indulged in cut-throat local competition rather than restructuring for the regional or global market.

In recent history, the SA business scenario has been characterised by the withdrawal of multinational corporations, usually on the basis of poor economic performance combined with politics. This created opportunities for management buyouts and acquisitions for corporate SA. Now that the rules of the game have changed, many foreign businesses are investigating opportunities in the South and southern African markets. This increase in global competition provides a fearful incentive for most SA industries to conduct careful self-examination and restructuring.

The key factor in many industries in the 1990s is going to be the achievement of regional dominance. There are two major reasons for this.

Firstly, the regionally dominant players will be the most attractive partners in each industry for multinational corporations wishing to enter southern African markets. These corporations will, in general, be looking for quick access to markets, rather than product development.

Secondly, where foreign competitors seek to enter the SA market directly, and not by means of an alliance, regionally dominant players must be in a position to either hold their own or frighten off such competitors.

A fragmented industry, including one where the "industry cake" is divided between three or four players (each frequently backed by one of SA's major corporations), enhances the potential for a globally dominant player to enter the market and win major market share in a relatively short space of time. Strong financial support is not a competitive weapon against better products, marketing and technology.

To become a force to be reckoned with, SA businesses are going to have to make substantial new investment in technology and increased and more efficient capacity. Such businesses are going to have to be big enough to afford this technology and capacity, and to use it. In many industries with no clear dominant player, this is not the case.

In general, SA conglomerates are becoming more focused, and are having to conserve the valuable resources of management time and money. This does not necessarily mean putting the brakes on investment, but rather making choices as to which businesses or parts of the portfolio can do greatest justice to management input and capital investment. Those pieces of the portfolio not selected, and which may not be held for strategic reasons, will probably be disposed of, releasing capital and human resources for investment in other parts of the portfolio.

New systems of portfolio analysis which factor in changes peculiar to the new SA environment in order to revalue underlying businesses in conglomerates are now in great demand. Some of the changes are likely to be no-retrenchment clauses, increasing black spending power and newly available technology.

For these reasons, SA businesses are increasingly following their European and North American counterparts in being prepared not only to be sellers of businesses but to be seen as willing sellers. In the 1970s, the major players bought businesses to hold them, and the dominant conglomerates grew larger by acquisition. That businesses can be sold from a position of strength or neutrality, and not necessarily weakness, is a major departure in SA corporate culture, and one of the changes that will be seen in the 90s.

The restructuring of SA corporations and industries will have a major impact on the merger and acquisition business. In the first place, mergers and acquisitions will be viewed from a market point of view, rather than simply a financial one as in the past. Corporations will look to rationalisation of industry players and to changing the nature of competition, rather than merely adding the numbers together. The need to survive will create strategically sensible thinking and the recognition that there are many "win/win" acquisition (and disposal) situations.

Studies will now encompass not only the financial and accounting aspects of the businesses, but a complete strategically orientated business and market feasibility study. Such a study will focus on how the company will win in the new marketplace, and how mergers and rationalisation will fundamentally change the nature of the industry. Traditionally, studies look backward with 20/20 accuracy. The new approach requires clear strategic vision, focused on the future.

The post-acquisition period will now focus increasingly on holding a merged operation together and avoiding losing the skills which give the merger its intended value. In the uncertainty amid past mergers and upheaval, the best employees were the first to leave SA corporations. Corporations will have to change their initial focus from the so-called cost efficiencies in the period immediately following a merger, to holding on to all the assets, especially the human resources and marketplace position which made the merger make sense in the first place.

The next task will be to create substantial industry players which have the strength to fight foreign competitors, frighten them off or attract them into joint ventures, thereby becoming part of a global network which will guarantee success in the regional market.

Corporate SA is thus changing its nature, and will become leaner and meaner in the race for regional dominance. This change is touching all industries, from consumer goods to hi-tech and heavy engineering. No longer is it "un-macho" for SA corporations to trade businesses. It will be a question of assessing where added-value lies, and rationalising and conserving resources for the increased levels of competition of the 1990s.

Mediocre players whose success is based mostly on the unquestioning backing of corporate SA will not have an easy ride in the new SA economy. Their financial stolidity will be outpaced by the superior power of competition and market forces.

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Gencor, FNB tender 'nets Anglo R700m'

B Day 18/11/91

SEAN VAN ZYL and WILLIAM GILFILLAN

ANGLO American's offer last week of Gencor and First National Bank shares by open tender is estimated to have raised about R700m, market sources say

Anglo announced its tender invitation to sell 45-million Gencor shares and 2-million FNB shares at the end of October

The Gencor shares sold represent 3,8% of Gencor's issued share capital and the greater part of Anglo's former 5,3% stake in the mining house The FNB shares constitute 3,4% of the bank's issued shares

UAL Merchant Bank, on behalf of Anglo, said on Friday the tender offer had been oversubscribed Anglo would not disclose the amount raised, but described its Gencor investment as a non-strategic holding

UAL GM Nico van Heerden said the offer had been taken up by institutional investors including stock brokerages and state pension funds He said prices paid covered a "broad range" but were generally very good on the back of strong demand

Anglo said the funds raised would be used for capital development purposes such as the Middleburg Steel & Alloys' Columbus stainless steel project Market sources pegged Anglo's capital commitment for the project at about R400m

Analysts suggested the Anglo group was experiencing cash flow problems and would be reluctant to take up rights in Gencor's R2bn issue expected in January This would further dilute Anglo's holding in the mining house

One analyst said the Anglo group's main cash-generating operations had underperformed over the past year, leaving the group cash-strapped when it had embarked on a number of capital intensive projects The group also faced a number of pending rights issues by companies regarded by Anglo as valuable and "strategic" holdings The analyst said the group might be hard pressed to participate in the rights issues

Finrand surges against dollar

By Sven Lunsche (232)

The financial rand surged to record levels against the dollar yesterday, dipping below the R3 level for the first time since its reintroduction in 1985.

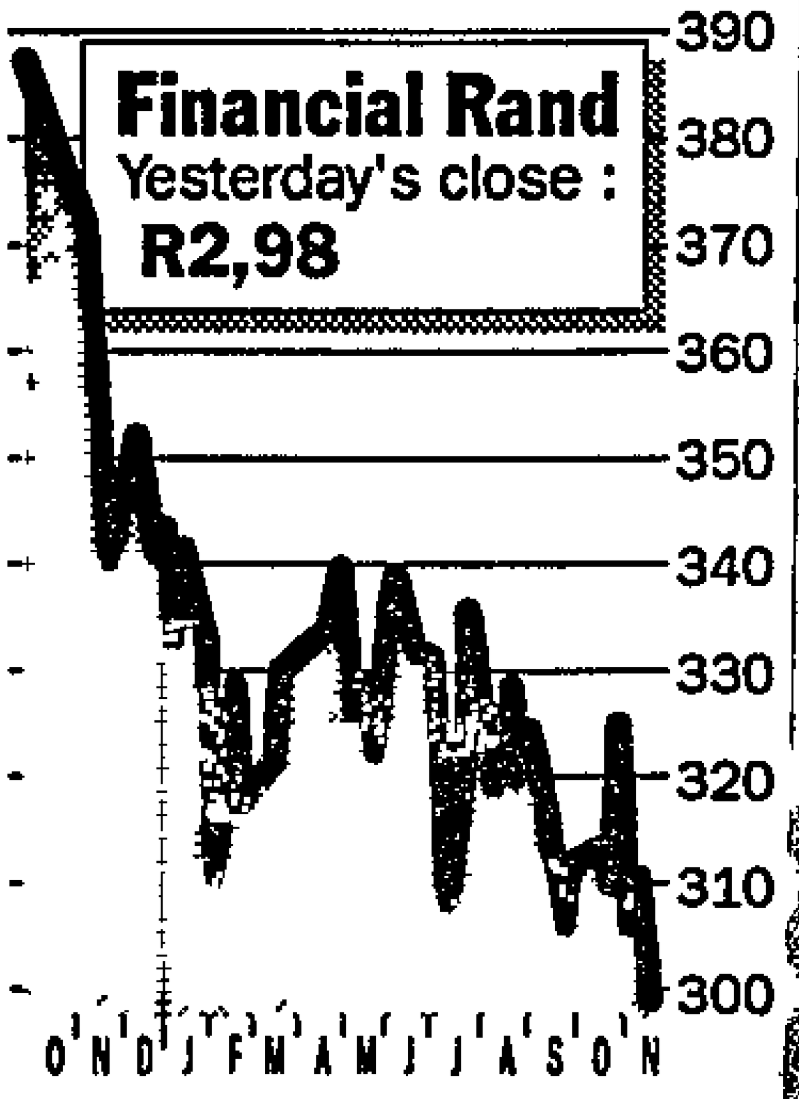
At the close the finrand was trading at R2,997, a gain of 4c on the day Star 19/11/91

While the commercial rand also strengthened — by 2c to a close at R2,78 to the US currency — the discount between the finrand and the commercial rand narrowed to 7,1 percent.

Finrand dealers said most of the demand came from foreign institutions, particularly in the Far East, for investments in long-term government bonds

On the capital market rates eased in bullish trading with the benchmark Eskom 2008 trading at around 16,3 percent at the close

The dealers added there was little overseas demand for gold counters on the JSE, despite the $5 rise of the gold price on international metal markets



JSE keeps cool after Wall Street's plunge

By Ann Crotty 232

Star 19/11/91.

The JSE appeared to take its cue from London yesterday and market sentiment held up reasonably well in the face of the plunge in share prices in New York on Friday and in Tokyo yesterday.

The overall index closed 72 points weaker at 3464, dragged down by the 129 point fall (equivalent to 3 percent) in the industrial index to 4204

A relatively strong gold price supported the gold index enabling it to rise 27 points to 1096

Damage in the London market was restricted to a 43,7-point fall on the FTSE 100

After initial hesitation, UK investors gained courage and shook off fears of another stock market plunge along the lines of the October '87 crash

But it was evident that investors on the JSE were playing a wait-and-see game as they nervously tried to second guess what might happen in New York when the market opened

In morning trade many of the blue chip shares were marked down. Particularly hard hit were shares with strong overseas interest such as FIT, Richemont and De Beers Feeling was that if international investors were going to take a beating, as they did in '87, they would rush to liquidate their SA investments

So local investors moved in to mark down the prices ahead of any possible overseas selling pressure However this did not materialise and the financial rand made solid gains against the dollar

Friday's collapse on Wall Street was attributed to concern about a proposal before the US Senate that would have had a devastating impact on credit facilities and on bank earnings

Little confidence

The proposal was aimed at preventing banks from charging more than 14 percent on credit card finance (This proposal followed last week's cut in the Fed's base rate to 4,5 percent.) At present, banks are able to charge up to 20 percent on credit card facilities

A 14 percent ceiling was expected to see the banks cutting back considerably on provision of card facilities

Such is the widespread use of credit cards in the US that investors feared that restrictions on this front would severely dampen consumer spending This, at a time when the US economy is throwing out mixed signals and there is little confidence that it enjoys any fundamental strength.

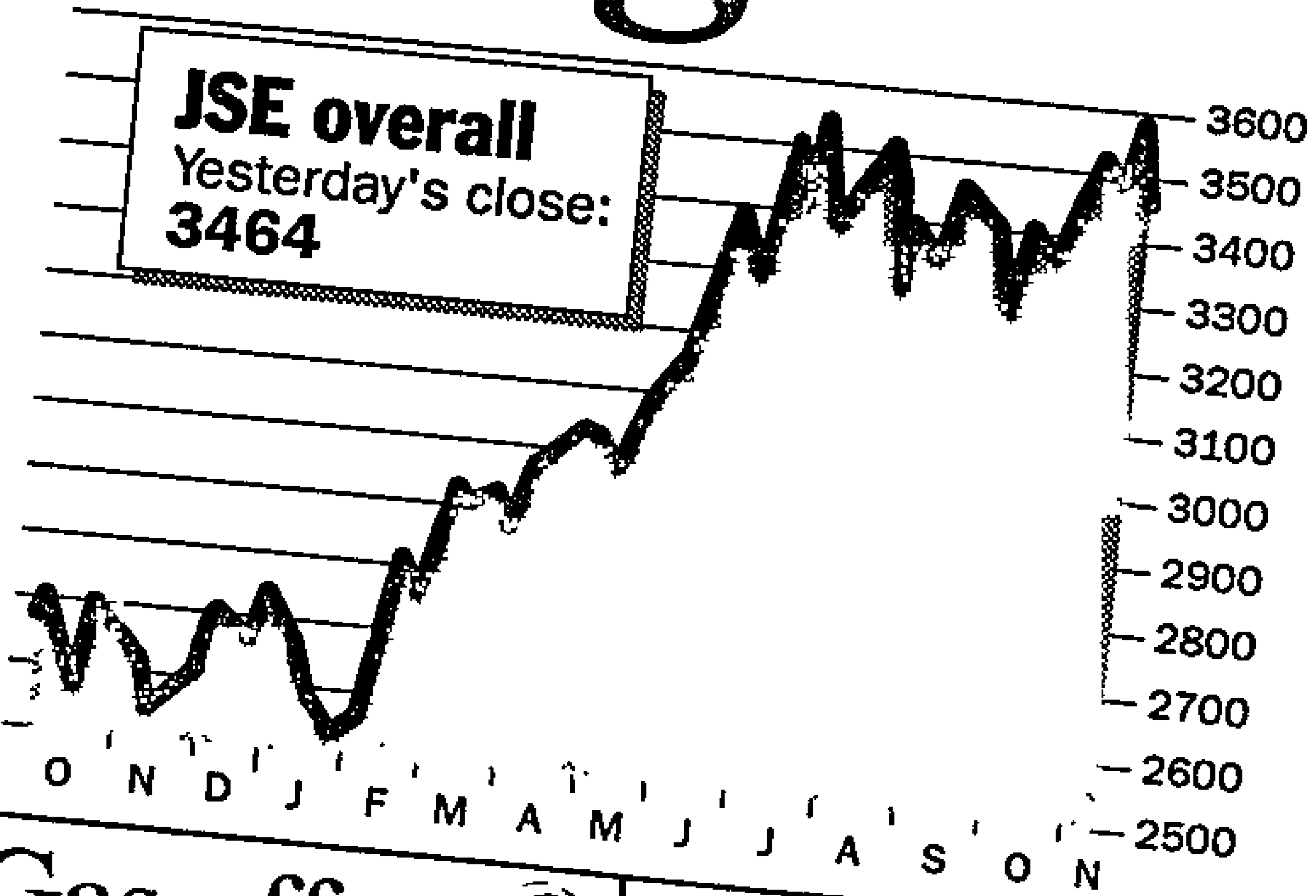
On the bullish side is the realisation that next year is an election year and so the economy is likely to be given considerable support in the months ahead

Already Republican senators have indicated that they will not allow the credit card proposal to go through

Early signals from Wall Street indicated that local investors were correct in their hopes that the New York market would not see a repeat of the grim developments of October '87

Yesterday Wall Street opened 12 points firmer but then slid back 13 points

The 1987 crash commenced on a Friday on Wall Street and the following Monday share prices in New York continued to plunge and set off a selling spree worldwide and the start of a major bear phase



More trouble ahead say analysts

Gas offer by Maputo

HARARE — Mozambique is looking to South Africa as an export market for its natural gas as production gets under way, says Mozambican Mineral Resources Minister John Kachamila

Star 19/11/91

"Mozambique is very interested in exporting natural gas and we look for the main market in South Africa," he said yesterday

Industry sources said SA want-

Dorbyl I

Dorbyl has posted a 5,8 percent increase in earnings for the year to September, despite tough recessionary conditions

Improved earnings and confidence in the future have enabled the directors to raise the final dividend to 80c, bringing the total to 108c — up five percent on last year

Dividend cover has been maintained at 3,4 times

Turnover was up 1 8 percent

Buyers pick up low-price shares

Wall Street rumbles felt on the JSE

B10 ... 19/11/91 (232)

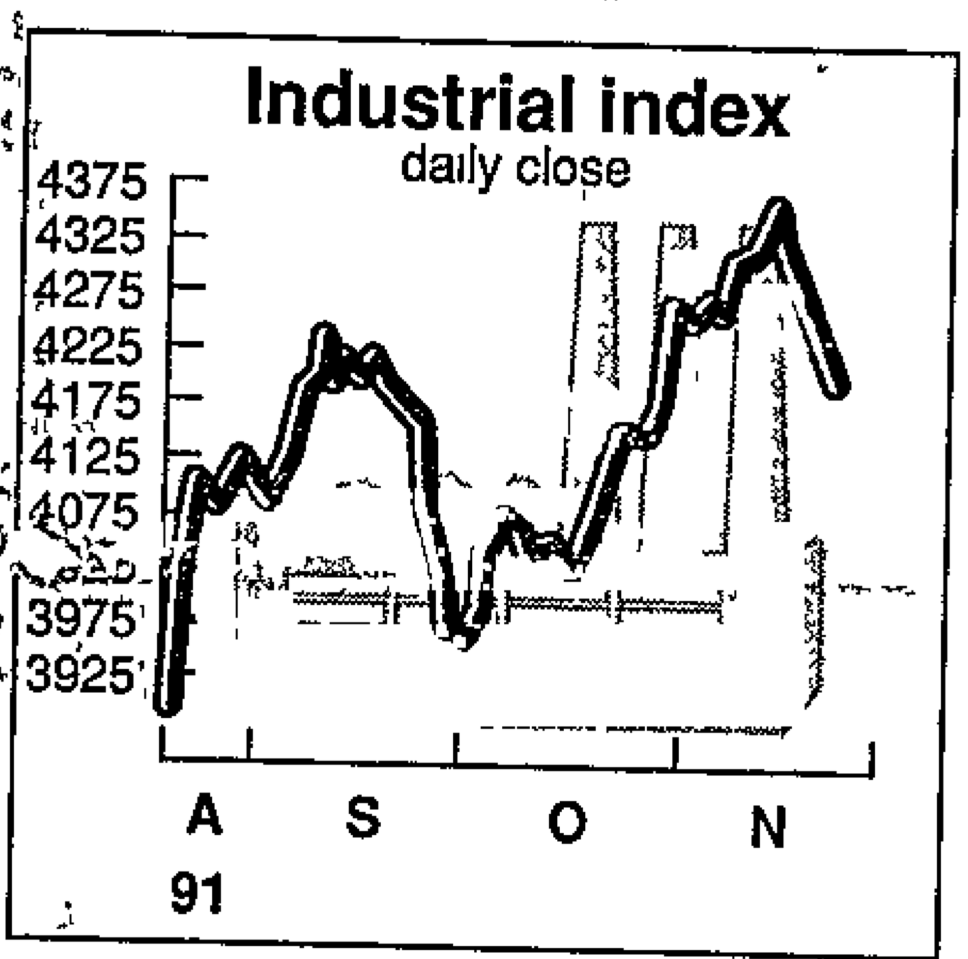
MERVYN HARRIS

DIAGONAL Street braced itself for a harrowing session of trading today in the wake of Friday's 4% tumble on Wall Street which sent shivers through major stock markets yesterday

The JSE regained a measure of confidence at the end of a jittery and confusing session as buyers entered the market yesterday afternoon to pick up shares at their lower levels

The initial plunge of share prices pulled the JSE industrial index down a massive 144 points before institutional buyers swooped on selected blue chips for the index to close 2,9% or 129 points off on the day at 4 204

Dealers said there was a lot of uncertainty as the market waited to see how Wall Street would perform overnight



Graphic LEE EMERTON Source I NET

There was no heavy sell-off as the JSE overall index shed 2% or 71 points to 3 464 With the exception of De Beers and blue chips such as Richemont and Remgro, turnovers were relatively light The volume of shares traded was 5,68-million worth nearly R64m — with trade in De Beers making up nearly a third

Some dealers reported instances of panic selling at the opening, others said confusion was rampant

The firmer gold price offered some support to the overall market but the positive effect on the gold board was offset by continued firmness in the finrand. The JSE all gold index rose 2,5% or 27 points to 1 096 as the metal gained $4,77 to close in London yesterday at a three-week high of $360,60 but off a session peak of $361,70

Platinum and silver were caught between the bullish influence of gold's advance and bearishness over the US economy which had hit Wall Street. Platinum rose $3 to close in London at $362,50

The FTSE index closed 43,7 points off at 2 502 It last registered a larger fall on August 19 — the ate of the attempted Soviet coup -- t lost 80,5 points

Analysts said the downturn of share prices on the JSE could provide an opportunity for state pension funds to pick up blue chip shares at lower levels

They dismissed similarities between the current downturn on Wall Street and the crash of October 1987, saying the slump in the Dow Jones index was a natural one

Blue chips stifle new JSE listings

BDay 20/11/91. (232)

WILLIAM GILFILLAN

THE concentration of investor interest in blue chip stocks has had a severe effect on the number of new listings on the JSE this year, merchant bankers said yesterday

Figures taken from the exchange's latest schedule of newly listed companies showed the number of new companies making their debut on the JSE dropped to 11 so far this year from over 200 in 1987 Issues by new entrants to the JSE lists have raised only R1,7bn this year against a peak of R7,4bn in the 1987 listings boom

Firstcorp executive vice-president Stuart Jones believed this reduction indicated that the institutions had developed a frame of mind where they were only interested in the 30 or so blue chip stocks

"The institutions have totally ignored the rest of the market They are not interested unless they can buy over R50m worth of stock", he added

He reckoned the institutions felt that even Prefcor — listed earlier this year — was too small

Two other reasons given for the plunge in new listings included the current high ratings given to the market and memories of the losses which came with the market crash which followed the 1987 boom

Senior GM at ABSA Merchant Bank Danie Vlok said that in 1987 there had been investor interest in companies across the board — especially the so-called second liners which had attracted much speculative interest

Standard Merchant Bank corporate finance executive director Mark Barnes said the current high ratings had a negative effect on new listings

"With the current high price-to-earnings ratings I am not sure the market will have as large an appetite for new listings"

Jones said the drop in new listings also showed the man on the street was out the market He believed these small investors were opting for unit trusts rather than individual stocks

He added the move into unit trusts by the small man meant the institutions were ploughing even more money into the blue chips and small companies were being even further ignored

In 1988, 41 new companies were listed which was higher than both the 21 in 1989 and the 23 during 1990

The value of new funds raised in 1988 was about R4bn but this rose to about R5,6bn in 1989, about R1,7bn was raised in 1990

Futures dealers sitting pretty as stocks tumble

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ROBERT GENTLE

THE number of open contracts on the SA Futures Exchange (Safex) stood at a record 18 184 yesterday morning after the previous day's hectic futures trade in the wake of the plunging stock market

"It was one of the best days we had seen in a long time," said a trader from Greenwich Futures & Options · BDay 20/11/91

Safex made a tidy packet in commissions and transaction fees because of the high volumes A total of 5 737 contracts worth R223m changed hands — more than twice the level the exchange needs to cover a day's costs

A Safex spokesman said the activity had been across the board, and included share index futures as well as interest rate futures. There were particularly good volumes in the March 93 All Share Index contract, which is used as a hedging instrument by holders of Transnet's Elfi (Equity Linked Fixed Interest) debt instrument

A Safex spokesman said yesterday was another busy day with about 4 000 contracts traded

Meanwhile, all was set for the industry's annual conference, to be held at Sun City on Friday and Saturday The key international guest will be Desmond Fitzgerald of Mitsubishi Finance International

ANC 'flexible' on question of nationalisation policy

Political Staff (232) ARG 2/11/91

JOHANNESBURG. — ANC president Mr Nelson Mandela has assured German Deputy Foreign Affairs Minister Mr Helmut Schaefer that the ANC had no "ideological attachment" to the policy of nationalisation and would be prepared to consider other alternatives.

Mr Mandela told a press conference after yesterday's lunch-hour meeting with Mr Schaefer that the ANC was prepared to "abandon nationalisation immediately" if a viable alternative were given to it.

Mr Schaefer, on a five-day visit to South Africa, had earlier said he would advise the ANC against nationalisation which had proved "disastrous" in other countries.

The ANC, Mr Mandela said, advocated a mixed economy and would follow an economic system which would not be much different from South Africa's present economic system — which was far from being a market economy.

He noted that some important sectors of the economy had been nationalised over the past 40 years of National Party rule The ANC was "following precisely the same policy".

On the question of sanctions, Mr Mandela said these economic punitive measures had been imposed to pressurise Pretoria to extend the vote to all South Africans and dismantle apartheid completely, and this had not yet happened.

He said the ANC was worried about South Africa's economy because "it is blacks who are suffering most" from the effects of sanctions. The oganisation was therefore keen to have sanctions lifted immediately.

The ANC was worried about ongoing violence in the country. Mr Mandela said the violence was discrediting the peace process. He had given Mr Schaefer "scientific studies" which would show him who was responsible for violence.

● Mr Schaefer arrived in Cape Town today for the last leg of his visit to South Africa

No easy time for investment managers

Star 21/11/91.

Diagonal Street

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ANN CROTTY

This is one of those times when investment managers have to earn their keep

Last Friday's tumble on Wall Street appears to have generated considerable nervousness about the current level of industrial share prices

Ahead of that fall there were signs that not everybody was comfortable with the consequences of a 70 percent surge in the industrial index during a year when the performance and outlook for corporate profits was anything but bullish.

The heavy buying of industrial shares at a time when company performances have been sluggish has resulted in the average dividend yield for industrial shares dropping from 4,1 percent a year ago to 2,5 percent ahead of Friday's Wall Street fall.

The average dividend yield for industrial holdings (where many of the top blue chips are listed) has dropped from a testing 3,2 percent to 2 percent.

The bulls and bears are now slugging it out, trying to work out if what we are seeing right now is a repeat of October '87 or of October '89 — specifically should we be expecting a crash or just a reasonable correction?

The bears are emphatic that given the current weakness in the economy and the, at-best sluggish outlook, the JSE is looking dangerously over-valued and funds should be diverted to the money market The considerable uncertainty on the socio-political front, aggravates this bearish view

In addition while the rand is currently doing reasonably well against the dollar, it is looking relatively weak against other major currencies. This is not a good mix for SA whose exports are generally denominated in dollars and imports in non-dollar currencies

The bulls however reckon we must shed old notions of what comprises "value" on the JSE. Uncertainty and inflation in SA make even a two percent dividend yield look attractive

And, for institutional investors, who are judged on quarterly and annual performances including capital valuation, a constant surge in prices of blue chips will ensure that they look good These investors will be very reluctant to sell volumes of blue chips into a weakening market.

A leading JSE dealer also makes the point that one reason international markets have not slipped into a free-fall situation is that these markets are now dominated by professional institutional investors

This may be what has saved the JSE from overseas selling pressure of blue chips such as De Beers, Anglos, Richemont and quality golds. It was this selling pressure that in 1987 ensured that, no matter what happened to gold, the JSE could not avoid succumbing to the weaker sentiment on Wall Street.

But even the bulls, who are looking to solid economic growth worldwide (even if it has to be kick-started), agree that the JSE is currently "delicately poised" with the industrial board likely to be flat for the next few weeks.

Higher capital rates check bull run

B Day 21/11/91.

ANDREW GILL

CAPITAL market rates climbed higher yesterday as the bulls took a rest after days of strengthening rates. (232)

Dealers said the move appeared to be a healthy correction from the recent bullish run and said rates could soon start returning to recent lower levels. (232)

The benchmark Eskom 168 rose five points to end at 16,41% after rising to 16,43% earlier in the day. Its Tuesday low was 16,25% Government's R150 stock added seven points to end at 16,83%.

Dealers said profit-taking had played a part in the rise over the past two days as investors shied away from the strong run up to the 16,25% level. Government stock fared worse as the market started its decline with the differential between itself and Eskom widening to 42 points, 10 points above recent levels.

Part of the reason for the recent generally positive sentiment on the capital market was the continued support of foreign investors.

Short-term rates, however, showed a different trend to the capital market yesterday as at least one institution dropped the key 90-day liquid BA rate to 16,45% from 16,50%.

A dealer said deals were being done as low as 16,35%, reflecting the liquidity prevalent in the market. The BA rate has now effectively discounted over a percentage point fall in Bank rate to 16%.

FM 22/11/91 (232)

SHARE PRICES FM 22/11/91

No need to panic (232)

If the JSE needed a catalyst for a price correction, the 4% fall in the Dow Jones Industrial Average on Friday (see *Economy*) would have provided it Initially there seemed to be a slide On Monday, the Industrial index shed 129 points to 4 204 and the Overall index 71 points to 3 464 On Tuesday morning, after Wall Street recovered, there was a rally, though the Overall index lost seven points and the Industrial index nine by close, this hardly signals a major crash

Technical analysis shows that until February there was a 95% correlation between the Dow and the JSE Industrial index, but since then there has been a 31% appreciation in the Industrial index compared with just 3% in Wall Street

The main local influence which has driven the market is the weight of institutional funds Institutions can't invest freely abroad because of exchange controls This has been an important factor for at least five years, but has been exaggerated by the ending of prescribed assets and the entry of State pension funds into the market

The weight of funds can't prevent a crash. A 10%-20% fall in the Dow would lead to net sales on the JSE, as it would on all world equity markets But the magnitude and length of the fall would be affected

At current prices, most SA blue chips are discounted well into the future, and assume a stronger world economy in the Nineties If the Wall Street correction indicates that the US economy is unlikely to recover soon, then local blue chips must be overvalued But, says Liberty Life investment kingpin Roy McAlpine, markets are a very inaccurate barometer of underlying economies It is too soon to draw any worthwhile conclusions on the world economy from the Dow's movements

Certainly, institutions did not react by selling equities to any meaningful extent, rather, they were reluctant to buy. On Monday the value of trade was down to R64m and the number of deals to 2 483 In contrast, Wednesday November 13 saw 2 624 deals with a value of R159m

Sanlam senior portfolio manager Dries du Toit says we have reached the point in the economic cycle in which to buy equities, just before a recovery But he notes that p es are much higher than at this point in previous cycles, and he would not buy certain consumer stocks trading at p.es of more than 20 (Suncrush, ABI, Cadbury Schweppes). He will, however, hold on to them because he is confident that SA's prospects will improve as international trade and investment opens up.

Optimism is not the only reason shares are sold only reluctantly If, as in most markets, institutions could sell shares, invest in gilts and then buy shares back at a more realistic price, sales would be more common. But in our highly illiquid market an opportunity to buy those shares again might never arise

Du Toit says that Sanlam was offered R100m worth of FNB shares in Anglo American's recent tender if it had tried to buy them on open market, and got 25% of daily turnover, it would take five years

Nevertheless, the market is nervous, as there is uncertainty on a two-to-three year view, but it is unlikely to panic Southern Life's Paul Beachy Head says there is none of the euphoria found before a crash, and there are few speculators left in the market, which is dominated by institutions taking a five-, 10- or 20-year view

There is confidence that management of big companies has improved, and far more have borrowings under control than in the 1984-1985 recession And unlike the 1986-1987 boom, this one is based not on speculative purchases of second-liners but on a revaluation of proven blue chips *Stephen Cranston*

ANGLO/UAL

Cat among the pigeons

(232)

FM 22/11/91

Complaints by some irate stockbrokers over Anglo American Corp's tender sale of about R700m worth of Gencor and FNB shares raises the complex issue of what kind of share dealing done off the market contravenes the Stock Exchanges Control Act

The JSE has referred the issue to the Registrar of Financial Institutions, Piet Badenhorst, who tells the *FM* that he had taken the matter up with Anglo and UAL Merchant Bank before the tenders closed Badenhorst says he pointed out to both companies that the tender appeared to conflict with both the spirit and letter of the Act He asked certain questions and is awaiting replies

Some brokers are concerned that if this kind of tender action became widespread it could result in an equity market being established outside of the JSE and beyond the control of the Act But off-market trading between institutions is not new Brokers have been muttering about the commissions lost in this way for years The muttering gets louder when times are tough, prompting some to say this is the real reason for the protest over Anglo's tender sale

Not so, says JSE president Tony Norton. He says the Act provides for a central market which does allow for limited private deals between parties to take place off-market

"The Anglo tender was not a private sale and this is the first such tender offer I have heard of," he says "They were asking the world to put in a bid for their shares and the agent, UAL, would decide who got what That amounts to a possible breach of the Act which has to be referred to the Registrar"

Registrar Badenhorst . *awaiting replies*

A broker says Anglo and UAL were using market mechanisms to get the best prices but avoiding paying for this.

UAL Merchant Bank GM Nico van Heerden denies the deal contravenes the Act and says UAL has replied to the Registrar's queries and presented a legal opinion backing up UAL's standpoint. Van Heerden says UAL was not involved in dealing in shares, as the bank merely advised Anglo, which allocated shares and received payments directly.

Rupert Pardoe, a divisional manager in Anglo's chairman's office, declines to comment on Anglo's viewpoint on whether the tender contravened the Act. Neither he nor Van Heerden will specify the amount Anglo raised from the sale but Pardoe claims estimates of R700m — the approximate market value of the shares — are "meaningfully wrong"

Anglo sold the shares because it wants the money to pay for its share of the acquisition of Middelburg Steel & Alloys (MSA) by Highveld Steel & Vanadium and Samancor The Gencor and FNB shares were not strategic investments and will not be subject to tax because the house has held them for longer than 10 years Pardoe says Anglo informed Gencor chairman Derek Keys in advance about the house's intentions. He adds the deal was done off-market to avoid an overhang of shares depressing the Gencor market price.

Highveld and Samancor are issuing shares to raise R1,1bn cash for the MSA purchase Anglo/De Beers will contribute R550m for their share Most of that will come from Anglo, which does not appear to have the ready cash available.

Anglo's latest balance sheet, at March 31, showed group deposits and cash on hand of R1,56bn, but R1,5bn of that is accounted for by loans from associated companies and others That reflects Anglo's role as a banker to its associates and managed companies, such as the group's gold mines which have to bank their cash with Anglo

Anglo, in fact, had only R60m in cash that it could call its own In contrast, Anglovaal at June 30 showed deposits and cash of R1,33bn against managed companies deposits of just R253,6m *Brendon Ryan*

Financial Mail

FM 22/11/91

THE CRASH OF '91?

(232)

Maybe not — but be warned

The illusion that exchange controls and all the other barriers with which we have surrounded ourselves can insulate us from the vagaries of the outside world has again been exposed this week, as the JSE — like its big brothers in Tokyo and London — slavishly followed Wall Street down

At the same time, the gold price is struggling yet again to break above US$360/oz; and the financial rand discount, after widening on the recent economic scare stories from the ANC, has again narrowed to levels which have seldom been seen since the 1985 reintroduction of a dual exchange system

On the conventional wisdom that the discount measures foreign perceptions of the political risk of investing in SA, this joins gold as a positive influence (though, in currencies other than the US dollar, gold has not performed so well)

As far as gold is concerned, while an interruption of Soviet sales (if indeed the USSR has run down its stock almost to nil, and its mines are suffering increasing production problems) is insignificant in relation to total stocks overhanging the market, a reduced flow of new supplies is not only influential in itself, but also an indication that the rate of new supplies in recent years was artificially high It follows that the bullion price may have been depressed below the natural, market-clearing rate of current supply and demand

None of this, however, can reverse the underlying change for the worse in the fundamentals of the gold market, triggered by lower worldwide inflation, positive real interest rates and the spread of other hedging instruments

What is more important is whether this is the onset of a new bear market — or, some would say, the resumption of the bear market that never really developed in 1987 Certainly, grounds can be advanced for this fear, and attempts by major markets to return to a positive mood this week have not convinced.

Economic recovery in the US, for instance, is distressingly fragile. In scandal-ridden Tokyo — the one market that never remotely looked like regaining pre-1987 levels — it's a matter of wonder that the system has averted the collapse of any financial institution And though western Europe remains relatively healthy, the cost of rehabilitating not just the USSR, but ex-socialist eastern Europe, is astronomical

Neither separately nor jointly is it inevitable that these factors will push the world back into recession. It is still possible that 1992 will bring some advance in world economic growth, but it may not meet optimists' hopes

The relevance of this is that hopes for a revival of the SA economy based on a pick-up in world commodity prices may also be over-optimistic In turn, this is bad news for those who argue that redistribution through growth will be more beneficial than attempts to redistribute existing wealth.

There is no need to adopt a doomsday scenario yet; but, at the very least, the events of the past week are a salutary warning not only to investors worldwide, but in particular to us in SA that, even if we arrive at a political settlement, the economic prosperity needed to make a settlement stick cannot be taken for granted

Let's hope this sinks in even with those whose public utterings rate political point-scoring more highly than the creation of a confident business mood that is another prerequisite of a healthy economy. ■

Richemont's earnings climb 15%

B/Day 22/11/91

BRENT VON MELVILLE

RICHEMONT Securities AG, the Swiss-based tobacco and luxury goods company, has justified its high market rating with a 15% earnings rise in poor market conditions for the half-year to September (637)

Richemont, with listings in Johannesburg, Zurich, Geneva and Basle, posted earnings per unit of £151,70 (£132), translating to a rand equivalent of about 75,7c a share No dividend was declared. (485)

The group also heightened its cash pile to £606,1m, an increase of £206,8m over the period The rise reflects the sale of the group's interest in TransAtlantic Holdings for £150,6m, and according to directors, illustrates the cash-generating capacity of Richemont's principal businesses

The TransAtlantic sale reduced investments in associated undertakings by £108,6m to £66,3m. Other investments reflect the acquisition by Rothmans International of a 3,9% interest in Spanish state-controlled tobacco monopoly Tabacalera SA at a cost of £37,5m (232)

The luxury goods subsidiaries were

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Richemont

B/Day 22/11/91 (485) 232 (637)

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hardest hit by the weak markets, with consolidated net sales revenue of luxury goods subsidiaries Cartier, Piaget and Baume & Mercier declining by 2,6% in US dollar terms, but increasing marginally in sterling terms to £317,8m, reflecting the stronger dollar

With margins under pressure, operating profits for the companies declined by 3,7% in dollar terms, and the contribution stayed in line with last year's at £60,3m

Sales were also down at Dunhill Holdings plc, which reported net revenue of £102,8m, while operating profits dropped 18,7% to £20,5m, although that was offset somewhat by increased profitability from Montblanc

The tobacco operations showed a 7,9% rise in operating profits to £1[illegible],1m, off consolidated net sales revenue by Rothmans International (owned 62,8% by Richemont), in respect of tobacco products, of £1,1bn, an increase of 6,2% from the previous year

The acquisition of Dutch group Theodoris Niemayer and the remaining share capital of the 61,3% in Irish cigarette company PJ Carroll accounted for £8m of operating profit, while £10,1m was provided for a change in accounting policy by Rothmans Holdings in Australia

Richemont is leading a consortium into negotiations for the purchase of a 75% stake in FilmNet International Holdings BV, with an option to acquire the remaining 25% for an aggregate consideration of about £85m

Filmnet is northern Europe's largest pay-TV network and analysts have speculated that local pay-TV station M-Net may be included in the consortium

Richemont closed in Johannesburg yesterday at R33, on a historical p e of 22,6 times and a dividend yield of 0,7%

Winners on top of losers — at last

S/Times (Buss) 24/11/91.

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By JULIE WALKER

INCREASES in interim earnings outweighed the falls by companies reporting results this week for the first time in months

Of the 18 firms reporting interims, four slackened, one returned to profit and the other 13 made more than in 1990

Southern Life's interim earnings and dividend to September rose by exactly 20% The directors expect more of the same in the second half

Sage Holdings, whose yearend was changed to March, reported a 6% climb in pre-tax profit in the six months to September A smaller tax payment led to a 17% rise in earnings a share to 53,6c

Sage says capital restructuring that might go hand in hand with rationalisation of the interests of common major shareholders of Sage and Absa will be concluded soon

Tongaat, which bases its group earnings on half the sugar division's estimates for the current financial year plus the unaudited results of the other arms for the present half-year, lifted taxed earnings by 4%

The sugar and starch and sweeteners divisions shaped up, the others struggled Textiles incurred an "unacceptable" loss

Increased imports have hurt fabric production and the Hebox factory at Hammarsdale will close

Group sales were up 5% at R2-billion, but operating profit shed 3% to R141-million Higher borrowings meant higher interest But the general cut in the corporate tax rate helped Tongaat's deferred tax balance, of which a half has been brought to account together with export incentives

The directors expect earnings to be maintained at last year's level

Richemont's net sales revenue in the six months to September reached £1 508,7-million — 3% above last year's An extraordinary surplus of £33,7-million arose from the disposal of its stake in TransAtlantic Holdings

Tobacco

Lower tax helped Richemont to show a 15% improvement to £151,70 a linked unit

Tobacco sales topped £1-billion, yielding operating profit of £180-million

Managing director Johann Rupert reports limited evidence to suggest that the global recession has stabilised in some countries He believes optimism in certain quarters is premature

Mashold, Lebowa Bakeries, Coastal Clothing Crookes, Transpaco and Bevcon all raised the bottom line and Presto incurred a much smaller loss than previously A trebled tax bill to R1,2-million tarnished Sondor's otherwise good performance

The quintet of preliminary results was not so hot Santam Insurance took the honours with a strong recovery in the year to September, total pre-tax income rising by 28% to R89-million

Also in the year to September, Dorbyl held up, but Metkor's earnings were down 27% to 21,5c a share on losses in Wispeco, Metkor Industries and write-offs at Usko.

Without Usko, Metkor's earnings would have climbed 13% Metkor expects better things

Nu-World struggled against cost increases and earnings slipped 17% to 11,5c in the year to September

Brokers bid to set own deal fees

By CURT VON KEYSERLINCK (232)

IN the wake of Anglo American's controversial off-market sale of its Gencor and First National Bank shares, some stockbrokers and portfolio managers are calling for negotiated commissions on big transactions

JSE regulations oblige brokers to charge according to a sliding scale Commission on even the biggest transactions is 0,2% payable by the buyer and 0,2% by the seller

Had the Anglo deal gone through the JSE, the parties involved would have had to pay about R2-million in brokers' commission

It is believed that the cost of the deal was considerably lower

A broker says "This is the reason why there is so much off-market trading But if the regulations were changed to allow us to negotiate our commissions on transactions of more than, say, R10-million we would win back a lot of business"

S Times 24/11/91 Era (BUSS)

Known supporters of the fixed-commission system were not available for comment and all other brokers from large firms spoken to by Business Times favoured deregulation

The matter is contentious and all those approached asked that their names not be divulged

The Anglo deal drew attention, not simply because it was off-market but because it involved UAL, which arranged tenders and acted as an intermediary

Other large off-market transactions routinely take place between large portfolio holders and institutions without intermediaries

Unlike the Anglo deal, there is no question about the legality of these transactions

One stockbroker says "We lost the Anglo business because of high fixed commissions They have to be charged because of low trading volumes and poor administration of the JSE"

Another broker says "In this era of deregulation it would do the JSE's image a lot of good if it initiated a move to reduce commissions on big deals

Genbel managing director Anton Botha says "We have placed many of our shares with institutions outside the market

"All it takes is a few phone calls Every time I make a few calls I save a million rands

"With the current low volumes I realise that off-market trading is a threat to the JSE

"It should institute negotiable commissions above a cut-off point of about R20-million"

Mitsubishi Finance sets sights on SA

ROBERT GENTLE

SUN CITY — Mitsubishi Finance International plc, the London subsidiary of Mitsubishi Bank, is applying to its parent company in Tokyo for permission to trade in SA, and expects to start early in 1992

This was disclosed by director and arbitrage operations head Desmond Fitzgerald at the SA Futures Industry Association (Safia) annual conference at Sun City at the weekend.

Fitzgerald, the keynote speaker, said his firm was looking forward to trading in the SA financial market

"The SA market is an interesting one because it contains a lot of the products we trade in," he said, referring to futures, forward rate agreements (FRAs), interest rate swaps, options and equity-linked fixed interest products

He said he was "eagerly awaiting" the opening of the JSE's Traded Options Market (TOM), which would offer options on equities and equity indices.

"Some of you may come to regret the easing of Japanese sanctions," he told delegates, alluding to the expertise and competition which Mitsubishi intends bringing to the local market

Mitsubishi operates mainly in the area

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Mitsubishi

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☐ From Page 1

of arbitrage — profiting from pricing inefficiencies across different financial markets The SA market offered opportunities because of mispricing

Fitzgerald said Mitsubishi could offer large investors exposure to international markets through tailor-made products Such products — for example a rand-linked contract on the American S & P 500 stock index — could then be sold on a retail basis to SA investors, broadening their range of investment alternatives

The low liquidity of the SA market was not an insurmountable problem, he said, and foreign participation would help boost liquidity

However, the lack of ratings was a problem, especially when it came to granting credit lines and assessing the creditworthiness of potential clients

Another problem from a foreign perspective was a lack of adequate information on local volumes and market activity

This lack of transparency, he said, would improve once the JSE was opened up to more competition "A Big Bang of some sort on the JSE is inevitable"

● See Page 3

Streamline Pichold, shareholders demand

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Bday 25/11/91

LINDA ENSOR

CAPE TOWN — Disgruntled Picardi Holdings (Pichold) minority shareholders are demanding the appointment of a committee to investigate streamlining the group to unlock the value of its underlying assets

They allege that the earnings generated by the operating company, Picardi Appliances (Picapli) and the interest received from Pichold's substantial R21m cash investment in Picapli are not flowing up to Pichold and Picardi Investments (Picbel)

They also claim excessive overhead structures of the holding companies are unnecessary and are dissipating profits This meant shareholders were not receiving the dividends to which they were entitled and that the share price did not truly reflect the underlying value of the group's assets.

Complaints erupted at the Pichold AGM on Friday after it emerged that directors had failed to unanimously endorse an agreement for the appointment of a committee including directors and minority shareholders to examine the group's structure One director disapproved of the presence of two minority shareholders on the committee

"From a capital and income point of view we are being prejudiced," one of the unhappy minority shareholders said after the meeting. Another alleged that the Pickard family was treating Pichold and Picbel as private companies and were siphoning off income in the form of management fees and salaries.

"This is just the beginning of a long battle," he said, adding that the market had such a poor perception of management of the companies that it was discounting actual cash held.

Group chairman Jan Pickard snr has agreed to meet some of the minority shareholders this week to discuss their proposals which include the abolition of the pyramid structure to ensure that the net worth of the company was reflected in its share price

Pickard said the board had decided to have strategic meetings in February 1992 to look at the group and its involvement in sensitive markets such as the consumer and textile sectors in the light of the changing economic environment

Minority shareholders complained about the see-saw nature of profits earned by the group which showed no long-term growth The clothing interests had lost R1,8m last year, R2m was written off on the overseas venture and R17m written off as a result of the Cape Investment Bank (CIB) debacle

Questions were also raised about the R1,526m paid in director's fees to Pichold directors, Pickard snr and Jan Pickard jnr and to the accountant Pickard jnr justified this saying 50% of the amount was a once-off payment Their fees were approved unanimously by the meeting

When expensive is made to look cheap

STAR 26/11/91

Diagonal Street
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ANN CROTTY

It may have eased back a bit over the past 10 days, but the industrial index is still looking very pricey

In theory, with an average dividend yield from the industrial holding sector of a mere 2 percent, a lot more money should be going into the gilt market where yields of around 16 percent are the order of the day.

That this is not happening reflects investors perception that the low dividend yield is adequately compensated for by the very high capital appreciation offered by equities. By contrast there is little capital appreciation offered by gilts and the 16 percent yield hardly covers inflation.

But the expectation of capital appreciation from equities feeds on itself and becomes self-fulfilling — institutional investors pour money into blue chip industrial shares expecting these returns; the very process of pouring money in, ensures that these returns are achieved. Only the bravest of fund managers would remain outside the market because it looked too expensive. Instead most are willing to alter their definition of expensive.

It takes a major crack in Wall Street to threaten this whole process.

Partial explanation for the recent strength in the JSE is the actual and expected inflow of funds from the Post Office and Telkom pension funds.

State funds

In addition the whole position of the government pension funds has become more fluid.

To date 100 percent of this money has been invested in government and semi-government stock — a situation which has inevitably led to the view that the State pension funds are financing state spending. The more so since the relaxation of prescribed asset requirements three years ago which saw private pension funds reducing their gilt exposure in favour of a higher equity exposure.

Although there is no chance of this State pension money being poured into the equity market, the thought of the Board of Trustees (which has yet to be set up to replace the Public Investment Commissioner) just nibbling at equities could be sufficient justification for even lower dividend yields and higher price/earnings ratings.

One way of relieving pressure on the local equity market would be to allow local institutional investors to invest overseas Another way would be to re-introduce prescribed asset requirements

Given the current political situation there might be considerable reservations about the former. Given the socio-political demands on government spending there could be considerable support for the latter.

If all pension funds — government and private — were placed on an equal footing in terms of percentage exposure to equities, gilts, property etc. then the government pension funds would not be such crucial contributors to government financing requirements. And their inflow to the equity market would be countered to some extent by private pension funds increasing their exposure to gilts.

Open market economy

Institution and government sources are emphatic that under the present government there will be no undoing of advances made three years ago to take SA towards a more open, market-related economy.

Perhaps more significant is the fact that under current market conditions government is well able to finance its funding requirements. It seems that the removal of prescribed asset requirements had little if any impact of the cost of financing government expenditure.

This partly reflects government's market-making skills in the gilt market. But having a captive audience in the form of state pension funds obviously helps.

It may be that as the economy picks up and blue chip companies take advantage of their excellent ratings to fund investment and growth, the equity market will not look so uncomfortably expensive.

But right now, when the requirement to invest in productive assets appears limited, it is difficult to feel comfortable about a JSE paper-chase in which the beneficiaries are relatively limited.

Business Day SURVEY

*In spite of the recession, the local merger and acquisition scene has been lively over the past year. Takeover activity was highlighted in September by the deal in which a consortium of three of the country's leading mining groups bought Barlow Rand's Middelburg Steel and Alloys (MS&A) for R1,1bn. **MERVYN HARRIS** reports.*

Many players move into the field

MANY players have involved themselves to various degrees in intermediary facilitating roles in merger and acquisition activity which was once mainly the field of merchant banks

Some merchant banks tend to concentrate on blue chip companies, while stockbrokers have been increasingly active in the field as their large client base enables them to assist in identifying opportunities

Among some of the other players in the merger and acquisition field are auditors, consultants, business brokers and legal firms, although reduced activity because of the lower volume of transactions has seen many move in and out of the field

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Active

One of the players active in the market place is Acufin, which began operations in 1987

Its other activities include financial restructuring, development and venture capital and selected property developments.

The company establishes a pool of opportunities by interfacing with a wide associate network, including merchant banks, business brokers and auditors.

Acufin director Sondor Donner says although the company's range of activities does not match those of the merchant banks, many deals are are structured after referral from "satisfied clients"

Although Acufin has focused on the SA scene, co-director John Gordon says overseas interest in acquiring local non-blue chip entrepreneurial businesses has recently re-emerged

A host of danger areas need to be taken into account

BDay 27/11/91

COMPANIES involved in mergers and acquisitions frequently place millions of rands in jeopardy because they don't pay enough attention to risk management

There are a host of danger areas that need consideration during the negotiation stages of a merger or acquisition, says Corporate Risk Management (CRM) MD Frank Butler

CRM is a specialist company within PFV Insurance Brokers

Among the key issues is the state of the pension fund in the company to be acquired.

"Pension transfer values and accrual benefit entitlements must be examined by the purchaser to verify their accuracy

"Not to do so could have costly consequences," says Butler

Professional actuarial services must be obtained to review pension arrangements and value the fund before any sale or merger agreement is concluded

Another contentious area is the valuation of property for insurance purposes

The only way to establish this is to obtain an independent appraisal of the replacement cost and a separate estimate for the physical depreciation

He says many acquisitive group companies have established risk control programmes with a corresponding awareness of risk exposure and how to manage it

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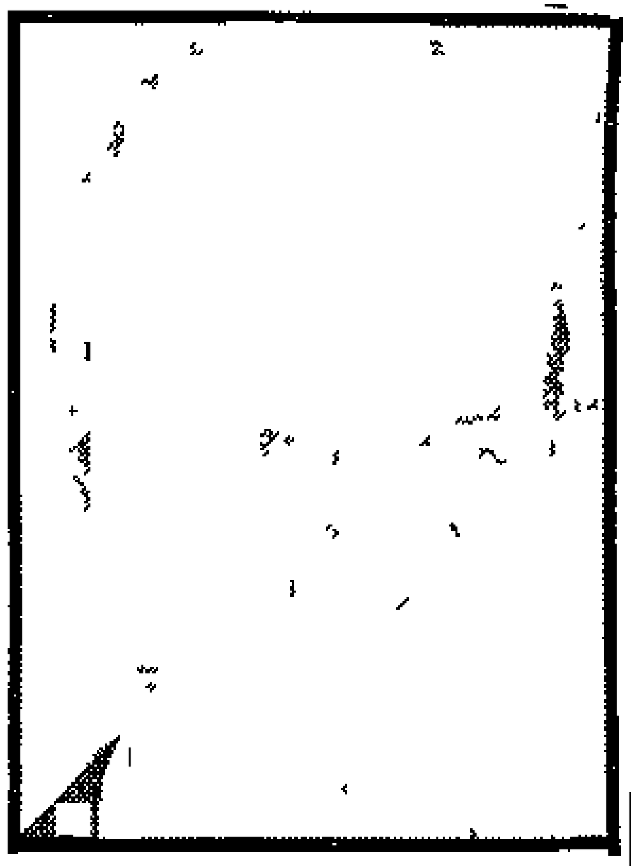
Effort

"Often, the acquired company is below standard in risk control and it takes effort and sometimes considerable sums of money to raise standards to the level required by the group"

Internationally, environmental impairment liability (EIL) has become a big issue in mergers and acquisitions because the operations of the company being acquired could at the time be creating or contributing to environmental circumstances that may only manifest as a problem several years later



FRANK BUTLER

Butler says "As a result, many major corporations require comprehensive environmental surveys to be undertaken before they sign the acquisition deal"

Another cause for concern is in the area of "hidden liabilities"

For example, product liability claims may only surface years after a defective product was manufactured and distributed

"Such claims can be costly and the acquisitive company should ensure the purchase contract is worded to avoid accepting liabilities and, where appropriate, an indemnification should be secured," says Butler

Planning process can be split up into five phases

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IN DEVELOPING long-term business plans, management may find its projected performance falls short of its goals and a merger or acquisition must be developed to bridge the gap

Arthur Anderson & Co country managing partner Sam Abrahams says such a programme may also derive from shorter-term needs or opportunities, such as competitive pressures and other factors

The acquisition planning process can be split into five phases

Phase one develops acquisitive strategy, phase two selects target industries, phase three selects target companies, phase four develops approach, contact and investigation plan and phase five is to plan post merger integration

Abrahams says the first phase of acquisition planning is the development of an acquisition strategy, which documents what the buyer is seeking to achieve through an acquisition and how the acquisition will complement the buyer's overall strategy

The strategy is then translated into a framework and quantitative and qualitative factors used to screen industries and companies for their acquisition potential

The buyer should develop specific quantitative and qualitative screening criteria that can be used to analyse potential target industries (growth, stability, demographics, competitive forces, life cycle) and companies (size, market share, return on capital employed, past performance, technological position, location, management capability)

The second phase is the selection and evaluation of high potential target industries

This process requires that the buyer narrow down the number of industry sectors to be pursued by comparing each industry with the established industry criteria

The buyer should conduct an economic evaluation of the selected industries to reduce the industry target list and determine which industries merit further investigation and assess the attractiveness of each targeted industry by combining quantitative factors with in-depth analyses of the more qualitative characteristics of each industry

Compare

The buyer should compare his resources and capabilities against similar factors in the target industries (synergic fit) and finalise the list of target industries by combining the evaluations of industry attractiveness with synergic fit

Once the target industries are selected, a similar process may be used in phase three to screen and identify candidates that offer the highest potential for acquisition within each target industry

Target companies are identified by developing strategies for operating in each target industry, finalising the preliminary company-screening criteria developed during phases one and two and developing a preliminary list of high potential acquisition candidates within each target industry by using the screening criteria and penetration strategies developed in the steps outlined

In phase four — develop approach, contact and investigation plan — Abrahams says a plan on how to approach target companies should be developed before any contact takes place

As part of this plan, a brochure describing the history, background and characteristics of the buyer is frequently used to acquaint target companies with the buyer's objective and philosophy

Before a target company is contacted, it is important to identify the likely financial and operating benefits that a combination might bring to both companies

Abrahams says this is useful in preliminary discussions with target companies as well as the continuing evaluation of those companies

At this point, an initial meeting of the parties to a potential business combination should take place

Both parties should attempt to evaluate their mutual interest, establish a procedure for subsequent meetings and determine the degree of secrecy desired by buyer and seller

Here again, advance planning is important

Once initial contact is made, further study or investigation may be warranted

As a minimum, a portfolio of basic data describing the target company ought to be accumulated and reviewed in what is commonly called a "businessman's review"

The purpose of this review is to supplement the profile developed earlier in the screening process with proprietary and internal information from the target company

In phase five, although post merger integration activities take place after the acquisition has been completed, planning to integrate the acquired entity should begin early in the acquisition process, with the level of detail increasing as the process nears its final stages

Some common areas that require planning include policies and procedures, human resources, financial and operational reporting, organisation and management structure, customer and supplier relationships and data processing

Abrahams says plans are needed to integrate each of these areas successfully and the assistance of functional and industry specialists may be required in such areas as organisational analysis, space planning, computer systems and human resources

Cross-border activity continues to slow down

B Day 27/11/91 (232)

LARGE cross-border acquisitions initiated during 1990 are no longer dominated by the world's heavyweight industrial and commercial organisations, according to KPMG's Deal Watch survey of the top 20 such companies.

This trend continued throughout the first half of 1991 compared with the same period in 1990, when cross-border acquisitions worldwide fell by 40% in number and 64% in value

Deal Watch, a quarterly KPMG international publication which monitors all cross-border financial activities by means of a sophisticated network, indicates international acquisitions between January and June this year dropped in value to $23,3bn from the $64,4bn of 1990

KPMG Aiken & Peat partner and Deal Watch correspondent Richard Carreira says although the end of the Gulf War has removed some uncertainties affecting cross-border acquisitions, the impact of the recession on major economic powers is having a cumulative effect

"Nine months ago, stronger companies could go shopping for bargains, among those affected by the recession

"But the slow-down we are experiencing is the result of once strong buyers feeling the effects of recession and pulling out of the market"

Carreira says the first six months of 1991 were remarkable for the reversal of some of the patterns of the past

Hardest hit

"Among those hardest hit are former top spending UK companies who together rated only sixth place during the first half of this year the single largest UK purchase during this period ranked only 30th

"Japan and US buying is also down

"Between January and June this year, Japanese acquisitions numbered only 26, valued at $2,7bn, compared with 120 valued at $5,4bn during the first half of last year

"American cross-border purchases between January and June 1990 fell from 199 acquisitions valued at $9,7bn to 144 acquisitions valued at $3,2bn in the first half of this year

"By comparison, the emergence of France as a power in cross-border acquisitons was reinforced by 119 deals valued at $5,1bn despite a $4bn fall from the $9,1bn paid by France in 1990," says Carreira

"SA is the only African nation to be monitored by Deal Watch

"The indications are that sanctions have not entirely kept SA business from the mainstream of international merger and acquisition activity

During the first six months of this year there were three cross-border acquistions by SA businesses with a value of $233m (R678m in June 1991 commercial rand terms)

Carreira says SA overseas acquisitions in the first half of this year are due to larger groups moving offshore to boost exports and in some instances to secure cheaper imports

He says the good news is that overseas buyers appear willing to disclose they are investing in this country, while local businesses are also making overseas purchases public knowledge

"We also have knowledge of many overseas companies waiting to invest here

"Deterrents are the level of violence and political uncertainty"

Carreira says Deal Watch data indicates that "big" is not always a factor in many recent merger and acquisition deals

Initiated

"During 1990, there were more than 2 500 transactions valued at $114bn

"Yet only 25% of all cross-border acquisitions were initiated by the world's top 1 000 businesses

"The smallest deal recorded during 1990 was R276 000

"Size is no impediment when it comes to cross-border sales or purchases, although we must be prepared for 1991 to end by being the least active for at least four years"

Assumptions important in corporate culture

CORPORATE culture is a glue which holds together diverse people in a coherent way through the basic assumptions prevailing in an organisation

Assumptions are important because they will be built into the style of management, structures and systems in an organisation, says Deloitte Pim Goldby Management Consultants strategy group's Evan Dold

Different assumptions in the case of merging organisations are likely to lead to clashes and conflict

This is a key thread running through research conducted by consulting firm Arthur D Little in the US and Europe on a range of mergers and acquisitions over a five-year period

Dold says the findings can be crystallised in the statement that more mergers fail for neglecting to manage the culture implications than any other reason

"These findings fly in the face of one of the most common arguments proposed for merger integration to realise synergy of resources, markets, technologies or people

"In reality, a merger process can be compared to the analogy of an iceberg Culture represents the four fifths of an organisation which lie beneath the surface

"Merging two cultures is like merging two icebergs If it is done without understanding what lies beneath the surface in terms of attitudes and beliefs, collision is inevitable"

Dold says managing cultural integration can be daunting, but there is a broad process which can be applied to this task

First, measure the separate cultures, decide which culture is wanted and build these assumptions into the things done in the organisation

This involves the way people are managed, their performance measured and rewarded and training and development 232

To engender a feeling of belonging to the new organisation, the involvement of people throughout the structure is essential

1991 not a year for the fainthearted

B10 Day 27/11/91

IT HAS been a year of restructuring for those with foresight, say stockbrokers Fergusson Bros, Hall, Stewart & Co's Paul Ferguson and Malcolm Dods.

Companies requiring new finance took advantage of the highly valued market to undertake rights issues to recapitalise or refinance their balance sheets or to raise relatively cheap finance for potential growth or expansion.

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Foresight

1991 has also been a good buying opportunity for those companies which have had both foresight and available resources. An example of this was the purchase by Samancor and Anglo of Middelburg Steel to boost the Columbus project.

"But it has not been a year for the fainthearted, with the economy showing negative growth, the restrictive monetary policy having little effect on inflation and low commodity prices," the stockbrokers say.

Restricted

"Only big players have been able to operate in such an environment, as small players have been restricted in their ability to make acquisitions due to a lack of financial resources and low rated share prices

"The outlook for 1992 does, however, look more encouraging.

"The world economy should start to pick up and three of the major SA mining houses are making more positive noises about the gold price

"However, there will be a delay of at least 18 to 36 months of an upturn in the economy before participants in the acquisition market are financially able and confident about making acquisitions.

"This is because the recession has eroded real wealth and gearing has to be reduced. But once business confidence has been restored we could well see the hectic acquisition activity which took place in 1986-87.

Opportunities

"While opportunities seem stacked in favour of large institutions with resources and track records, there are opportunities for smaller players who have the management ability to build successful companies," the stockbrokers say.

PAUL FERGUSON

Fundstrust comes under police probe

Bday 27/11/91 232

LINDA ENSOR

CAPE TOWN — The commercial branch is investigating charges of fraud against the directors of provisionally liquidated financial broker Fundstrust, and other parties

And in a further development, it emerged yesterday that apart from Gilbeys which had R45m invested with Fundstrust, consulting engineer Liebenberg & Stander had R1m invested on deposit through Fundstrust

A commercial branch spokesman said the fraudulent use of kickbacks was under investigation and that the police were also investigating round tripping, and possible contraventions of the Deposit Taking Institutions Act He added that the involvement of an unnamed bank was also being probed

Meanwhile, Registrar of Deposit Taking Institutions Hennie van Greuning said yesterday that, prompted by Fundstrust media advertisements, his office had requested the company to submit all information regarding its business activities by November 20 in order to determine whether it was contravening the Act and what action to take

Van Greuning said Fundstrust had requested an extension of time without mentioning a return date and his efforts to pin the company down on this date were overtaken by the provisional liquidation order

Falsified

Explaining how Gilbeys came to have R45m invested with Fundstrust on a fixed term maturing in February 1993, Gilbeys MD Peter Fleck said that the group's financial reports had been falsified to conceal the "investment".

He claimed the investment was an unauthorised action on the part of the group's suspended bookkeeper, Margaret Harding, who received R900 000 in commission from the investments

Amounts lent out were netted on a daily basis and it was not possible to pick up the missing money Fleck said that Harding, who was responsible for dealing only with cash on call, had no authority to undertake other forms of investment

Fleck said Gilbeys' major shareholder, the Britain-based International Distillers & Vintners, its other shareholder Rembrandt and its main bankers had given the group financial and moral support and that the missing money would not affect its cash flow

Fleck alleged Fundstrust directors had breached certain warranties given about the company's assets and liabilities in an agreement signed on November 18 which laid down the method of repaying the R45m. A probe by Gilbeys' auditors discovered that liabilities over and above the R45m stood at R19,5m and not R3,6m as warranted by Fundstrust directors Barrie Engelbrecht and Ansie Kamfer

Fleck said there were no indications as yet as to how much of the R45m would be recovered, especially as Fundstrust had not compiled a balance sheet since 1989

Provisional liquidator Lawrence Stein of Lawrence Stein Trustees said it would take 7-9 months before the assets could be realised.

Court papers revealed that Fundstrust handled Gilbeys money as follows. R12,5m was invested in bank and fixed deposits and shares, all in Fundstrust's name, R24,5m was loaned to companies, close corporations and a trust all controlled by the directors and shareholders of Fundstrust, R2,9m was used to finance the development of properties owned by Fundstrust, R2,4m was loaned to Engelbrecht to finance the development of properties registered in his name, and R3,2m was invested in mortgage bonds and loans.

Meanwhile, businessman and founder of Trust Bank, Jan S Marais, has denied any knowledge of wrongdoing at Fundstrust while he was a director of the company

In a statement yesterday Marais, who has resigned as a director of the company on the advice of his lawyers, said "minutes of meetings revealed no deviation from company guidelines, nor did I at any time directly or indirectly receive any indication that something was amiss"

He said Fundstrust was established in the early '80s to provide brokerage agency services and earning commissions through the handling and placement of monies for clients.

And in a separate statement, the Association of Property Unit Trust Management Companies said that Fundstrust was incorrectly described as a property trust fund Court papers described Fundstrust as financial and insurance brokers, fund managers and property developers

The association said that no registered property unit trust had ever collapsed in SA and that Fundstrust was not registered under the Unit Trust Control Act nor had any connection with any registered property trust fund

Pyramid structures deter the investors

B Day 27/11/91

SOUTH Africa should be prepared to play to international rules if it wants to attract foreign investors to the Johannesburg Stock Exchange

One of these is to disallow listed pyramid structures

The US, UK and most other common market countries have outlawed pyramids because they allow parties with a relatively small financial interest in the company to exercise control

The active contested bid activity in these countries works in favour of minority shareholders and it keeps management on its toes, says stockbrokers Ed Hern, Rudolph director of corporate finance Tak Hiemstra

"Foreign fund managers who show interest in our market have indicated they foresee this as a problem.

"Now that we have a code that regulates friendly and hostile takeover offers we need to facilitate this activity

"One way would be to collapse pyramid structures

"A good start would be not to allow any new pyramids and to commence the phasing out of old pyramids," he says

The Financial Services Board seems to be bent on freeing the markets and improving liquidity.

Addressing this issue could go a long way in achieving both 232

Interest

Hiemstra says "It is in the interest of a free market not to allow people to control a web of companies with interests as low as 1% in some of them

"Theoretically, collapsing pyramids could reduce market liquidity, but as absolute control cannot be assured, the 'fixed blocks' of shares could become tradeable'

JSE listing and equity markets GM Richard Conellan says pyramid structures has been an issue on the market for a long time and is continually up for discussion by the committee

Safex 'yes' to foreigners

BDay 27/11/91 (232)

ROBERT GENTLE

NON-residents have been given the green light by the Reserve Bank to start trading on the SA Futures Exchange (Safex) through the finrand from Monday December 2

Safex CE Stuart Rees said a meeting had been held at the Bank on Monday to put the final touches to the mechanism of handling non-resident accounts

Rees said the main problem was that non-resident trades be clearly identified In markets for other SA securities, this was obtained by simply endorsing the physical scrip as "non resident" As there was no scrip in the futures market, the solution was to register all non-resident clients with the exchange, as is the practice with local clients

Margin payments and interest flows on non-resident trades would also be standardised so that the Bank was aware of all related cash flows

Futures brokers could start registering foreign clients from Monday, Rees said, though he doubted actual trades would start until later in the month

This was confirmed by National Futures & Options and Greenwich Futures & Options

Spokesmen from the two firms said that while non-resident clients had been lined up, it would take a while to sort out administrative and other procedures

Safex expects foreign participation to boost trading volumes by at least a third by the end of the first quarter of 1992 Among the big foreign institutions that have declared intention to start trading on Safex is London-based Mitsubishi Finance International

Director and head of arbitrage operations Desmond Fitzgerald said at last week's annual futures conference that SA had a "reasonably active" futures market with a good cross section of instruments Mitsubishi was "looking forward" to trading in SA

Aroma Liquor battles to break even

BDay 27/11/91

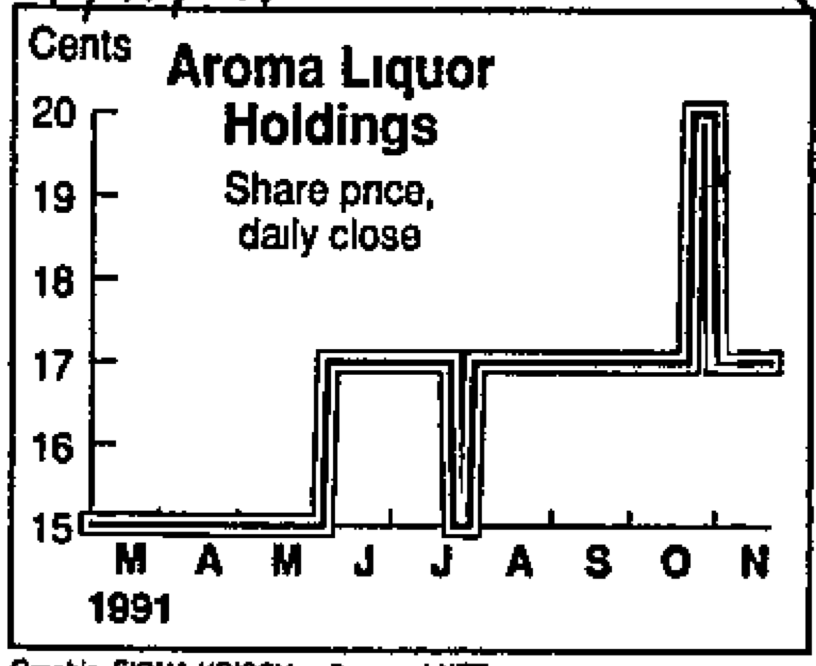
LINDA ENSOR

CAPE TOWN — Aroma Liquor Holdings performed poorly in the six months to end-August, barely breaking even

Results were dragged down by the low occupancy at the 103-roomed Cape Rendezvous, which suffered the same fate as the rest of the depressed hotel industry.

MD Mike Kovensky said prospects for improved earnings from the hotel were not encouraging

"The liquor division has performed comparatively well in difficult trading conditions," Kovensky said



Graphic FIONA KRISCH Source I-NET

Attributable income plummeted to R38 000 from R361 000, which was not sufficient to generate any earnings a share In the same period in 1990 earnings of 2,2c were generated.

Turnover rose 2% but operating income slumped to R300 000 from R764 000 After deducting a R239 000 interest bill and R23 000 for Aroma's share of an associate company's loss, little flowed through to the bottom-line

Kovensky said trading conditions in September and October were so poor that prospects for improved earnings for the rest of the year were "unpredictable" Much depended on whether hotel bookings picked up Traditionally, the second half delivers a substantial portion of earnings

Futures industry has image problem

B/Day 27/11/91

ROBERT GENTLE

AFTER nearly five years during which the futures industry has overcome considerable problems and has established itself as part of the financial landscape, it is still suffering from an image problem

The private investor is still loathe to put his money into the SA Futures Exchange (Safex) and would rather use the JSE.

Delegates at the annual SA Futures Industry Association conference held at Sun City at the weekend were told the industry's future depended on gaining public trust

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Nedbank senior marketing manager Ivan May said the Unit Trust industry had also suffered from negative public perception previously "But look at the industry today The institutions are behind it"

Growth Protected Investments head Trevor Nel questioned how the public could be expected to support futures when banks and other institutions were wary of of being publicly associated with it.

The broad consensus was that one of the main reasons for this negative image of futures was the controversial default and subsequent liquidation last year of futures broking firm Davis Ralph Sadleir (DRS)

Safex legal head Bob Power said the exchange had learned from its mistakes, especially regarding membership Rules had been modified and discipline tightened up Eventually, the results of disciplinary proceedings could be made public

Clegg in Hortors deal

WILLIAM GILFILLAN

CLEGG Holdings has acquired the general packaging business of paper and packaging holding company Hortors for R1,2m, to be financed by the issue of 8-million Clegg shares to Hortors at 15c a share

In terms of the deal, announced today, Clegg director Arnold Sharp has acquired 6,7-million shares from chairman Harry Clegg for just over R1m, giving effective control of Clegg to a consortium involving Sharp and Hortors

An offer would be made to take out the minorities at 15c a share B/Day

In an unrelated deal, an offshore consortium headed by John Henry Clegg had acquired 7-million shares in the company from the estate of the late A Bristow at 15c a share 27/11/91

Clegg this week recorded a R980 000 loss for the year to June after reporting earnings of R476 000 last year

Provincial sold to Investec for R11m

B/Day 27/11/91

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ROBERT GENTLE

THE Investec banking group has bought the Natal-based Provincial Building Society for R11m

The R11m cash consideration was by way of a payment of 73c in the rand to all qualifying holders of subscription and paid up shares in Provincial About 1 500 shareholders are involved

The deal was described by the two parties as mutually beneficial as each will be able to tap the other's key areas of expertise

Investec, which has been working towards new home loan products for its target market, gains access to Provincial's diversified home loans book Provincial, constrained in its operations by its mutual society status, is now able to diversify into unit trusts, portfolio management and other investment related products

Investec executive chairman Bas Kardol called the price a fair one, especially as it was "a very successful business" While rationalisation benefits would eventually be looked for, it was "business as usual" for the time being

The deal had been put together within the last four weeks, Kardol said

John Russell, who will remain as Provincial MD, said Provincial was one of the last mutual societies to have changed its status The only ones remaining in the Republic, he said, were Eastern Province Building Society and Grahamstown Building Society

He said Provincial had total assets exceeding R140m, of which the home loans book accounted for R100m Insofar as bottom line profits made any sense — as a mutual society, Provincial had no comparable equity to speak of — these were about R2m last year This means Investec bought Provincial for about 5,5 times net earnings

Russell said Provincial had some of the highest performance ratios of the industry Reserves as a proportion of assets stood at 11,4% Return on assets stood at 1,46% By comparison, the successful big five banks have a return on assets of between 0,9% and 1,05%

Russell said Provincial had been operating for 63 years and had a staff complement of 60 Its home loans book was "evenly spread" throughout the country There are offices in Durban, Cape Town and Johannesburg

COMPANIES

Milstan has tough six months

MARCIA KLEIN

CONSUMER electronic products retailer Milstan Holdings (Milstan) had a tough six months to end-August, when attributable earnings almost halved to R995 000 (R1,9m) B/Day 27/11/91

The company, which trades as Stans and Miltons and has a controlling interest in Hi-Fi Specialists, increased its turnover by 13,4% to R68,4m (R60,3m), the rise being mainly due to the opening of four new stores in prime shopping centre locations, financial director Laurance Etkind said Two stores were closed during the period

Increased pressure on margins was reflected in a 41,2% reduction in operating profit from R2,8m to R1,7m Milstan's bottom line performance was further affected by the fact that it paid interest of R32 000, after receiving interest of R96 000 at this time last year

Profit after a reduction in taxation was 45,7% lower at R1,1m (R1,9m), and earnings declined by 47,8% to 3,6c (6,9c) a share

Directors said "in view of the traditional strong cashflows, as well as the underlying strength of the business" and its long term market strength, an interim dividend of 2,0c was declared, 11,1% down on the previous year's 2,25c

Etkind said Milstan remained "aggressively committed to building market share by placing consumer electronics within reach of a broad target audience" The company planned to open two stores over the next four months

Milstan hoped for good Christmas sales

Barprop sets out rules for more developments

B/Day 27/11/91 232

PETER GALLI

BARLOW Rand Properties (Barprop), under current property market conditions, will undertake new property developments only if they are substantially pre-let or existing vacancies have been reduced, and the economy shows signs of recovery

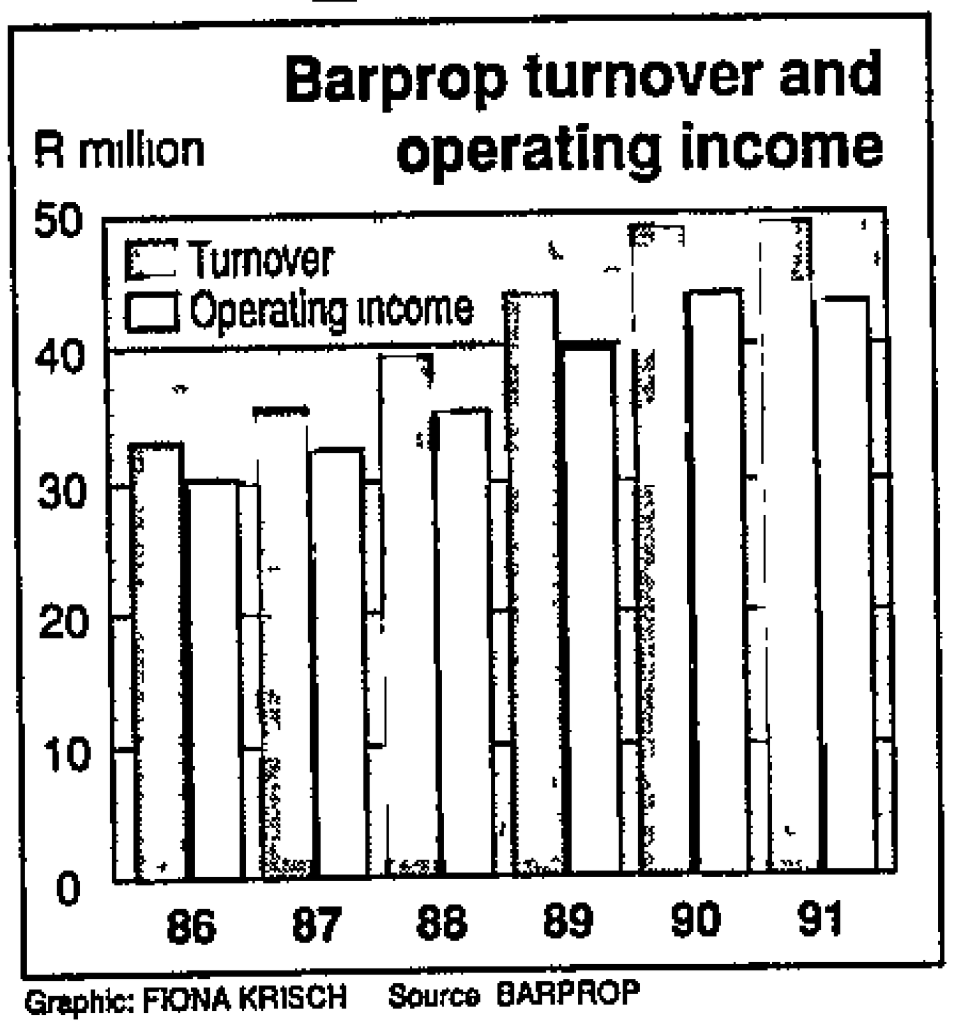
In his chairman's statement in the latest annual review, Evert Groeneweg said management continued reviewing its property portfolio in the light of market requirements and urban expansion trends so as to optimise growth over time

"Balancing the spread of properties and concentrating the portfolio into the major centres continued, with R19,9m being realised from the sale of decentralised properties over the year," he said

The weaker economy prevented the group from disposing of all property investments previously identified, with the remaining decentralised properties and vacant land, valued at R22m and R14m respectively, to be sold in 1992 should conditions permit

"After these sales, Barprop will have almost completed its disposal of 75 identified decentralised and low-growth properties The R114m cash realised over the three-year period from 1990 to 1992 will be reinvested," Groeneweg said

Developments to the value of R10,9m were completed in the year under review,



Graphic: FIONA KRISCH Source BARPROP

and have been leased on a long-term basis to the tenants A number of property acquisitions were made over the year, and several new developments were started

Barprop's portfolio was 99% let at the year-end and it is not expected that any material vacancies will occur during 1992

In the year to end-September, Barprop paid dividends 7,7% higher at 11,53c a share, with the annual rate of interest paid to loan stockholders rising to 16,91% from 15,71%

Turnover rose to R48,882m from R48,531m, with operating income dropping to R42,979m from R43,796m

Spescom reverses loss

B/Day 27/11/91 WILLIAM GILFILLAN

ELECTRONICS group Spescom has reported earnings of R751 000 for the six months to October, having made a loss of R431 000 in the comparable period last year

Whereas a 2,2c loss a share was recorded last year, earnings a share of 3,8c were turned in this year.

Turnover, at R18,6m, was 42% up on last year's R13,1m converting into an operating profit of R1,8m against last year's operating loss of R39 000.

MD Johan Steyn was bullish on potential growth in the export market He hoped exports, which had generally accounted for no more than 10% of turnover, were to rise to between 20 and 30% by 1994

EXECUTIVE SUITE

Mergers and acquisitions

Planning process can be split up into five phases

B/Day 27/11/91 (232)

IN DEVELOPING long-term business plans, management may find its projected performance falls short of its goals and a merger or acquisition must be developed to bridge the gap

Arthur Anderson & Co country managing partner Sam Abrahams says such a programme may also derive from shorter-term needs or opportunities, such as competitive pressures and other factors

The acquisition planning process can be split into five phases

Phase one develops acquisitive strategy, phase two selects target industries, phase three selects target companies, phase four develops approach, contact and investigation plan and phase five is to plan post merger integration

Abrahams says the first phase of acquisition planning is the development of an acquisition strategy, which documents what the buyer is seeking to achieve through an acquisition and how the acquisition will complement the buyer's overall strategy

The strategy is then translated into a framework and quantitative and qualitative factors used to screen industries and companies for their acquisition potential

The buyer should develop specific quantitative and qualitative screening criteria that can be used to analyse potential target industries (growth, stability, demographics, competitive forces, life cycle) and companies (size, market share, return on capital employed, past performance, technological position, location, management capability)

The second phase is the selection and evaluation of high potential target industries

This process requires that the buyer narrow down the number of industry sectors to be pursued by comparing each industry with the established industry criteria

The buyer should conduct an economic evaluation of the selected industries to reduce the industry target list and determine which industries merit further investigation and assess the attractiveness of each targeted industry by combining quantitative factors with in-depth analyses of the more qualitative characteristics of each industry

Compare

The buyer should compare his resources and capabilities against similar factors in the target industries (synergic fit) and finalise the list of target industries by combining the evaluations of industry attractiveness with synergic fit.

Once the target industries are selected, a similar process may be used in phase three to screen and identify candidates that offer the highest potential for acquisition within each target industry

Target companies are identified by developing strategies for operating in each target industry, finalising the preliminary company-screening criteria developed during phases one and two and developing a preliminary list of high potential acquisition candidates within each target industry by using the screening criteria and penetration strategies developed in the steps outlined

In phase four — develop approach, contact and investigation plan — Abrahams says a plan on how to approach target companies should be developed before any contact takes place

As part of this plan, a brochure describing the history, background and characteristics of the buyer is frequently used to acquaint target companies with the buyer's objective and philosophy

Before a target company is contacted, it is important to identify the likely financial and operating benefits that a combination might bring to both companies

Abrahams says this is useful in preliminary discussions with target companies as well as the continuing evaluation of those companies.

At this point, an initial meeting of the parties to a potential business combination should take place

Both parties should attempt to evaluate their mutual interest, establish a procedure for subsequent meetings and determine the degree of secrecy desired by buyer and seller

Here again, advance planning is important

Once initial contact is made, further study or investigation may be warranted

As a minimum, a portfolio of basic data describing the target company ought to be accumulated and reviewed in what is commonly called a "businessman's review"

The purpose of this review is to supplement the profile developed earlier in the screening process with proprietary and internal information from the target company

In phase five, although post merger integration activities take place after the acquisition has been completed, planning to integrate the acquired entity should begin early in the acquisition process, with the level of detail increasing as the process nears its final stages

Some common areas that require planning include policies and procedures, human resources, financial and operational reporting, organisation and management structure, customer and supplier relationships and data processing

Abrahams says plans are needed to integrate each of these areas successfully and the assistance of functional and industry specialists may be required in such areas as organisational analysis, space planning, computer systems and human resources

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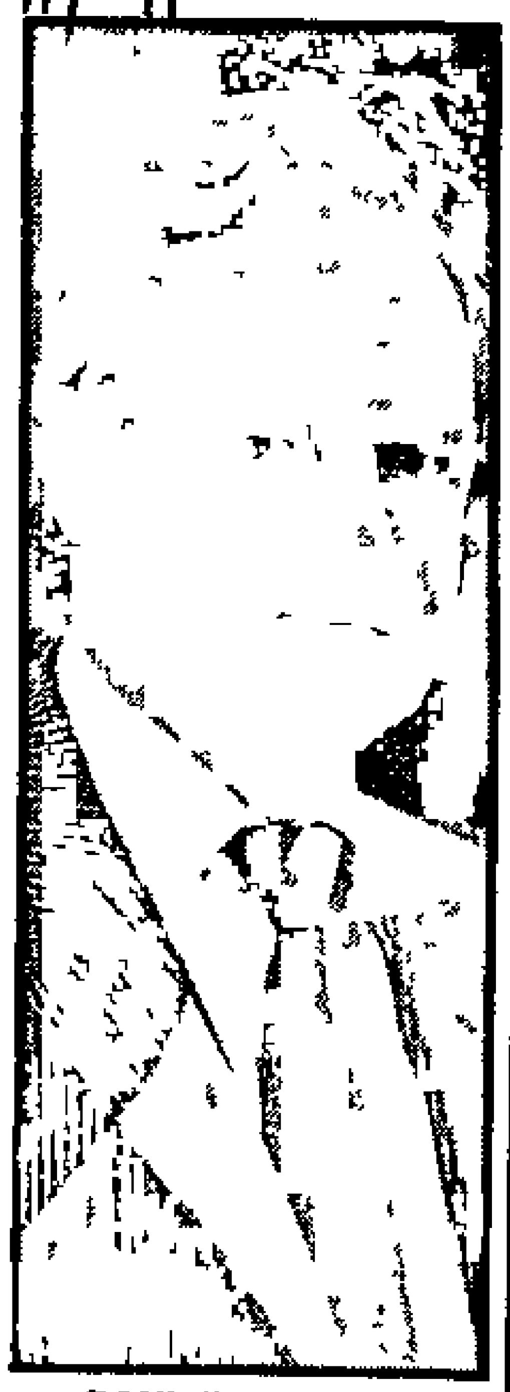
1991 not a year for the fainthearted

B/Day 27/11/91



PAUL FERGUSON

IT HAS been a year of restructuring for those with foresight, say stockbrokers Fergusson Bros, Hall, Stewart & Co's Paul Ferguson and Malcolm Dods

Companies requiring new finance took advantage of the highly valued market to undertake rights issues to recapitalise or refinance their balance sheets or to raise relatively cheap finance for potential growth ~~or~~ expansion (232)

Foresight

1991 has also been a good buying opportunity for those companies which have had both foresight and available resources An example of this was the purchase by Samancor and Anglo of Middelburg Steel to boost the Columbus project

"But it has not been a year for the fainthearted, with the economy showing negative growth, the restrictive monetary policy having little effect on inflation and low commodity prices," the stockbrokers say

Restricted

"Only big players have been able to operate in such an environment, as small players have been restricted in their ability to make acquisitions due to a lack of financial resources and low rated share prices

"The outlook for 1992 does, however, look more encouraging

'The world economy should start to pick up and three of the major SA mining houses are making more positive noises about the gold price

"However, there will be a delay of at least 18 to 36 months of an upturn in the economy before participants in the acquisition market are financially able and confident about making acquisitions

"This is because the recession has eroded real wealth and gearing has to be reduced But once business confidence has been restored we could well see the hectic acquisition activity which took place in 1986-87

Opportunities

"While opportunities seem stacked in favour of large institutions with resources and track records, there are opportunities for smaller players who have the management ability to build successful companies," the stockbrokers say

COMPANIES

Two shares suspended on JSE

MARC HASENFUSS

SHARES of two DCM-listed companies, door manufacturer Lanchem and Ancom Jet Aviation (Anjet), were suspended on the Johannesburg Stock Exchange this week after failing to comply with disclosure requirements

JSE listings GM Richard Connelan said yesterday that both companies had failed to publish their annual reports within the prescribed time limit this year

According to JSE rules, the committee will schedule a meeting within 30 days of suspending the shares to consider a possible termination of the listings

If Anjet and Lanchem fail to make representations or to publish the required financial reports within the 30-day limit, both shares are likely to be terminated

An Anjet spokesman said group directors were unable to comment at present but would be prepared to comment after they had followed up the JSE's decision

Business Day attempted to contact Lanchem directors during business hours yesterday but phone calls were unanswered

Sapa reports that the JSE had tried, in vain, to contact the company to obtain a response

(232)

A JSE spokesman said it was hoped that the suspension of the shares would "flush out" Lanchem's management and get them to comply with the prescribed requirements on disclosure

Almost a year ago Lanchem was suspended in connection with a Reserve Bank investigation into suspected forex fraud

Insider trading rife despite legislation

B Day 28/11/91 (232)

NANCY KEATES

DESPITE tough legislation enacted in February, many analysts say insider trading on the JSE will persist until there is a prosecution

They say the new laws are still battling a locally entrenched belief that insider trading makes the market more efficient

Studies on the JSE by academics and accounting firms show that stock prices have risen or fallen sharply three months prior to corporate developments or earnings reports that would be expected to have had an impact on share prices

Brokers say there's a high level of insider trading "The received opinion in SA from people in the marketplace is that it is fairly ingrained," says JSE president Tony Norton

But there has never been a prosecution for insider trading in SA

Norton says despite clear evidence of insider trading, regulators were unable to prosecute because laws were ineffective

Passed in February, the new law differs from the old in its improved definitions of, among other things, fiduciary and general trust relationships, including how an outsider can be determined to have traded on behalf of an insider It also places the burden of proof of rebuttal on the accused

The new legislation created the securities regulation panel to enforce the stronger measures

Under the new law, companies are forbidden from passing privileged information to any one group. They must make any price-sensitive information they release available to all investors, either through the stock exchange or the media

Analysts say changes in the regulations were put off until last February because of the opinion shared by many that insider trading makes the stock market more efficient by promoting rapid and accurate pricing of a company's shares

"An efficient market reflects all information," says University of Cape Town professor Brian Kantor, who leads the pro-insider trading pack "If important information is being held from the market, then the seller is disadvantaged Anyone who buys and sells shares implicitly believes that they know something more about it or they would not spend the time and money on investment analysis"

Other analysts say there is a more practical reason for delay in tightening insider trading laws

"No-one did anything about it because no-one was interested enough The person who lost out was the simple minority shareholder The big guys did not get caught out," says Kessel Feinstein senior partner Zell Rangecroft

Among recent movements observers point to was the 19% climb in the shares of Lonrho a British industrial holding company also listed on London's International Stock Exchange, a week before Lonrho said it was negotiating with the Soviet precious metal marketing body Glavalmaz over the formation of a platinum cartel Also, Gentyre Industries stock surged 30% in the week before Continental Tyres announced it was taking a stake in Gentyre's holding company, W & A

Analysts say the the new law has a wider definition of fraud and carries a prison sentence of up to 10 years as well as a fine of up to R50 000

"With insider trading, the financial penalties are just the cost of doing business The one thing they do not want is their freedom to spend their riches curtailed The fact that it is getting difficult to find people indicates the word is around that we mean business," says Norton

But many people say insider trading will only be curbed when there is a prosecution Ernst & Young partner Claire Herbst says SA needs a well-publicised "Boesky" case to make people take insider trading legislation seriously

Norton says a prosecution will happen "It's only a matter of time I am really looking for somebody at the moment"

The securities regulation panel has examined 13 cases in 1991, two of which were "fairly close calls where the evidence looked horribly suspicious," Norton says — AP-DJ

(232)

STAR 28/11/91

Alexander's placement successful

By Jabulani Sikhakhane

Fraser Alexander (Alexander) has succesfully placed 3,3 million new shares with various institutions and stockbrokers at R11 each to fund the R36 million acquisition of waste management company Waste-tech from Transport & Technical Industries (TTI)

Alexander said in an statement last night that the Waste-tech acquisition should increase Fraser Alexander's net asset value by 21 percent to 811c and add some 7 percent to earnings for the current year

Oversubscribed

The share placement was oversubscribed by 3,9 million shares.

Chairman Peter Flack says this indicates that the market also shares Alexander's confidence in Waste-tech and the waste management industry

"In addition to funding the acquisition without straining our resources, the placing has to some extent increased the tradeability of Fraser Alexander shares which is one of our major long-term objectives," Mr Flack said

Two more companies suspended

(232)
STAR 28/11/91

The Johannesburg Stock Exchange has suspended the listings of another two companies for failing to comply with disclosure requirements.

In a statement the JSE said it had suspended the listings of Lanchem and Ancom Jet Aviation in terms of section 17(3) of the Stock Exchanges Control Act 1985

On Tuesday the JSE said it had terminated the listings of Dalsig, Manserve and Suregro

According to a spokesman for the JSE, it was decided to take the action against the two companies as they had not forwarded financial statements to the JSE and shareholders within the prescribed time limits.

In the case of Lanchem, the JSE had tried, in vain, to contact the company, its management and directors

In terms of JSE rules the committee has to call a meeting within 30 days of suspending the listing of a company to consider termination of the listing.

The JSE has had contact with the directors and management of Ancom but shareholders and the JSE are still awaiting the financial statements of the company

The JSE spokesman said it was hoped the suspension of the shares would, in the case of Lanchem, "flush out" management and/or the directors and get them to comply with the prescribed requirements on disclosure while it was hoped the Ancom directors and management would be forced into doing so as soon as possible

Both companies run the risk of having their share listings terminated in 30 days time if they do not make representation to the JSE and/or produce financial statements

The JSE spokesman indicated it was possible other companies' shares would be suspended if they did not comply with the disclosure rules timeously He, however, declined to say if any companies were facing the threat of suspension at present.— Sapa

Associate firms knock Rembrandt

BDay 28/11/91 (232)

LINDA ENSOR

CAPE TOWN — The recession bit deep into the performance of the Rembrandt Group's associated companies in the six months to end-September with the result that earnings of the diversified group showed no real growth

Earnings rose only 10,7% to 83,18c (75,13c) a share

However, if the contribution of the associated companies is stripped out of the results, earnings a share increased by 25% to 61,26c (49,04c), reflecting a strong performance by Rembrandt's tobacco and liquor interests

The interim dividend has increased by 20% to 12,6c (10,5c)

The R24,6m decline in the contribution from associated companies to R120,9m (R145,5m) saw the 23,5% growth in pre-tax income of R544,1m (R440,4m) — which largely reflects the liquor and tobacco interests — translate into a 10,7% growth in attributable income of R434,2m (R392,2m)

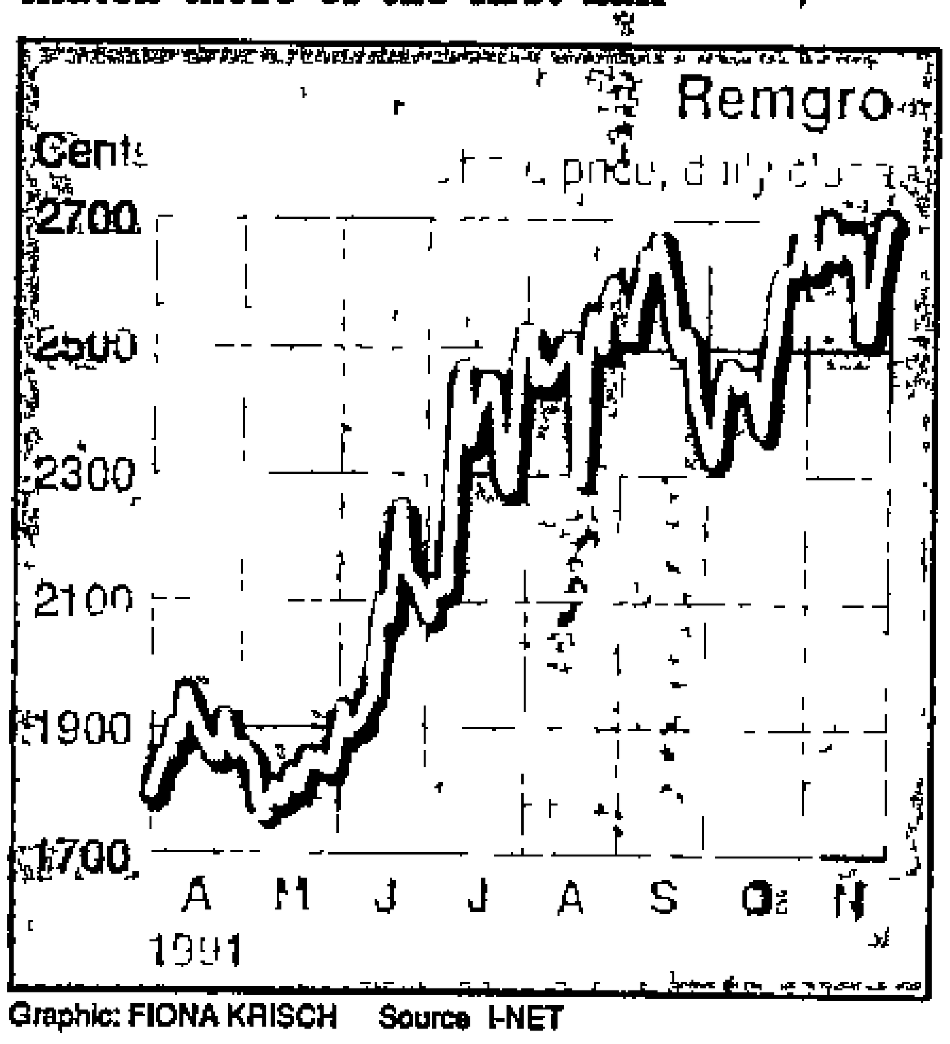
The sale of the major part of the Standard Bank Investment Corporation (SBIC) stake brought in R452m cash into the group, with an extraordinary capital gain of R242,6m being realised in the interim period The figures do not reflect an extraordinary profit of R216m

The group's capital commitments at end-September was R56,1m (R99m)

Rembrandt Controlling Investments has declared a 9,33c (7,78c) dividend on earnings a share of 61,58c (55,64c) The company's share of the group's capital gain was R123,9m and it made an extraordinary profit of R110,4m

Technical Investment Corporation (TIC) notched earnings a share of 54,01c (48,79c) and declared a dividend of 8,18c (6,82c) a share Technical and Industrial Investments (TIV) declared a dividend of 8,67c (7,23c) a share on earnings of 57,2c (51,67c) TIC's share of the group's capital gain amounted to R50,3m and it made an extraordinary profit of R44,8m, while the respective figures for TIV were R42,3m and R37,6m.

Chairman Johann Rupert cautioned in the profit announcement that the second half's earnings should not be expected to match those of the first half



Graphic: FIONA KRISCH Source I-NET

Kanhym 'wrests Fedfood from Rembrandt grasp'

(232)

B|Day 28|11|91

MARCIA KLEIN

REMBRANDT Group company Hunt, Leuchars & Hepburn (H L & H) had almost clinched a deal with Sankorp to acquire Fedfood, but was pipped at the post by Kanhym in an unexpected last minute twist, a source close to Fedfood claims

The source said that Fedfood MD Jan du Toit and holding company Fedvolks' MD Peet van der Walt had "made a deal" with the Rembrandt Group six months ago

The deal would have seen Fedfood merge with the food interests of Rembrandt subsidiary H L & H

The source believed Sankorp CE Marinus Daling was persuaded to agree that in the process of merging Fedfood with another company with food interests, a new leader — in the form of H L & H CE Neil Morris — could be found following Du Toit's retirement

Daling had been concerned over who would fill Du Toit's shoes, he said, and had previously indicated he would want this to be someone within Fedfood

"The idea was that Morris would succeed Du Toit, who would retire next year in a blaze of glory after having concluded the deal "

However, the source believed that just before the scheduled signing of the deal, a Kanhym board member heard of the developments

Kanhym approached holding company Malbak, telling executive chairman Grant Thomas that Fedfood was a sitting duck for a takeover, the source said Kanhym apparently suggested to Malbak that the takeover would not be hostile, as it would constitute a rationalisation of food interests in the Sankorp stable

Malbak moved quickly — within four or five days — and the deal was wrapped up

Federale Volksbeleggings (Fedvolks) MD Peet du Toit confirmed yesterday that there had been discussions between Federale and H L & H But he said these were merely discussions, and that Federale had also been talking to "various parties"

According to the source, Du Toit announced to senior executives that Fedfood had been taken over by Malbak using Kanhym as the vehicle, but he assured them there would be no major changes

Thomas also addressed them a few days later and reassured them He said the deal had been concluded quickly, and there had been no time for due diligence studies, which would begin as soon as possible

Newly appointed Fedfood CE Dirk Jacobs told the executives that Fedfood's projection figures — of turnover and profits — would not be met as the company had invested too heavily in assets He said the implications of the deal would be known in January

However, some days later he retrenched 32 people at head office These included financial director Charl Kocks, GM strategic planning Anthos Yannakou, senior GM Johan Brand, Fedfood founder and ex MD Sias du Toit, group manager public affairs Dirk Rezelman, financial officer Anna da Trindade, research and development manager Owen Frisby, and corporate financial manager Lappies Labuschagne

The source said "succession planning" was a major concern of Sankorp When it became clear that Du Toit was to retire, three senior GMs — Brand, Simba MD Neville Isemonger and Tjaart van der Walt — were appointed with a view to succession, but that succession was not to materialise

Various top executives who had been retrenched were seeking legal advice on whether the retrenchements constituted unfair dismissal Most were given a month's notice (but had to leave the group with immediate effect) as well as one month's retrenchment pay

Unit trust legislation welcomed

BDay 28/11/91

Business Day Reporter

SOUTHERN Life has welcomed the proposed changes to unit trust legislation which will allow portfolio managers to invest a maximum of 10% of the market value of the fund's assets in any company with a market capitalisation of more than R2bn.

In a statement yesterday Southern's GM investments Carel de Ridder said the Unit Trusts Control Act allowed a fund to invest only 5% of its securities in any single share.

He said the proposed 10% ruling would influence share prices to rise in good quality companies as the unit trusts industry would be more active buyers.

"Large, underperforming companies, however, could see their shares sold as many unit trust fund managers may have been buying these shares because of a lack of suitable alternatives."

Increasing the limit to 10% would not increase the risk to the portfolio, De Ridder said.

Benefits

"Research done on the JSE as well as other stock markets around the world has shown that a portfolio consisting of 15 good quality counters is sufficient to cancel out most share risks and expose the fund largely to market risks."

Funds investing a maximum of 5% of assets (net of cash) in a share held a minimum of 20 counters and in practice the number of shares in a portfolio was usually more than 20. This did not add to the benefits of the portfolio's diversification.

"Share indices are constructed from a representative sample of shares and the weighting of the indices depends on the market capitalisation of shares in each sector. A share with a large market capitalisation will therefore play a bigger role in an index.

"Shares with a large capitalisation on the JSE could contribute more than five per cent to an index."

"By allowing fund managers to reduce the number of counters in their funds, the portfolios would also become more focused," he said.

"The new legislation can only serve to remove the anomalies and inefficiencies in the market and must be welcomed."

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Receiver ordered to refund brokers

(232)

B/Day 29/11/91

SUSAN RUSSELL

IN WHAT lawyers describe as a landmark decision, the Appellate Division this week ordered the Receiver of Reven· to refund R165 000 to an insurance brokerage which paid tax on a portion of its business in the mistaken belief that it was legally obliged to do so

Brokers Robert Enthoven and Co (Pty) Ltd paid the tax during 1985, believing it was payable on business effected and renewed through Lloyds, but not underwritten by a Lloyds broker

In terms of the Insurance Act tax was liable on policies underwritten by Lloyds

The company, having merged with Willis Faber and Co to become Willis Faber Enthoven, took the Receiver of Revenue to court in a bid to recover the money

Transvaal Supreme Court judge Mr Justice Spoelstra found that the tax was not payable

The judge, however, dismissed the claim on the basis that the money paid was a result of "a mistake of law" (an incorrect interpretation of one's legal liability) and therefore not recoverable

This week the Appellate Division overturned Mr Justice Spoelstra's finding

The Appellate Division upheld Mr Justice Spoelstra's finding that the tax was not payable

It ruled that money paid due to a mistake of law could be recovered if the mistake was excusable in particular circumstances

In this instance Robert Enthoven and Co, before merging with Faber Willis, paid the tax in the mistaken belief the amount was due in terms of what is stated in the Insurance Act

The company's belief had been reinforced by a circular from the office of the Registrar of Insurance calling for payment

Believing the terms of the Act to be unclear, the company's financial manager also telephoned the Registrar's office and was told the tax had to be paid

Also relevant was that the Insurance Act imposes a criminal penalty for non-payment

An attorney acting on behalf of Willis Faber Enthoven said the judgment was a landmark decision

"The Appellate Division has put an end to a legal anachronism, namely that money paid as a result of a mistake of law is irrecoverable, which has prevailed at least since the days of the first SA republic," the lawyer said

PICKARD GROUP FM 29/11/91

Minorities gird loins

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Inevitably, when money is lost, the insecurity created generates more questions than does the comfort of profitable performance So when minority shareholders at the Picardi Holdings (Pichold) AGM accused the board of reneging on an agreement to meet and discuss many aspects of the declining fortunes of the group, it was not an altogether surprising development

What was somewhat surprising was that the complainants refused to divulge precisely what was worrying them, apparently out of warm regard and respect for chairman Jan Pickard Snr A couple of other shareholders tried in vain to draw the matter into the

cont →

FOX FM 29/11/91 (232)

open So the accounts were approved *nem con*, as were all other resolutions It was agreed that the board would meet this week to discuss and report back to the complainants decisions regarding their approach

The Pickards must have known the contentious matters would come out in due course They appear to be the following in the recent annual report Pichold provided R500 000 for legal expenses in connection with the Cape Investment Bank debacle Shareholders are anxious to know why this was provided (some R400 000 has already been spent) when Pichold has a claim of just R64 000 against the bank

It is also alleged that the Pickards, pressed by banks as a result of large losses incurred in the group, last year gave a bank or banks an option to acquire 15% of Picardi Appliances (Picapli) at 100c a share This action was not reported to shareholders

Shareholders' ire was really raised when some definition was put to directors' remuneration of R1,5m Only three of the six were meaningful beneficiaries financial director Johann Vermooten, R295 000, Jan Pickard Jnr, R453 000, and Jan Pickard Snr, who officially retired after six months in office, R311 000, though the company allegedly also funded the buy-back of his pension for a further R460 000 Three non-executive directors together received R6 000

Such packages may not be excessive for top executives who run large, profitable enterprises But what irks Pickard group shareholders is the dismal performance of the past couple of years (see *Companies*)

And what are the top companies for? Pichold's major assets are 93% of Picapli and R21m cash lent to Picapli Why is it necessary to have two holding companies and an excessive and expensive head office structure? Some shareholders allege interest on the R21m is absorbed by the Pickards and their trappings, with little filtering into minority shareholders' hands

Minorities have fired the first shot in a battle to unlock value in the group It will be interesting to see how the war is waged

Gerald Hirshon

New cableway to be funded with R250m

B/Day 29/11/91

LINDA ENSOR

CAPE TOWN — About R250m is to be raised through a private placing of preference shares and/or debentures with local and foreign investors to fund the proposed cableway between the Waterfront and Signal Hill, and related developments.

These include a 1 200-space parking garage, a pedestrian underpass linking the lower cable station with the Waterfront and an additional office park in Portswood Road, under negotiation with the Victoria & Alfred Waterfront Company.

Also under discussion is a pedestrian bridge linking the Waterfront with Greenpoint, and entertainment and accommodation facilities

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SA Money Management MD John Harrison, who is responsible for the fund raising, said yesterday R50m would be raised on behalf of the operational company, which will probably be called Signal Hill

☐ To Page 2

Cableway

b/day 29/11/91

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☐ From Page 1

Cableway Co, to fund the erection of the cableway, the upper station and other facilities on top of Signal Hill

A further R200m would be raised in a separate issue on behalf of the development company, Forty-Four Dock Road Limited, to fund the lower station and the ancillary developments

Harrison said local and overseas investors were very interested in the proposals, adding that different funding mechanisms would be used for each of the projects because of their different time spans However, he said a mix of debentures and preference shares would be issued mainly to pension funds and life offices

The financial instruments would be secured by leases over plots of land

It is expected that the cablecar, which will travel 1,5km in 10 minutes, will be operational by December 1993

The plan will affect property owners in Boundary Road above which the cable car will travel The developers have already spent more than R700 000 buying three affected properties

A quality restaurant and an environmental and history centre would be among attractions on Signal Hill

Matriculants will receive standardised certificates

B/Day 29/11/91

DAVE LOURENS

ALL matric students will receive the same certificate in future regardless of which education department they wrote under, following a proclamation in today's Government Gazette

SA Certification Council executive director Fred Calitz said after September next year senior certificates for matric and national N3 certificates, the technical equivalent, would be issued by the council

This year's examinations would therefore be the last to be certified by the 10 different departments

The examining body would not be mentioned on the new certificate, but the certificate would still indicate whether a candidate had met the minimum requirements for university entrance as set by the Committee of University Principals

Consistency in standards would be ensured using techniques developed by the Joint Matriculation Board Common external moderators would check the standards of questions and the marking memorandums, and there would be statistical adjustment of marks

Retaining the Joint Matriculation Board methods would ensure a smooth transition without disruption and would preserve the integrity of present certificates, but research would be conducted into how to improve and refine those methods

The ultimate goal was that the new certificate should strike the correct balance between the interests of candidates and those of employers and higher educational institutions

If a candidate did not obtain a full senior certificate, a certificate of subjects passed would be issued

Two companies provisionally wound up in Fundstrust case

B/Day 29/11/91 (232)

LINDA ENSOR

CAPE TOWN — Two property development companies which owed about R15,3m to collapsed fund managers and property developers, Fundstrust, were provisionally wound up in the Cape Town Supreme Court yesterday

The application was brought by the provisional liquidators of Fundstrust, Ralph Millman of Cape Trustees and Lawrence Stein of Lawrence Stein Trustees

Newhaven Holiday Enterprises cc, which is developing a resort in Knysna, had a R7,8m loan from Fundstrust, and Brakkloof 1989 No 49443 Property cc had a R7,5m loan to purchase a property called Solar Beach at Plettenberg Bay Both loans were advanced on November 1 by Fundstrust

Thirty one cabanas had been constructed as part of the Newhaven development and were presently being marketed under sectional title Sales worth about R6m had been concluded, Millman said in his affidavit A further R3m would be required to complete the development

Newhaven was 90% owned by Fundstrust director Barrie Engelbrecht, the other 10% being held by a Mr Thiart The personal estates of Engelbrecht and his co-director Ansie Kamfer were provisionally sequestrated on Wednesday

Brakkloof is 50% owned by Engelbrecht and 50% by Kamfer as nominees of Fundstrust The company bought land in Plettenberg Bay which it subdivided into plots and sold Millman said 57 plots had not yet been sold or transferred into the names of the purchasers

He believed that Fundstrust provided the entire funding of Brakkloof

Millman said if the companies were not provisionally liquidated their financial position would deteriorate rapidly

Mr Justice S Selikowitz was on the bench and R W Tainton appeared for the provisional liquidators

☐ No one who had bought property from the two provisionally liquidated companies were financially at risk, Stein said yesterday

If erven bought in Plettenberg Bay from Brakkloof had been transferred into the purchaser's name, then the assets were secure Where transfers were in the process of being finalised, the provisional liquidators would in all probability ratify them, Stein said

No transfers had taken place in Newhaven, Knysna, as the sectional title register had not yet been opened but there was no chance that people would lose their deposits, Stein added

Meanwhile, it emerged from a circular sent out to investment creditors by the provisional liquidators of Fundstrust yesterday that they were investigating the reasons why substantial assets of the company were held by Engelbrecht and Kamfer as nominees, and not by the company

It was to prevent the pair alienating these assets that their personal estates were provisionally sequestrated

Stein said it was "very unusual" for assets to be held by nominees

SBDC gives birthday present to shareholders

CPress 1/12/91

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TO mark the 10th anniversary of the Small Business Development Corporation (SBDC), and in recognition of the commitment and support of its shareholders, a special dividend of 10 percent was declared at the SBDC's 10th Annual Meeting last week

Issued share capital at March 31 this year amounted to R224 718 602, equally split between private ("A") and public sector ("B") shareholders

As the SBDC's Articles of Association stipulates that public sector shareholders may only participate in a dividend declaration exceeding eight percent, the 10 percent dividend was declared as follows 10 percent of "A" shares making R11 235 930, 2 percent of "B" shares making R2 247 186

Shareholders were given the option of receiving the dividend in cash or by capitalisation of shares

This is the third dividend declared by the SBDC since its inception in 1981

A dividend of eight percent was declared in 1984 by way of a bonus issue of shares to all private sector shareholders

Another dividend of five percent, amounting to R4 294 million, was declared in 1989 and shareholders were given the choice of receiving it in cash or capitalisation of shares

BEN VOSLOO . . . Managing director of the SBDC.

So far, total dividends of R7 531-million have been paid by the SBDC to its shareholders The retained income held by the SBDC at March 31, 1991, amounted to R86-million

"It is unusual for a development organisation to be declaring dividends at all," said Dr Ben Vosloo, managing director of the SBDC

"The declared dividend is proof that the SBDC's unique structure of private sector control enables it to apply sound business principles and financial discipline, which is the only real guarantee for sustainable economic growth."

Vosloo said dividends were declared whenever possible to emphasise the SBDC's market approach

Further proof of the financial discipline and sustained performance of the SBDC was the fact that the value of the shares of the original investors had nearly doubled over the past 10 years

"With both the past declarations, 95 percent of our shareholders opted to plough their dividends back into our development projects We believe that the majority of our shareholders will once again decide to do the same," said Vosloo

Over the first 10 years of its operation, the SBDC granted loans to the value of R1,1-billion to 31 000 entrepreneurs and 280 000 jobs were created and maintained in the process Nearly R100-million was paid in taxes

"To maintain a growth rate of 20 percent over the next five years, the SBDC requires an additional capital injection of R750-million," said Vosloo

'S HAPPY DAYS FOR DOUBLE YOUR MONEY SHAREHOLDERS

(232)

S Times (Buss) 1/12/91

LAST YEAR only two companies on the JSE gave shareholders a return of more than 100% in one year. This year no fewer than 65 doubled shareholders' money.

Top of the one-year pops was M-Net, which gave its shareholders a return of 373%

Second came Kenwood hi-fi distributor Supalek Holdings on the strength of a share price that soared from 26c to 100c in a year

Thanks to Mossgas and a livewire management with an eye for exports, Genrec enriched shareholders by 252% in a single year

The JSE Actuaries financial and industrial index soared to 4 429 at the end of September from 3 019 a year before, implying that the average rise for non-mining stocks was 46%

With the average PE up from 8,7 to 13,3, one can calculate that earnings on average in the period actually fell by 4% Taking inflation into account and the lack of inflation accounting on the JSE, the real deterioration in earnings was far worse

By DAVID CARTE

The hot-house effect on the JSE was largely responsible for the great rise in share prices in spite of negative average profit growth

Institutional cash flows in the year are estimated to have exceeded new share issues by nearly R30-billion

The old prescribed asset requirement has fallen away and equities are in, not only for the established institutional players but the State pension funds.

Institutions can almost be forgiven for thinking they are playing a game they cannot lose They buy equities, the market goes higher, their investment performance looks great and more money flows in

Sad

But it was not all beer and skittles on the JSE Stagnant gold and commodity prices together with high interest rates saw to it that virtually the entire mining sector was laid waste

Those in Barmine lost 86% and in Barplats 85% The list of smaller mining groups at the bottom of the table goes on and on — Nigel, Modder, Southgo, Southwits, Freddies Devils, Gazgold, Cons Mining, South Roodepoort, Stilfontein and Messina

Misfortune was not confined to mining Investors in Mike Clarke's venture capital company New Company Investments sustained a loss of 87% in the past year

Saddening events played themselves out in industrials as well, most notably in Unidev, where shareholders lost 75% in a year and Rusfurn where the loss was 54%

Other disasters occurred in Frame, Bester Investments and Mathieson & Ashley

TOP 100 COMPANIES

It is an unusual company that makes the running in the one-year performance table in two consecutive years The only companies in last year's top 20 that appear in this year's top 100 are Carlton Paper (No 4 last year, No 10 this year), Suncrush (No 7 and No 46), Utico (No 15 and No 26), Trencor (No 18 and No 61) and Fidelity Bank (No 19 and No 74) All five slipped down the rankings

COMPANIES EXCLUDED FOR TOO LITTLE TRADE

RANKING WITHOUT EXCLUSIONS

Saflife	10
Coates	17
Sable	33
Ninian & Lester	40
Adonis	41
Mathieson & Ashley	46
Concor	55
Witwatersrand Gold Mining	66
Unihold	68
MacPhail	70
Witbank Collieries	73
Micor	74
Yorkcor	76
SA Bias Binding	84
Delswa	87
National Trading Co.	93
KWV	94

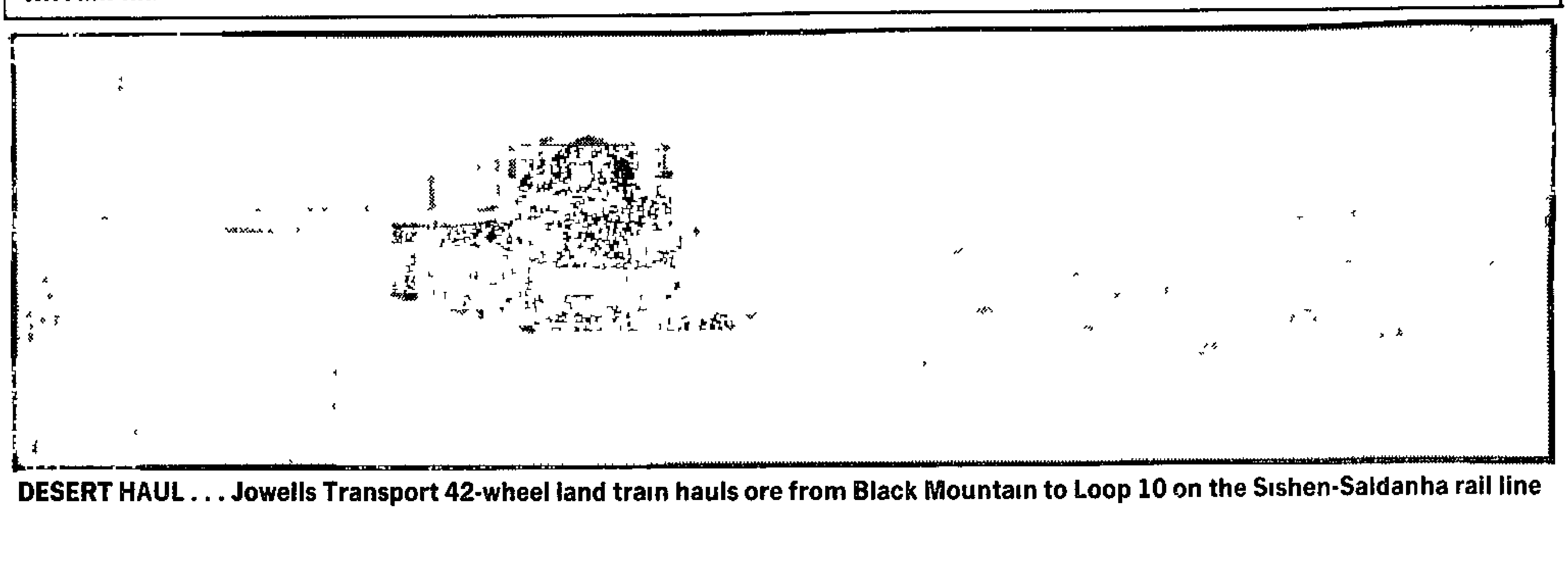
INVESTMENT TRUSTS, PYRAMIDS, HOLDING COMPANIES AND EXPLORATION COMPANIES EXCLUDED

Ranking without exclusions

Industrial & Commercial Holdings	9
Tempora	42
Darling & Hodgson	49
Wesco	50
Sakers	53
Bidvest	59
CG Smith	67
CG Smith Food	79
Liberty Holdings	81
Common Fund	85
Hosken Consolidated Investments	90
Anamint	92
Huntcor	96
Industrial Selections	97

NON-SA COMPANIES EXCLUDED

Lonrho Sugar	34
Central African Cables	51



DESERT HAUL . . . Jowells Transport 42-wheel land train hauls ore from Black Mountain to Loop 10 on the Sishen-Saldanha rail line

Steelpoort sold for R5,25-m

(232) STAR 5/12/91.

Pretoria Correspondent

A last minute bid by Johan du Plessis, son of former Minister of Manpower Pietie du Plessis, to save his Northern Transvaal town Steelpoort from being auctioned yesterday, was dismissed by a Pretoria Supreme Court judge

Steelpoort was sold for R5,25 million at a public auction

The town, situated on the farm Goudmyn, includes a number of businesses, three banks, a post office and a garage

The property was purchased by Peter Quinton on behalf of a finance company

On Tuesday, Mr du Plessis brought an urgent application after hours to halt yesterday's auction which was arranged by joint liquidators of the liquidated J P L du Plessis Beleggings (Steelpoort) (Pty) Ltd, the company formed by Mr du Plessis and his father

Mr Justice Botha dismissed the application with costs as well as an application for leave to appeal

The judge also refused to suspend the public auction

In an affidavit, Mr du Plessis said after the liquidation in October liquidators informed creditors last month that Steelpoort, or the remainder of the farm Goudmyn 337 measuring 7 082 456 ha was to be auctioned yesterday

Mr du Plessis said he was shocked at the advertisement of the proposed auction and the short notice given

Mr du Plessis claimed the property of 7 082 456 ha and improvements were worth R13 185 000

Paraplegics in Tembisa get R70 000

(232) STAR 5/12/91

The Disabled People of South Africa (DPSA) organisation and the Canadian Embassy yesterday donated R70 000 to the paraplegics of Tembisa

DPSA spokesman Friday Mavuso said his organisation had donated R40 000 and the Canadian Embassy R30 000

"The money will be used to buy a fence for a factory site donated to the disabled by the Tembisa council as well as to provide other infrastructure," he said — East Rand Bureau flected R1,4m, in 1989 R3m was given as

problems in the rest of the sporting world"

The trial continues today before Mr Justice Strydom

Curators are discussing sale of Club Mykonos

B/Day 5/12/91 (232)

LINDA ENSOR

CAPE TOWN — Masterbond Group provisional curators were discussing with two interested parties the sale of the Club Mykonos resort as a going concern, it was disclosed in the Cape Town Supreme Court yesterday.

However, potential purchasers of the west coast resort had been waiting in the wings to clinch a good deal and no definite offers had been received, court papers disclosed

An application was successfully brought for a postponement — to February 12 1992 — of the return date of the provisional liquidation orders on five Masterbond companies — Rosenfontein Masterprop, Mykonos Weskus Beleggings, Club Mykonos Langebaan Resort Managers, CML Developers and Club Mykonos Langebaan

The application was brought on the grounds that a final liquidation order would reduce the prospects of realising the true value of the companies' assets In support of the application provisional curator Arnold Galombik said a final liquidation order at this stage would not be in the interests of creditors and investors

He said one of the main reasons why the Financial Services Board had applied for the appointment of provisional curators was to protect investors and creditors of the Masterbond group and to ensure that the assets of the group were realised to their best advantage

Representatives of the shareblock purchasers in Club Mykonos supported the postponement and were prepared to intervene to oppose the granting of a final order at this stage

JSE terminates broker's membership

ROBERT GENTLE

JSE stockbroking firm H G Crosby, a one-man operation run by Hillary Crosby, was placed in default yesterday after failing to meet its obligations. Its JSE membership was immediately terminated. (232)

Crosby was unavailable at his office, and calls to his home went unanswered

JSE president Tony Norton refused to comment on rumours in the broking community that Crosby had left the country. Details of money involved in the default were not yet known, but all positions had been frozen and an investigation begun

After being advised that the firm had been unable to meet its commitments, Norton said the necessary steps were taken and the firm was declared in default.

Section 9 of JSE Rules and Directives states that clients protected in terms of the guarantee fund are covered up to R1m "for transactions in securities other than gilts" and a further R1m "for transactions in gilts", and that "all broking members shall be liable jointly for any shortfall following the exhaustion of the assets of the fund".

Norton said he believed it was the first time in about 20 years that a member had been placed in default. He was confident the fund — which stands at about R70m — would ensure client protection.

BD 15/12/90

More return, less risk for small investors

Soweto 5/12 - 11/12/91

(232)

THE GYRATIONS of the Johannesburg Stock Exchange over the last week or so starkly highlight the risks involved in investing in the stock market. But, for ordinary people, those risks can be minimised, if not neutralised, by investing in the JSE through unit trusts.

This is because their money is invested by highly skilled people in a wide cross-section of shares to maximise return and minimise risk.

This is something individual investors would be hard-put to do on their own — they just do not have the experience, information, skills, time and, most importantly, the money.

The head of Southern Life's unit trust management company, Francois Goosen, believes anyone with less than R20 000 to invest in the stock exchange should be looking to a unit trust company to manage his/her assets.

"I believe that it is risky for the small investor to go directly into the stock market and buy one or two shares," he says.

"Research has indicated that a well-structured portfolio would include a spread of at least 20 shares — something beyond the means of many investors."

BoE's Mr Colin Roux agrees and says for an investor to independently buy shares in 20 listed companies would cost tens of thousands of rands.

This is because the investor would have to buy a minimum of 100 shares in each company and some top-notch or blue chip shares cost more than R100 each — a price tag the unit trusts, using collective buying power can afford, but beyond the small investor

Instead, for a monthly investment of, say, R50, or a payment of R500, the unit trust holder buys the time, expertise and buying power of the unit trust; checks the price of his/her units published in the daily press, which reflects the underlying prices of the shares in the unit trust portfolio and calculates how the investment is doing.

Once a year, he/she receives distributions which can be reinvested or paid out in cash.

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Buying units

GETTING IN and out of unit trusts is a relatively hassle-free experience. Units can be bought over the counter after filling in a form at most life assurance companies and banks. Buyers can invest either a lump sum or decide to make regular monthly payments of a certain amount.

An annual report on the shares the company has invested in during the past year is available, as well as notification of what dividends are paid out yearly.

South 5/12-11/12/91.

If buyers need to liquidate their investments, they fill in another form and get their money back, less commission charges, within a week or so, depending on where they are staying.

No rating, no investment from Japan and US, says SA agency

B Day 5/12/91.

ROBERT GENTLE

JAPANESE and US investors will not invest in the shares and commercial paper of SA companies until the companies obtain a credit rating from a recognised international rating agency, says Dave King, head of local rating agency Republic Ratings

He was speaking in an interview yesterday shortly after returning from an overseas trip

Ratings were necessary because strict regulations in the US and Japan required major investors, such as pension funds and trusts, to place money only in "investment-grade securities" — securities which have a high enough rating

King said even if local companies were rated by international agencies like, say, Moody's or Standard & Poor's, their ratings would be so low as to perhaps deter potential investors

This was because of the low credit rating of SA itself, which a recent Euromoney survey put at 36th position — below countries like Mexico or Czechoslovakia

"The message overseas is that these company ratings would necessarily be lower than SA's sovereign risk rating, which itself is regarded as far from investment grade In fact, it is regarded as speculative, mainly because of political risk "

King said the advice from overseas investors was for SA companies to wait two years for the political situation to improve before venturing overseas for an international rating

However, obtaining a local rating would in the interim help overseas investors to better assess their profitability and creditworthiness

"We have noticed increased interest in local ratings from overseas investors, mainly banks in the UK, France, Germany and Switzerland," said King "They seem mainly interested in the ratings of blue chip corporates and banks "

Enquiries were also coming in from African countries, he said, and Republic would soon embark on a marketing drive to sub-Saharan Africa

King said Republic had already rated more than 30 local companies, from Eskom and the Post Office to First National Bank and Tiger Oats Informal ratings had also been done on 150 other companies

Big corporates like Transnet had started to allocate lending business on the basis of these ratings He said FNB had picked up extra credit lines "worth three figures in millions" simply because it was rated

"There is no doubt that the case for ratings has received a boost from affairs like Masterbond, FundsTrust and Cape Investment Bank," said King

FINANCE

Brokers predict gold upswing will boost economy next year

(232)

8 Day 5/12/91

The bare Russian gold cupboard should put the bear to flight and see golds stage a strong recovery in 1992 In the second of a series of articles **MERVYN HARRIS** reports on the views of leading brokers for next year

MAX Borkum of stockbrokers Davis Borkum Hare & Co said it was common knowledge that Russia had disposed of large amounts of gold on world markets in the past two years

"For practical purposes the cupboard is now bare Jewellery demand for gold is holding up comparatively well despite the world recession and is likely to remain at around current levels next year

"With no major increase in production likely, the only other possible source of supply will be from private holdings and central banks Next year is therefore likely to see a substantial shortfall between supply and demand

"I expect therefore that there will be a strong recovery in gold and gold-related assets, including gold shares, with a beneficial effect on the whole South African economy"

Borkum said there were obviously two other factors that could not be ignored, the direction of First World economies and SA's political situation

"I believe that world economies will have seen a turnaround by the middle of next year I have always been an optimist regarding the long-term political future of our country and I believe the negotiating process will be sufficiently on course over the next six months for the remaining sanctions to be lifted"

Borkum said this should make it possible for the SA Reserve Bank to follow less restrictive policies.

He added "The driving force in the markets during the past year — the institutional cash flow — will continue to be a major factor in our market in the absence of structural changes, of which there is presently no indication

"My forecast, therefore, is for a strong and broadly based market but with more emphasis on the mining and financial boards, and on other export industries"

Edey Rogers & Co's Franco Busetti said the industrial market was very expensive by all historic yardsticks, having been driven by perceptions that the next economic upswing would be of unprecedented strength and duration

It was discounting dividend growth of more than 30% a year for the next five years, while the highest level ever achieved previously had been 21% a year An investment in the industrial index at current levels was likely to result in negative real returns in the long term.

"In the year ahead it is difficult to see this market's rating improving much further, so the upside potential will be in line with forecast dividend growth of about 14%

"On the downside, the market is very vulnerable to any negative rerating; if its yield subsides only halfway back to its historic average, a 33% fall in the index would result," Busetti said

Gold bullion, however, could be at the start of a new upswing Worldwide economic worries and the absence of Russian supplies were a formidable combination

"However, we remain cautious, partly because gold has been such a consistent underperformer for the last 10 years and partly because gold needs a background of generally strong metal prices to rise materially

"Metal prices, in turn, cannot perform well until the industrialised economies have recovered The very worries that are making bullion a little stronger at present will also diminish its upside potential over the medium term

He said a high degree of liquidity was advised "Cash is not an unattractive alternative investment at present"

Frankel Max Pollak and Vinderine's Sidney Frankel said the mood, performance and asset allocation of the JSE in 1992 would probably be determined by formula investments

"The proven route for institutional investors — and remember the annual net cash flows of the major financial institutions and the yearly turnover of the JSE are roughly equal — is to invest in the high market capitalisation stocks, which offer trading mobility, and to stick to companies with an established record of earnings growth at least equal to SA's long-term inflation rate

Frankel said that should the South African economy exhibit signs of reasonably sustainable economic upswing next year and should interest rates come down, there was little reason to doubt that investors would cast their eyes beyond the limited number of blue chip index stocks and look for buried treasures

"A number of second liners have shown consistently good earnings growth in recent years or have been restructured to provide interesting recovery potential"

"The post-sanctions bonus has yet to be reaped by the JSE, at least in terms of the volume of foreign participation in our market The number of active foreign investors, who have benefited from the JSE being the top performing major international stock market over the past year, would probably not fill a decent sized restaurant"

Frankel said the generation of "mass appeal" for SA investments among foreigners would probably require the establishment of a workable political accord and the lifting of all sanctions barriers "Until then SA will be largely regarded as a non-establishment market

"A recovery in the gold price to a trading range at least above its 10-year average price of around $385 is also required," Frankel said

"Some, if not all, of these factors may be in prospect for 1992 If so, the international investor will return and help provide the liquidity and volumes necessary to allow the JSE to more actively fulfil its role as a mobiliser of capital for the new SA"

Lining up a long-term investment

South 5/12 - 11/12/91 (232)

THE UNIT trust field is as competitive as any in the financial services market, but there are some broad guidelines to follow when choosing which to invest in. There are nearly 40 unit trusts in South Africa, controlling investment funds of more than R10-billion, and each offers a different investment mix.

Some have general investment portfolios, buying shares from a spread of industrial, mining and other shares to ensure losses in one sector are balanced by gains in another. This is usually best for ordinary investors who want safety for their hard-earned cash

Then there are unit trusts specialising in shares in mining or industrial companies or in top companies on the stock exchange Because they have all their eggs in one basket, these trusts entail a bit more risk than the general trusts, but the portfolio managers again try and spread risks as widely as possible.

For example, not all mining companies are doing badly when the gold price is in the doldrums, and by investing in a large cross-section of mineral and metals producers, the trusts can offset the effect of a weak gold price.

The most highly specialised trusts are those that invest only in gold — and these are for investors willing and able to shoulder the risks and, sometimes, high returns of gold.

There are also unit trusts aimed specifically at helping people set aside money for their children's education, to buy a home or for their retirement.

Whatever you choose, unit trusts advise you take a long-term view of your investment. They don't encourage speculators and Old Mutual advises new clients they should have a savings as well as a unit trust account. The savings account can be used for short-term requirements while unit trust funds should be invested for at least five years

There are several reasons unit trusts should not be used for speculative purposes Most obvious is that the main aim of unit trusts is to help people save and realise capital growth. The best way unit trusts can do this is by having a stable pool of capital to work with — people moving money quickly in and out not only create a lot of paperwork, but make forward planning difficult.

Another is that unit trust holders pay small management charges, which are built into the buying price of their units, as well as yearly service fees These vary from trust to trust.

But if trust holders suddenly see a boom in the stock exchange and a rapid rise in the prices of their units, they could decide to "make a quick killing" and sell them — without always taking into consideration whether their "profit" will cover the charges already paid or due, or the tax on their speculative fling

On the other hand, when the stock market takes a dip, savers might get panicky and wonder if all their savings might not be wiped out as unit prices fall below what they paid for them They might be tempted to pull out to salvage what they can — but perhaps leave it too late and sell at a loss

The advice in both cases is to ride out the storm The October 1987 stock market crash spooked many investors, but unit trust holders emerged virtually unscathed because of the wide spread of unit trust investments.

Those who make a regular monthly investment in a unit trust could also, in fact, benefit from a downturn such as experienced recently on the JSE Because of "Rand Cost Averaging", investments made when the market is weak acquire more units than when it is strong. This strengthens capital growth as the market recovers.

D

'Left' turn signals change

South 5/12 - 11/12/91 (232)

WHEN A left-wing academic, who sold shares he had inherited because of his abhorrence of capitalism and of apartheid, admits he has been buying unit trusts, then times are a-changing.

It's not that the Johannesburg Stock Exchange and big capital have been rehabilitated politically and morally, but that as lefties of all races and sexes grow old and gather family responsibilities, they, too, want the best return for their money.

And unit trusts seem to be able to do just that.

However, there is still a niggling worry about the soundness of investing in the JSE, albeit at arms' length through unit trusts or directly through pension funds.

It is not surprising that attention is turning to ways of ensuring that unit trust and pension funds are invested only in listed companies that meet certain environmental, labour and other social criteria.

A quick whip around academic circles in Cape Town revealed that this has not yet taken any concrete shape. People are just starting to think about it. But precedents set in other countries are being examined.

In the United States and Britain, public pressure has resulted in unit trusts distinguishing between companies that are acceptable and those that are not when it comes to environmental and other issues. So far, the decision to drop those that are not acceptable has had no effect on the return on investment of the unit trusts.

It has also been suggested that more left-wing or grassroots organisations should join pension funds and create lobby groups of shareholders who can pressure for investment in socially responsible companies.

The unit trust managers and pension funds are somewhat dismissive of these views, saying it is their job to do the best for their investors across the board and not to make social or political judgements.

Effective antitrust law needed to deal with monopolies

B Day 4/12/91

GREG WYNNE (232)

JIM JONES's article "Creative taxes can topple pyramids and spread wealth" (Business Day, November 27) has touched on an extremely sensitive nerve

His theory of a shareholder trust endowed with 1% of the equity of all listed companies on behalf of the lesser privileged is neither workable nor would it be effective By his own admission it amounts to pure tokenism Jones, however, addresses a critical issue of our time That issue is the method of redistributing power from the small band of monopolists who control the economic resources of this country

SA has historically been a monopolist's paradise The economy has been dominated by a handful of individuals who have amassed family fortunes of gargantuan proportions The power which these individuals wield is undoubtedly immense One might argue there is nothing wrong with having so much power concentrated in so few hands and even, as does Jos Gerson ("Pyramid companies play central role in wealth creation", Business Day, November 29), that it is healthy

Undoubtedly the association of a company with an individual of great wealth and power adds value to that company's stock Monopolies also, however, tend to keep prices high and wages low However convincingly Gerson may be able to interpret Anglo/De Beers chairman's fund-sponsored statistics, he does not address the real issue That issue is simple can we, as an about-to-be-born free market democracy, afford to allow the monopolies to continue pulling our economic strings

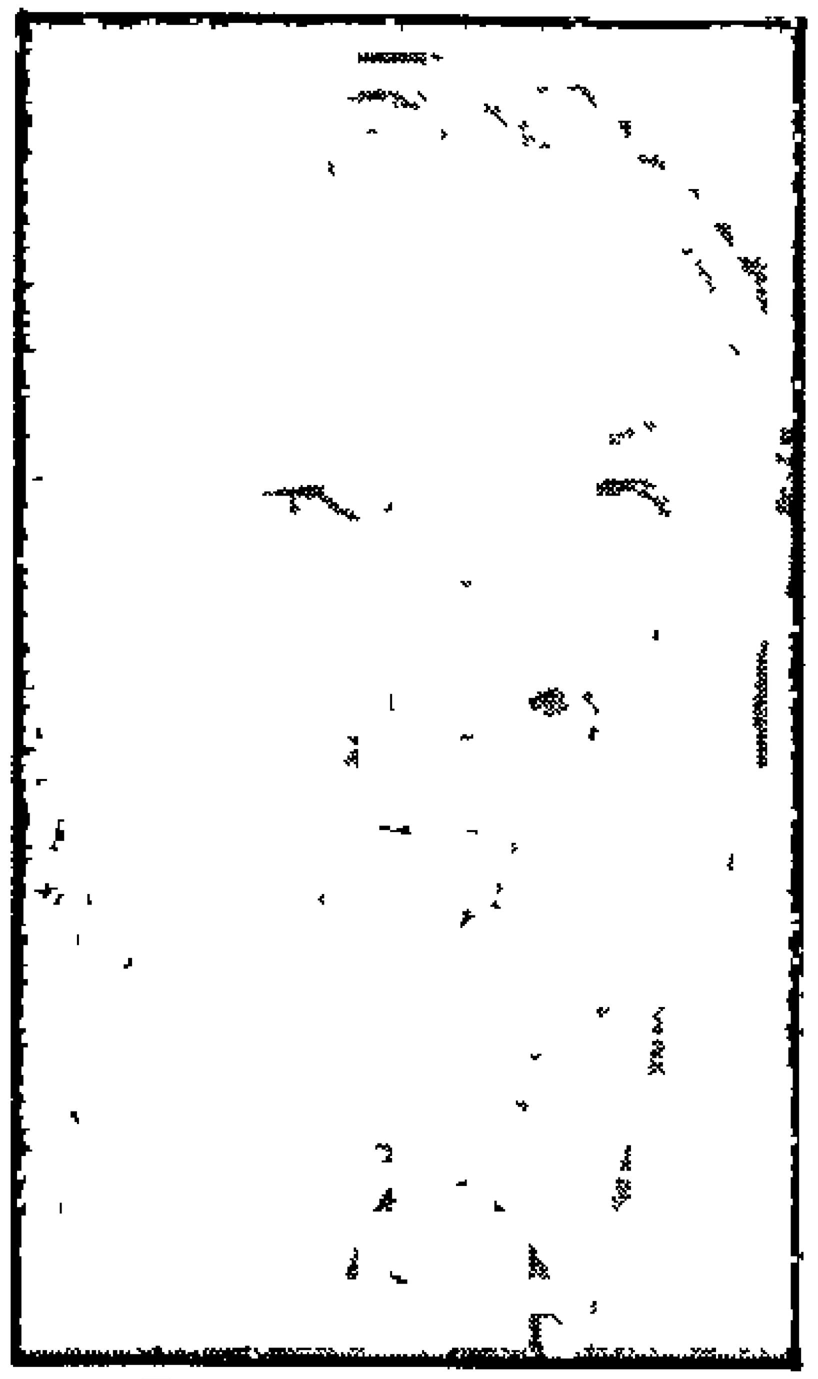
Constitutional systems throughout the democratic world are based on the philosophy of a separation of powers This entails a split between the legislative, executive and judicial functions of government Power in the executive is checked by the legislature which is in turn answerable to the people The legislature (in a country such as the US but not SA), on the other hand, may have its laws declared invalid by the judiciary if those laws are unconstitutional Judges are appointed by the legislature and may be removed by it.

So exist the checks and balances of democratic constitutions The French philosopher Montesquieu (L'Esprit de Lois 1748), the Englishman John Locke and the Greek Aristotle were all proponents of power separation They realised that the concentration of more than one class of function in any one person is a threat to individual liberty Their ideas are the foundation of modern democracy

The economy, even more so than politics, is a source of power The American distrust of all forms of unchecked power led to the enactment of the first antitrust statute as early as 1890 (the Sherman Antitrust Act) The word "trust" here denotes restraint on competition and trade, including monopoly formation, cartels and the like

In SA legal jargon, it carries an entirely different meaning In the words of Senator Sherman himself "If we will not endure a king as a political power, we should not endure a king over the production, transportation and sale of any of the necessaries of life"

The antitrust laws, among other things, give the American courts the power to make companies (or individuals) divest themselves of their interests in any particular industry if



DAVID ROCKEFELLER

the court can be convinced that that company is monopolising that industry Thus, in 1911, the philanthropic Rockefeller family dynasty's Standard Oil Corporation was forced to divest itself of a large portion of its oil interests in order to break up the oil monopoly

When ordering the breakup of the American steel monopoly in 1948, Supreme Court Justice Douglas formulated the rationale behind antitrust legislation most eloquently He said "In the final analysis, size in steel is the measure of the power of a handful of men over our economy. That power can be used with lightning speed It can be benign or it can be dangerous The philosophy of the Sherman Act is that it should not exist For all power tends to develop into a government in itself Power that controls the economy . should be scattered into many hands so that the fortunes of the people will not be dependent on the whim or caprice, the political prejudices, the emotional stability of a few self-appointed men The fact that they are not vicious men but respectable and social minded is irrelevant That is the philosophy and command of the Sherman Act." (US vs Colombia Steel Company)

Many economists in the US believe that antitrust laws make an important contribution to economic health, and American leadership in the world economy tends to support this view Gerson's dismissal of the antitrust legacy as a "disaster" is neither substantiated nor true. It would be highly offensive to modern antitrust lawyers

Antitrust laws are the charter of freedom, the economic constitution, of a free market system A free market without free competition is an absurd notion and it seems logical therefore that competition should be protected if one is to maintain the free market

The only disaster in American economic history (the depression of the '30s) was caused by the government's failure to enforce the monopoly-busting policies of antitrust legislation during the '20s It is widely accepted that the depression resulted from an overconcentration of economic power in too few hands

The South African Maintenance and Promotion of Competition Act of 1979 has similar divestiture provisions to its US antitrust counterparts It is unfortunate that the Competition Board (created in terms of that Act) has failed so dismally in its function It is a papier-mâché Mephistopheles with no teeth

The ambition of an individual to compete in trade and commerce is accepted as an honourable value in our society The individual must be allowed selfishly to make a profit This is a fundamental human right It is also the source of energy which drives the wheels of industry If left uncontrolled this highly explosive fuel may degenerate into unfair competition and to the beast destroying the best

For this reason the industrialist competing in business, like the athlete striving for victory, should be required to play by the rules The athlete may not take drugs The industrialist may not monopolise Monopolisation is against the rules It is evil and we must put an end to it There are two alternatives, the first being nationalisation, the other effective antitrust legislation Gerson may well describe antitrust as disastrous, most reasonable South Africans shudder even to contemplate nationalisation

☐ Wynne is studying for an LLM in corporate law and is serving his articles at a Johannesburg law firm.

Brokers bullish about the future

B Day 3/12/91.

AFTER a year in which blue chip industrials remained in the fast lane to surge to record levels, the gold market could be set to experience more exciting times in 1992 Leading stockbrokers look back on 1991 and ahead to next year
MERVYN HARRIS reports

FERGUSSON Bros, Hall Stewart & Co's Paul Ferguson said the market performed exceptionally well in 1991, especially as there were some significant calls on funds due to various major rights issues in the latter part of the year

Most forecasters expected that these calls on funds would cause a reaction on the market, but they did not

"One area of concern is the performance of overseas stockmarkets, especially New York It is very clear that even though we have exchange control, we are not isolated from international trends and if there is any major movement, especially in the New York market, there is little doubt that our market will react in sympathy There is a close correlation between the JSE and Wall Street

"However, there is no doubt the US administration's prime aim is to stimulate the economy and a recovering business cycle will be positively perceived by the New York market"

Other than this, Ferguson said, he believed the JSE would perform positively and that, once again, it would be a haven for the raising of finance through rights issues.

"There is a possibility that very little will happen in the capital market due to the obstinacy of the inflation rate But we believe this is already discounted and will not have any detrimental effect on the performance of equities

"One also hopes to see a return of overseas interest in our industrial shares"

Senekal, Mouton & Kitshoff's Louis Geldenhuys said the gold market was set to experience more exciting times "Exciting not only because the gold price is very low in real terms and may well already be in the process of bottoming, but as gold mines stand to benefit handsomely from any recovery in the gold price because of management actions

"I think, however, that optimism should be tempered in an environment that is unlikely to ensure a sustained rise in 1992 Investors should be prepared for occasional disappointments"

Geldenhuys said that despite question marks, the world economy should exhibit a better shape and inspire more confidence as 1992 progresses This should start to rub off favourably on exports and shares such as De Beers, Samancor, Sappi and mining houses during the year

"The industrial market is not cheap But there are strong reasons to expect a continued rise of industrial share prices These include the prospect of at least some economic recovery in the course of 1992, which is likely to gather momentum in 1993 and even beyond, lower nominal interest rates, a fairly weak track record of alternative investments, and public sector pension funds entering the field of equity investments

"The main risks probably centre on the world economy, and world bourses, next year's Budget, and possible changes in exchange control and the local political scene

"There is also reasonable evidence to suggest that the political negotiation process will remain on track The coming Budget may, however, hold a few nasty surprises

"On balance, I would not be surprised to see continued strength in industrials even though some interim sluggishness may not be avoided I will stick with the proven winners," Geldenhuys said (232)

Irish & Menell Rosenberg's Phil Ward said Russian revelations of their declining precious metal stocks would virtually guarantee a fair market for gold and the platinum group metals, as relative supply shortages were experienced from those sources

"Globally the outlook for 1992 will be largely dominated by signs of economic recovery from the recessionary tendencies of the past three years, and by electoral considerations in the US and the UK, with prospects of a renewal of world inflation a possibility

"In SA, we will be witnessing the progress of all-party talks and considerable progress will have to be made before there can be major changes in the sanctions position or renewed access to IMF loans

"These are necessities for the commencement of infrastructural and social developments on any scale"

Ward said there should remain a good number of SA equities which, through the very nature of their activities, remained inflation-proof. But these were seldom contributors to real growth in GNP

The construction industry was at a low ebb in terms of the level of orders for roads and housing projects, yet it was to this sector that most would look for evidence of the building of the new SA

South Murch becomes Revere Resources

By Derek Tommey (232)

Shareholders in South Murchison Consolidated Mines have agreed to change the name of the company to Revere Resources STAR 2/12/91

Its JSE listing has been moved from the "Mining and Exploration" sector to "Mining Financial"

Glen Laing, who holds 68 percent of the company's shares, says this will make it a significantly stronger vehicle for acquiring, widening and developing its portfolio of mining assets

Shareholders have also approved the acquisition of a major stake in Rand Leases, where underground mining has been resumed

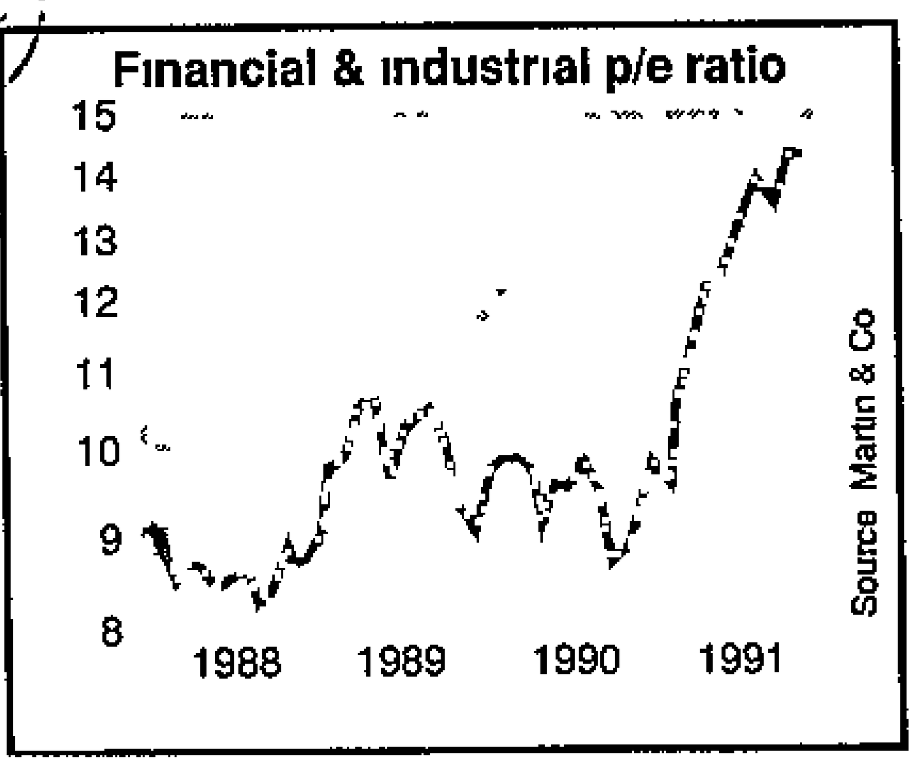
Modder B shareholders have approved a proposed scheme of arrangement between Revere and Modder B creditors, which brings Modder B a step closer to being acquired by Revere as a cash shell

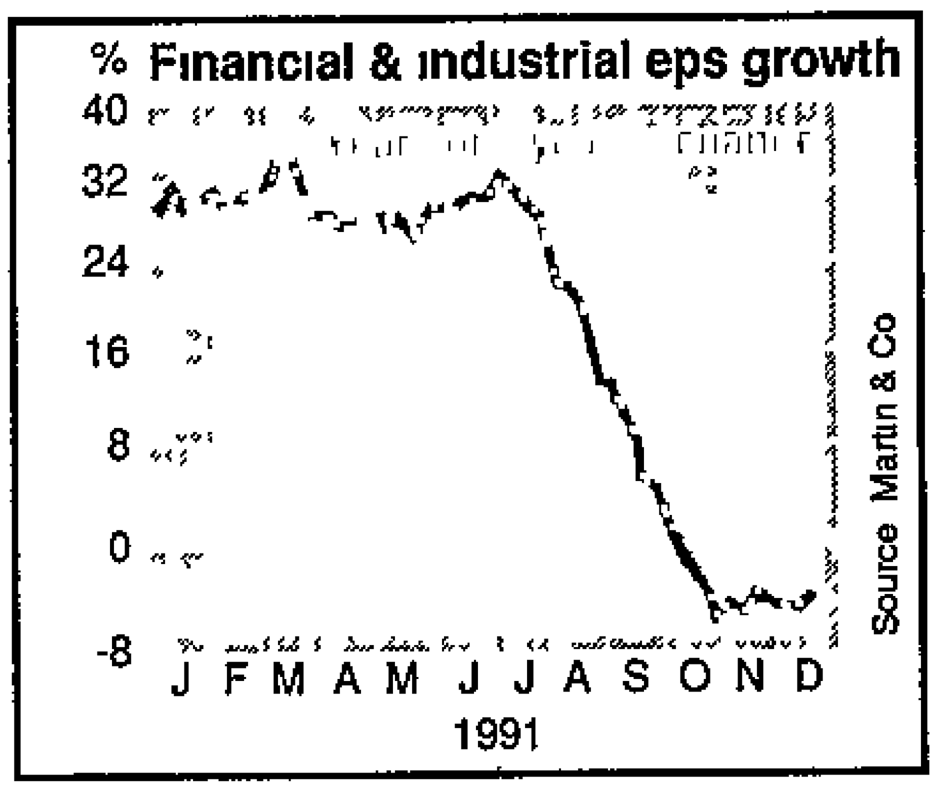
Once this is done Revere will inject mining assets into the company

1991 ON THE JSE IN A NUTSHELL

S/Times (Buss) (232)

By RICHARD JESSE
Martin & Co Inc 1/12/91.





THE JSE's performance this year up to the time of writing is crystallised in the two charts above. The all-share index is up 33%. The financial and industrial index, which excludes all mining shares, has risen an impressive 43%.

One of the reasons for the worse performance of the all-share index is the distinctly lack-lustre behaviour of gold shares, up a miserable 1%, and the gold price down by about $30 since the beginning of the year

The big story early in 1991 was the short-lived Persian Gulf war. However, many of the economic and investment effects of the Middle Eastern situation had been felt in the fourth quarter of 1990 after Saddam Hussein's rape of Kuwait in August For instance, crude-oil prices soared from below $20 a barrel in July 1990 to more than $40 in September.

In late 1990, the main game in town for most economists and many market commentators was plugging $30-plus oil prices into growth and inflation models and the spreading of gloom and despondency as a result of the obviously bearish numbers that came out of the other end

In the event, oil oversupply quickly developed and by January 1991, when the war began, the price was back to about $20 By then the high oil-price models had largely been relegated to bottom drawers

See the two other charts, which plot the price earnings ratio of the financial and industrial index from 1988 and the earnings growth of that index over the same time. Important events influencing ratings were:

- February: End of Persian Gulf war.
- March: Budget, company tax rate cut from 50% to 48%.
- April: EEC lifts trade sanctions.
- July. George Bush abolishes CAAA (Sanctions legislation aimed at SA)
- July: Inkathagate
- September: SA peace accord
- October: SA prudential institutional investment guidelines for shares officially increased from 65% to 75%.
- October: Privatisation of the Telkom and Post Office pension funds.
- October. Japan lifts sanctions.

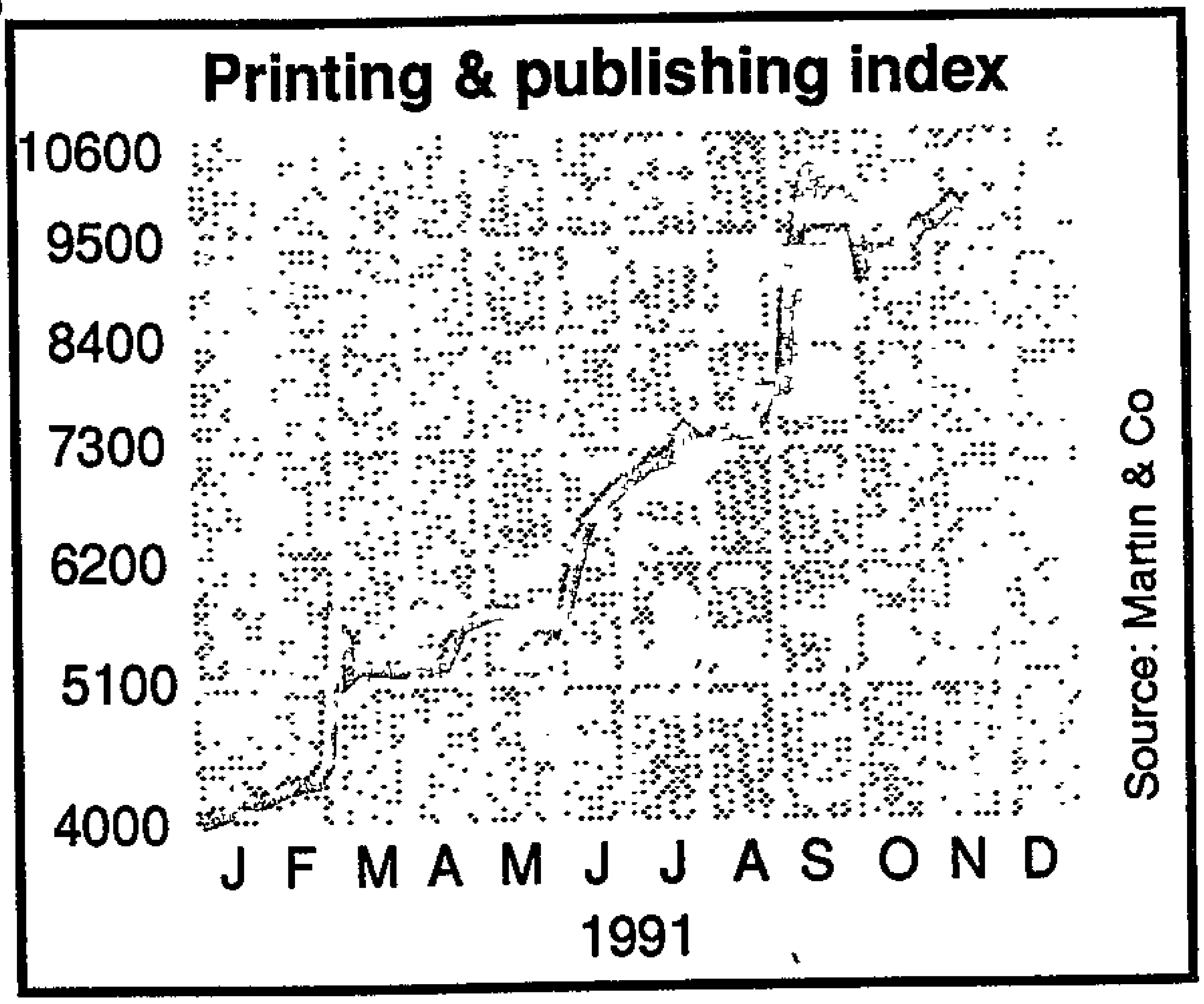
Where do we go from here?

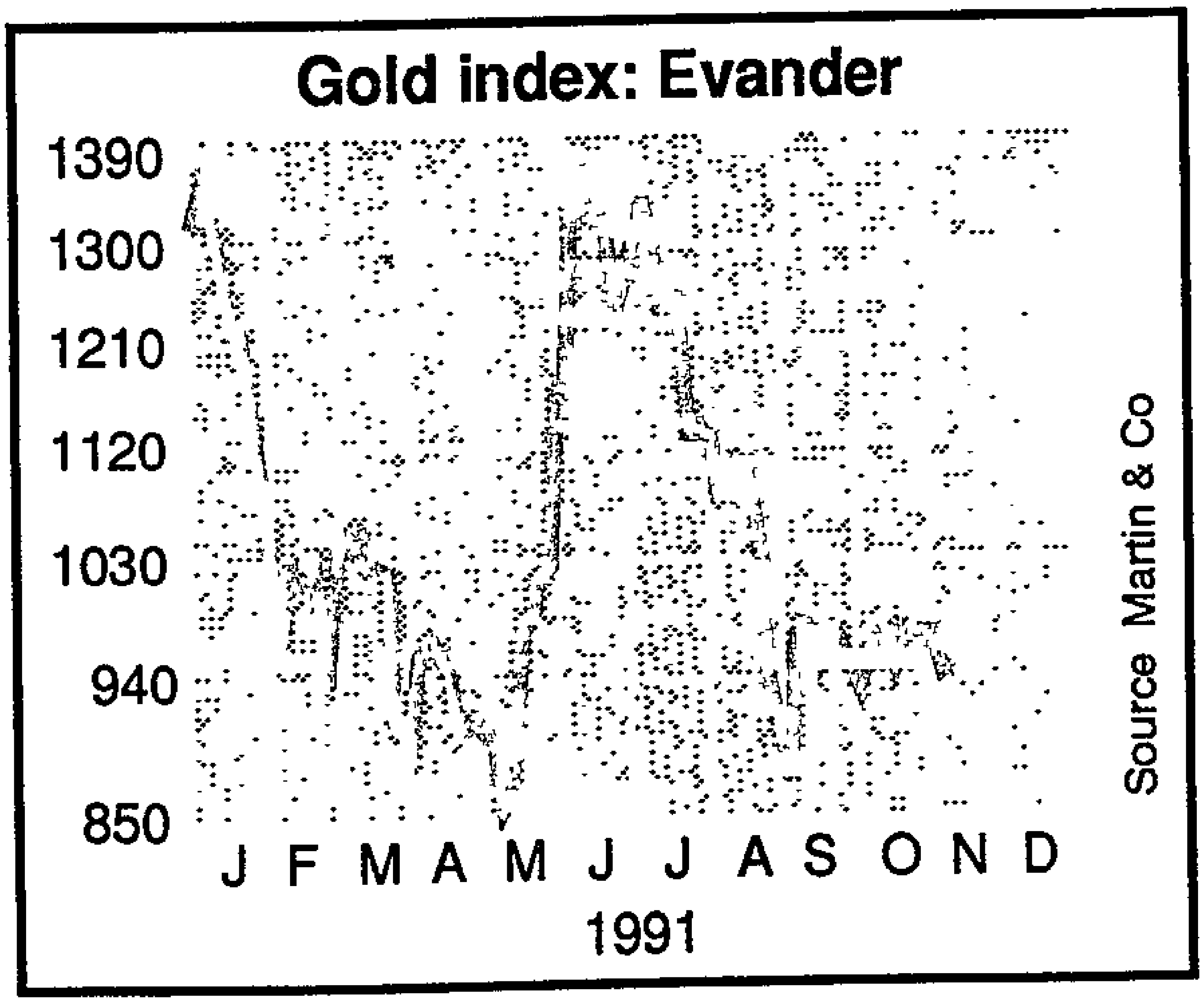
With the average price-earnings ratio a high 14,4 times and the economy unlikely to move ahead with any strength until late 1992 at the earliest, the conclusion has to be that financial and industrial share prices are in high territory. Although they remain first-class long-term inflation hedges, investors should not expect a repeat performance of 1991 in 1992.

THE WINNERS AND LOSERS ON THE JSE

S/Times (Buss)

By RICHARD JESSE, 1/12/91
investment analyst, (232)
Martin & Co





INVESTORS can always do better or worse than the overall market by being in the right or wrong subsectors

Here are the five best- and worst-performing JSE sectors so far in 1991.

BEST FIVE	%
Printing and pub	+129
Motors	+102
Transportation	+85
Tobacco	+77
Pharmaceutical and medical	+59
WORST FIVE	
Evander gold	−21
Tin	−11
Rand gold	−11
Other metals	−11
Furniture	−10

The remarkable performance of printing and publishing (index constituents: Argus 74%, Times Media 26%) is largely a function of holdings by Argus and Times Media in glamour share M-Net.

At the beginning of the year M-Net stood at 195c. The current price is 840c, giving a sensational capital gain of 331%. Market talk is of an important deal

Growth

Motors (constituents: Toyota 40%, Gentyre 25%, McCarthy 21%, Saficon 13%) featured a nearly threefold rise in the price of Toyota from 1 080c to 3 000c Its PE ratio more than doubled from 4,3 to 10,6 times. A 10-way share split helped to improve marketability.

Transportation (constitutents: Trencor 82%, Unitrans 18%) saw perennial (low-profile) growth share Trencor double from 5 300c to 10 500c, its PE ratio rising from 9,6 to 14,3 times This company continues to report earnings ahead of expectations (up 28% for the year to June 1991)

Tobacco (constituent: Remgro 100%) rose by 77%. The sector is totally represented by Rembrandt, one of SA's all-time leading growth shares. Again, this was to a large extent a rating story, the PE ratio moving from 9,8 to 16,3 times — R10 000 invested in Rembrandt five years ago would today be worth R61 000.

Pharmaceuticals and medical (constituents: Adcock 66%, SA Druggists 20%, Clinics 14%) was up a respectable 59%, but has been falling since July. Major constituent Adcock started the year at 3 200c on a PE ratio of 17,6 times and is now 5 775c on a distinctly steamy PE of 25 times.

Of the worst-performing sector two were relatively marginal golds, reflecting the fall in the rand price of gold.

Furniture (constituents. Afcor 34%, Ellerine 29%, Rusfurn 20%, JD Group 17%) had an increasingly tough time after March, retail sales coming under pressure and selective strikes taking place

What of next year? One thing that is more or less certain is that the best and worst sectors in 1992 will not be the same as in 1991

BEST BY INDUSTRY

S/Times (13155) 1/12/91 232

TRANSPORT/MOTOR

1	(1)	Trencor	72,19
2	(18)	Gentyre Industries	52,82
3	(25)	Toyota SA	47,63
4	(32)	McCarthy Group	41,11
5	(42)	Saficon	35,80
6	(55)	Putco	30,53
7	(76)	BTR Dunlop	24,15
8	(86)	Tollgate Group Holdings	22,09

CLOTHING MANUFACTURE AND RETAIL

1	(14)	Pepkor Ltd	53,06
2	(16)	Edgars	52,88
3	(24)	Foschini	47,73
4	(34)	Wooltru	41,06
5	(70)	Seardel	26,38
6	(97)	Specialty Stores	19,31

BEVERAGES, HOTELS, LEISURE

1	(2)	Suncrush	65,75
2	(8)	Cadbury Schweppes SA	57,98
3	(9)	Sun International Bop	56,90
4	(33)	Spur Steak Ranches	41,11
5	(46)	Kersaf Investments	33,95
6	(51)	SA Breweries	31,91

MINING/MINING HOUSES

1	(36)	Palabora Mining	39,52
2	(37)	Samancor	39,49
3	(63)	Messina	28,24
4	(65)	Fraser Alexander	27,42
5	(71)	Anglovaal	26,00
6	(72)	De Beers Consolidated Mines	25,99
7	(75)	Edward L Bateman	24,27
8	(84)	Middle Witwatersrand GM	22,47
9	(98)	Gencor	19,22

WHOLESALE, RETAIL

1	(4)	CNA Gallo	64,36
2	(11)	Elcentre Corporation	55,71
3	(14)	Pepkor Ltd	53,06
4	(16)	Edgars	52,88
5	(24)	Foschini	47,73
6	(27)	Delta Electrical Industries	46,93
7	(34)	Wooltru	41,06
8	(57)	Ellerine Holdings	30,26
9	(79)	Pick 'n Pay Stores	23,81
10	(90)	Clicks	21,20
11	(97)	Specialty Stores	19,31

INDUSTRIAL HOLDINGS

1	(5)	Berzack Bros Holdings	64,32
2	(23)	Murray & Roberts Holdings	49,18
3	(28)	W&A Investment Corp	46,37
4	(31)	Anglovaal Industries	41,51
5	(51)	SA Breweries	31,91
6	(77)	Tongaat	24,04
7	(83)	Barlow Rand	22,79
8	(85)	Grinaker Holdings	22,45
9	(86)	Tollgate Group Holdings	22,09
10	(87)	Dorbyl	22,01
11	(99)	Malbak	18,56

PAPER, PACKAGING, PUBLISHING

1	(4)	CNA Gallo	64,36
2	(6)	Consol	61,51
3	(7)	Argus Holdings	61,32
4	(12)	Perskor Group	55,51
5	(13)	Carlton Paper Corp	54,25
6	(20)	Times Media	50,20
7	(44)	Holdains	34,99
8	(68)	Nampak	27,15
9	(82)	Sappi	23,13

INSURERS, ASSURERS, BANKS

1	(17)	Mutual & Federal Insurance	52,84
2	(26)	ICI Insurance Co	47,41
3	(49)	Santam Insurance	33,34
4	(52)	Commercial Union	31,35
5	(54)	SA Eagle	30,64
6	(56)	Metropolitan Life	30,41
7	(58)	Southern Life	29,93
8	(67)	Protea Assurance	27,27
9	(69)	Liberty	26,52
10	(80)	Nedcor	23,48
11	(81)	Boland Bank	23,28
12	(89)	Stanbic	21,23

IRON, STEEL, ELECTRICAL, ENGINEERING AND CONSTRUCTION

1	(10)	Genrec Holdings	56,71
2	(15)	Group Five	53,06
3	(23)	Murray & Roberts Holdings	49,18
4	(27)	Delta Electrical Industries	46,93
5	(30)	Power Technologies	42,42
6	(41)	Pretoria Portland Cement	36,07
7	(43)	Aberdare Cables Africa	35,45
8	(47)	Anglo-Alpha	33,93

BEST OVER ONE YEAR

S Times (BUSS)

1/12/91

(232)

COMPANY	RETURN TO SHAREHOLDERS (%)*
1 M-Net	373
2 Supalek Holdings	317
3 Genrec Holdings	252
4 Hortors	244
5 Claude Neon	240
6 Fintech	230
7 Smart Centre Holdings	223
8 Pleasure Foods	213
9 Board of Executors	208
10 Carlton Paper	196
11 Boland Bank	194
12 Medi-Clinic Holdings	194
13 President Medical Investments	194
14 SA Freight Corp	191
15 Cashbuild	186
16 Anbeeco Investment Holdings	184
17 Royal Foods	180
18 Putco	178
19 Perskor	171
20 Interleisure	171
21 Concor	167
22 Argus Holdings	166
23 Spur Holdings	164
24 Coates Brothers SA	160
25 Toyota SA	158
26 Utico	153
27 Holdains	153
28 Supreme Industrial Holdings	145
29 Industrial & Commercial Holdings	143
30 Scharrighuisen Holdings	143
31 Picardi Appliances	143
32 Pep Stores	143
33 Times Media	141
34 Buffcor	140
35 Shoprite Holdings	136
36 Tollgate Group Holdings	133
37 Curfin Investments	131
38 Clicks	130
39 Fedsure	128
40 Fedfood	128
41 Property Corp of SA	127
42 Twins Pharmaceuticals	127
43 Pretoria Portland Cement	122
44 Kersaf Investments	120
45 Ozz	120
46 Suncrush	120
47 Malbak	117
48 Power Technologies	117
49 Stellenbosch Farmers' Winery	115
50 Safmarine and Rennies Holdings	110
51 Dispatch Media	109
52 Ellerines	107
53 CNA Gallo	104
54 Foschini	104
55 Safrican Life Investment Holdings	104
56 Investec	103
57 Q Data	103
58 Sun International Bophuthatswana	102
59 Metropolitan Life	102
60 Blue Circle	102
61 Trencor	102
62 Delta Electrical	102
63 Santam Insurance	101
64 Distillers Corporation SA	100
65 Irvin & Johnson	100
66 Murray & Roberts Holdings	98
67 Afrox	96
68 LTA	93
69 Bergers	92
70 Edward L Bateman	91
71 Anglovaal Industries	91
72 Datakor	91
73 Rembrandt Group	91
74 Fidelity Bank	90
75 Nampak	90
76 Momentum Life Assurers	89
77 Anglo-Alpha	89
78 Tedelex	88
79 National Trading Co	87
80 Mutual & Federal Insurance	84
81 Dimension Data	84
82 SA Bias Holdings	83
83 Chemical Services	82
84 First National Bank	82
85 Sable Holdings	82
86 TR Services	79
87 Sasfin Holdings	79
88 Edgars	78
89 Plate Glass & Shatterprufe Industries	78
90 Eurevest	75
91 Southern Life	73
92 Gold Fields Properties	73
93 Mashold Cons Investments	72
94 Liberty Life	71
95 Unitrans	71
96 Group Five	71
97 McCarthy Group	71
98 Adcock Ingram	70
99 Shield Trading Corp	69
100 Cadbury Schweppes	68

* Share price gain plus dividends paid as return on the share price on September 30.

Safex trade open to world

(232)
S/Times (B455)
1/12/94

By TERRY BETTY

FOREIGN investors will have a new investment channel when the SA Futures Exchange (Safex) goes international tomorrow.

JSE liquidity will receive a boost because the risk of investing in equities will be reduced Foreigners can now establish a futures contract to offset their exposure on the equity market

Safex assistant general manager Patrick Birley says that since active trading began 19 months ago, about 950 000 contracts for a 1 500-strong client base have been handled

On average 2 500 contracts worth about R150-million are handled daily The figures are expected to increase by about 30% with the introduction of foreigners

Small

But Mr Birley warns the increase will be gradual, taking about six months before gaining impetus

Foreigners will be able to trade in futures through the financial rand But this new demand will not have a dramatic effect on the finrand discount, says Mr Birley

Buyers of futures are required to pay only a small percentage of the value of the contract upfront

The most common contracts are based on the all-share, industrial and gold indices

Mr Birley believes foreigners will be particularly interested in the gold index It is said to be the on' "pure" gold index in t world

Although Safex can deal wi' up to 17 000 trades a day, Chicago Mercantile, the largest futures exchange in the world, handles 100-million contracts a year

Hannes spot on the target

S/Times (Buss)

HATS off to Hannes Human who forecast two months ago that the JSE would boom when many predicted an equity-market slump

In this month's newsletter from stockbroker J Bosman, Professor Human still holds bullish views

He says that in spite of the spate of rights issues and more to come, all the JSE indices maintained their strong undertone

"It remains highly doubtful that we will see any significant downwards adjustments during 1991 as forecast by some analysts

"The fact that we will see institutions such as the PIC, Spoornet and the Post Office coming to the market as net buyers should rather add to the existing bullish sentiments on quality industrial shares"

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But the newsletter warns that tax incentives, such as a lower company tax, will be required if an economic upswing is to be achieved

Institutional cash flows will dictate share prices There is a captive market in high-quality industrials and it is neither possible nor feasible for the institutions to turn into large net sellers The search for so-called second- and third-line stocks will intensify

Professor Human says the strong performance of the financial rand indicates improvement in the sentiment of foreigners But it poses the question of how sentiment will be affected by the rumoured formation of an interim government next year

A technical improvement in the dollar is sure to reduce the discount of the finrand to the commercial rand, currently 6% to 10%

For the sake of economic expediency — scrapping the finrand appears to be a precondition to obtaining IMF loans — the authorities might decide to abolish the two-tier system, possibly early next year

If it is, the commercial rand will retreat to about 290c-plus to the dollar Increased imports will also lead to a weaker rand

Professor Human believes the gold price will move closer to $400 before the end of 1991 on the grounds of a supply shortage of 10% and because of uncertainty about Russian and Eastern European sales

The fall in the weighting of the food component in the new 1990-base consumer price index should help to brake the rate of inflation But it will remain at higher than 14% for the next three months.

There is not much room for downside on interest rates either

Professor Human says it is inopportune to invest in other avenues, such as property and gilts, and recommends holding on to good scrip High-quality second liners can be bought to top up portfolios as can low-cost gold producers Liquidity should still be 20%

DIAGONAL STREET

by Julie Walker

Stock Press on the ball

S/Times (Buss) 1/12/91 (232)

FROM humble beginnings seven years ago with only five clients, news clippings service Stock Press has a customer base running into the hundreds.

Owner-manager Chris Fisher used to be a fund manager in London and Johannesburg and well knows the frustrations of trying to carry out company or sector research without a disciplined library service

He nursed the idea of establishing a commercial service for several years while doing some homework on how the system would work

Stock Press was launched in October 1984, offering a financial, economic and socio-political service The format copies the listing order of equities and sectors on the JSE

Now, the flourishing business employs 18, covers more than 350 publications and offers 20 broad services ranging from the full 1 300 headings covered to published material about individual companies

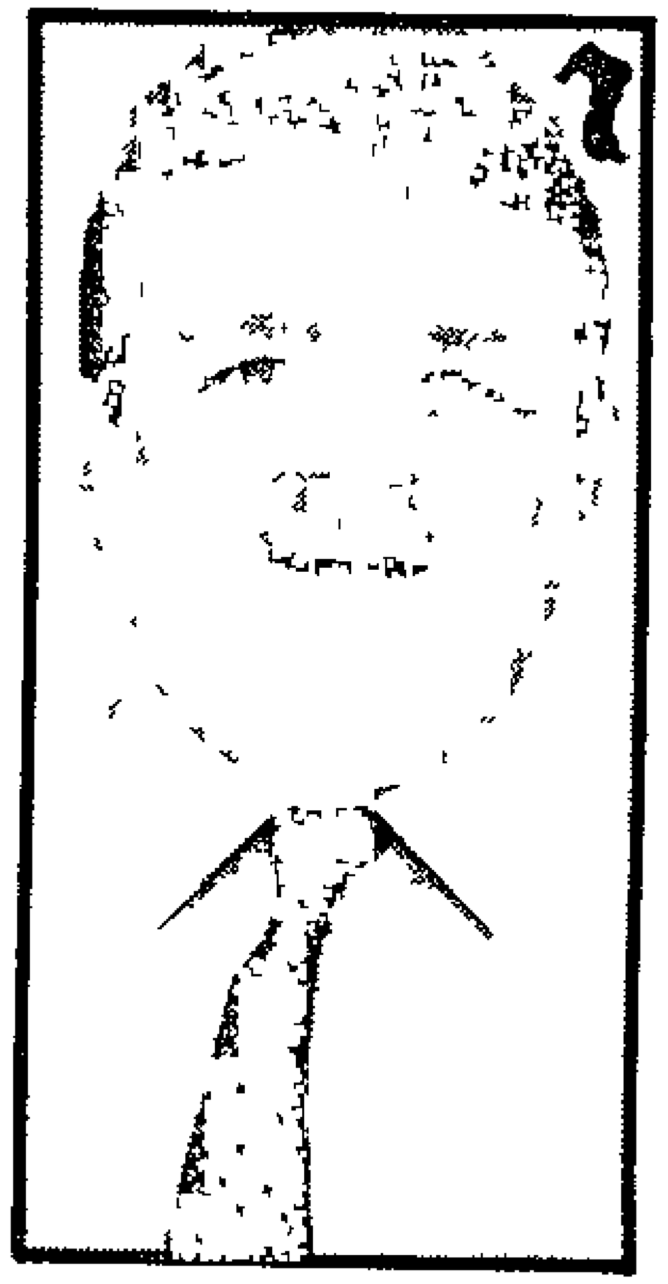
It handles sectoral preferences and even undertakes research on behalf of customers

The library is open to members of the public who can either subscribe for everyday use or pay ad hoc There are 60 regular users

Stock Press is economical with space — seven years of research takes a surprisingly small area against a wall

The system works on updated entry sheets When new printed material appears on a topic, it is added to the existing last page of the file and carried over on to a new page

Customers file the new sheets and discard the previous last pages



CHRIS FISHER Winning idea

Business Day newspaper is used as the benchmark and certain editorial discretion is used where, for example, a news release has been run in its entirety by several publications

Daily or weekly deliveries were sub-contracted when Mr Fisher found himself becoming a motor-cycle fleet manager

A daily delivery service takes a clerk fewer than two hours to file and a weekly one about three hours

The cost of the most comprehensive service is less than the salary of a clerk

Its comprehensive coverage and cost effectiveness have earned Stock Press an enviable subscriber list Almost every bank, insurer and financial institution in SA gets the service as well as do more than half the stockbrokers

Auditors, leading companies, government bodies, publishers, public relations consultants, business schools and universities also number among the customers

Stock Press has several foreign clients and has an associate in London through which contacts can be established

Mr Fisher is looking at ways of transmitting the service electronically The technology is available abroad

PROFIT AT THE END OF THE PROPERTY TUNNEL

S Times (Buss) 1/12/91

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PROPERTY unit trusts and loan stock companies are the distant mirror of the fixed-property business.

By NIKI VONTAS, managing director, Abcon Properties

They discount rent returns and occupancy levels expected 12 to 15 months down the line After bottoming in mid-November 1990, the two property investment sectors of the JSE still offer good value — for these reasons

● The current high cost of other equities suggests an impending technical rerating of the listed property sectors of the JSE within six months

● Long-term interest rates have peaked Falling interest rates will benefit the pricing of direct and indirect property

Major

● Real rental growth is not expected before 1993 However, a major technical adjustment of rents and consequently property investment yields in 1993 and 1994 is forecast This process will be discounted as early as mid-1992 by the listed property sectors of the JSE while the fixed-property market will still be showing signs of weakness

● High-quality property investment opportunities are relatively scarce and will hardly satisfy institutional demand

The three major requirements for investment in the 16 property unit trusts (PUTs) and 11 property loan stock (PLS) companies are

● High-quality property assets

● Top-quality property management

● Appropriate timing of the investment

Currently, the relative dividend yield ratios for PUTs and PLS stand at 3,68 and 4, representing the highest relative yield ever reached (June 1986 — 3 2)

By any criterion, PUTs and PLS are extremely cheap at current levels, especially if one takes into account that in the past decade the PUT historical dividend yield averaged 9,2% compared with the present 10,3% and 11,2% for PLS companies

When considering the performance of PUTs and PLS it is important to bear in mind that this is property and interest related and is generated by·

● Rent income from property assets free of any borrowings (in most cases)

● Interest earnings from capital and income accounts

The listed property portfolios on the JSE do not benefit from the capital appreciation that is generated from geared property However, the listed PLS companies and PUTs offer a lower risk-higher return investment which over the long term is an inflation hedge

For an astute manager, investments in PUTs and PLS are an integral part of a diversified portfolio and providers of real returns

Today, listed investment property totals R6,7-billion — up from R2,29-billion five years ago It is a growing industry.

Scarce

In 1991, CBD and Fedfund merged and three rights issues raised R222-million net (Tamboti R59-million, Capital R89-million and Sycom R74-million)

No PUT was listed in 1991

The property loan stock companies sector has grown by more than 46% over 1990

Compass held a R40,5-million rights issue in September 1991 The only property listing in 1991 was that of Abcon Properties with a capitalisation of R210-million

The need for high-quality property investment in any diversified investment portfolio is fundamental

The scarcity of good-quality real-estate stock persists Combined with the growing demand for expert investment and management skills, this will enhance the attraction of listed property vehicles on the JSE

The most important issue is change In the past 10 years the property investment portfolios on the JSE have evolved into a lrage business

The indices of the property trust and property loan stock sectors have been enriched with new and often good-quality portfolios However, a real-estate portfolio changes much in the long term

Investment, development and management expertise are the key to success, much more so than the original brick and mortar

PUT AND PLS SECTORS
SYNOPSIS: MARKET CAPITALISATION AND PROFIT HISTORY

Property Loan Stock	Issued Shares R000	Issued Debentures R000	Market Shares c	Price Debentures c	Market Capitalisation Shares Rms	Debentures Rms	Total Rms
Amaprop Mar	42 926	9 444	790	925	339,1	87,4	426,5
Barprop Sept	74 587	30 000	150	1 150	111,9	345 0	456 9
Boeprop Sept		19 674		475		93,5	93,5
Compass Mar	8 800	53 401	35	450	3,1	240,3	243,4
Growpnt-Oct		25 296		575		145,5	145,5
Hyprop Dec		30 610		650		199 0	199,0
KH Props Sept		20 947		500		104 7	104 7
Octodec Sept		47 734		300		143 2	143 2
Panprop Jun		41 388		700		289,7	289,7
RMS Prop Sept		39 746		630		250,4	250,4
Saampro Mar	8 676	17 353	80	325	6,9	56,4	63,3
Total Capitalisation of Property Loan Stock Companies							2 416,00

DIVIDEND YIELD AND RELATIVE RATING ASSESSMENT

	2 Jan 1991	13 Nov 1991
Property Trust Sector	10,8%	10,3%
Property Loan Stock	11,5%	11,2%
Financial/Industrial	3,9%	2,8%
Relative yield PUT/Fin Industr	2,77	3,68
Relative PLS/Fin Industr	2,95	4,0

TOTAL RETURN: CAPITAL AND INCOME

	Property Trusts	Financial and Industrial	All Share	Inflation	Call Interest Rates
1980 1991 Average	19,4%	22,8%	16,7%	14,6%	13,4%
1986 1991	15,8%	20,2%	16,7%	15,1%	14,1%

JSE ACTUARIES INDICES

	2 Jan 1991	13 Nov 1991	% Change
Property Trust Sector	152	162	+ 6,6%
Property Loan Stock	401	442	+10,2%
Financial/Industrial	3 007	4 332	+44 1%

PROPERTY UNIT TRUSTS

Property Trusts	Issued Units	Market Capitalisation CPU	Total (Rm)
Apex Mar	82 356	280	230,6
Capital Dec	129 285	290	374,9
CBD Fund Dec	122 138	270	329,8
Cenprop-Dec	163 491	315	515,0
Brdprop Feb	40 000	280	112,0
Higate Apr	30 894	710	219,3
Histone Apr	61 000	200	122,0
Mainprop Mar	91 200	510	465,1
Metpro Mar	58 956	290	171,0
Pioneer Dec	111 396	350	389,9
Prima June	88 740	63	55,9
Sanland June	194 400	82	159,4
Stanprop Dec	280 140	160	448,2
Sycom Sept	54 048	700	378,3
Tamboti Sept	78 400	290	227,4
Umdoni Sept	97 500	155	151,1
Total Capitalisation Property Trusts			**4 349,98**
Total Capitalisation Property Trusts and Property Loan Stock Companies			**6765,9743**

Property Unit Trusts	Total Performance	Period
Cenprop	28,5%	5 years
Stanprop	23,2%	5 years
Metprop	21,1%	5 years

Property Loan Stock Company	Total Performance	Period*
Amaprop	41,0	3 years
Pangbourne	38,4	3 years
Hyprop	27,7	3 years
Barprop	24,3	3 years

* The above performance must take into account the low prices of the Property Loan Stock Sector in November 1988

MARKET CAPITALISATION IN R MILLION

	1986	Listed Portfolios	1991	Listed Portfolios
Property Trusts	2 000	13	4 350	16
Property Loan Stock Companies	298	2	2 416	11
Total	**2 298**	**15**	**6 766**	**27**

BUSINESS

Trustees' ignorance is a major problem

B/Day 5/12/91

(232)

ROBERT GENTLE

PENSION fund trustees owe it to their policy holders to overcome their conservatism and lack of knowledge of futures and options (derivatives) and start using them to increase investment efficiency

This is the conclusion of an in-depth study conducted by I M Israelsohn and C Firer of the Wits Graduate School of Business, published in the latest Investment Analysts' Journal

The study looked at 18 funds out of a total of 72, including funds managed by life assurance companies, merchant banks, specialist asset management companies, pension funds and stockbrokers

"A third of the fund managers surveyed indicated that they had not made use of any financial derivatives instruments in managing their portfolios," the study concluded "Of the two-thirds who had not used derivatives, a large proportion admitted they did not fully understand these markets, and for this reason traded very infreqifently"

Although funds handled retirement money and sought to avoid risk, abstaining from futures did not necessarily imply conservatism, the study said "One can be risk-averse whilst being pro-active Indeed, both futures and options are ideal mechanisms for reducing the overall riskiness of portfolios"

Merchant banks and large life assurance companies were generally more active in these instruments than pension funds managed by stockbrokers — perhaps because of "the greater emphasis on performance"

The study found that the main reason for non-participation in futures was lack of education, conservatism, trustee resistance, skills shortages and administrative problems "For many pension funds, obtaining the approval of trustees to trade in financial derivatives was considered a major problem"

The futures market was viewed as too risky Reservations were expressed about rules and regulations Presentations and courses were not "particularly effective" and the futures industry should make more of an effort to "sell their products"

Some fund managers quizzed on market instruments did not know the difference between a put option and a call option The lack of knowledge among stockbroker portfolio managers was found to be "particularly disconcerting".

The study's findings support general sentiment in the futures market that institutions and funds are nowhere near as active as they could be, largely because of an absence of competitive pressures in SA's closed, illiquid financial markets This is expected to change soon as foreign participation picks up The SA Futures Exchange (Safex) opened its doors to foreign participation this week, and the first foreign trades are expected later this month

SOUTH DECEMBER 5 TO DECEMBER 11 1991

UNIT TRUSTS

MAKING YOUR MONEY WORK

Unit trusts: The way to get BIG things

South 5/12 - 11/12/91 (232)

A unit trust is an investment scheme that invests a pool of money in stock market shares The money comes from individuals or groups, who in return receive "units" in the pool These units represent equal shares in the trust's investment portfolio, produce an income and fluctuate in value according to the interest and dividends paid and the stock exchange prices of the investments **LYNDA LOXTON** reports

HIGH INFLATION and taxation are eating away at the real value of South African savings As a result, many people are finding that, no matter how much they save, savings accounts alone are not enough to build up the capital needed for those major events in their lives like getting married, buying a home, paying for their children's education or ensuring a comfortable retirement

"The tough economic conditions of today make it extremely difficult for an investor to accumulate capital because of the negative effects of inflation and taxation," says the assistant general manager of the Board of Executors Unit Trust Management Company, Mr Colin Roux

"For example, if inflation were to continue at a mere 14 percent a year over the next 10 years, you would need about R4 to buy what you can buy today for R1

"On the other hand, if you were to invest in a fixed interest investment earning, say, an interest rate of 20 percent a year, and pay tax on the interest at 44 percent, your after-tax rate of return would be 11,2 percent

"This is well below the inflation rate and you would have to earn an interest rate of at least 25 percent a year just to keep pace with inflation — and still show no real capital growth

"For investments to show real growth, a higher after-tax return than the inflation rate must be attained "

The Old Mutual's assistant general manager of unit trusts, Mr Bastiaan van der Westhuizen, put it this way "Even a 15 percent inflation rate can cut the buying power of your savings by half in five years "

Inflation now stands at about 16 percent, so you can imagine what it is doing to your savings.

One way round this problem is to invest in unit trusts, not to replace savings accounts, but to build up your capital to pay for those "big" things in your life. This is because unit trusts invest their unitholders' money in a spread of shares on the Johannesburg Stock Exchange which has potential to provide high returns

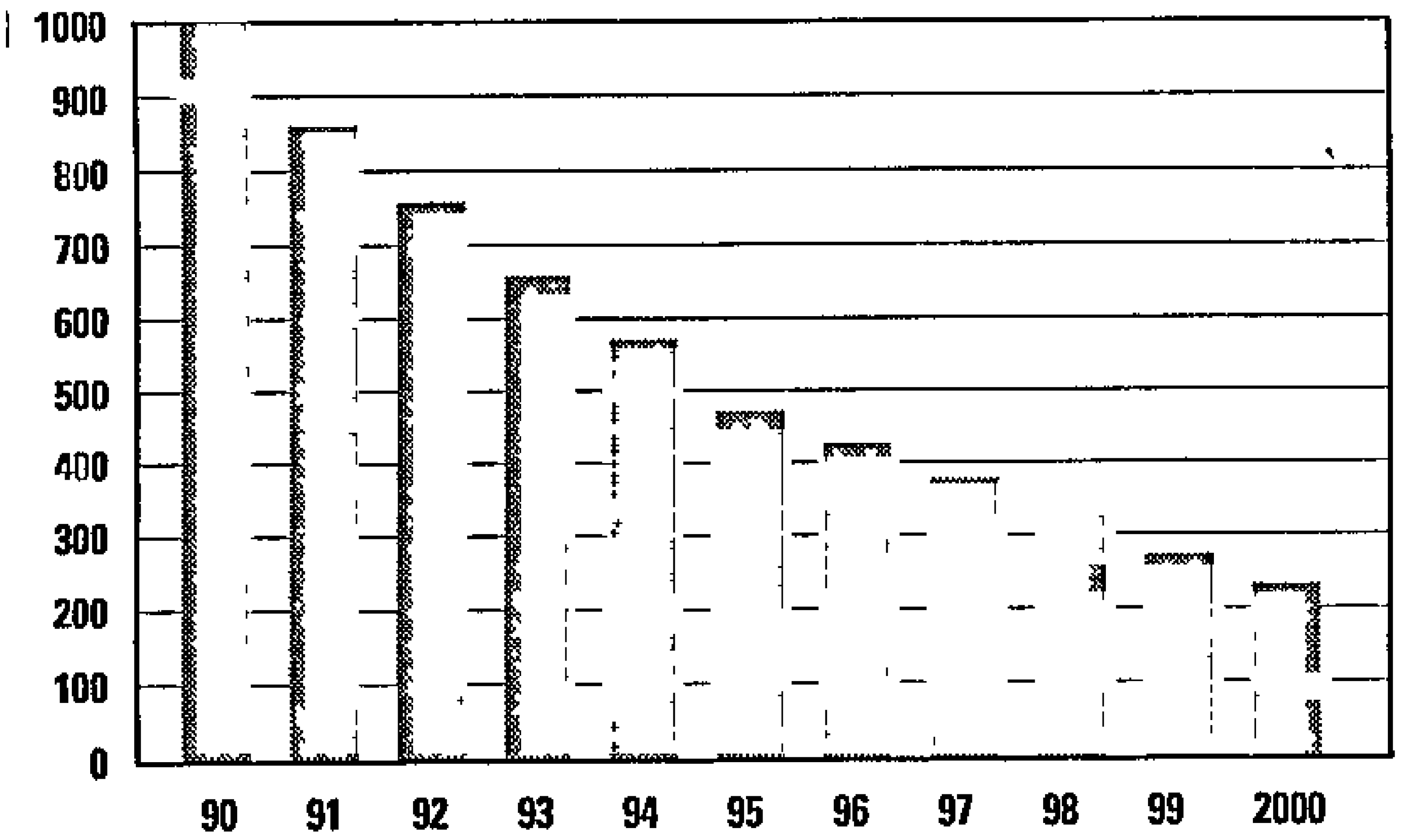
Old Mutual, for example, has calculated that a monthly investment of R125 in its Investors' Fund since it was launched in October 1966, would have grown to no less than R1 106 307 today Of course, R125 was worth a lot more in 1966 than it is today, but this gives you an idea of the growth potential of unit trusts

"This was a return of 21,99 percent a year," said Van der Westhuizen.

"Even R50 a month invested in the fund would have given the unit holder a R437 126 nest egg "

HOW INFLATION ERODES CAPITAL

R1000 INVESTED – 15% p a INFLATION



Where to get your unit trust:

General equity funds
BOE, Fedgro, CU Growth, Guardbank, Momentum, Metfund, Metlife, NBS Hallmark, Norwich NBS, Old Mutual Invest, Safegro, Sage, Sanlam, Sanlam Index, Sanlam Dividend, Senbank General, Southern, Standard, Syfrets Growth, Syfrets Trustee, UAL, Volkskas

Income/ gilt funds
Guardbank Resources, Sage Resources, Sanlam Industrial, Sanlam Mining, Senbank Industrial, Southern Mining, Standard Gold, UAL Mining, UAL Select, Old Mutual Mining, Old Mutual Industrial, Old Mutual Gold, Old Mutual Top Companies

Special equity funds.
Corbank, Guardbank Income, Old Mutual Income, Standard Income, Syfrets Income, UAL Gilt

Pyramid power and growth

B Day 6/12/91

(232)

RONALD HUDSON

JOS GERSON'S conclusions in his article defending pyramid control structures (Business Day, November 29) are open to serious question It is unfortunate that so little evidence is presented, no doubt the results of his two years of research with professors Kantor and Barr will be presented to the investment community in intelligible form in due course

To justify his assertion that pyramids play an "extremely useful role as the proprietors, monitors and guardians of the country's principal firms" he refers cryptically to a 45% premium in the price to earnings ratios of the listed operating companies. As I understand him, this premium is against the price to earnings ratios of the holding companies He explains this premium by the "lower risk entailed in investing in such firms and the much faster growth in earnings per share associated with industrial companies controlled by the dominant groups"

Leaving aside this unorthodox claim that lower risk is associated with much faster earnings growth, the fact that holding companies are valued on discounts to their underlying businesses could surely be taken to justify the complete opposite of his pro-pyramid position — that they simply mean that the discounts represent the head office syndrome (see Derek Keys's jibe "I'm from head office and I'm here to help you")

If investors perceive the holding companies to add value to the underlying businesses then why does the market — according to Gerson's own data — rate the top companies so unfavourably? Far from the minority shareholders actually benefiting from the existing structure (Gerson's words), it is arithmetically irrefutable that they would increase their wealth by dismantling the controlling companies distributing the underlying businesses

It is claimed that powerful proprietors who have succeeded in "retaining an absolute majority of shareholders' votes" (with multitier pyramids this can be achieved with less than 10% beneficial shareholdings) are best able to ensure that management's competence is optimised, the inference is that poor management is rapidly fired and replaced with good management

My experience as an investment analyst tells me that this is simply untrue in SA The major top companies are almost invariably reluctant to disturb management in controlled companies, particularly at senior level

Gerson goes on to say his "most significant econometric finding" was that the wealthier the controlling shareholder, the smaller his fraction of the underlying equity in each of "his" operating companies. Assuming Gerson's information on individual total net worths to be accurate (art collections, real estate, etc?), this finding could be taken to indicate that a strategy of maximum diversification away from the underlying businesses is the optimum wealth strategy for the founding families

The argument that fully enfranchised shareholders, because there are too many of them, are unable to restrain incompetent managers and are therefore undesirable is extraordinary Full enfranchisement enables shareholder democracy (a concept Gerson finds "absurd") to operate like a political democracy, in that at regular intervals via the AGM, directors can be voted in or out of office depending on their competence

The fact that many shareholders do not attend AGMs is irrelevant it may well reflect a feeling of impotence at their lack of enfranchisement via pyramid structures

In the US, where pyramids are thought undesirable, it is increasingly considered to be a breach of fiduciary duty for fund managers not to vote a proxy, and minority actions against management are increasingly common Percentage polls of around 60% in US presidential elections are not used as arguments for loaded voting structures

At the end of the day, pyramids and superpyramids (pyramids on top of pyramids) are obvious strategems to entrench control over large amounts of corporate net assets at the lowest possible cost. In SA there are specific examples of major operating companies which are effectively under the total control of top companies with only around 5% effective shareholdings

Gerson's "most significant econometric finding" thus merely correlates the richest individual with the most blatant pyramider The important word is "entrench"

For the capitalist system to work properly the efficient corporation must be rewarded and the inefficient penalised, dynasties must not be artificially prolonged In First World democracies governments know they can be voted in or out of power If political disenfranchisement is universally considered to be undesirable, there should be no justification for it in the economic sphere via pyramids

● **Hudson is the pseudonym of a stockbroker and investment analyst who has requested anonymity due to his dealings with institutions referred to in this article.**

LETTERS

M&R in UGI shares deal

ANDREW GILL

MURRAY and Roberts (M & R) has exercised its option to buy the remaining shares in road freight group Unitrans' holding company United General Investments (UGI) for R131m.

In a joint announcement today, M & R and Sankorp said Sankorp would be selling its remaining 49% stake in UGI to M & R for 726c a share, and it would sell its compulsory convertible debentures to M & R for R28m, giving M & R an effective 64,5% interest in Unitrans

(232)

The deal follows M & R's purchase of 49% of UGI from the £2,6bn a year UK services group BET in March this year and a further 2% purchase from Sankorp in July. At the time BET said it was disinvesting as part of a long term strategy to get out of Africa and concentrate on Europe and the US.

M & R will issue 1,85-million new shares to settle the R103m payment for the 49% stake and will pay cash for Sankorp's convertible debentures. Sankorp will retain 2-million convertible debentures.

(232)

No material effect on M & R's earnings for the year to end June will occur as a result of the transaction, nor on M & R's net asset value at that date.

Karos in the clear

S/Times (Buss)
5/12/91

KAROS Hotels was wrongly featured among the JSE's worst 25 performers in the Top Companies survey last week The table showed that Karos achieved a negative return to shareholders of 20,3% in the five years to September

In fact, Karos was listed for only two years and two months of the five-year period The main slump in the share's performance occurred before Karos was listed through the cash shell of New Bernica

The actual return for Karos shareholders since the listing was minus 6% a year

Problem

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Another mistake was made in the table showing companies' operating margins. It was reported that TSI boasted the best margins on the JSE — an operating margin of 70,9%

It turns out that I-Net's database understated TSI's turnover by a factor of 10 Its margin should thus have been 7,09%, not 70,9%

TSI should have been ranked 54th after I&J and above Hiveld in the turnover table It had sales of R1 443,3 million

Rusplats should have been ninth in the table ranking companies by taxed profits It was erroneously excluded when tables ranking mining and industrial companies were merged

In the year to June 1991, Rusplats made R608-million in taxed profit, slightly ahead of parent company JCI with R565-million

Traded Options Market enters final test phase

B Day 9/12/91. (232)

ROBERT GENTLE

THE JSE's R15m Traded Options Market (TOM) is up and running in live test mode

JSE deputy CE Mike Thompson said in an interview on Friday that live trading had started on a phased-in basis, with 16 stockbroking firms trading for their own accounts

The successful completion of this critical phase, scheduled to end on December 17, would pave the way for client trades and the public launch of TOM in January

This final step, Phase IV, was the last of a series of test phases during which stockbrokers simulated trades through different accounts, said Thompson

"Progress so far has been excellent, with the testing coming along extremely smoothly with no major problems Barring any unforeseen glitches, we should be technically ready on December 17"

Legal and other administrative matters meant the formal launch would take place in early January, Thompson said The mechanics of non-resident trades on TOM were being examined and foreign participation was expected to follow "as soon as possible" after the local market went live

TOM, designed to offer investors options on equities and indices, was plagued by technical glitches and cost over-runs during its long development stage and attracted much criticism from both within the exchange and out However, the worst was now behind and the payoff in sight

"This is a very sophisticated product and by world terms is not expensive,' said Thompson "It will pay for itself without too much trouble at conservative volume levels"

Details on costs and volumes would be released closer to the launch date

Overseas consultant and former London Traded Options Market executive Andy Wilson supported Thompson's views on TOM

"TOM has a lot going for it," said Wilson, who has been helping with the testing "It is an excellent system by world standards"

He praised the choice of a mainframe system over a PC-based system, as well as the fact that the options would be settled in cash and not by actual delivery of the underlying assets.

It was natural that TOM was a floor-based system, because the underlying JSE was also a floor-based trading environment, Wilson said However, TOM had been engineered to allow a phased in transfer to automated trading at a later stage should circumstances demand.

TOM manager Jonathan Sims said TOM would initially offer options only on De Beers and the All Share and All Gold indices

Leisure Resources to seek a JSE listing

B/Day 9/12/91 (232)

MARCIA KLEIN

TIMESHARE company Leisure Resources Group is seeking a listing on the JSE in January

It has applied to the JSE to reverse list into Dukel Holdings, MD Dan Apteker said in an interview on Friday

Dukel would change its name to Leisure Resources Corporation, and the group would apply to the JSE to transfer the listing from the motor sector "to a more appropriate sector"

Dukel was suspended from the JSE in July at 28c Apteker said the new controlling shareholders of Dukel would make an offer to minorities supported by a bank guarantee Leisure Resources would raise no additional money on listing

The company, sister company to European leisure group Club La Costa, is involved in the acquisition of developed holiday accommodation, which it markets and sells through a club concept

Apteker said "the group's profile will be raised and business will be enhanced", following the listing

"We are not going to the market to raise money, but rather to show we are an open book that is subject to scrutiny" He said this was especially important in the industry in which Leisure Resources operated, as timeshare did not have a very good reputation

While based in principle on the timeshare concept, Apteker said "Leisure Resources' operation is non-traditional and should not be viewed in the same way"

The group's policy is not to develop property, but to acquire existing developments suitable for its club members In this way it did not commit large resources to the risks of land development and was not affected by inherent problems, he said

The club concept meant members could choose the time and location of their holidays by purchasing club memberships rather than time at a specific location

Membership entitled them to 25-year rights to use any accommodation within the Club La Costa portfolio, as well as any RCI venue

Leisure Resources' results to end-September showed pre-tax earnings of more than R6m, and Apteker expected earnings in the region of R8m in financial 1992

The company has a debtors' book of more than R10m, repayable over an average of five years. Most accommodation or club membership sales were financed in-house, and bad debts were minimal as most debtors were unlikely to default on their holiday plans, he said

The group has two resorts, Sun Tide in Margate and the Sondela Game Lodge near Warmbaths. Sun Tide is part of seven resorts which will fall into the group's club

Apteker said Leisure Resources was looking at several new resorts It also hoped to expand its Johannesburg operation, and "two proposed new locations in Pretoria and Durban could mean a significant increase in profits in the short term"

COMPANIES

External factors dominate market

MERVYN HARRIS

EXTERNAL factors were the dominant influences on Diagonal Street last week as the broking community started the annual pilgrimage to the beaches of Plett and Cape Town for the Christmas holidays

Worries persist over the trend of international stockmarkets, with Wall Street resuming its slide after a short-lived uptick and increasing foreign investor selling on the Tokyo market

Starting 1991 at 23 841, the Nikkei index eased on Friday to close at 22 445 as the economy showed signs of running out of steam after five years of vigorous expansion.

JSE investors were inclined to remain on the sidelines, and leading shares tended slightly softer in thin volumes Stockmarket weakness played a role in keeping the gold price steady in the $365-$370 trading range

The collapse of Robert Maxwell's empire made investors increasingly nervous about entrepreneurial leadership styles of certain firms. This hit Lonrho on concerns about the ageing Tiny Rowland, who has no clear successor There were also concerns over Lonrho's debts and prospects for profits of its platinum group metals, which have been been under pressure in recent weeks The group has platinum and coal interests in SA

Lonrho shares slumped about 25% on the week in London and Johannesburg to 910c despite a statement from the company that there was no reason for the sharp decline However, the shares were off an 825c low, and by Friday professionals were buying the shares on the view that they were oversold The shares climbed back towards 950c

Then came news of Gencor executive chairman Derek Keys' appointment to Cabinet Gencor shares dipped initially as his departure from the group he revitalised was seen as a big loss. But observers saw a vacuum in the economic sphere in government after the death of Wim de Villiers, so the arrival of Keys was regarded as good for the economy, and ultimately, the stockmarket (232)

Trading was quiet throughout the week The placing of stockbroking firm H G Crosby, a one-man operation run by Hillary Crosby, in default after failing to meet commitments, added to the subdued tone on the market.

Barlow Rand sets aside R1,7bn for year's capex

B/Day 9/12/91. (232)

LESLEY LAMBERT

BARLOW Rand has budgeted for capital expenditure of R1,7bn during the current financial year, much of which will be invested in Tiger Foods' maize and wheat mill at Maritzburg, executive chairman Warren Clewlow says in his annual report

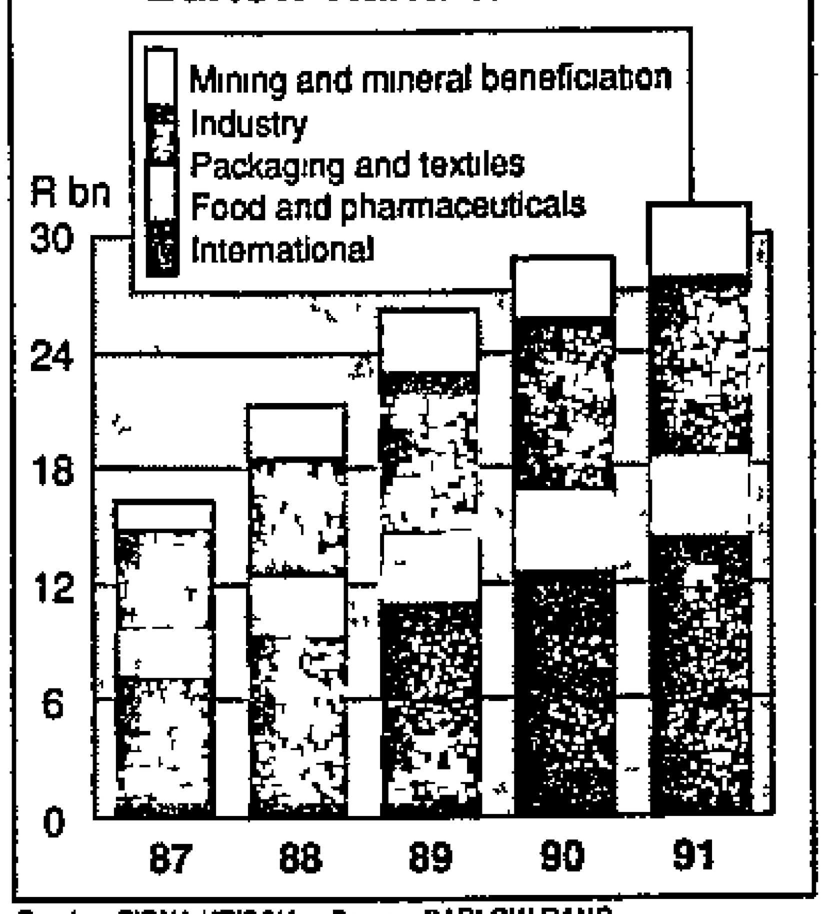
During the past 10 years the group has invested R10,3bn in new and replacement projects, including R1,4bn spent during the past financial year

Apart from Tiger Foods' mill, other recent major investments have included R114m for the Khutala and Majuba collieries, R110m for Nampak's new tissue plant and R50m for its new glass factory

Clewlow is pessimistic about future domestic economic and foreign trade prospects

"The downturn has been severe and prolonged The issues of the day hang heavily over the economy, casting a pall over the way ahead Right now I see no signs of it lifting, and the next year will be as difficult as, if not more so than the last," he says

While he agrees that SA's return to the family of trading nations is a positive development, he believes it will be difficult for the country to



Graphic FIONA KRISCH Source BARLOW RAND

overcome tough international economic conditions

However, he does see promise in the Eastern markets and believes they could offer further opportunities for Barlow Rand

Clewlow says the group's policy of concentrating on exports is succeeding and will be intensified.

However, he cautions that export efforts have not been without setbacks and disappointments

Like other SA exporters in Africa, Barlow Rand was affected by upheaval in Zaire this year

Parts of the distribution network for the food and basic health products it exports into central Africa were destroyed during the riots.

The group's major transaction of the year was the agreement to sell Middelburg Steel & Alloys and its chrome interests to a consortium backed by Anglo American, De Beers and Gencor for about R1,08bn

In an otherwise relatively quiet year, other acquisitions included the purchase of the outstanding RIH minorities for R43m, the acquisition of 67% of African Cables for R102m in a joint venture with Siemens, and the exchange of 39% of the equity of French Bank plus an issue of Barlows shares for a 19% interest in the Natal Building Society, at R103m

Clewlow reports that the UK-based Bibby group continues to make strategic acquisitions.

Significant disposals included the sale by Rand Mines of Lotzaba Forests to Sappi for R100m and the sale of some of the interest in Witbank Colliery for R93m

Group turnover increased 10% from R29bn to R32bn during the year, with volumes in most sectors either static or in decline

Margins remained under pressure in a tough economic environment The group margin fell from 8,5% to 8%

JSE investors keep a wary watch on US economic shifts

232

Finance Staff STAR 9/12/91

Ahead of today's opening on the JSE, investors seemed apprehensive over the weekend about the impact of the latest economic developments in the US.

Friday's release of November unemployment figures, which were worse than expected, has prompted reconsideration of the underlying weakness of the US economy.

From an equity market point of view, talk of the possibility of the US slipping into a recession is countered by the realisation that 1992 is a presidential election year.

This means the government is likely to take measures to prop up the economy, thereby hoping for the continued support of middle-class voters.

For the JSE, which closely tracks Wall Street, this may see a double benefit — support for its own share prices and the possibility that the gold price could rise on the back of any inflationary measures taken to provide a life-line for the US economy

According to the Financial Times, November's US unemployment figures were so bad that they pushed the Federal Reserve Board into an immediate quarter-point cut in interest rates

All this helped rally the bond market, while stocks more or less held their own on Friday morning trading

But further consideration of economic fundamentals could push share prices down in the weeks ahead because the US seems more than ever in danger of slipping back into recession, or of the economy moving sideways for months to come

Earlier last week, and much to Wall Street's surprise, the Commerce Department revised downwards its estimate of third-quarter growth in gross domestic product from an annual rate of 2,4 percent to 1,7 percent

Crucial to any hopes of an early bounce-back is better consumer confidence

But early reports of Christmas retail spending give little ground for optimism

In Washington, politicians are growing more and more anxious about the state of the economy as they head into an election year, and President George Bush is promising to unveil a package of measures in next month's state of the union address.

The expectation is that there will be some form of tax relief for the middle class But the government, anxious not to spook the capital markets again, is stressing fiscal restraint

All this gives support to those pessimistic analysts who have been saying for a year or more that the US is going through a fundamental economic shakeout after the financial excesses of the 1980s and that this process will not be rushed, or greatly affected, by band-aid policy measures

Wall Street has brushed this argument aside for much of the past year, but the sharp 120-point drop in the Dow Jones Industrial Average on November 15 seems to have changed the market's psychology

It now seems more inclined to pay attention to bad news, and last week the Dow traded for a considerable time below the 2900 barrier which has held for months past

Yet at current levels the market still looks vulnerable if a recovery in earnings growth is delayed long into next year experts added that undermanning - usually made minimum

☐ The R1 rifle, which was lethal at a range of up to 200m and capable of

According to Press reports from the same period, riot police killed at least 40 people and injured 770

Govt aid may be rejected

B/Day 10/12/91

WILSON ZWANE

OPERATION Hunger is expected to reject funds allocated to it in terms of a government plan to inject R220m into poverty relief programmes.

A source close to Operation Hunger has indicated a letter will be written to National Health Minister Rina Venter, accusing government of "audacity" in allocating funds to Operation Hunger without the organisation having applied for such funds.

Operation Hunger would reject the funds as it was not right for government to assume how much money it needed, the source said.

The National Health and Population Department recently announced that about R30,5m had been set aside for Operation Hunger and the National Council for Child and Family Care.

Fourteen other organisations which managed nutrition development schemes had already received grants to the tune of R12,6m.

The department also said that in a bid to counter malnutrition-related diseases, government had allocated R10m to local and provincial clinics.

Venter announced in August that government would make R220m available until the end of March next year to provide "targeted" food aid to the poor.

Liquidations soar by 45%

B/Day 10/12/91.

GERALD REILLY

232

PRETORIA — Company liquidations jumped more than 45% in the three months to end-October, while sequestrations climbed 24%, Central Statistical Service (CSS) figures show

Liquidations in the third quarter totalled 541, an increase of 45,8% compared with the same three months in 1990.

Individual and partnership insolvencies grew 24,1% in the third quarter to 1 124, compared with July/-September last year This was 28% up on the second quarter.

The CSS said that in October alone 153 companies and closed corporations were placed under final liquidation, while in September 373 insolvencies were recorded

Absa senior economist Adam Jacobs said the figures underlined the fact that the economy had deteriorated from a moderate recession in the first half of the year to deep recessionary conditions at present.

The worst, he said, was not yet over All relevant indicators were that the number of liquidations and insolvencies would continue to increase deep into next year

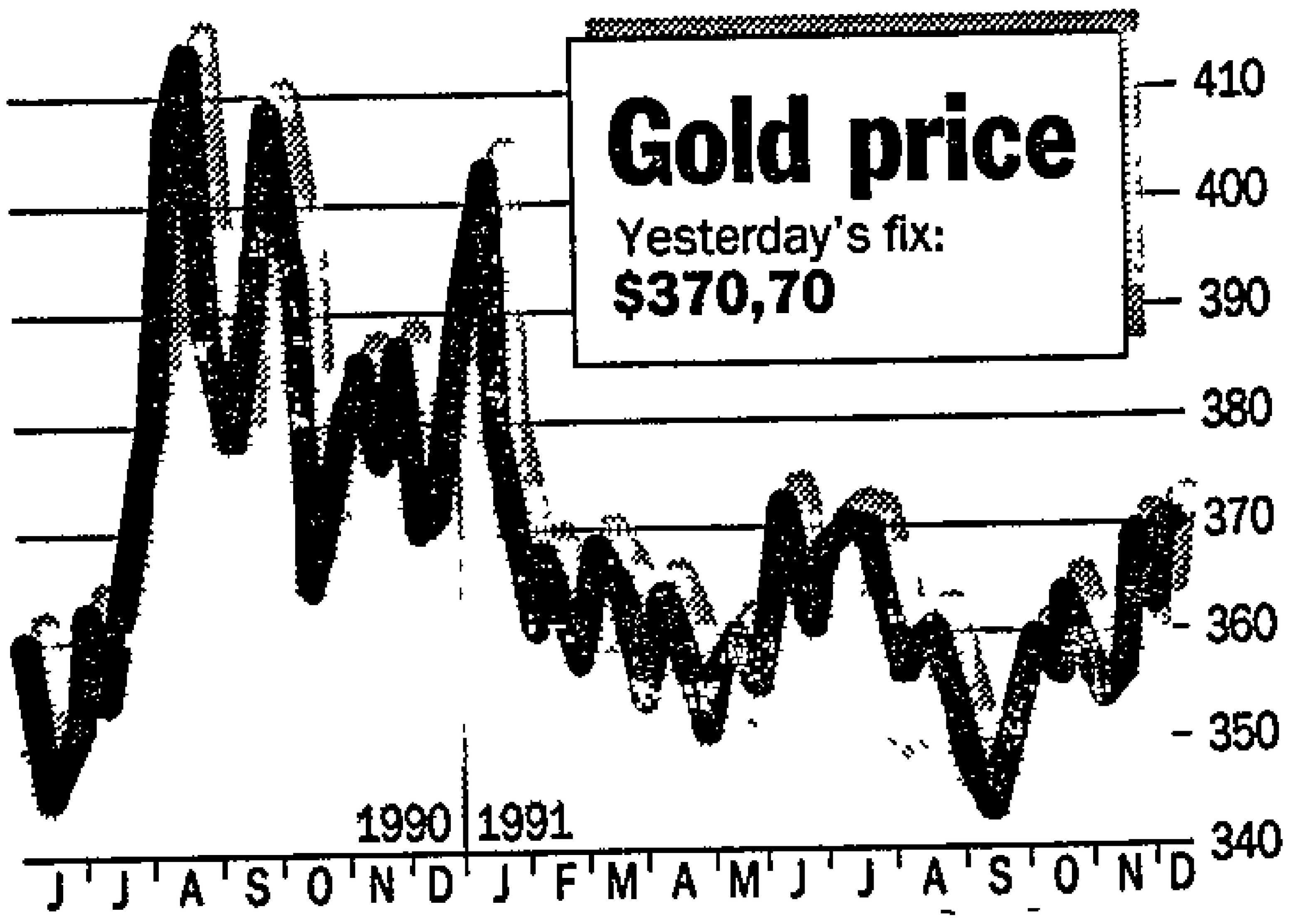
He said private consumption expenditure was sharply down in the third quarter and even government spending had declined in the quarter.

All smiles on JSE as gold tops elusive $370

(232)

STAR 10/12/91.

By Derek Tommey



The atmosphere in the Johannesburg Stock Exchange visibly brightened yesterday when the gold price broke above $370 for the first time since mid-July.

The cynical saying that in South Africa happiness is a rising gold price still has much merit in it.

Gold shares showed a general improvement and the gold index gained almost four percent

However, while there are hopes the improvement will continue, mining analysts did not appear too excited about the price rise

"Say we are just cautiously optimistic," one said

The reason is that much of the apparent strength of gold appears to be caused by the weakness of the dollar

Gold has shown little improvement in other major currencies This also goes for the rand, which has firmed against the dollar as well.

Analysts said the improved gold price had probably come too late to help the mines show better results this quarter.

An analysis of gold price movements shows that it averaged R1 015 an ounce in October, R1 009 in November and R1 020 so far this month, bringing the quarterly average to date to R1 013

The figure compares with an average gold price of R1 059 in July, R1 022 in August and R990 in September, or R1 025 for the whole three-month period

From the average price so far this quarter, it is clear the mines will need a further rise if they are to beat their September figures.

In fact, because working costs continue to increase, even if the gold price doesn't, most are probably having to work harder than ever if they have any hope of simply matching last quarter's results

The going may be a little easier for those marginal gold mines which sold gold forward in exchange for a premium But even they must be struggling

The centre of attraction when quarterly results are issued in January will be West Rand Cons, which ran up a working loss of R2,7 million in the September quarter

This mine has been threatened with closure if it doesn't do better

Results from Loraine will also be scrutinised, it lost R5,1 million last quarter

However, it said recently it could probably keep going for a another year if the the current gold price is maintained

Other mines to make losses in the September quarter were the Leeudoorn section of Kloof, Libanon, Venterspost and Stilfontein. However, none of these losses are seen as life-threatening

One mine expected to show a substantial loss is Doornfontein

It reported a working profit for the September quarter But labour unrest, which has led to the closure of the mine, is expected to affect earnings drastically

Bullion dealers say it appears that the improvement in the dollar gold price is mainly the result of speculative buying in the US, possibly triggered by the weak dollar and fears that the US recession could be prolonged.

However, there are reports that jewellery demand has remained fairly strong, despite the recession, which is also helping to underpin the market

The way the price has held up this year in the face of heavy Russian sales is seen as bullish for gold in the long run.

Although this has led many people to claim there is now little downside for the metal, bullion dealers remain chary

"Telling people there is no downside is like telling them there is no risk.

"As a result, they pile into the metal Then, if it tumbles $20, they are caught out, panic and stop buying — which the industry does not want," one said

JSE stands firm on Crest delisting

(1653)

ANDREW GILL (232)

THE Keswick Trust could resubmit documents until it was "blue in the face", but as far as the JSE was concerned the listing of Crest Holdings had been terminated, JSE president Tony Norton said yesterday

He was commenting on the interdict granted on Tuesday night restricting the JSE from terminating the listing of the suspended cash shell Crest Holdings pending the outcome of an inquiry, appeal or review of proceedings.

Lawyers acting for the Keswick Trust, which holds 90% of Crest, said yesterday they would be resubmitting documentation to the JSE "relating to the proposed acquisition of certain mining rights" by Crest.

Included in the documentation would be an offer to minority shareholders of Crest of 108c a share, 13c above the share price on suspension in late July

Crest hopes to reverse-list Dergra Mining into the suspended cash shell. Norton said the assets had to qualify for a listing in their own right, which they had not.

Technically, he said, the JSE believed the listing had been terminated, but that termination had now been suspended by the court

B/Day 12/12/91.

JSE lawyer Peter Leon contends that the JSE was given no notification of an application for the interdict.

However, Crest's attorneys Fluxman Rabinowitz, represented by Ivan Oshry, said the JSE was notified about 6pm on

□ To Page 2

Crest

B/Day 12/12/91. (232)

□ From Page 1

Tuesday and that the exchange had said it would not be opposing the application.

Sapa and its PR Wire Service, which were interdicted from publishing the JSE decision, were also not represented at the application.

A return date of January 28 was set, but Leon said this could be anticipated by the JSE and brought forward

Leon said the current dispute could "lead to investigation" in other areas

Oshry said if the JSE approved the documentation, Crest would call a general meeting of shareholders to ratify acquisition of the assets

Pilkington sells GSA stake to PGSI

STAR 12/12/91

By Ann Crotty

(980) (232)

Plate Glass & Shutterprufe Industries (PGSI) has acquired Pilkington's 48,4 percent stake in Glass South Africa (GSA) for R525 million

This means that SAB which is currently negotiating to acquire control of Placor — which holds 50 percent of PGSI — will be getting a substantially different and larger asset than was originally thought

Ahead of the deal PGSI and Pilkington each held 48,4 percent of GSA PGSI's share of GSA's attributable earnings in financial '91 was R56,5 million — equivalent to 80 percent of PGSI's total earnings

On a straightforward price/earnings basis this suggests the Pilkington stake was bought on an historic p/e rate of almost 11 times This compares with PGSI's rating of 13,9 times

PGSI chief executive Ronnie Lubner says that the deal was not based on a p/e calculation He also stresses that it has nothing to do with the move by SAB to get control of Placor

"We have always liked the Pilkington stake in GSA and have had our eye on it ever since we got together back in 1983 Four weeks ago Pilkington became sellers — we were the obvious buyers"

At present all that PGSI shows of GSA is the attributable income it contributes In the next financial year — when the deal is finalised and PGSI holds 96,8 percent — GSA will be consolidated in the income statement and balance sheet This will considerably enlarge both documents

Given that the SA assets are the strongest performers in the group, it may also enhance the offer that SAB is prepared to make for Placor

PGSI has not yet finalised the funding arrangements for the stake in GSA These will not be finalised until the SAB deal is tied up Mr Lubner says that management will be looking at the capital structure of the enlarged PGSI to determine the best way to fund the acquisition

PGSI's results for the six months to end-September show earnings down 18 percent to 174,2c (213,1c) and an unchanged dividend of 65c The figures are a little better than market expectations

Mr Lubner notes that due to the discontinuation of a number of operations the review figures are not comparable with the previous year's interim The overall figures reflect a mixed bag of performances

GSA's figures were adversely affected by the weak state of the economy and margins came under pressure from imports PG Bison did well although there was a hiccup with Penny Pinchers.

The UK automotive operations did well, Benelux operations did very well, Germany is continuing to grow; France was not as good as expected and, the US continued to be the toughest part of the group's operations

Mr Lubner is not expecting to hold the drop in earnings at 18 percent for the full year

Negotiations between SAB and Placor are at an advanced stage

Stals must drop interest rates to stem bankruptcies

B|Day 13|12|91

232

LUKE DOIG

THE severity of the current recession is becoming clearer with the release of figures outlining the broader social tragedy in areas such as unemployment. The social effects of the recession are, in my view, a direct consequence of the manner in which business has been forced to suffer under a regime of inflexible monetary policy. Indeed, the information at our disposal as the country's largest credit insurer, suggests that the term depression may soon be in vogue.

There can be no doubt that for the Reserve Bank to allow business to suffer under such high interest rates will jeopardise the transformation of the economy.

The Bank sees as its aim the creation and maintenance of a stable financial environment which will be conducive to long-term economic growth.

This approach is in line with the policies adopted by many central banks abroad. Monetary policy, where it is the sole role of such institutions, is no longer seen to be an architect of economic policy.

This is the new order, as opposed to the policy the Bank followed in the '80s and — one is tempted to add — as opposed to conventional wisdom.

Reserve Bank Governor Chris Stals contends that economic policy is supposed to remain the domain of the relevant (governmental) authorities, usually reflected in the application of fiscal policy.

But, we are currently witnessing a divergence of policy as applied by the powers controlling monetary and fiscal policy.

The government may be trying to engineer an upturn but more probably is merely trying to satisfy social upliftment demands. The Reserve Bank will counter by saying it is endeavouring to allow such plans scope within a stable financial environment.

To this end the monetary authorities have applied a relatively strict policy in an attempt to maintain the external and domestic value of the rand, namely, the exchange rate and inflation respectively.

However, despite high real interest rates, inflation is now at a higher level than when Stals assumed office.

Does recent international experience on the role of monetary policy indicate that all subscribe to the view expressed above?

Interest rates in the UK have been systematically lowered from 15% in mid-1990 to the current level of 10,5%. Retail prices peaked at 10,9% in September and October 1990 and have since come off to 3,7% in October this year.

Likewise in the US, where rates have declined from close on 10% in late 1989 to the current 4,5%. Inflation of 4,8% in 1989 rose to 5,4% in 1990 and was down to 2,9% in October this year.

While it can be reasoned that the decline in inflation facilitated interest rate reductions, was it not the very real threat of an even deeper and prolonged recession that necessitated such interest rate cuts?

In fact, it could be argued that the extremely high level of business failures — the highest in the US since the Depression, and the highest in the UK for more than a decade — forced the hand of the Federal Reserve and the Bank of England respectively.

In other words, not pure monetary issues were at stake, real economic, social (and admittedly, in some instances, political) factors played a decisive role.

Such a scenario now exists in SA too.

An analysis of the two previous economic downswings is revealing. The 1981-83 downturn of 19 months saw civil default and consent judgments for debt against business enterprises rise from R12,9m in 1981 to R15,3m in 1983. There is undoubtedly a lag between the lower turning point in the business cycle and the resultant beneficial impact on economic activity and prosperity.

Hence, debt judgments were still rising in 1984 when the onset of the next downturn served to further exacerbate matters.

The 1984-86 recession (downturn) of 21 months saw debt judgments of R49,7m in 1984, a doubling to R101,8m in 1985 and then up to R136m in 1986 before settling back at R104,2m in 1987.

Over this time liquidations had risen to 3 061 in 1985 and 2 741 in 1986 before also subsiding to 1 809 in 1987. Thereafter civil debt and liquidations figures were fairly acceptable.

The economy peaked in March 1989 and civil debt jumped 61% to R189,9m in 1990 — the highest in the past 10 years. The first nine months of 1991 have seen debt judgments totalling R232m, implying a potential 1991 total of close to R310m.

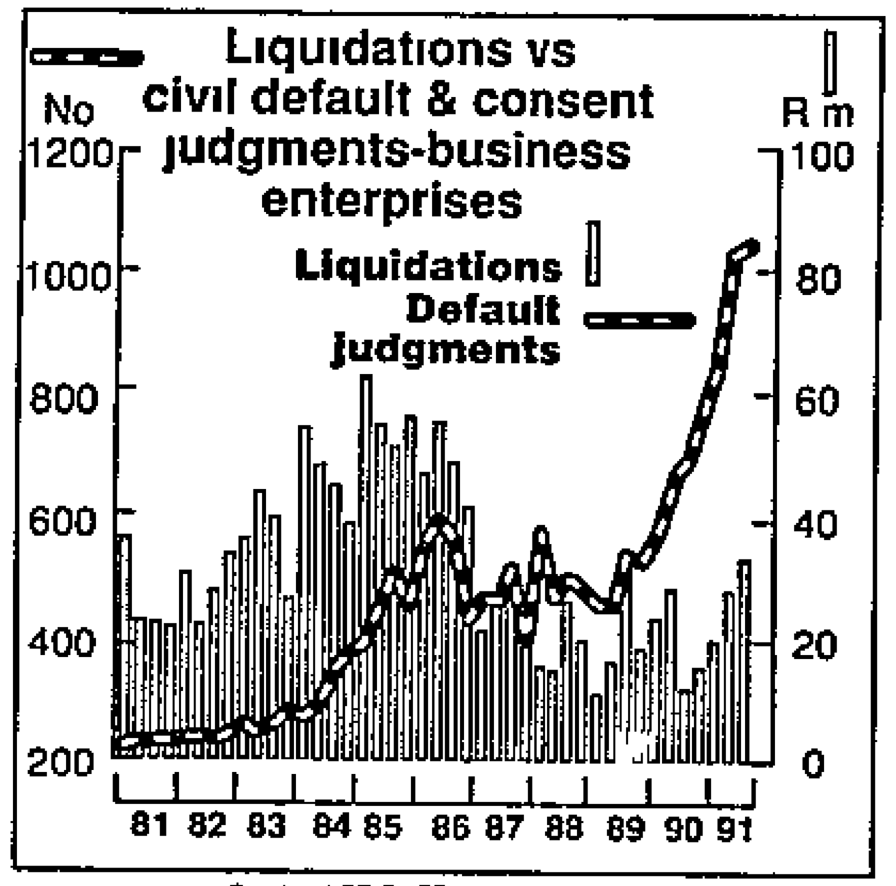
While it would appear from the graph that liquidations have been fairly stable, the upward trend over the past four quarters indicates a theoretical 1991 total of 1 886, an 18,6% increase.

Our economy is likely to turn only in late 1991 at best — but more likely, in mid-1992. If this fact is taken together with the Reserve Bank's steadfast refusal to consider a drop in rates until early 1992 (based on latest indications), then an even more debilitating scenario with regards to civil debt and liquidations may arise in 1992.

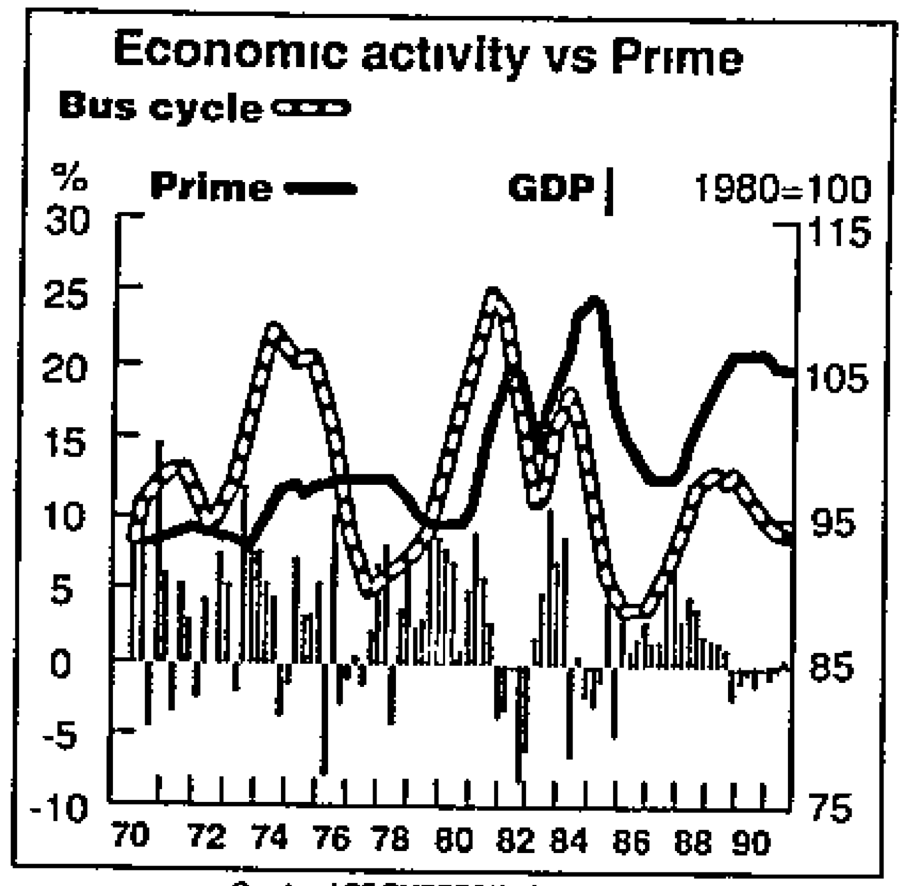
The prospect of this drastic deterioration leads me to call for at least a 2% cut in interest rates.

The responsibility of commerce to provide employment to the ever-growing labour pool is being hamstrung by the burden business is being expected to carry, even if the Reserve Bank does help lift the chronic rate of business failures which now seems inevitable during 1992.

☐ Doig is senior economist of Credit Guarantee.



Graphic LEE EMERTON Source BER & RESERVE BANK



Graphic LEE EMERTON Source BER & RESERVE BANK

Gold plummets as investors back off

B/Day 13/12/91 (232)

ANDREW GILL and MATTHEW CURTIN

GOLD plunged unsupported on world markets late yesterday as cautiously optimistic investors turned against the metal in a wave of stop-loss selling in New York, London and Zurich

It ended in New York at $357,10, almost $9 off its previous close and $12 lower than its opening level this week. It ended more than $6 lower in London at $360,20.

Some commission house selling in afternoon London trade, which dealers described as thin, started the drop in the metal and investors liquidated positions speedily in anticipation of heavy losses.

Dealers said early selling of platinum might have triggered the commission house selling Also, the houses may have been ensuring they sold out at levels higher than they had bought in at, which was said to be about $363

The fall in gold mirrored nervousness about other metals, including platinum and silver Silver dropped to $3,86c before making a slight recovery.

Platinum also made dramatic falls, shedding $7 to just above $360

Rhodium prices have fallen nearly $1 000 or 36% in less than a month, rocking investor confidence in the platinum sector on the JSE

The metal is trading at a quarter of its price in January this year

The plunge in rhodium prices this week to the $1 500 level, against $2 350 an ounce in mid-November, knocked the JSE platinum index, which fell to 4 196 yesterday, a 7% drop after rising to 4 511 points last Friday

Market leader Rustenburg Platinum (Rusplat) has shed 500c in a week, and closed down at R62,50 yesterday Impala Platinum (Implats) also shed 100c yesterday and ended the day at R49.

Lebowa Platinum led the fall in shares on the platinum board, dropping 10c or 5,6% to close at 170c, after touching its low for the year during the day

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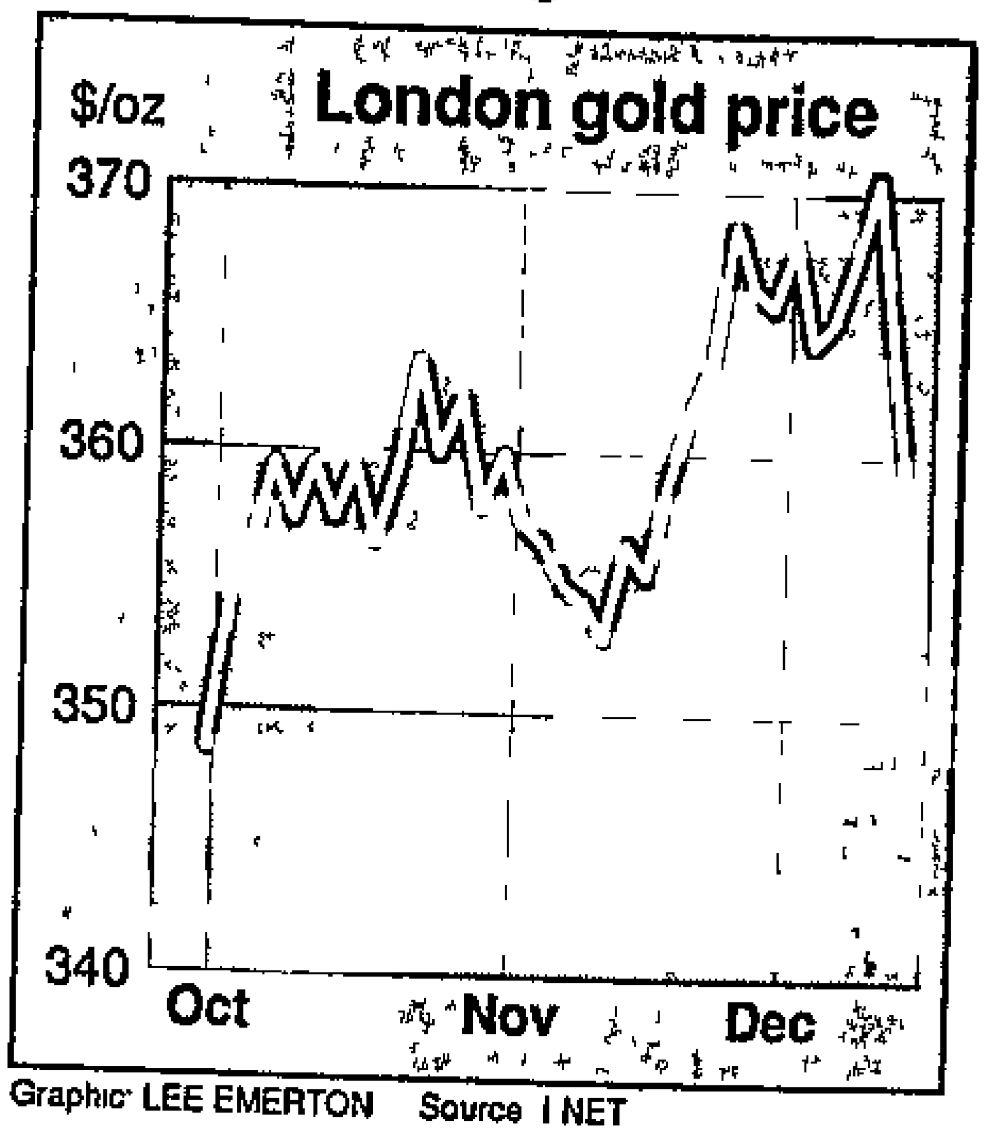


Graphic LEE EMERTON Source I NET

Gold

B/Day 13/12/91.

□ From Page 1

(232)

Only Potgietersrust Platinums rose against the trend, moving up 5c to 625c yesterday, but that was after falling nearly 10% on Wednesday from 675c to 620c

Although platinum prices have held up well this week, the sagging rhodium price has hit confidence in the platinum producers because of their reliance on rhodium revenue

Implats derived nearly 30% or R623m of its mining revenue from it in 1991 A market source said yesterday Rustplat derived about 25% of its revenue from rhodium in 1991

Then, the average prices the companies received for rhodium were $3 700 and $4 601 an ounce respectively

One analyst attributed falling rhodium prices to the prolonged recession in the US and signs of one in Japan, affecting the fortunes of their motor industries

Although interim results from platinum producers would be poor, he said, the reaction of investors to the price fall was shortsighted

Platinum prices were stable, and would rise sharply in the longer term, while rhodium should regain levels of about $2 750 an ounce next year

Unit trusts gaining ground with savers

STAR 14/12/91 (232)

DAVE TURNER: Winning in the long-term.

DEREK TOMMEY

A LARGE number of traders on the Johannesburg Stock Exchange will be keenly awaiting the publication in a few weeks' time of the unit trust movement's inflow and outflow figures for the De cember quarter

Although the unit trusts do not have the same sort of money to invest as the large financial institutions, there nonetheless appears to be a close correlation between the cash inflows to the unit trusts and the overall performance of share prices on the stock exchange

One possible reason is that institutions probably also experience a reduction in new business at the same time as the unit trusts Consequently both the unit trusts and institutions tend to hold back from the market together

In the first nine months of this year the unit trusts experienced a record inflow South Africans invested a record R2,02 billion in units which was 24 percent more than the R1,6 billion in the same nine months last year and only slightly below last year's total inflow of R2,068 billion

Unit trust officials give a number of reasons for the swing to unit trust investment A major one, obviously is the movement's excellent record for creating wealth

Clive Turner, chairman of the Association of Unit Trusts, says investors are primarily attracted to unit trusts because of their excellent long-term performance

Reserve Bank figures show that in the nine months ended September unit trust prices rose on average by 23,1 percent and the dividend yield increased by 17,2 percent

And in the 12 months ended September, the average return from investments in the 17 equity funds was 31,1 percent, reports Mr Turner, while the average annual return on the seven trusts which have been going for the past five years is 19,1 percent

However, the unit trusts have other important attractions These include the tax free returns which investors receive Capital gains are not taxed nor are dividends from equity earnings

More than 150 000 new unit trust accounts were opened in the past 12 months This brought to 885 000 the number of operational accounts

The reduction in rates of interest on savings accounts is also believed to have contributed to the increased inflow

In the past 12 months actual returns on savings have been cut by 25 percent or more after the financial institutions cut their deposit rates — but not their lending rates

A rather more ominous reason, suggested by some unit trust agents, is that investors are growing concerned at the political uncertainty in this country

As a result they are unwilling to invest in long-term investments such as 10-year endowment policies or any other investment where their money is locked in for any length of time

It is interesting to note that the overall share index on the stock market, after reaching about 3540 in July dropped to just above 3300 in August, and after a small rcovery, fell to around 3280 in September It subsequently rallied to a new peak of 3580 in October, but since then it has been falling back slowly to 3500

This suggests that the unit trusts could have been significant buyers again in October, but then pulled out

The December quarter figures could help to confirm this and also give a good pointer to the share market's performance in the first few months of the new year

Export policy set to boost property funds

15/12/91 17/12/91

Business Day Reporter

TAMBOTI and Umdoni Property Funds are set to benefit from SA's export and manufacturing-directed economic policy since their property portfolios are mainly industrially based, chairman of the two funds Michael Noyce says in his annual review

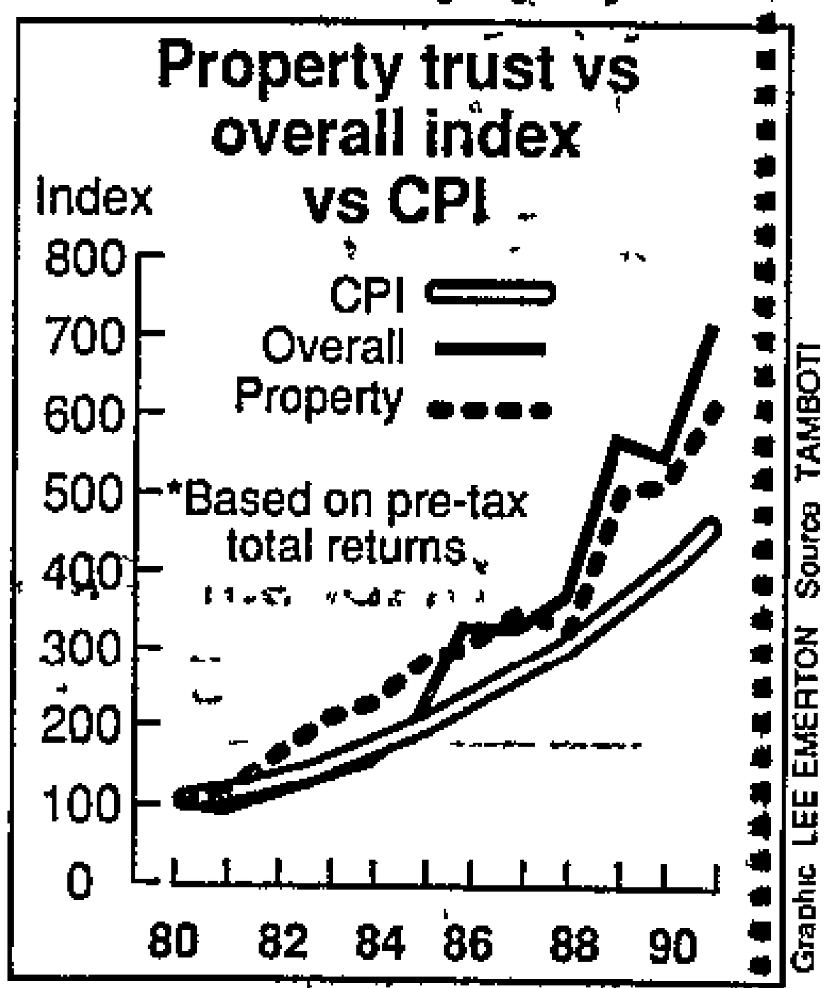
"Most commentators believe that the next economic upswing will be gradual in the initial stages, but because it is likely to be export and investment driven, rather than consumer-led, it should be more sustainable," he says

In the year to September, Tamboti improved its distributable income to 31,3c a unit from 28,3c in 1990 while Umdoni's distribution lifted to 17c from 15,5c

During the year Tamboti held a rights issue to raise R58,9m of which R28,6m is committed to property developments and another R23,8m is held in cash

Umdoni remains fully invested It realised R8,3m on the sale of properties of which R4,3m was spent on developing and improving existing properties, leaving a capital surplus of R4,1m

Noyce says the advantage of investing in the property sector is that property tends to be less volatile than other sectors of the economy.



The property trust sector is yielding average returns of 10,5% and looks more attractive with the possibility of falling interest rates next year Property trusts are also more marketable and have a greater spread of risk than direct investment in property

By year-end only 1,4% of Tamboti's portfolio was vacant and 0,6% of Umdoni's — a commendable achievement in view of the length of the recession, Noyce says

Both funds expect to show growth from the renewal of leases next year and the impact of higher rentals achieved on review last year when these were previously below market levels

Tamboti's interest earnings will also grow as a result of the large amount of cash it holds, although this could be tempered as interest rates are expected to fall

Curtailed growth feared for unit trust industry

B/Day 17/12/91

(2320)

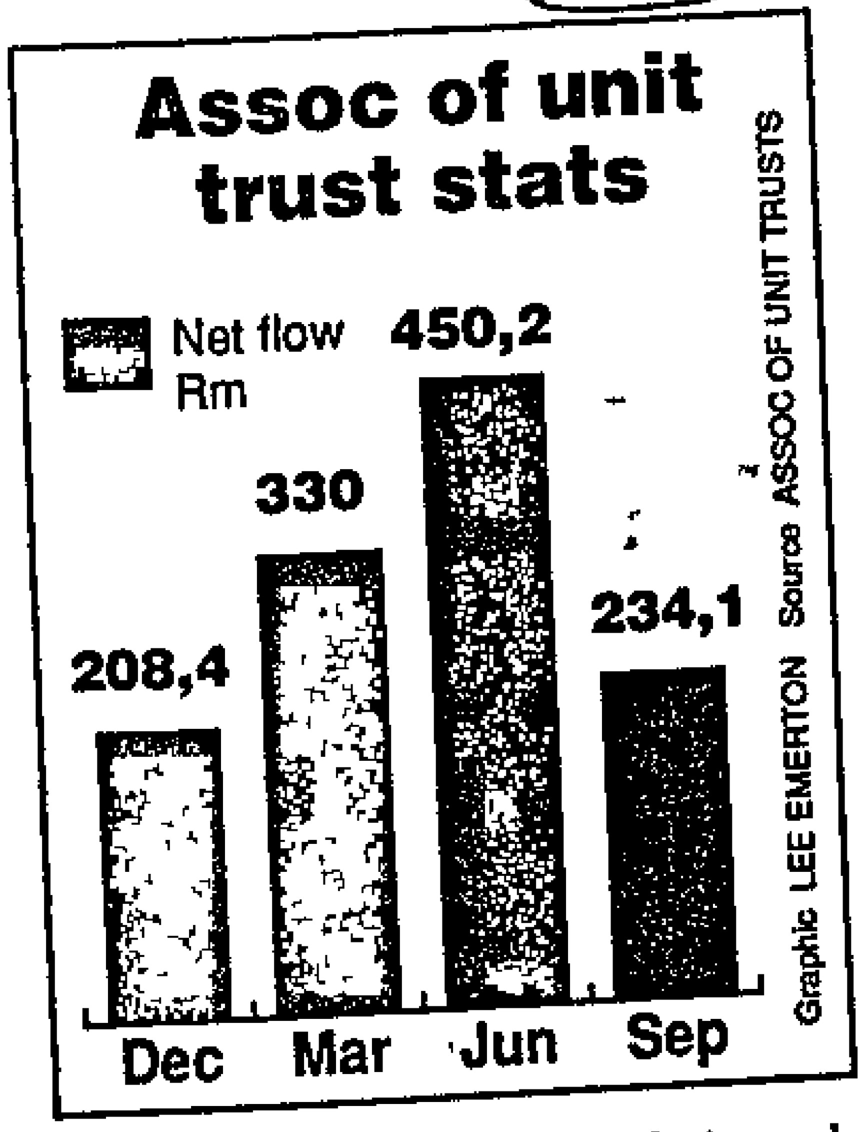
SEAN VAN ZYL

RECESSIONARY pressure and the volatility of the equity market next year are expected to restrict growth of the unit trust industry, market analysts say

Analysts expect unit sales to level off in 1992 as investors dip into their personal savings to ride out the recession They also believe the investment performance of equity funds will drop as investors adopt a more cautious view of share prices

Industry performance figures for the September quarter show an alarmingly high level of repurchases — R556,5m compared with total sales of R790,6m The 95% increase in repurchases compared with an 8% growth in sales resulted in a modest R234,1m inflow of new money for the quarter

The September quarter's lacklustre growth in sales compares with the 27% achieved for the June quarter and 28% for the three months ended March The June quarterly report showed the industry had enjoyed the highest inflow of new funds at R450,2m since the September quarter



prior to the 1987 stock market crash

Furthermore, net inflow climbed 116% to its June high before falling back almost to its December 1990 level

However, Association of Unit Trusts chairman Clive Turner said he was not particularly perturbed by the September quarter's high repurchases He said that the disposal of units by investors reflected the volatility of the equity market, but he expected the industry's sales would continue to exceed repurchases for the present quarter

"Although repurchases are expected to be fairly high, I do not expect the industry will be faced with a net outflow in 1992."

An analyst, who did not wish to be named, said unit trusts were unlikely to achieve 1991's growth in investments next year. However, he noted that an investment in unit trusts should be viewed over a minimum three to five-year period to smooth out market fluctuations On this basis, general equity trusts were still the best option for the unsophisticated investor.

George Huysamer & Partners analyst Alta Theron agreed unit trusts were still the best investment available to the public Although they were expected to achieve a 30% return at best in 1992, she noted the return would still beat inflation and the return on cash on deposit

Theron also felt the present high repurchases of units would level off in 1992

Xmas crashes taxi unity

CT 18/12/91 (332)

By RAMOTENA MABOTE

THE festive season has ended hopes of taxi unity in 1991 — all those involved in unity talks are either on holiday or making long-distance trips

Lagunya taxi association chairman Mr Headman Nongwenjane said yesterday most of the drivers were away, making talks impossible at the moment

He said, however, that peace and unity were urgent and should be made the No 1 priorities for the coming year He added that he did not see why the Lagunya membership would not agree to unity with Webta

Webta met with Sabta last week and unequivocally announced that it was committed to unity

Mr Nongwejane refused to give the SA Defence Force the credit for restoring quiet in Khayelitsha He said there was peace only because the groups were in a "Christmas mood"

He also said that the Cape Town Peace Committee had failed in its attempt to bring peace

Since the SADF deployed troops in the township more than a month ago, there have been only a few incidents of taxi violence

No incidents have been reported in the past week

A spokesman for Sabta said the body would meet with Lagunya's executive "soon"

Finrand plunges on big sell order

MERVYN HARRIS

THE finrand investment unit plunged 4,3% yesterday from R3,23 to R3,37 to the dollar to bring its losses to almost 11% since the beginning of the month as sellers outweighed buyers in a thin market

Currency dealers attributed the renewed weakness of the finrand to a big local selling order Speculation was rife that the sale involved the disinvestment by UK-based Pilkington of its glass division to Plate Glass but some analysts said payment could have preceded the news

But the downturn of the unit prevented a rout of leading mining shares on the JSE after the gold price was pulled down more than $4 to $356 at one stage in London by plummeting platinum prices

The falling finrand acted as a prop for mining shares and enabled the JSE all gold index to wipe out an early 23-point decline to 1 170. The index, which has fallen nearly 100 points over the past week, recovered to post a rise of four points to 1 198

Currency-linked shares such as market leaders De Beers and Anglos also showed a smart turnaround for the overall index to close unchanged at 3 459 However, losses outnumbered gains by 78 shares to 33

Gold closed at $357,50 in London yesterday and at $357,25 in New York

Ruperts hot on the Oppenheimers' heels

B/Day 19/12/91

DAVE LOURENS

THE Rupert and Hertzog families are poised to take over the Oppenheimers' top spot in SA's personal wealth stakes, according to a Financial Mail survey of SA's 20 richest families

They have assets of R2,818bn, up from R1,522bn last year, while the Oppenheimers' assets are now valued at R2,872bn, up from last year's R2,534bn

The FM's 1990 figures did not include the Ruperts and Hertzogs' share in Richemont This, and a sharp rise in the share price of Tegniese & Industriële Beleggings, helped boost their asset value by 85%

Defying the recession, the combined value of the Top 20's assets increased by 58%, or R4bn from last year, to R10,77bn. (232)

The valuations refer only to known shareholdings in listed family companies.

The Oppenheimers' major shareholdings were in Anglo (18,7-million shares worth R2,35bn), and Minorco (11,9-million shares worth R524m) The Gordon family remained in third place, with its stake in Libvest worth R890m (R482,7m last year)

In the No 4 spot was the Methven family, with its shares in Rainbow Chicken worth R595m, and No 5 Raymond Ackerman, whose family's stake in Pick 'n Pay Holdings was valued at R487m At No 6 Ventron's Bill Venter (R428m), No 7 the Hamilton family (its controlling interest in Suncrush increased from R160m to R387m), No 8 Pepkor's Christo Wiese (R335m); No 9 Trencor's Jowell family (R322m), and No 10 Toyota's Wessels family (R300m)

The fastest climber was Royal's Imerman family — up three places to No 16 with assets growing from R37m to R97m.

R320m deal gives SAB Placor control

WILLIAM GILFILLAN

IN A R320m deal, SA Breweries (SAB) has acquired a 54,6% controlling interest in Placor, holding company for SA's only glass manufacturer Plate Glass & Shatterprufe Industries (PGSI).

(232)

The acquisition, to be financed by the issuing of convertible preference shares in SAB, will leave the Liberty Life Group with an effective 20% holding in SAB from 19%.

B/Day 20/12/91.

SAB, which bought the Placor stake from a controlling consortium of the Lubner and Brodie families and Liberty, will exchange one convertible preference share for every two Placor shares.

As SAB was trading at 5 375c a share when the negotiations were being concluded, this places an effective value of about 2 700c on each Placor share (excluding the recent interim dividend of 24c a share). Placor closed yesterday at 2 250c, meaning SAB paid a 20% premium for its controlling interest.

Liberty Holdings MD Farrell Sher said once the preference shares had been converted into ordinary shares, Liberty's direct interest in SAB would increase to about 8% from 7%. Also, Liberty had about a 12% indirect interest in SAB through its 34% stake in Beverage & Consumer Industry Holdings, which holds 35% of the beer group. So Liberty's effective holding in SAB would come to just under 20%.

The two families would receive about 0,6% in the beer group in lieu of their 20% stake in Placor, which holds 49,7% of PGSI.

Ronnie Lubner, who will remain chairman and CE of PGSI, said yesterday that one reason for the Placor sale was that some members wanted to "cash in".

Shareholders in PGSI were also warned that a rights offer was imminent to refinance local operations.

Lubner said the proceeds would be used to reduce debt locally and to expand international operations. Proceeds from the rights offer would not to be used to finance the R525m acquisition by PGSI of a 48,4% interest in Glass SA.

SAB executive chairman Meyer Kahn said the Placor acquisition gave SAB a unique opportunity to diversify its consumer-related manufacturing interests.

EVERITE (232) (1??) FM 20/12/91

Breaking up

The announcement that Nueva Holdings planned to sell control of Everite unfortunately appeared on the same day as the Pilkington sale (see separate report) They set off fears of a renewed pattern of disinvestment Both moves, however, were motivated by a trend for international conglomerates to sell fringe operations Nueva has gone one step further

It is selling its controlling interests in commodity businesses worldwide and investing those funds into hi-tech companies, which it will not necessarily control

Also, it's believed that Nueva's controlling shareholders, the Schmidheiny family, are strong environmentalists and feel that control of industrial commodity companies is incompatible with this position

Certainly, Nueva's investments in asbestos have been environmentally controversial

But it is a good time to take the environmental high ground, as Everite has recently provided disappointing returns EPS have fallen from 26c in 1989 to 6,9c in the year to

Continue ->

FOX FM 20|12|91 (232) (1??)

June 1991 Since the results were announced in August, Everite's share price has fallen from 275c to 230c, though it has recovered to 250c since the sale was announced This is still substantially below net worth of 419c

Arguably, Nueva would be able to get a better price after Everite's December interims are announced Everite has undergone a major restructuring during the year, and the staff complement has been reduced by a fifth The *FM* said recently that EPS could double in the year to June 1992, though this would still be well below recent levels

Market capitalisation of Nueva's controlling interest in Evhold is less than R60m Everite's product portfolio includes fibre-cement roofing, pipes, plastic sheeting and pottery products It would fit in nicely with existing building materials groups such as Murray & Roberts' subsidiary Darling & Hodgson or Rembrandt-controlled Fraser Alexander Neither company would have much difficulty raising the appropriate funds But other players in the building sector cannot be ruled out *Stephen Cranston*

FM 20|12|91 (232)

JSE's Norton ... *a responsibility to investors*

CREST HOLDINGS FM 20|12|91

Trying again (232)

A dispute over whether the JSE gave a proper hearing on the proposals to reverse Dergra Mining into the Crest Holdings cash shell, in reaching its decision to terminate Crest's listing, lies at the heart of last week's legal action preventing the JSE from delisting Crest

JSE president Tony Norton says it did. The Keswick Trust, which controls Crest, says it did not A Supreme Court judge felt there was sufficient grounds to issue the temporary interdict preventing termination of the listing

Return date is January 28 Norton says the JSE will put its case to the court on or before that date He says the JSE was not represented at the application for the interdict and disputes whether the JSE was advised about it in time Crest attorney Ivan Oshry, a partner in Fluxman Rabinowitz Raphaely Weiner, contends the JSE was advised in time

Keswick bought 90% of Crest from previous owner Colfin Holdings for R6,6m with effect from January Dergra bought a number of mining assets from Keswick, also with effect from January, for R15,5m This was to be settled R6,65m in cash and the balance through issue of 8m Dergra shares

The Keswick Trust is a discretionary trust set up in 1989 A number of Dergra directors are beneficiaries including Derek Harris, Charles Graves and Susan Justice.

Main asset is the Drylands opencast gold mine Dergra bought the mine from Anglo American Corp, which considered it no longer economically viable Other interests include a number of gold-bearing dumps around Klerksdorp, the Nyala Gold Mine claims adjacent the Osprey Mine in Gazankulu, and two other gold-bearing dumps in the north-eastern Transvaal

Norton says assets to be listed through cash shells have to be able to support a listing in their own right

"These are mainly mining exploration assets which are just promises at present," he says "We have a responsibility to investors who will deal in these shares and we have to be sure of the facts We have not seen documentation that meets our required standards "

Oshry claims the JSE refused to consider the latest document, which dealt with all the points it had complained about in the past He says this was the sixth draft document drawn up to meet the JSE's changing requirements

Norton says the JSE had commented on various sets of documents sent in by Crest He adds regulations stipulate cash shells may be listed for only six months but the JSE had kept Crest alive for a year longer than required since it became a shell in June 1990

Oshry says "We had no other remedy but to go to the court to keep the listing alive pending a decision by the Appeal Board or some kind of settlement with the JSE "

Brendan Ryan

Shareholders in Placor get top offer from SAB

STAR 20/12/91

By Ann Crotty (232)

SAB's bid for control of Placor sees Placor shareholders getting a very attractive package

SAB is offering one automatically convertible preference share for every two Placor shares As SAB is currently trading at R55 the offer values Placor shares at R27,50 This is significantly above the R23 at which Placor was trading yesterday and in fact represents a record level for Placor

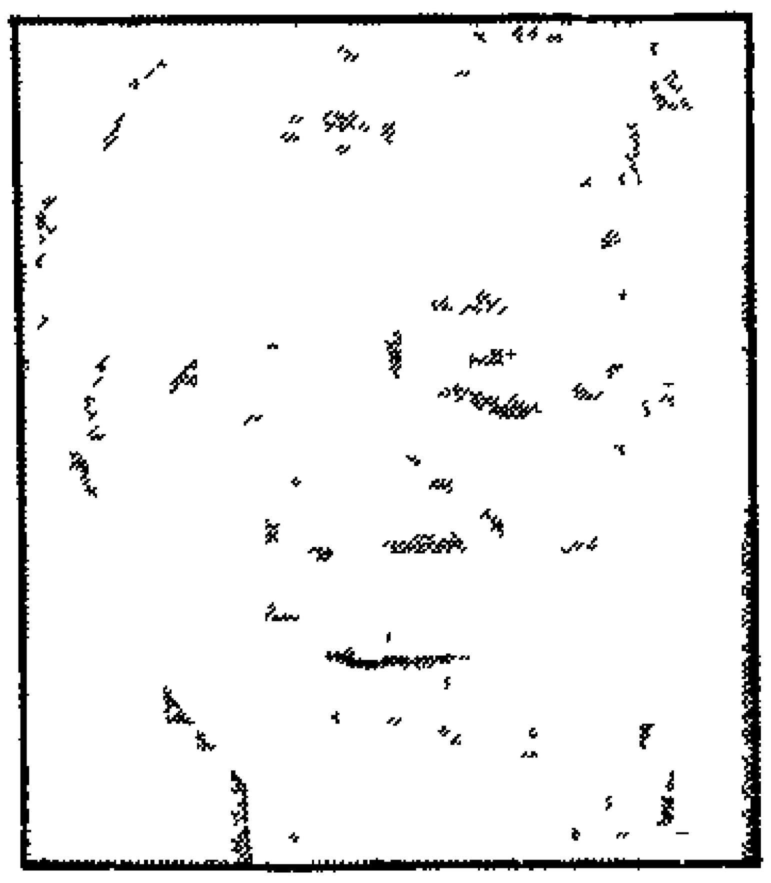
In addition to this attractive valuation, Placor shareholders who accept the SAB convertible prefs will be getting an annual fixed dividend of 255c This is equivalent to a dividend yield of 4,6 percent which is extremely generous compared with the 2,2 percent yield offered at SAB's current market price

In view of the attractiveness of the offer (which is extended to 100 percent of Placor shareholders), it seems inevitable that there will be 100 percent acceptance

According to the announcement SAB has agreed to acquire the 54,6 percent of Placor that is held in a pool arrangement controlled by the Lubner/Brodie families and Liberty Life Placor holds a controlling 49,7 percent of Plate Glass and Shatterprufe Industries (PGSI)

Some of the Brodie/Lubner family shareholders have made arrangements with institutions to get cash in place of the SAB shares Given the generosity of the dividend yield on such an attractive blue chip, this facility was presumably easily arranged.

For the longer-term the more significant and exciting aspect of



PGSI chief executive Ronnie Lubner.

today's announcement is the reference to the proposed rights offer by PGSI. "In order to re-finance certain local activities and to enable PGSI to expand the equity base of its international operations, it is envisaged that PGSI will undertake a rights offer"

These plans are over and above the recently announced R525 million acquisition of Pilkington's 48,4 percent stake in Glass SA (GSA). According to chief executive Ronnie Lubner the GSA deal is a separate transaction the funding plans for which will be announced at a later stage.

But it does seem that the balance sheet would benefit from a rights offer and would therefore place PGSI in a more comfortable position vis-a-vis choosing various options for financing GSA

The balance sheet at end-March '91 showed gearing at 40 percent — down sharply from the previous year's 78 percent.

(It seems very likely that on completion of the funding of all the deals on the cards at this stage, SAB will have more than a 49,7 percent stake in PGSI)

Mr Lubner disputes the suggestion that these plans (the rights issue and the Pilkington deal) reflect a more aggressive approach to PGSI's growth that are related to the change in controlling shareholder

He points out that the identity of PGSI's major shareholder would not influence the group's investment plans as these are motivated by PGSI's management and not the controlling shareholder

However if some of the Lubner/Brodie shareholders are now looking to cash in part of their Placor holdings, it is unlikely that they would previously have been keen to follow a rights issue.

With SAB as controlling shareholder this sort of restraint is removed which means that PGSI management should now have a stronger hand to work operations — local and international - that are at a developing stage and therefore need funds

From SAB's point of view, the acquisition "will provide a major diversification for SAB's consumer related manufacturing interests"

The SAB prefs will automatically convert into ordinary shares on a one-for-one basis in the year following that in which SAB's annual dividend is equal to or exceeds 255c

The seven year compound growth in SAB dividends is 18,5 percent per annum Assuming this rate is sustained, the SAB prefs should be converted in financial '97

If there is 100 percent acceptance by Placor shareholders some 10,4 million SAB prefs will be issued.

Time to invest the bonus

Citizen 22/12/91 (232)

MONEY TALK

MANY people will receive Christmas bonuses this month.

For those who want to invest at least some of it, good value is obtainable on the investment market.

The ideal would be to obtain a good yield coupled with a tax-free capital gain.

Property unit trusts listed on the Johannesburg Stock Exchange provide a safe investment with built-in growth when the economy starts to expand again. They also present good value at the moment.

Their yields are excellent, ranging from 9,1 percent for Centrecity Property Fund to the 15,6 percent of the small Prima Property Trust.

At the same time, one can expect an appreciation in the underlying value of the units which could well lift total return to between 20 and 30 percent.

The commercial and industrial property market is flat at the moment, even declining in certain areas.

Most of the better property trusts report a relatively small vacancy factor because they have selected their clients carefully.

The average yield of the property trusts listed on the JSE is around 11 percent, which could well drop to about nine percent within the next two years as interest rates decline generally.

However, most economists predict that the South African economy, given stable political and labour conditions, will experience an upswing of around two percent in 1992.

This could well lead to a drop in property market vacancies and a hike in rentals.

Over the next two years, one can conclude, an average return of at least 20 percent a year is a strong likelihood.

There is also the possibility of a re-rating of the property market as a result of foreign capital being invested in industrial and commercial properties, but one cannot depend on this.

Foreign investors buck trend and sell gilts

232

ANDREW GILL

FOREIGNERS were net sellers of local gilts last week for only the third time this year, latest JSE statistics show.

They sold R90,4m worth of capital market stock in the week ending December 20 compared with R15m the week before, defying the year-long trend of continued buying by foreigners They bought R81m, resulting in net sales of R9m

The figures are not strictly representative as they reflect only those deals that pass through the JSE. B1Day 27/12/91

A possible reason for the sell-off was the relatively low yield foreigners were receiving on their stock, which is sharply below levels seen in recent years and offers a minimal real rate of return

This has been a worrying factor in the market for months but had so far failed to deter foreigners, dealers said, who added that it was too soon to tell whether the sell-off was indicative of a new trend.

Equities were under less pressure as only R67m worth were sold compared to the previous week's R183,8m in a market that saw turnover of R448,8m that week

JSE emerges as one of the world's leading performers

STAR 27/12/91

By Derek Tommey (232)

Those who have bought quality industrial shares and invested in general unit trusts in the past two years have cause to cheer

The JSE and the Hong Kong exchange are the world's only major markets to have achieved significant growth in industrial share prices in these two years

This has made many Chinese and many South Africans much wealthier.

In sharp contrast, other investors, particularly Germans, Italians, Japanese and Swedes, are significantly poorer than they were two years ago.

Although some of their markets have shown a slight improvement this year, prices in these markets in aggregate are still well below the level of two years ago

Calculations by Morgan Stanley Capital International, published in The Economist magazine, show that investors in both Johannesburg and Hong Kong have done extremely well this year.

Prices on the JSE have shown a 37 percent increase and those in Hong Kong a 38,4 percent increase.

The next-best performance was by the Sydney Stock Exchange (25 percent rise), followed by Switzerland (14,4 percent). Other markets showed much smaller rises, with Italy and Tokyo showing losses

However, apart from Johannesburg and Hong Kong, market gains this year were insufficient to offset the huge losses most experienced in 1990, which were triggered in part by the outbreak of the Gulf War

In this two-year period, Hong Kong prices show an overall rise of 46,8 percent, while Johannesburg prices show a 42,9 percent increase

With the exception of US share prices, which show a marginal improvement over two years ago, prices in all other major markets show losses, compared with two years ago Some of these are substantial.

For each billion yen a Japanese investor had in the Tokyo market two years ago, he now has only 580 million yen — a 42 percent drop in wealth

The German, Spanish, and Italian markets are all still more than 20 percent below their December 1989 levels The Swedish market is down 34 percent

The losses on the Tokyo market, however, deserve some comment

They tell us that businessmen in Japan, probably the world's most dynamic, and certainly its second most important economy, have been expecting a serious recession for some time.

Therefore, the failure of the US economy to pick up this year should have been no surprise to the American government.

Secondly, the huge losses in wealth experienced by Japanese investors after the drop in share prices must also have had a major deflationary effect on the Japanese economy

It is, therefore, not to be wondered at that the world recession is lasting so long.

Fortunately, SA investors have not been seriously affected by these world trends People in the First World sector of the economy have generally remained savers, despite the recession

They have continued to meet their life insurance obligations, pay their pension funds, and put any surplus money into equity-linked endowment policies, shares and unit trusts

This has led to a large and steady flow of funds amounting to many billions of rands to the institutions

They have to invest the money, and with shares providing protection against SA's high inflation rate, much of it has found its way to the share market

But apart from supporting share prices, this money is fin[illegible] ing its way into new investm[illegible] This, in turn, should help [illegible] present share prices

Santa Claus on stock markets

S Times (Bus) By DON ROBERTSON (232)

THE AUGURIES are good for the JSE indices which have been rising for the past six months

Unexpected yearend leaps in international stock markets should spill over and give the JSE a Christmas bonus and hope for the new year

Analysts believe that industrial and mining house shares will respond to the record levels on Wall Street They will be helped by some window dressing by SA financial institutions

Worldwide reaction to Wall Street, which peaked this week, should encourage renewed interest in SA shares

De Beers will continue strong, along with Anglo American Gold shares are likely to remain at about present levels, with the sharply lower financial rand offering a buffer against foreign sales, say market observers

Cut

The Dow Jones industrial index added more than 32 points this week to peak at 3 082,96, marginally better than the previous 3 077,15 on October 18 The New York improvement took London, Tokyo, Hong Kong, Paris, Frankfurt and Singapore with it

The stimulus came from a dramatic cut in the Federal Reserve discount rate from 4,5% to 3,5% last Friday — its lowest for 27 years The rate cut is expected to encourage borrowing and business activity and sail the US economy out of the doldrums

Investors had believed that the American economy — and that of the rest of the world — was heading lower But hopes are high that lower interest rates and expected tax cuts next month by President Bush will give the fillip for an international economic recovery

Mr Bush confirmed this week that his State of the Union speech would contain proposals for economic stimulation But he allayed fears that this would lead to a rise in the Budget deficit

President Bush said "One of the reasons that has kept long-term investment from going through the roof is the fact that discretionary spending has been capped and I have no desire to change all that"

Other US influences, such as improved spending on consumables and a reduction in unemployment, added to the rush for equities

Some American analysts have predicted that the Dow Jones index could hit 3 500 towards the end of next year as economic activity intensifies Others, however, suggest that the New York Stock Exchange has rallied in the past in anticipation of economic upturns, only to fall in response to disappointing economic data

Some think that the moderate level of trading, albeit in a holiday period, could spark profit-taking

One US broker says that although bull markets are encouraged by lower interest rates, they survive only by increased corporate earnings and there is no indication that first-quarters next year will be impressive enough to move the market to higher ground

Although Wall Street has given the first signs of a new belief in the future, the dollar has fallen On Friday, it closed at 125,75 yen — its lowest in 14 months It also lost ground to the mark and sterling as well as other European currencies

Even the rand rose to R2,74 to the dollar — well up on R2,80 of only a month ago

The London Stock Exchange, which closed early on Friday, ended slightly below best levels, but the Financial Times index finished 34,3 points ahead at a record 2 418,7 — well above the 2 400 psychological base figure

Base

The Hong Kong blue chip index, the Hang Seng, rose by 43,44 points to 4 236,20 in response to Wall Street's surge.

Before world markets took off on the Wall Street boom, SA commentators were hopeful that "given no unforeseen circumstances, a major downswing in the market is unlikely"

An investment survey from the Board of Executors says that technically, the charts of the gold price and gold shares continue to build strong base formations

BoE group remains "cautiously positive" about the merits of gold share investments"

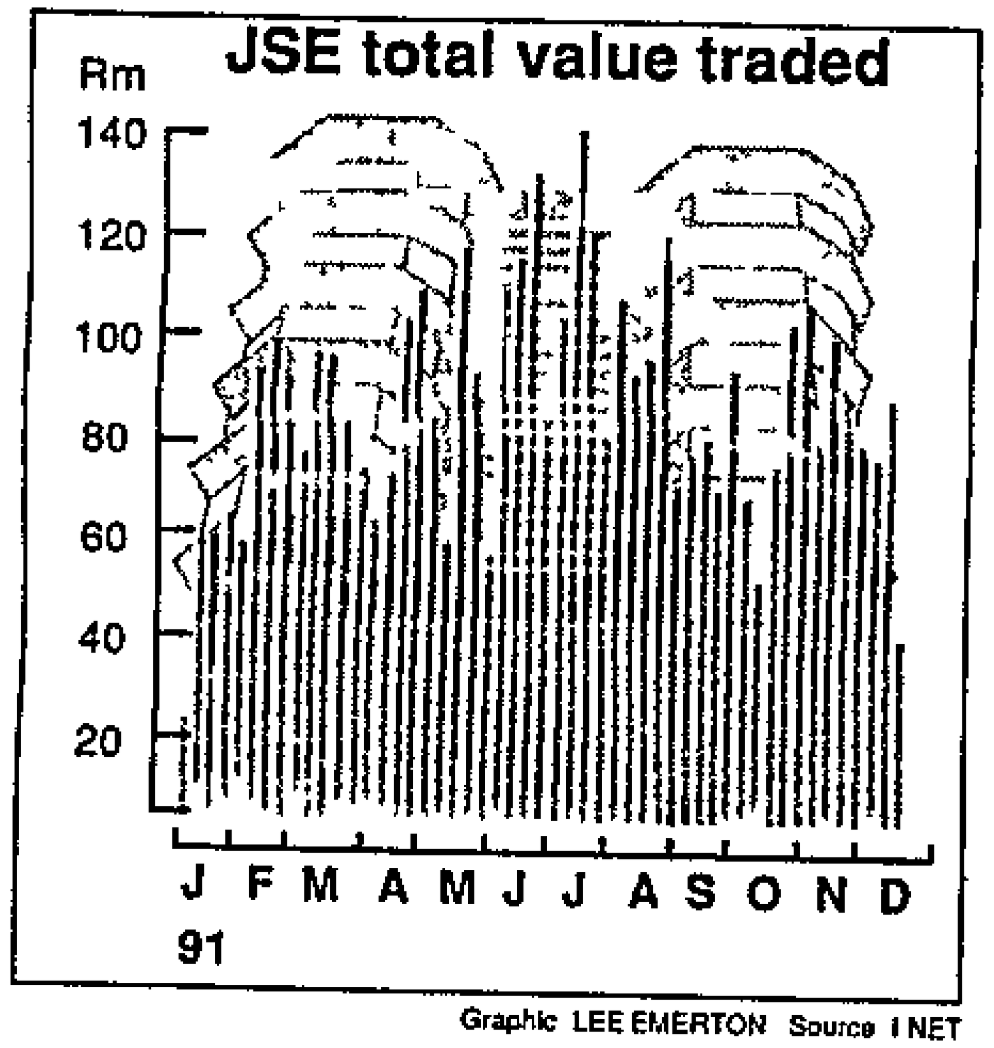
Although the gold price has been weaker in the past few months than the average figure of R362,27 for the year to date, the market has held up well, helped largely by a weaker financial rand

Brokers say that the finrand fall to R3,20 has acted as a buffer against foreign selling of gold shares

Platinum could benefit from reluctance of foreigners to use the finrand The price of platinum has slumped from above $500 three years ago to $342 an ounce

The finrand's weakening has been ascribed to major disinvestments, the main one being the sale of the Pilkington stake in SA Glass, an arm of Plate Glass & Shatterprufe Industries

Some share dealers believe that although the foreign departures were based on "business considerations" and not fears for the SA economy's future, the fiscal-based curreny could recover



New company listings take a dive in JSE's mediocre 1991

MARCIA KLEIN

THE past year has not been good for new listings, with the number of new flotations nearly halved compared with 1990

There have been only 13 new company listings on the JSE this year against 23 in 1990, 21 in 1989, 41 in 1988 and 211 in the listings boom of 1987

There have also been few large listings Prefcor's R270m listing in the second half was the largest this year and the biggest since the R388m Mainstreet Property Fund listing in November 1990

A corporate finance manager said 1991 had not been a good year to go to the JSE boards as many companies had found it difficult to meet the requirements of a good track record and reasonable earnings growth in the current economic climate

The decline in the number of new listings was not necessarily reflective of the state of the SA economy but rather emphasised some significant changes in the market over the past few years, brokers said

The major change had been the virtual disappearance of the smaller investor and the smaller company from the JSE

A broker said SA companies thrived when the mines were thriving, and after disinvestment many companies came to the market after finding themselves in a highly geared position The rapid rise of small companies listing (until 1987) and the creation of the DCM had resulted in many smaller investors burning their fingers and moving into unit trusts

"The smaller company and smaller investor have simply vanished, and it will be some time before sentiment changes," a broker said

"There will only be a boom when the man in the street has money in his pocket and when there are viable businesses which have proved themselves," a corporate finance director said

Many of the new listings in 1991 formed part of restructuring and reorganisation within some listed companies, with Royal being a prime example Companies had also listed in order to prepare for the upturn and not necessarily to raise capital

Prefcor's listing was not only the largest, but also possibly the most unsuccessful, brokers said Prefcor was furniture related and there had been a slowdown in this industry It also was overpriced and forecasts were too optimistic The share was initially priced at 500c, and has been trading recently at a low of 360c But the brokers said it could be attractive in time

A corporate finance director said Target Exploration, which listed this year, seemed to be viable and initial results were encouraging But it was a share "only for investors with a long-term view of 10 to

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Listings

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30 years"

Royal subsidiaries Royfood and Roychem came to the market after a R32,8m listing Both listings — particularly Royfood — were successful, and both were well placed for a good future, a broker said The shares closed a week ago at 515c (Royfood) and 275c (Roychem), just short of their yearly highs.

Ovcon, which listed in March, was not expected to be a good JSE performer as it was a small Cape-based construction company which had come into a tough and depressed market

A strong share was Sun International Ciskei, which had moved from 150c to 230c since listing Brokers said the company had been performing better than expected mainly because it was sound, had good profit growth and had not overcapitalised

A broker said there was "nothing exciting in Messina Investment's portfolio, and it is high risk with no track record". But there was solid management and the only reason for investment would be to invest in the people, he said.

Dinette was the only new company to list on the venture capital market. A broker said this was the right place to list as it was a high risk business, small and operated in the depressed furniture business. This was also a case of backing management which had a long history in furniture, a broker said, and it had potential despite the fact it was high risk

Recently listed JCI platinum mine Potgietersrust Platinums (PP Rust) was still in the development stage, but indications were that results would be better than forecast in the prospectus, a broker said.

Industrials rally in late JSE surge

B Day 31/12/91

(232)

MERVYN HARRIS

THE JSE industrial index rallied towards the close of trading yesterday to post a rise of 35 points to 4 133, representing a gain of 37,4% on the year as 1991 drew to a close with trading only until noon today

Fergusson Bros, Hall Stewart & Co's Mike Howarth said the sterling performance of blue chip industrials was more a reflection of burgeoning "institutional cash flows in a market where no investments are allowed offshore, than of economic fundamentals"

The industrial index is, however, about 5,6% below its mid-November peak of 4 378 points But the late surge has been buoyed by the Christmas rally on overseas markets, which has seen Wall Street close at record highs

On the back of the rise of industrials and recent strength in De Beers and associate Anglos, the JSE overall index ended unchanged yesterday at 3 420, a gain of 24,7% on the year but 4,5% off its peak of 3 584 set on November 14

Gold shares were disappointing as the performance of the metal during 1991 failed to match most investor expectations With gold retreating towards the $350 level yesterday, the JSE all gold index closed at 1 142

This represents a decline of 9,7% after starting the year at 1 265 points The index bottomed at 968 points in February and peaked at 1 486 in July

Interest rate cuts, first by the US Federal Reserve before Christmas, and yesterday's surprise cut in the discount rate by the Bank of Japan from 5% to 4,5%, have fuelled the rally on Wall Street and Tokyo on hopes they could stoke a revival in flagging global economies

"The problem is that as central banks start printing money to get economies moving, it could throw the fight against inflation out of the window," Howarth said

The cuts went against an anti-inflationary trend introduced on December 19 by Germany's Bundesbank, which raised interest rates by half a percentage point This took the two German official rates — the discount and the Lombard — to 8% and 9,75% respectively

Howarth said the latest moves to resus-

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JSE rally

B Day 31/12/91

(232)

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citate the world economy were part of a concerted political campaign as decisive elections were due to be held in both the UK and the US in the coming year

"Momentous political decisions also have to be made in SA and the situation would become a lot easier if this was to take place in a strong rather than weak economy," he said

Traditionally, January has seen a general rise of stock markets and some analysts see the trend continuing into 1992 "People who have been left behind while on holiday will help fuel the rally," said one

In terms of this view, the JSE overall index could rise by 5% in January with even larger gains in the industrial sector