

MANUFACTURING — CHEMICAL PRODUCTS

1989

JUNE — ~~July~~ AUG,
 & DEC.

END 101W Engineering Bridging Course 8 Credits

END 100W Mathematics Bridging Course 9 Credits

ASPECT CURRICULUM

The MBC has straight forward educational objectives. The course includes a fundamental review of key topics from high school mathematics as well as full coverage of the regular first year mathematics curriculum. The primary aim is to place each student's understanding of mathematics on a sound basis for the continued study of engineering.

The EBC is more complex and, in comparison with standard first year University courses, has more unusual objectives. It is made up of four elements, three of which are already found in the University and one of which is not. The existing models on which three elements are based are the first half of Applied Mathematics IE, Engineering Drawing and the English for Academic Purposes course presented by ASP. The fourth element is engineering enrichment, based on UCT, Pen Tech and local industry.

each course is run at approximately 10 lectures and two . . . afternoon sessions per week.

Vadek holds pay-out as earnings dip

BIDAY 1/6/87



TANIA LEVY

183

VADEK Paints suffered a decline in earnings after discontinuing its general contracting activities in the year to February

A final dividend of 4c a share has been declared for the second year

Earnings dropped 15% to 8c a share from 9,4c the year before, after Vadek terminated contracting activities acquired with the purchase of Master Coatings in 1987

This offset profit growth from ongoing manufacturing, wholesaling and retailing operations whose turnover and taxed profits increased 45% during the period under review

Taking the discontinued operations into account, turnover improved 27,5% on the previous year

Discounting operations further necessitated a R304 000 loss which has been deducted as an extraordinary item

Vadek's new Durban Decor Centre is included in the R2m increase in fixed assets, R1,6m of which has been financed by long-term borrowings

Current assets rose 36,8% with the increase in turnover

Chairman J Vadas attributes the 84% increase in short-term debt to non-recurrent losses incurred and to expansion

He is confident the group should return to a more acceptable profitability during the coming year

Natal group bid for Mobil still on

^{12645 11/6/87}
The Argus Correspondent
DURBAN The determined syndicate from Natal which has taken on the giant Gencor in a counterbid for Mobil Oil South Africa is still fighting to get control of the huge energy conglomerate

Reports over the past few weeks indicated that the bid had fallen through but a representative of the syndicate who met international financiers in London and then moved to New York where he met with one of the senior Mobil management last week has denied that the bid is off

Mr M Hariram is now back in South Africa and said in Durban yesterday that his first meeting with Mobil in New York had gone well but that, following a denial from Mobil South Africa that the bid would

be successful, his negotiations with head office personnel cooled and no decisive answers could be obtained

He has, however, decided to aggressively pursue a "more satisfactory" conclusion to his discussions

Mr Hariram said that, in his opinion, the Gencor bid smacked of "warehousing" — primarily because he claims its US\$150-million (R400-million) bid price is way below the worth of Mobil in this country and because he has bettered this bid by \$7.5-million (R20-million)

His warm then cool New York reception has "infuriated" him and he has taken the matter up with Senator Ted Kennedy and the Governor of New York State, Mr John Marino in an effort to have the Gencor bid stopped

"I cannot believe that the deal supposedly struck with Gencor has been done in the best interests of the American shareholders nor do I believe it is a genuine disinvestment move," he said

Mr Hariram will be informing major US shareholders of Mobil shares of the discussions which he has had and will draw to their attention that the deal which he has offered is more than the Gencor bid

Prior to meeting with Mobil in New York Mr Hariram met with two international financiers in London, Mr Tikko Singh and Salem Sabri Abu Taleb who, he said, agreed to back his bid

He also indicated that, should his bid be successful, 20 percent of the shares in Mobil South Africa would be allocated to the local staff

Margarine backing of TV heart series stirs major row

Star 2/6/89 (183)

DURBAN — The heart attack series shown on SABC's "Good Morning South Africa" programme was sponsored by a margarine manufacturer — and this type of endorsement infuriates Professor Jack Booyens, recently retired head of the physiology department at the Medical University of Southern Africa (Medunsa)

While at the university, Professor Booyens did research into the effect of various Western dietary ingredients and came to the conclusion that, rather than helping in the prevention of coronary diseases, margarines high in unsaturated fatty acids actually promoted heart attacks

In short, he says margarine is bad for you

There is a body of scientific opinion which supports Professor Booyens, and also a weighty body which disagrees

So annoyed was Professor Booyens by what he describes as the "perpetuation of gross misinformation" about the healthy effects of margarine, that he has decided to speak for the first time outside the confines of the specialised medical profession about his research findings

Heavy smoker

Professor Booyens, incidentally, smokes cigarettes heavily, but he does not eat margarine

When he had a paper published on the harmful effects of unsaturated fatty acids in the international *Medical Hypotheses Journal* last year, it caused an international stir

He had generally assumed that, rather than causing heart problems, polyunsaturated fats in margarine contributed to a lowering of the incidence of heart disease.

But his paper set out to show that the opposite was true, and that margarine possibly increased the incidence of coronary heart disease

Requests for more detail flooded in from around the world. They came from Spain, Britain, the United States, Czechoslovakia, Poland, Japan, Cuba, Bulgaria, Germany, Russia and Canada — including

OWN CORRESPONDENT

A retired professor from Medunsa is infuriated because a health programme which SABC ran recently was sponsored a margarine firm

such august bodies as the Mayo Clinic, the US Environmental Protection Agency, and the National Cardiology Research Centre in Moscow

The essence of Professor Booyens's research (conducted together with Mr C Lourens, also from Medunsa, and Dr I E Katzeff of the University of the Witwatersrand) was that passing hydrogen through natural vegetable oils to make margarine creates a large quantity of unnatural "weird" substances — for example, "trans" fatty acids — substances which Professor Booyens claims are harmful to man

And, citing earlier research into infant deaths, he says pregnant mothers can pass on coronary artery disease to the unborn children, a view which suggests that woman with high consumptions of the "weird" substances in margarine can permanently affect the health of their babies

Professor Booyens also notes that there has been research done which links the "trans" fatty acids to cancer, and yet, in spite of the suggested detrimental effects of this substance, "very little is known about the amounts consumed by our population"

But he says the public is being subjected increasingly to "health type" advertising campaigns by margarine companies, and what he calls the "outdated" thinking of some sectors of the medical profession. These factors are increasing rather than decreasing the risk of heart disease

Professor Booyens's findings are strongly supported by Dr Wayne Martin of the United States, who, also in a paper published in the *Medical Hypotheses Journal*, said "orthodox medicine is fostering a principle cause of myocardial infarction (heart attacks)" by supporting the consumption of margarine over butter

He notes that the US diet in 1920 was rich in cholesterol and fat, yet in that year "death from myocardial infarction (MI) was so rare that it had no name or recognition"

But in 1920 a "new, unnatural dietary fatty acid" was introduced in margarine. This, he claims, produces blood clots

Since that time, MI-related deaths have soared and "orthodox medicine" has attributed the deaths to cholesterol and saturated animal fat rather than to what he says is the true culprit the "trans" unsaturated fatty acids which are found in margarine

Finding challenged

A spokeswoman for Unilever, whose subsidiary, Van den Bergh and Jurgens, is South Africa's largest margarine producer (Floro, Rama, Stork, Country Spread) said it was aware of Professor Booyens's claims, and they "could not be taken seriously"

She also questioned acceptability of the *Medical Hypotheses Journal* as a serious publication

"He would not get his paper published in an accepted medical journal," she said

She added that the journal was not refereed independently

"It was founded, and is edited and published by Dr Horrobin, head of the Efamol Research Institute, which is associated with Oil Of Evening Primrose. These capsules are marketed internationally as a remedy for many illnesses, including cholesterol control"

She also noted that several years ago the then chairman of the scientific committee of the Heart Foundation stated that the paper by Professor Booyens — which had been "rejected by the South African Medical Journal", was "biased and speculative"

SA link unwanted in Big Apple

By Ramsay Milne,
The Star Bureau

183

Star 2/16/89

NEW YORK — Barely a week after his rivals in New York's mayoral elections challenged him on the subject, Republic Party candidate Mr Ronald Lauder, heir-apparent to the Estee Lauder cosmetic empire, announced that he proposed asking his family-owned cosmetic business to pull out of South Africa.

"They should not be there," he said today, adding that he re-

garded apartheid as "repugnant".

His statement came after public disclosures that Estee Lauder has maintained a subsidiary in Johannesburg, even as hundreds of other United States firms had bowed to anti-apartheid protests and ended their South African operations.

His statement is seen as an indication of how, in the current United States climate, any South African connection can become political death to a candidate, even in a municipal election.

SA link unwanted in Big Apple

By Ramsay Milne,
The Star Bureau

Star 2/16/89

183

NEW YORK — Barely a week after his rivals in New York's mayoral elections challenged him on the subject, Republic Party candidate Mr Ronald Lauder, heir-apparent to the Estee Lauder cosmetic empire, announced that he proposed asking his family-owned cosmetic business to pull out of South Africa

"They should not be there," he said today, adding that he re-

garded apartheid as "repugnant"

His statement came after public disclosures that Estee Lauder has maintained a subsidiary in Johannesburg, even as hundreds of other United States firms had bowed to anti-apartheid protests and ended their South African operations

His statement is seen as an indication of how, in the current United States climate, any South African connection can become political death to a candidate, even in a municipal election

SI Times 4/6/89

Lovasz looks luscious

By Julie Walker

HARD on the heels of its acquisition of Royal Beech-Nut for R45-million, Lovasz Chemicals is reported to be hot on the trail for more sweeties

A group reconstruction, which could include a rights issue and a more appropriate name are reported to be likely

The Imerman family — major shareholder of Lovasz — bought the SA interests of Royal Beech-Nut (RBN) from its American parent for R45-million in March. The route was chosen for convenience

RBN was reported to have been negotiating with Manhattan Confectionery even before the US parent withdrew, but was blocked by the ban on new American investment in SA

The change to SA ownership could make it possible Manhattan, a family-built SA company, which is a market leader in marshmallows and gums, would benefit from Royal Beech-Nut's distribution network of more than 7 000 shops

Through RBN, Lovasz has acquired Lushus Jelly and Sweet Aid from the Kellogg company of SA for R1,6-million

Analysts say that after such heavy capex, Lovasz would require a large share placing or rights issue to fund the acquisitions

The company would say nothing on Friday

Financial advisor Peter Curle said there could be an announcement soon

Lovasz goes ^{Star} 7/16/89 for R60,5-m ¹⁸³ rights issue

By Magnus Heystek
Finance Editor

In a complex restructuring of its interests, Lovasz Chemicals is to proceed with a rights issue for R60,5 million to fund three recent acquisitions, including the R45 million takeover of Royal Beech-Nut (RBN) from its disinvesting US parent

It will change its name to Royal Corporation Limited and has applied for a transfer of its listing to the food sector on the JSE to reflect its changed nature

On Monday it was announced that Lovasz had acquired Manhattan Confectionery for R4,5 million as well as brand-names Lushus Jelly and Sweet Aid from Kellogg for R1,6 million

Transaction and holding costs of R4 million and the recapitalisation of the business at R4,5 million make up the remainder of the funds being sought in the market

This is to be followed later by a listing of its chemical and food and confectionery interests in two separate companies, as well as a pyramid company which will be the ultimate holding company

Restructuring

In the first stage of the restructuring a rights issue will be made at 150c a share on the basis of 150 shares for every 100 held, which is at an attractive discount to the current ruling price of 225c

As a gesture to current minority shareholders, the controlling shareholders in Lovasz — the Imerman family — will renounce rights in favour of the company's public shareholders, despite the rights offer discount to the current price

On this basis, the forecast is being made that earnings per share in the current year to February

28 1990 will increase by at least 19 percent to not less than 18c per share

The net asset value at end-February was 75c a share, but will increase by 60 percent to 120c a share after the implementation of all the takeovers, which includes 49c as the cost of certain trademarks

Under the scheme of arrangement announced yesterday, a wholly owned subsidiary of Lovasz, to be called New Royal Beech-Nut (New RBN), will acquire from the Imerman family the entire interests of Royal Beech-Nut (RBN) for R45 million

Divestment

This is the amount the Imermans paid to buy the company from its disinvesting parent company earlier this year

Into New RBN goes Manhattan, Sweet Aid and Lushus, acquired from Kellogg, as well as Lovasz's Trimpak division which, according to the company, has synergistic interests in RBN

Lovasz is to change its name to the Royal Corporation Limited (Royal)

The proposed pyramid holding company will be called Royal Group Holdings (Royhold) Shareholders in Royal will be offered the right to swap their Lovasz shares for shares in Royhold

In accordance with the scheme of arrangement, Royhold will hold at least 50 percent of Royal, which in turn will have 100 percent in each of New RBN and Lovasz's chemical interests

The latter two companies will apply for listings on the JSE once the first stage of the restructuring is out of the way

In terms of an earlier announcement, existing shareholders in Lovasz will have rights to participate in the proposed listings

group in the republic of Uzbekistan

CAIT Times 8/6/89 (123) (182)
Oil workers strike

JOHANNESBURG — About 120 workers at Cera Oil in Boksburg, a wholly-owned subsidiary of Shell, downed tools on Tuesday demanding that the company agrees to industry-wide bargaining in the oil and petroleum industries

PLATE GLASS (183) *Final 9/6/89.*

Expansion costs

Though the 20% growth in EPS of Plate Glass (PG) in the year to end-March is lower than the 51% recorded in 1987 and 31% in 1988, growth would actually have been 59% had the group not expanded and incurred expansion costs

Joint executive chairmen Bertie and Ronnie Lubner say that last year 50 new glass outlets were acquired or opened in North America and 35 in the UK and Europe, and a chain of wood-based board product distribution centres was created in Australia. Overseas operations were rationalised and those not performing adequately or not directly connected with the core business were sold or closed. The 18% turnover increase appears rather low in view of the weak rand and the heavy dependence of PG upon foreign earnings, but the Lubners estimate the discontinued operations would have added another 3%-4%.

The closures changed the mix of local to overseas sales, which was about 50/50 in the previous year. Last year local sales were 64% of the total and contributed almost 66% of profits. SA sales are higher margin and this, with economies of scale as local plants were running at full capacity, meant overall margins climbed from 8,8% to 10%.

The tax rate was also influenced by problems with overseas operations. Some development costs were not deductible for tax, and lower profits were incurred in some of the countries with lower tax rates. As is inevitable with companies operating

PLATE GLASS SLOWS		
Year to March 31	1988	1989
Turnover (Rm)	2 324	2 762
Pre-tax profit (Rm)	174,0	232,5
Attributable earnings (Rm)	66,0	79,5
Earnings (c)	400,6	482,7
Dividends (c)	185	222

overseas, gearing, which is 55% overall, has increased to provide capital for growth, with the larger part of the borrowings in the foreign operations. Though this is common practice and interest rates are generally lower than in SA, the Lubners are not happy with the situation and plan to refinance by seeking additional investors, floating companies and arranging mergers or partnerships. "We still want to retain as much equity as possible," they add.

The importance of the foreign interests is expected to increase as the local economy slows. The Lubners say they have seen signs of recession in their forward orders and will divert local production to exports, currently 15%-20% of local output, as domestic demand falls. Local capacity will be expanded over the next two to three years, capital spending in SA will total R103m this year, of which Bison, which is equity accounted, will absorb R70m.

Some borrowing to finance capex may be necessary, as dividend payments have so far been financed out of local cash flow. "We shall have to send dividends back soon," the Lubners say, "and we expect the refinancing arrangement overseas to be in position by this time next year."

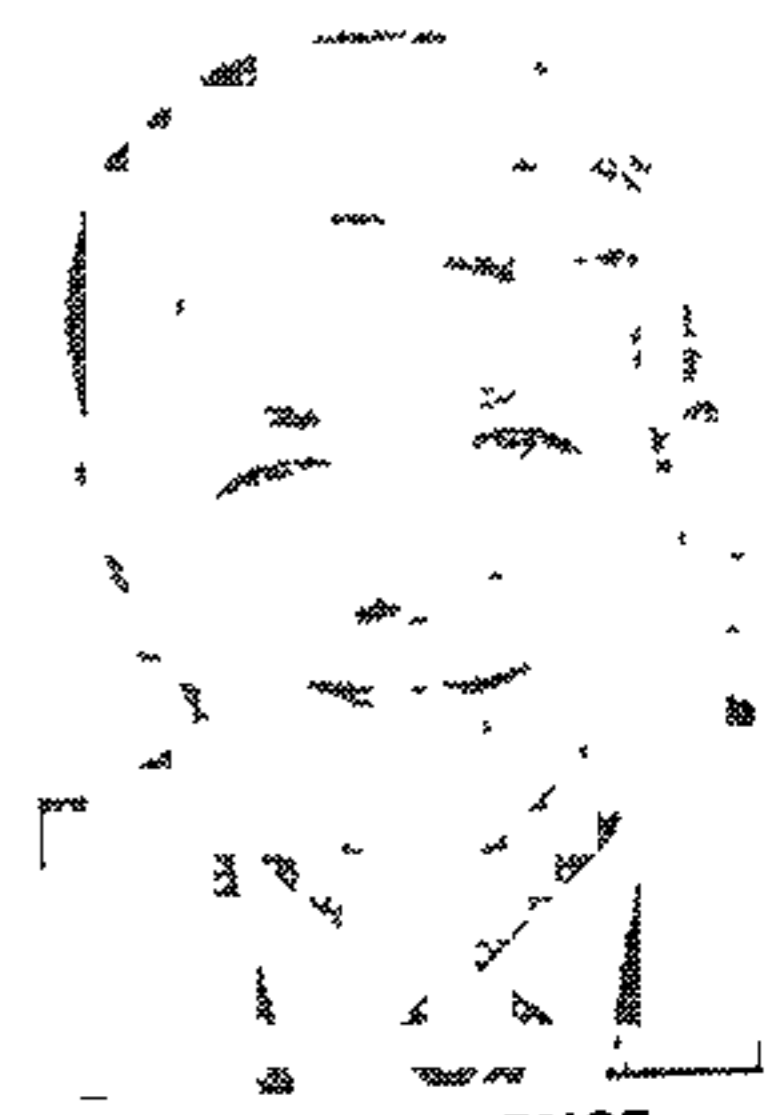
Margins will be hit by lower local sales, but benefits from the new foreign operations will be felt. "We have moved out of the labour-intensive areas and have concentrated upon specialist niche markets," they say. Development costs will continue, but will reduce each year. Goodwill write-offs and cost of closures, which amounted to R46m below the line last year, should not be repeated as PG intends to concentrate on opening own operations rather than expensive take-overs.

On this basis, the forecast of another 20% increase in EPS seems conservative. Reducing start-up costs of new operations and a gradual increase in benefits from them should see EPS rise faster than last year.

Pat Kenney

~~183~~ 183

Castrol boss urges new political deal



DERYCK SPENCE

DISINVESTMENT by multinationals has become a serious problem and the Government must shape a new political future, says Deryck Spence, managing director of Castrol

Not only does disinvestment cause a huge outflow of money, but it is disconcerting for South Africa because it highlights the international abhorrence of apartheid

Confident

Mobil's decision to withdraw will fuel pressure on other oil companies, such as Shell and Caltex, to consider similar action. It could even influence the decision by Castrol to remain in SA.

However, Castrol is confident that there is a positive attitude to SA and that the outcome will be for the best.

Mr Spence is convinced that Mobil's withdrawal will have only minimal effect on the industry. But he is con-

By Don Robertson

cerned about the philosophy of oil companies which are more volume than profit oriented.

As a result, each is seeking a bigger share of the market at the expense of profits.

This could result in profitability falling further and expenditure on research and development (R&D) could decline.

Castrol is the third-largest lubricant manufacturer in the world after Shell and Esso. Oils in SA are the cheapest in the world.

Inflation

Mr Spence says "Oil companies in SA are multinationals. The US is trying to increase sanctions on us, so it is essential that we offer good returns. Yet our oil is the cheapest in the world."

Returns from SA are the lowest in the world.

BP, which represents the industry in price discussions with the authorities, negotiated an agreed fuel-price rise

in April. But it has been absorbed because of the falling rand and inflation. In addition, costs of transport and steel have risen.

"We are continually fighting costs."

SA is a leading manufacturer of lubricants for the mining industry. It has considerable technology in cutting oils.

Colder

It also requires its R&D function to develop motor oils for SA conditions. These oils are generally developed in the colder northern hemisphere and the base oil and additives are imported.

Mr Spence fears that technological development of these oils could suffer if costs cut further into profits.

"The oil industry is First World technology, but we might have to settle for Third World standards."

Mr Spence has been with Castrol for the past 22 years and was appointed managing director in 1987.

He started his career as a purser with the Union-Castle

line before joining Castrol as an industrial representative. Using his financial background to promote his career, he became industrial marketing manager after about nine years.

The next move was to the retail marketing division as manager. He later joined Durol, the re-refining company as managing director in 1981. He returned to Castrol in 1983 to become marketing director.

Loyal

Although a tough manager who requires results, he has a loyal and dedicated staff as was shown by his mixing with the workforce during the running of the 18th Castrol rally last week.

Golf is his main recreation and he plays off a 10 handicap. Reading books and watching television are his escapes from the office. He is working on a book about his time at sea.

Retirement should allow him to fulfil his wish to paint many old churches in SA.

B/Da 12/6/89 (183)

World medical database for SA

DIANNA GAMES

THE SA pharmaceutical industry will soon be able to upgrade its information access on medical products from international medical information database Medi-Fax, which is to be introduced into SA later this month

During 1989 alone, opinions, clinical trial results and research findings from 20 000 congresses around the world will be obtainable from Medi-Fax databases situated in several world capitals

Dr Jack van Niftrik, director of Peer Opinion Medical Network, which has set it up in SA, said subscribers would have almost immediate access to a wide range of medical information, including feedback on how their own and competitive products were viewed internationally

Opinion

Medi-Fax clinical pharmacologists overseas scrutinise and research scientific programmes of 7 000 meetings and Medi-Fax medical journalists will attend about 450 congresses to provide in-depth information from speakers

"This means the SA product manager can keep his finger on the pulse of worldwide medical and scientific opinion on the drug, its acceptance among the world's medical profession, its efficacy in comparison with competitive agents and its latest clinical applications," a statement said

The facility, to be conducted by facsimile and telex, will be made available to pharmaceutical product managers, the medical profession, libraries and academic and research centres

By Don Robertson

BUMPER wheat and maize crops in the past season promise the fertiliser industry a boost in sales this year

But because of rising raw material costs and the disappearance of discounts, fertiliser prices are expected to jump

It is expected that last year's total sales of 2,2-million tons will rise by between 5% and 10%. Many farmers are now better off than in the drought years and are using the early delivery rebate (EDR) system to buy fertiliser ahead of requirements

Hilmar Venter, executive director of the Fertilizer Society of SA, says "The two good wheat crops in the Western and Eastern Free State have helped a lot, and nitrogen and potash-based fertilisers will be the main requirements"

First-quarter sales to the

Sales, prices of fertiliser set to rise

S/Times 18/6/89 **183**

sugar industry were good, but a 35% rise in the price of potash-based fertiliser has made farmers unhappy

John Skeen, managing director of AECI's Kynoch Fertiliser, says there will be an improvement in demand for fertiliser this year, but much will depend on international grain prices and the rand's value

Should America have a drought similar to last year's, grain prices could rise. American prices dictate world values. If prices move above \$120 a ton for maize,

SA exports could be profitable

The Maize Board expects between \$110 and \$120 a ton for last season's crop

Fertiliser prices have risen because of rationalisation in the industry after the withdrawal of Sentrachem's Fedmis operation. The Fedmis plant was sold to the three remaining contenders — Kynoch, Sasol Fertilizer and Omnia

The 'quality' of the market has improved, says Dr Skeen, and as a result discounts, which ranged from

15% to 25% last year, have vanished. The 16% to 17% rise in the price of fertilisers caused by increased costs of raw materials has aggravated the problem

Increased demand for fertiliser has made it necessary for all plants to work at full capacity, probably for the next three months

Peter Viljoen, managing director of Sasol Fertilizer, says the stabilisation of the industry after the Fedmis withdrawal will be in the long-term interests of farming because it will allow producers to absorb increased costs

Uneconomic capacity has been removed and with a better supply-and-demand equation, destructive price wars have ended

The price of rock phosphate rose by 15% last year and is expected to go up by 17% this year. The price of sulphur on international markets increased by 18,4% last year and is expected to go up 12,2% in 1989

Sulphuric acid prices have risen by 5% this year

**Union threatens
to strike again**

Call Times 19/6/89

(62) (1207) (83)

JOHANNESBURG

The Chemical Workers Industrial Union yesterday threatened further strike action against Mobil if the disinvestment dispute is not settled soon. The union also said it would take up dispute with the company's headquarters unless issues concerning the withdrawal from South Africa are resolved before the scheduled June 30 date of withdrawal. —

Sapa

Barlow-owned UK firm into plastic

LONDON — J Bibby & Sons, the UK industrial and agricultural group 86% owned by Barlow Rand, has announced the acquisition of plastics company Azlon for £2.5m cash

Azlon, which manufactures a range of re-usable plastic laboratory ware, is based in South Wales and distributes its products throughout the UK and Europe

A modest degree of market penetration has been achieved in the US market

Azlon will form part of Bibby's Science Products division and complement existing business in re-usable glass and disposable plastic laboratory ware

182 ~~182~~ 183
ROBERT GENTLE

Chairman Richard Mansell-Jones said "Azlon is a growth sector of the science products market I am confident Bibby will be able to develop the business further in the future"

The move marks a concerted effort by Bibby management to get the company moving again in the face of difficult market conditions, particularly in the problem-plagued agricultural sector

Bibby produced a lacklustre set of interim results last month, and forecast an "uncertain" future

8/04/19/6/87

Afrox, 58 percent-held by the UK's BOC Group, has managed to produce earnings growth in excess of 24 percent each year over the past three years

This achievement is even more impressive when it is noted that Afrox is one of few companies to charge additional depreciation in order to reflect the real value of earnings

In the six months to March, inflation-adjusted earnings per share increased by 29,4 percent from 67c to 86,73c.

On an historical accounting basis, earnings per share rose a higher 29,8 percent to 116,9c, compared with 90,03c in the first half of financial 1988

An engineering group, Afrox has four major business areas — gases, welding, healthcare and specialised businesses

The specialised businesses include cryogenic and high-technology manufacture, water-handling systems, human performance improvement systems and specialised ball and butterfly valves

Group profit

The gas and welding operations account for a weighty 82 percent of group pre-interest profit

Healthcare contributes 12 percent and other businesses the remaining 6 percent

Chairman and MD Peter Joubert says the gas business is relatively stable and that growth is achieved mainly by the development of new applications in the use of various gases.

He says the welding business, on the other hand, is more closely tied to the consumption of steel, which is influenced by big projects.

Afrox's healthcare division comprises 10 hospitals, two day clinics and a minority stake in two other hospitals

The R30 million Glynnwood Hospital in Benoni was recently completed.

Mr Joubert says it will take about a year before the hospital is full and all sections are opened.

Afrox set on a ^{Star 20/6/84} sure growth path

Diagonal Street

183 LYNNE PEACH

He estimates that Glynnwood Hospital will only start paying off in one to two years from now

Mr Joubert says that, as was the case in the last financial year, the group plans to continue focusing its efforts on organic growth

He will not earmark any particular major growth area, but says that all divisions are expected to continue contributing

In the six months to March, group turnover increased by 29 percent from R268 million to R346 million

Pre-interest profit increased by 34 percent, but a fourfold hike in the interest bill and additional depreciation of R9 million prevented the benefit from reaching the bottom-line

Inflation-adjusted earnings per share increased by 29 per-

cent to 86,73c and the dividend was raised 33 percent from 30c to 40c

The increase in borrowings is attributable to the expansion of the gas businesses, funding the Glynnwood Hospital and the purchase of medical equipment for the healthcare division

Inflation-adjusted earnings place Afrox, priced at 2 250c, on a P/E ratio of 13,5

If historical cost earnings are used, the P/E ratio reduces to 10,2

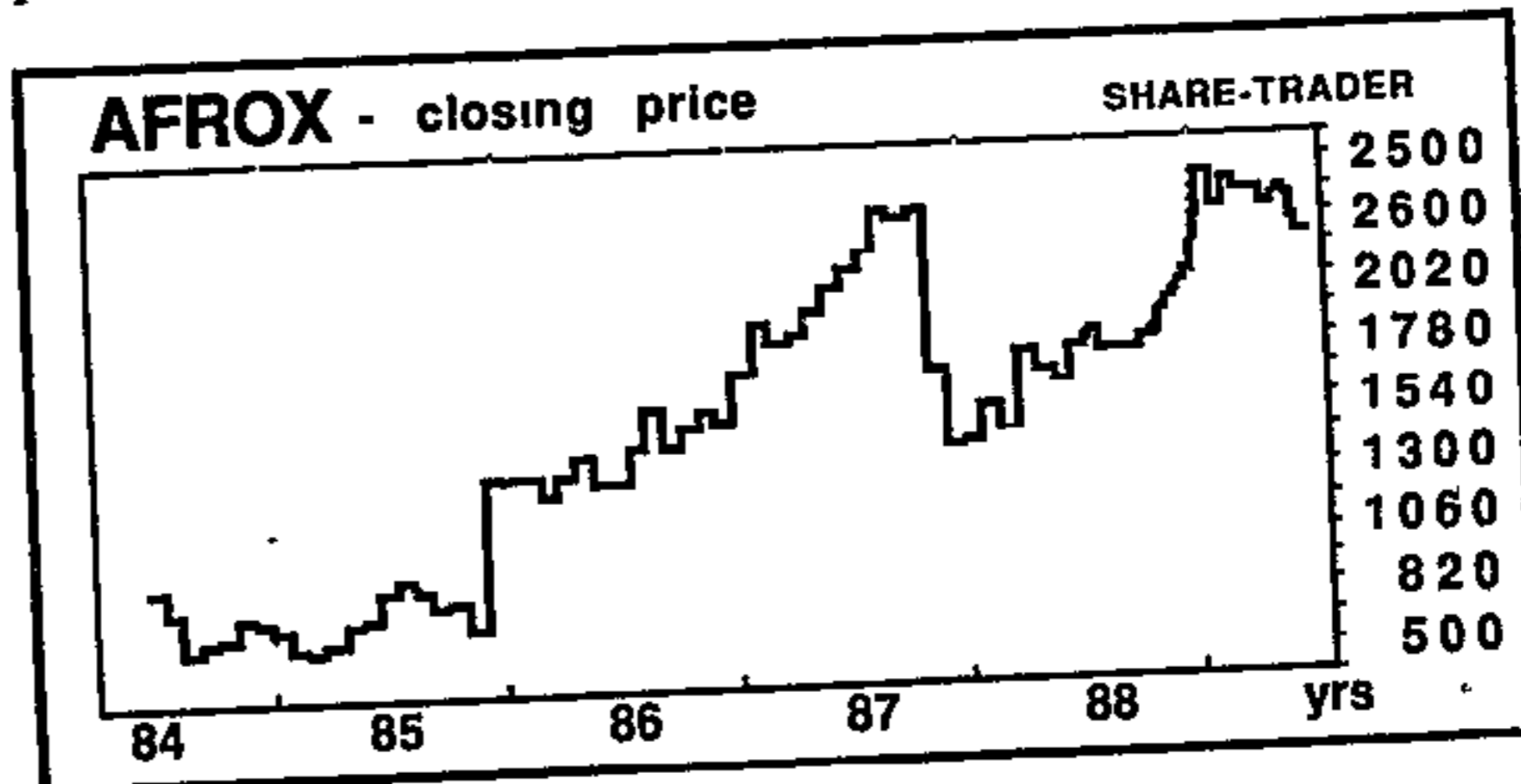
Sector average

Although both figures exceed the sector average of 8, Afrox is expected to continue to do well in the second half of the year

Moreover, it tends to perform better than average in times of economic downturn.

Mr Joubert says that although the welding division does come under pressure in times of economic recession, the group's biggest division, gas, is relatively stable.

The hospital division is also relatively unaffected by the economic climate



So far this year, the Afrox share price has not done much except lose a bit of ground. The chart indicates that the price might decline further from 2 250c before coming to rest.

CHE TIPS

182

ay, June 21, 1989 3

Plant closed: 350 lose jobs

Staff Reporter

MORE than 500 job opportunities were lost with the closure of the AECI nitroglycerine plant in Somerset West last Thursday, factory manager Mr. A.W. Humphries said yesterday.

The shutdown, announced four years ago, follows the company's phasing out of nitroglycerine with the advent of waterproof explosives.

The company retrenched 350 people, with 225 being accounted for by "normal turnover", redeployment and early retirement, he said.

In many cases people had opted for retrenchment or early retirement although alternative employment had been available, Mr. Humphries added.

Gas-from-rubbish project for Jo'burg

Staff Reporter

Methane gas will be recovered from a rubbish dump for the first time in South Africa as a result of an agreement signed today by Johannesburg City Council and a major chemical factory

The R27 million project will entail the piping of landfill gas from the Robinson Deep Waste Disposal Site in Johannesburg's Eloff Street Extension — one of the biggest disposal sites in the country, handling more than 1 500 tons of refuse daily — to a factory 16 km away in Klipspruit

This will ensure the continued operation of the factory threatened by the closure of the Klipspruit-Olifantsvlei-Goudkoppies

sewage works which presently supplies the methane gas, said an AECI spokesman

Other important spin-offs, it is claimed, are that the odours which normally pervade these areas will be cleaned up, and since gas will be withdrawn, plant growth will be stimulated and potential fire hazards will be reduced

For the first phase a number of wells will be sunk at the Robinson site and a pipeline will be constructed for pumping gas to the factory from October. Eventually there will be about 60 wells

The second phase, which is still to be approved, will see the upgrading of the factory

Step 2/2/84

183

Staff Reporter

SHELL SA chairman Mr John Kilroe believes demands for disinvestment from leaders within the country have "all but ceased"

He said the Dutch oil giant had no mandate from its shareholders to discuss disinvestment and will maintain its strong stand against such moves in discussions with unions

Mr Kilroe is also chief executive of Shell in SA. The latest edition of the Institute of Personnel Management (IPM) journal quotes him as saying

Disinvestment demands all but ceased — Shell

CHEMISTS 23/6/89
183

the company cannot enter into a discussion on a subject which is against its principles

This was his first interview after he took up his post after four years with the company in the Netherlands. He told the journal he believed South Africa was moving

away from confrontation, "even war and riots, to trying to talk things through, sitting at the table"

However, Shell had not changed its position on disinvestment in particular, though there had recently been violent demonstrations against

the company in Amsterdam, he said

In May, Mr Kilroe lashed out at disinvesting companies, saying their decision had cost 8 000 to 10 000 jobs

Mr Kilroe said local unions had been told of the company's strong stand on disinvestment. "What we would like the unions to do is to say they don't really want us to disinvest, that would be very helpful to us. But we can hardly enter into discussions on a subject which we've said is totally against our principles"

Mobil agrees to R6,5m payout for employees

Comp Times 28/6/89 (2) (183/250)

Own Correspondent

JOHANNESBURG. — Mobil and the Chemical Workers' Industrial Union (CWIU) yesterday ended their two-month-old disinvestment dispute with an agreement on a R6,5-million payout to employees.

But the National Union of Metalworkers of SA announced just hours later that it had reached deadlock in negotiations over similar matters with Goodyear, and planned to stage strike ballots around the country today.

Mobil and CWIU spokesmen yesterday said each of the company's 2 800 South African em-

ployees was to receive R2 000 or one month's salary, whichever was the greater.

The sales of Mobil SA to Gencor, and of Goodyear SA to Consol, are due to go through in June.

Local Mobil management has also undertaken to meet with a senior Mobil US executive to discuss the union's demands for a copy of the agreement of sale with Gencor and for the establishment of a trust fund to finance social projects.

When negotiations broke down in May, the company was offering a payout of about R1 340 an employee.

South LABOUR

183 ~~183~~ ~~183~~

29/6-5/7/81

Workers in 'guerilla strike'

ABOUT 400 workers downed tools at a Bellville glass factory this week in protest of "unfair labour practices"

A senior shopsteward at Consol Glass described the 24-hour stoppage as a "guerilla strike"

He said it was the result of "unbearable frustrations" among workers

The workers' chief grievances are over company hiring policies

The shopsteward claimed Consol followed a "coloured labour preference policy" About 60 percent of the work force is "coloured"

Workers were also angry that four whites who were employed earlier this year as operators had been promoted to supervisors above black workers who were long-time employees of the company, he said

The workers also allege that the factory's labour relations officer accepts bribes from job applicants.

The factory manager, Mr Jan Singleton, said that all the workers' allegations were being investigated internally and that he could not comment further

He said the company would be meeting

with the Chemical Workers Industrial Union (CWIU) later this week

CWIU is in dispute with Consol nationally over several issues, including wages and conditions of employment

In terms of the Labour Relations Amendment Act, it is illegal for workers to strike more than once over the same issue within a year

Workers at Consol Glass plants at Clayville, Pretoria and Wadeville also went on strike at the same time as the Bellville workers

Policeman 'eliminated leaders'

By Mckeed Kotlolo
Pretoria Bureau

The Mamelodi inquest into the November 21 1985 shootings heard that a policeman who shot a man in the head in Block C did so because he wanted to "eliminate the leaders"

Captain Hermanus Arnoldus le Roux told the inquest that he shot a man who was throwing objects at the police and hid behind a house in Block C

The captain said he did not aim at a specific part of the body and that he shot the man because he was a leader and he wanted to eliminate the leaders. He further said he had shot three other leaders in the same area, including a woman

Captain le Roux said of the other three alleged leaders he shot, one male was hit in the leg while the other was

hit in the thigh. The woman was hit in the hand as she allegedly tried to throw a bottle. *Sts 29/6/87*

The captain denied that the man he shot in the head was Mr Paul Mavimbela and he insisted that the man was shot at house number 780 Block C Makhusela Street and not near 755 Block C as alleged by a witness

Captain le Roux, who earlier told the court that he was in possession of the videotape of the shooting incidents for two years, was given another chance to view it with the hope that he would be able to identify the house where the shooting allegedly occurred, but he said he was not sure if he would be able to point it out.

The inquest adjourned till this morning for an inspection in loco of the area

R6-m toothpaste battle ends today

Pretoria Correspondent

South Africa's most protracted and expensive court case — estimated to have cost the litigants more than R6 million in legal fees alone — ends today when Mr Justice van Schalkwyk will deliver judgment in the Rand Supreme Court

The dispute began three years ago when Colgate reacted against the launch of Mentadent's anti-tartar toothpaste advertising campaign

The case, instituted by Colgate, has been before the Supreme Court since October, 1987

The managing director of Elida Pond's, Mr Theo Rodrigues, said his company deplored the waste of millions of rands incurred during the dispute.

Had Colgate pursued the matter

through the conventional and appropriate route, which is the Advertising Standards Authority (ASA), the matter could have been settled in a couple of weeks at a cost of a few hundred rands

Elida Pond's had been reluctant to go to court from the outset, not because the company could not defend its claims for Mentadent, but because of the enormous cost.

Elida Pond's argument that the matter should be resolved by alternative means was rejected by the court, said Mr Rodrigues

During the course of the case itself, all offers of settlement by Elida Pond's had been rejected by Colgate, he said

In America Colgate has lodged numerous complaints against Unilever's anti-tartar claims, all of which have been rejected

(183)

Colgate wins legal war against Elida

CAP 7.7.85 30/6/89

183

Own Correspondent

IN ONE of the most expensive court wrangles in South Africa's legal history, Colgate was granted an order in the Rand Supreme Court yesterday interdicting competitor Elida Gibbs from advertising claims that its Mentadent P toothpaste cured or prevented the formation of tartar on teeth

The court case, which began in October 1987, has cost both parties an estimated R5 million each in legal fees

In a written judgment handed down yesterday, Mr Justice van Schalkwyk also interdicted Unil-

ever subsidiary Elida-Gibbs from making claims that scientific or clinical evaluations had proved Mentadent P to have an efficacy in preventing or inhibiting tartar formation

Colgate took its competitor to court on the grounds that Elida had made false advertising claims about the toothpaste

Elida denied the claims made about Mentadent P were false

It was contended by Elida that its claims could be verified and the advertising of such was true

Mr Justice van Schalkwyk found the advertisements for Mentadent P created the false impression in the ordinary consumer's mind that the toothpaste

could cure tartar

Colgate South Africa's chairman and managing director, Mr Gerry Nocker, said after the judgment the company had been criticised for the cost and time involved in the court case

"We were protecting the consumer's rights," he said

"When a consumer buys a major product, what she is buying is the confidence in a product

"We believe Mentadent P was not doing this, so we challenged them in court"

Elida Ponds managing director Mr Theo Rodrigues said his company would appeal

Colgate wins legal war against Elida

30 die in

Nations th

Colgate wins court battle over toothpaste

183

Stag 20/6/84 · By Cathy Stagg

Colgate-Palmolive won their lengthy legal battle against Elida Gibbs in the Rand Supreme Court, which arose from the Mentadent P toothpaste claim that it "helps prevent tartar."

Mr Justice R van Schalkwyk handed down a written judgment yesterday granting the order Colgate had requested and preventing Elida Gibbs, its employees and agents, from using advertisements, information leaflets or packaging which say Mentadent P or its ingredients effectively prevent, or cure, tartar or that scientific tests have proved it does so.

The issue of who will bear the estimated R10 million in legal costs will be decided at a later stage

Colgate had argued Elida Gibbs were not entitled to conduct an advertising campaign if the proven inhibition of tartar could be scientifically measured but not noticed by the consumer or a dentist

Elida Gibbs are to contest the judgment.

Mr Theo Rodrigues, managing director of Elida Ponds, yesterday said his company would take the matter to the Appellate Division in Bloemfontein

"We believe the judgment was wrong and we have complete faith in our product. We will definitely appeal," he said

CLINICAL TESTS

"Clinical tests in the UK and the USA have shown the efficacy of our brand of toothpaste, we have complete confidence in the product"

Summing up the evidence, the judge said Colgate had planned a R1 million advertising launch of their anti-tartar toothpaste for July 5 1986. On June 29 1986, Mentadent P launched "a counter-campaign"

Mentadent P was making a new claim for an existing toothpaste whereas Colgate's toothpaste had a new formula

On July 29 1986 Colgate brought an urgent application to interdict Elida Gibbs using their anti-tartar advertisements, saying they were misleading

The trial began in October 1987 and scientists from around the world flew to South Africa at various stages to give evidence

Mentadent P's proven rate of inhibiting tartar was between six and 12 percent. The judge said a non-meaningful treatment of a condition, for which the product had been bought, was not the fulfilment of the promise made in the advertisement

A TV advertisement said: "Since my dentist told me about hard, ugly tartar, I have been using Mentadent P because prevention is better than cure" The judge said the ordinary viewer "can only interpret this to mean that Mentadent P is used because it prevents the hard ugly condition"

TANIA LEVY

STATE pharmaceutical tender prices can not be increased to lower private sector prices because of limited State funds, SA Druggists (SAD) chairman P van der Walt says in the group's annual report

SAD subsidiary Lennon successfully tendered to supply about 40% of the State hospitals' tablet requirements this year

Competitive pricing created by fierce competition in the State tender sector is not uncommon in other industries, said Van der Walt "The State must acquire medicines at a low

Sweet results by SA Druggists

price, but only for those who can not afford health care"

People with the resources must be served in the private sector by cost-effective medicine "SA Druggists aggressive pricing policies and single exit price for equal quantities has given all private sector vendors of medicine the opportunity to lower prices while still competing on an equitable basis," he said

The Federale Volkbeleggings-held group's reward has been increased volumes which offset lower margins Attributable income swelled to R41m from R9,3m in 1983

From a low technology, domestic-market base seven years ago, SAD has grown into the country's leading pharmaceutical and pharmaceutical concern, said MD Tony Karis

Sasol fire caused slump in total chemical output

THE fire at the Sasol III plant that killed 12 employees contributed to a marked drop in SA's total chemicals production during the first three months of 1989, the Reserve Bank said in its quarterly report.

"The decline in chemical production could be attributed partly ... to a fire at the Sasol III plant in January 1989," the central bank said in the report, published last week.

Sasol, which is 30% government-owned and is regarded as a strategic industry, would not disclose production losses caused by the fire. *BIDAM 4/7/89*

Production at Sasol's three plants and their contribution to SA's fuel supplies are kept secret under the Petroleum Products Act.

Portion

A Sasol spokesman said the fire caused a loss of R124m from lost revenue and material damage, for which the plant was fully insured. He said the plant came back on stream in early June.

The Sasol III oil-from-coal plant at Secunda, Eastern Transvaal, produces a significant portion of the company's output of liquid petroleum gas, petrol and diesel fuel.

Official figures show the volume of chemicals in the category that includes Sasol fell in February and March.

A seasonally adjusted index compiled by Central Statistical Service showed output slumped after the January 30 fire to 115,6 in February and 117,6 in March from 124,6 in January and 126,1 in December. The base year for the index is 1980=100. — Reuter.

Lovasz restructuring gets shareholder nod

LOVASZ shareholders yesterday approved all proposals necessary to implement the conversion of the group into the Royal Corporation and for restructuring the enlarged group

On Monday, Lovasz's name will disappear from the JSE's boards with the introduction of the new name Royal Corporation, which will be abbreviated to Royal

At the same time, the listing will be transferred from the chemicals and oils sector to the industrial holdings sector

At a general meeting yesterday shareholders also sanctioned the group's acquisition of Royal Beech-Nut (RBN) and Manhattan Confectioners

The company said the JSE had granted the necessary listings to accommo-

ZILLA EFRAT

date the proposed rights issue of 13,1-million shares on the basis of 150 new shares for every 100 shares held at 150c each and of 27,3-million new shares

The latter shares have been issued in settlement of the acquisition of the former RBN business from the Imerman family interests

Today is the last day to register for the rights offer

A statement issued by the group says the nil paid letters issued in respect of the rights issue will also be traded from Monday with the existing issued shares going ex-rights from that day

The rights issue is expected to raise R60,5m to fund the group's acquisitions

183 In Royal's transmuted listing statement, directors forecast a turnover of R171m. Pre-tax profits of R13,8m are expected, the equivalent to earnings of 8c a share for the year to February 1990

Detailed rights offer circulars will be issued in July and August spelling out the opportunity for shareholders to exchange their Royal Corporation shares for those in the proposed listed pyramid company Royal Group Holdings

The name Lovasz may return to the JSE boards in due course when proposals are implemented to list two of the group's subsidiary operating divisions, food and chemicals

A director said the listing of these subsidiaries had been deferred for a short time

Richemont scents Ff200m bargain

RICHEMONT has paid Ff200m for a 6.1% interest in French perfume and fashion giant Groupe Saint-Laurent makers of Yves Saint-Laurent products

BRUCE ANDERSON

A spokesman for Richemont, Rembrandt's Swiss-based offshore arm, said yesterday the group had acquired the interest in Groupe Saint-Laurent through its Luxco subsidiary

Groupe Saint-Laurent was listed on the Paris Bourse yesterday

It was also announced that Richemont executive director Joseph Kan-

oui had joined the board of Groupe Saint Laurent

Acquisition of the interest in the famous perfume and fashion house complements the substantial holdings of Luxco in Cartier, Piaget and Baume & Mercier

The spokesman said the acquisition "demonstrated Richemont's commitment to the development of trademarks in the upper end of the luxury goods sector"

183

to buy 71 7/8%

Lovasz scheme approved

183 Finance Staff

The conversion of Lovasz into Royal Corporation and the accompanying restructuring of the enlarged group was taken a step closer yesterday when Lovasz' shareholders in general meeting approved all the proposals necessary to implement the new structure

The acquisition by the group of the businesses of the former Royal Beech-Nut and Manhattan Confectioners was sanctioned by shareholders while the Stock Exchange committee has granted

ed the necessary listings to accommodate the proposed rights issue of 13 076 949 shares on a basis of 150 new shares for every 100 held at 150 cents a share and of 27 259 416 new shares issued in settlement of the acquisition of the former Royal Beech-Nut business from the Imerman family interests.

The nil paid letters issued in respect of the rights issue will also be traded in from July 10 with the existing issued shares going ex-rights from that date

Star 7/7/89

183

Some interesting new investments by AECI

183

STW 10/7/87

AECI is continuing its five-year growth pattern

All four divisions reported sales growth of 10 to 33 percent in 1988 and net trading income increases varied from 11 to 55 percent

Management is saying little about three new investments made in 1988.

In November a co-operation agreement was signed with Botswana to produce 300 000 tons of soda ash and up to 650 000 tons of salt annually.

Production for this R920 million project is scheduled for early 1991. AECI will control and manage it, but its direct investment will not exceed R100 million

An equal joint investment costing AECI R23,4 million was made with Everite to develop the PVC pipe business which is now showing a modest profit and is expected to improve.

Former financial director George Thomas left AECI at the end of March 1989 to head up Everite.

Further rationalisation

In October, Kynoch Fertiliser acquired certain assets of Fedmis, enhancing the prospect of further rationalisation in the fertiliser industry's over-capacity.

Unfortunately the acquisition caused retrenchment of many employees, the unfavourable economic situation in the fertiliser and farming industries making them unavoidable, says chairman Gavin Relly

Investments in foreign undisclosed associated companies increased from R10,8 million to R18,1 million

The downside was the failure of the Coalplex chlorine plant at Sasolburg after the biennial shutdown in March

This materially reduced availability of product and consequently affected a number of downstream plants

Large quantities of caustic soda and chlorine derivatives had to be quickly imported at peak world prices to keep customers supplied and margins suffered

Interest-bearing debt has reached a new high of R673 million (1987: 525 million)

With escalating rates, interest expenses could top the R100-million mark in 1989 (1988: R75 million; 1987: R66 million).

Expenditure on fixed assets cost R244 million (1987: R219 million)

Financing costs

Turnover rose to R4,08 billion (1987: R3,28 billion), with net trading income R473 million (1987: R369 million).

After financing costs and tax (effective rate increased from 36,5 percent to 40,9 percent) of R163 million (1987: R111 million) and crediting virtually unchanged investment income of R28 million, net income totalled R263 million (1987: R219 million).

The share of preference and out-

Bottom Line

MICHAEL MENOF



side shareholders' interest was R8 million (1987: R6 million), leaving attributable earnings of R255 million (1987: R213 million).

Earnings were R1,65 per share (1987: R1,38), with the annual dividend up at 75c (1987: 66c)

All divisions contributed to the sparkling results.

The AECI/Chlor-Alkali and plastics division sales exceeded R1 billion for the first time, with net trading income up 36 percent at R160 million.

Net trading income of explosives was up 12 percent at R145 million, while polymer derivatives increased profit by 55,4 percent to R115 million.

Other products produced sales in excess of R1 billion for the first time, with profit up 33 percent at R53 million.

AECI's export sales reached R332 million — eight percent of sales.

Despite managing director Mike Sander recognising that "technology development is vital to reduce production costs, responding to customer needs and realising new business opportunities", AECI spent less than one percent of its sales in this vital area — only R30 million (1987: R25 million)

In the US, research and development costs are an important investment consideration

But surprisingly in South Africa, this receives little attention

Being in the Anglo American stable, a healthy balance sheet is expected.

Shareholders' interest

Ordinary shareholders' interest totalled R1 134 million at end-December 1988 (1987: R1 007 million).

Net asset value per share increased to 733c (1987: 651c).

Working capital has improved to R435 million (1987: R422 million), but already receivables are taking a longer time to arrive, with the average credit extended to customers now up to 61 days (55 days a year earlier).

The seldom-read notes to the financial statements show directors' salaries up 26,3 percent at R2,4 million (1987: R1,9 million).

The recent firming in the international price of chemicals and plastics seems likely to be sustained and the agricultural outlook is better than has been the case over the past few years.

Mr Relly expects a further improvement in earnings in 1989, provided the economy maintains at least a modest rate of growth.

Diagonal
Street

ANN CROTTY



Star 11/7/89

Sentrachem revitalised

183

The past ten years have been fairly tough for Sentrachem. Earnings, which were 76,3c a share in 1980 and reached a high of 96,3c in 1981, were more than wiped out in 1985 when a loss of 27,3c was reported.

The benefits of considerable reorganisation since 1985 saw earnings in financial 1989 back to 81,1c a share. Over the same period the share price dropped from a high of 925c in 1981 to a low of 140c in 1986. It is currently trading at just over 700c.

The recovery process involved a review of the group's portfolio of activities, which resulted in disinvestment from certain areas and additional investments in others.

The most obvious example was the sale of Fedmis with the R330 million proceeds being used to help fund R200 million capex undertaken during 1989.

A key objective of the group's revitalised strategy includes the targeting of niche markets at the lighter end of the chemical industry — markets which have high barriers to entry in the form of capital intensity or technological know-how.

In addition much greater awareness is being placed on the benefits of adding significantly more value to locally sourced materials.

Scope for improvement

The extent of the improvement since 1985 can be seen in the steady increase in after-tax return on average fixed capital to 19 percent in 1989. The spectacular performance recorded in 1980 — when the return was 34 percent — indicates that there is scope for continued improvement.

In the latest annual report, MD Johan van der Walt states "Although the group's overall performance continues to improve, the return on capital needs to increase further to ensure an adequate return to shareholders while supporting future investments."

At present management is satisfied that the group's depreciation policy and its three times dividend cover is sufficient to maintain its capital investment.

Apparently imports make up some 30-40 percent of the group's capital projects but management expects the local content to increase.

Another key feature of the group's recovery strategy is the steady inroads being made into the export market. Sentrachem is aiming to export 15 percent of all production. Progress on this front so far, has resulted in improved plant loading and higher productivity.

According to Mr van der Walt: "The group sees significant opportunities in this area, provided a long-term export strategy for the chemical industry can be agreed upon with the government. This strategy should encompass greater use of local raw materials, provided they can be obtained at internationally competitive prices."

New govt approach

Industry sources have indicated that government is adopting a new approach to the chemical industry.

In recognition of the increasing awareness to environmental considerations, Mr Van der Walt refers to Sentrachem's concern for the environment which is "afforded a high priority in all divisions".

"In planning new plants, great care is taken to ensure that they will have a minimal environmental impact, while gaseous and aqueous discharges from existing plants are monitored continually to ensure that they conform to statutory requirements."

This issue seems set to take on a higher profile and it is likely that statutory requirements will become tighter and more costly to adhere to.

Companies work hand in glove on new project

A NEW company, Profile Medical Supplies, is to be formed to manufacture surgical gloves locally

Profile is to work closely with DCM-listed Macmed Health Care, which will market the product Macmed MD Don MacArthur says Profile will fill a large gap in the market, estimated at 38,000 pairs a year

~~183~~
NEIL YORKE SMITH

181 Dec 12 7 187
A Profile representative says government is considering raising import surcharges on surgical gloves from 15% to 45%, which would significantly raise demand for local products

183

Playboy deal opens doors for hawkers

183

THEO RAWANA

COSMETICS manufacturer Playboy SA and Business Challenge have launched a joint distribution venture involving black entrepreneurs

Playboy chairman Phil Rolfe sees the partnership as another step towards dismantling apartheid. The company has pumped in R300 000 and expects to spend R500 000 by the time the scheme is in full swing.

Black Challenge holds 60% of the partnership — BC Marketing — and Playboy the remainder.

Marketing MD of the new organisation, Craig Brown, says "Small entrepreneurs will be the main distributors. The idea is to get the products through the people."

He adds "We have our eyes on beauty parlours and hair salons and will identify markets and distribution agents through a network of consultants. Spaza shops will play a major role in this venture."

Brown says "Through feedback from our consultants we will be able to determine what brand is suitable for a certain area."

Business Challenge CE Phil Khumalo says "Through Playboy's investment we will engage hawkers to sell these cosmetics."

Bl Day, 13/7/89
Firm's provisional
liquidation granted

(183) SUSAN RUSSELL

A JOHANNESBURG company, Cremark Chemicals (Pty) Ltd, was granted an order in the Rand Supreme Court this week placing itself in provisional liquidation.

Creemark's MD, Peter Mock, said in an affidavit that although the company's assets exceeded its liabilities by a relatively small amount it was in a position where it was no longer able to obtain funds to conduct its business activities.

Mock said Cremark had assets of R7 850 000 against liabilities of R7 700 000.

He said Cremark was acquired from Protea Chemicals Ltd in August last year for R3 333 915. R1m of the purchase price was to be paid in September last year and the balance in four instalments in May-August this year.

A notarial bond was drawn up in terms of which Cremark acknowledged its debt to Protea for R2 234 000. As security the company bound all its stocks of finished goods, work in progress and stocks of new materials.

Creemark was unable to pay the June 31 instalment which led Protea to obtain a judgment against the company enabling them to take possession of stock until Creemark recovered R1 739 230 from finished goods, work in progress and raw materials.

Mock said it was essential to appoint a liquidator urgently to preserve the goodwill built up by Creemark over the years.

B/Dam
1317187



British Prime Minister Margaret Thatcher and Albertina Sisulu of the UDF in London yesterday

B/Dam 1317189
Firm's provisional liquidation granted

(183) SUSAN RUSSELL

A JOHANNESBURG company, Cremark Chemicals (Pty) Ltd, was granted an order in the Rand Supreme Court this week placing itself in provisional liquidation.

Cremerk's MD, Peter Mock, said in an affidavit that although the company's assets exceeded its liabilities by a relatively small amount it was in a position where it was no longer able to obtain funds to conduct its business activities

Mock said Cremerk had assets of R7 850 000 against liabilities of R7 700 000

He said Cremerk was acquired from Protea Chemicals Ltd in August last year for R3 333 915 R1m of the purchase price was to be paid in September last year and the balance in four instalments in May-August this year

A notarial bond was drawn up in terms of which Cremerk acknowledged its debt to Protea for R2 234 000. As security the company bound all its stocks of finished goods, work in progress and stocks of raw materials

Cremerk was unable to pay the June 31 instalment which led Protea to obtain a judgment against the company enabling them to take possession of stock until Cremerk recovered R1 739 230 from finished goods, work in progress and raw materials

Mock said it was essential to appoint a liquidator urgently to preserve the goodwill built up by Cremerk over the years

Worker killed by the 'wolwe', says union

THE killing of union member Stanford Mazikwana by four white men followed conflict between black unionists and members of the far right-wing Mine Workers Union at his place of work, according to the SA Chemical Workers' Union (Sacwu)

Sacwu general secretary Humphrey Ndaba said there was a history of friction at AECI's dynamite factory in Modderfontein, on the East Rand. White workers resented Sacwu's strong presence in the plant, he said.

He claimed that earlier this year, white workers from the factory had attacked two black employees, Mazikele Momo and Kaizer Msila, in the nearby white suburb of Iondale.

However, the industrial relations manager of AECI, André Botha, told the *Weekly Mail* that Mazikwana's death was an unfortunate incident which had happened in the community and was not linked to worker rela-

(183) WMail
Weekly Mail Reporter

tions within the firm. 14-20/7/89.
He said AECI "abhorred the increase of these sorts of crimes" and urged the police to find the perpetrators.

At a memorial service for Mazikwana in Modderfontein this week, National Council of Trade Unions' (Nactu) president James Mdaweni likened the killing to the bloody rampage of "Wit Wolf" Barend Strydom in Pretoria last year.

Speakers at the service, attended by almost 500 Sacwu members and other Nactu affiliates, condemned "the suffering of African people at the hands of the white settler, the dispossessor of the Azanian land"

Mazikwana (52) was on his way to work on July 1 from Iondale when he was attacked by four white men, ac-

ording to Sacwu's Ndaba. Another worker, David Mapuna, heard the men screaming they were "wolwe" as they assaulted Mazikwana, Ndaba said.

Mazikwana died in the Baragwanath Hospital later that day. Mapuna, however, managed to escape and enlisted the help of a passing motorist. When the four saw the car, they fled.

Captain R Bloomberg, of the police public relations division in Pretoria, commented "On each occasion when the term 'wit wolwe' was used the South African Police conducted thorough investigations. To date no evidence can be found that such an organisation exists. It would appear that the term 'wolf' is being used purely for sensation."

"We confirm that the death of Mr Stanford Mazikwana is being investigated. Everything possible is being done to apprehend the culprits."

183

~~183~~

185

You'll pay more after midnight as the petrol price goes up

By Norman Chandler,
Pretoria Bureau

Petrol and diesel will cost more from midnight tonight in the second major increase in fuel prices in four months

Petrol jumps by 6c a litre in the PWV area to R1,18 and by similar amounts in other areas, and diesel goes up 2c a litre throughout the country. The price of illuminating paraffin is unchanged.

Described as a "partial price rise", the door has been left open for another increase, depending on the rand/dollar exchange rate and crude oil prices.

before the end of the year

The Government's energy experts explained last night that the increase was unavoidable because of dwindling resources in the Equalisation Fund which the State used to keep down the price.

The last price increase was in April. The National Energy Council (NEC) said at a press conference in Pretoria yesterday there was no alternative but to increase the price of fuel.

"We made certain recommendations to the Cabinet and those were approved," said Group Energy Administration and Management Services Manager of the NEC, Mr Lourens P van den Berg.

The NEC said that during June the under-recovery on all petrol and on diesel as a result of fluctuating dollar prices resulted in a deficit and the fuel profit/loss account (known as the "slate") had therefore to be propped up by the Equalisation Fund.

A total of R200 million had been used since April to keep the fuel price at an artificially low level. "The Equalisation Fund can, however, no longer bear these losses in full and it has become necessary to increase the price of fuel," he said.

The increases represent a rise of 5,8 percent at the coast and 5,3 percent in the PWV area for 93 octane petrol.

'We did not withhold

withhold petrol

Only garages can make a quick profit, say oil firms

MAJOR oil companies yesterday denied allegations that they were withholding petrol, aiming to make a quick buck when the price went up by 6c a litre at midnight last night

They have said only the service stations stand to make one-off profits

Motorists were yesterday clamouring to fill up with petrol in order to beat the midnight deadline

Service station owners were alleging that petrol companies had held back and refused to make extra deliveries since Wednesday in anticipation of the price hike

Service station owners and managers agreed petrol companies would gain from the 6c a litre difference between the old and new petrol prices by holding back on deliveries until after the hike had come into effect

But the oil companies hit back, saying service station operators or dealers were the only ones who stood to make a one-off inventory profits of 6c a litre on all products in their tanks bought at the old price and sold at the new

Fixed profit margins

A spokesman for Caltex Oil SA said "We make no more per litre if we sell petrol today or tomorrow Our profit margins were fixed irrespective of fuel price"

This was confirmed by a Shell SA spokesman, who said they were doing their best to meet the flood of orders from dealers

Mr Richard Woudberg, public affairs manager for Shell SA, said "From information we have on hand, there has been no major increase in demand and we are unaware of any problems at our service stations

"Shell's distribution operation is geared to meet normal requirements with provision made for emergency situations"

A Pretoria Correspondent reports that Bos Motors managing director Mr Dirk Meter said petrol companies had started holding back on supplies on Wednesday

"I requested a tanker load on Wednesday but they said they were full and could not deliver When I asked for two tanker loads for Thursday, I was told I was stockpiling ahead of the price increase

"The only petrol company that has been prepared to deliver has been Sasol The other companies have said they will deliver on Saturday I've only

DAWN BARKHUIZEN

got 24 000 litres in stock and I anticipate selling at least 21 000 today There will be chaos because we will run dry either late tonight or early tomorrow"

Mr Meter said he also believed some service stations would lock storage tanks and say they had run dry to make sure they made 6c a litre profit by selling old petrol at the new price

Magnolia Motors (Pty) Ltd manager Mr Paul Haak agreed some garages would run out of petrol

He said he had been promised a delivery by Mobil yesterday — the normal day they made deliveries to his garage — but they were only prepared to supply him with the amount of petrol he normally took

Mr Haak expected a rush by motorists trying to tank up but said the increase had been expected and his petrol sales had been higher than normal this entire week

Announcing the increase this week, the National Energy Council said it hoped another increase this year would not be necessary This depended on crude oil prices and the rand-dollar exchange rate

If those factors remained constant, no further hikes were envisaged

South Africans were paying a political price for the high cost of petrol, including today's 6c a litre increase, said Dr Zach de Beer, co-leader of the Democratic Party

The public would continue to be confronted by rapidly changing petrol prices until "there is a situation of government by consent with the majority of people accepting the constitution"

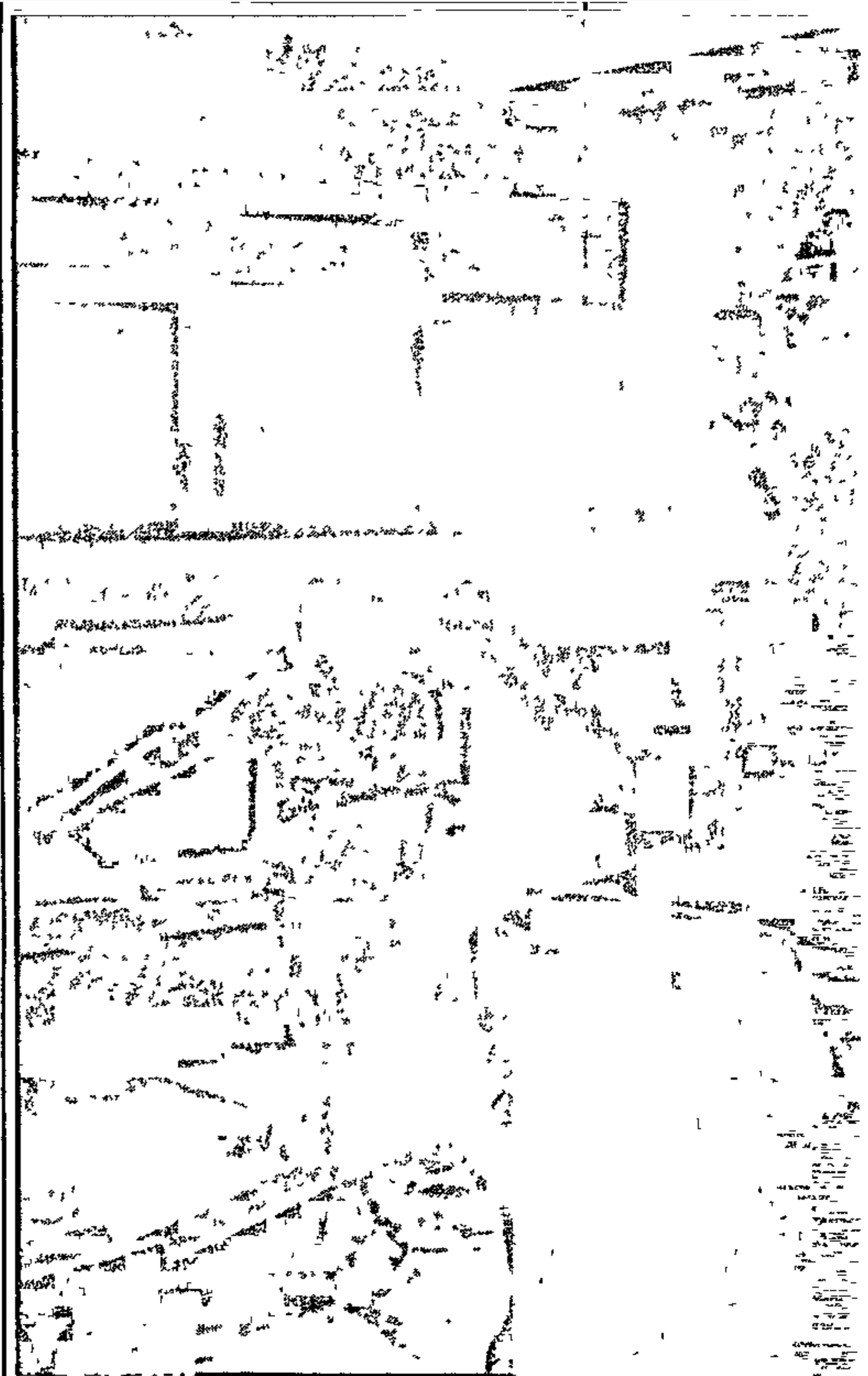
"What we don't know is what premium South Africa is having to pay for fuel because of sanctions imposed for political prices," he said

The Conservative Party's spokesman on economic affairs, Mr Clive Derby-Lewis, rejected the midnight rise as "yet another reflection of the serious problems which the Government is having in balancing its budget"

The increases in the petrol price in less than a year was an admission of defeat This type of gross inefficiency would bring down a government in any civilised country

The SA Co-ordinating Consumer Council called the increase "inevitable" because of the weakening exchange rate

"The council appeals to the private sector to absorb as much of the fuel price as possible by higher productivity in order to minimise the effect"



Kicking up a rumpus in the wee hours

BASEMENT ridiculous! It basement watching T injured. search

Jo'burg Hospital is not 'f'

ALTHOUGH there was a critical nursing shortage, the Johannesburg Hospital was not "facing collapse", the hospital's chief superintendent, Dr R J Broekmann, said yesterday

Responding to a report in a Johannesburg newspaper, Dr Broekmann said there were a number of services within the hospital which were threatened

The management of the hospital and the Director of Hospital Services were "gravely concerned" about the situation In an effort to alleviate the immediate crisis, the employment of private agency nurses had

been approved "In the longer term of investigation of the Transvaal, Mr for the resolution hospital"

Dr Broekmann working stances

"There are delays particularly for patients"

Petrol up — but rand firm and crude oil down

SI Times 16/7/87 183

THE fuel price increase — 6c a litre for 93 octane on the Reef and 2c on diesel — has been attacked by Assocom, the SA Agricultural Union, the Houswives League and the FCI.

They say two of the main factors influencing the fuel price — the cost of crude oil and the value of the rand against the dollar — have moved in SA's favour recently.

Other factors must have come into play in the latest price increases, they say. They are calling for an investigation into the structure of the fuel price.

Twice

The pump price of fuel is based on the landed cost of petrol or diesel at SA ports. But crude oil is actually imported and refined in SA.

Industry sources believe that the price structure is being incorrectly applied because the price of petrol landed in SA takes into account the cost of refining. But the crude landed in SA still has to be refined. It is believed that, in terms of the present structure, SA motorists are paying twice for the cost of refining.

In addition, insurance on a fictional cargo of petrol is higher than that on a crude

By Don Robertson

oil shipment

The landed cost of fuel is based on the price of a petrol shipment from four refineries — three in Singapore and one in Bahrain.

Fuel tax is also challenged. The price of petrol has risen by 44% in the past six months, and diesel by 65% in a year.

At present rates of under-recovery, the equalisation fund is being depleted by about R90-million a month. Although figures are no longer given, it is believed that the fund had a deficit of more than R100-million in April.

The National Energy Council (NEC) concedes that the 6c/l rise is insufficient to meet the underrecovery on petrol, which amounted to more than 12c/l in May and June.

Levy

This suggests that yet another increase can be expected before the end of the year, although the NEC says that "should the rate of exchange not weaken again after the latest partial increases and if the price of crude oil does not increase, the equalisation fund will be able to finance the remaining deficits up to the end of 1989".

It has been suggested that an additional levy might

have to be introduced to pay for the R5-billion Moss gas project.

Economic information group Econometrix has questioned the underrecovery in the fuel price. It says that when the petrol price was raised in April, the landed cost of crude oil was more than R50 a barrel. However, in May and June, in spite of a sharp fall in the value of the rand, the price of crude fell to R48 a barrel.

"In the light of these facts, it is unlikely that the rand price of crude can be a root cause of any pump-price increase."

Econometrix suggests that the increase could be due to other factors.

Flexible

It says that in April, the price of crude oil was R49,86 a barrel. It fell to R49,37 in May and by the middle of June had declined to R45,29. In international terms, the price of light crude fell from \$19,45 a barrel in April to \$16,12 in mid-June.

The rand-dollar rate averaged R2,5637 in April, R2,6780 in May and R2,7913 in mid-June.

Assocom says that the only way to counter a further price rise is for the Government to reduce taxes and levies on petrol.

"A more flexible approach

● To Page 2

AJSF Dept

P.T.O.

curring losses, if they had hung on. This is where speculators start breaking the

Another Turf relic for Lanchem

S/Times 16/7/89 (183)

I HOPE that Lanchem — formerly the holding company of the doomed Triomf fertiliser company — will not inherit too many relics of the equally doomed Turf Holdings.

Last week it bought Monument Hardware, which belonged to Turf-associated Super National Corporation, for R200 000.

The seller was House of Investments, which owns 51% of Lanchem. One of its directors, Nic Deetlefs, was a board member at Turf.

Lanchem comprises the Garage Distributor group, which builds garages and does allied work, and the Henderson group, which makes sliding doors and security equipment.

Lanchem bought 26% of Industrial Investment Holdings (IIH) for R1-million, set-

led with shares. IIH's Norvic manufacturing makes and installs shopfittings.

Lanchem financial director Kevin Hadassin, who joined the group in January, says he is satisfied with progress. Managing director George Dryden has been with Garage Distributors for six years.

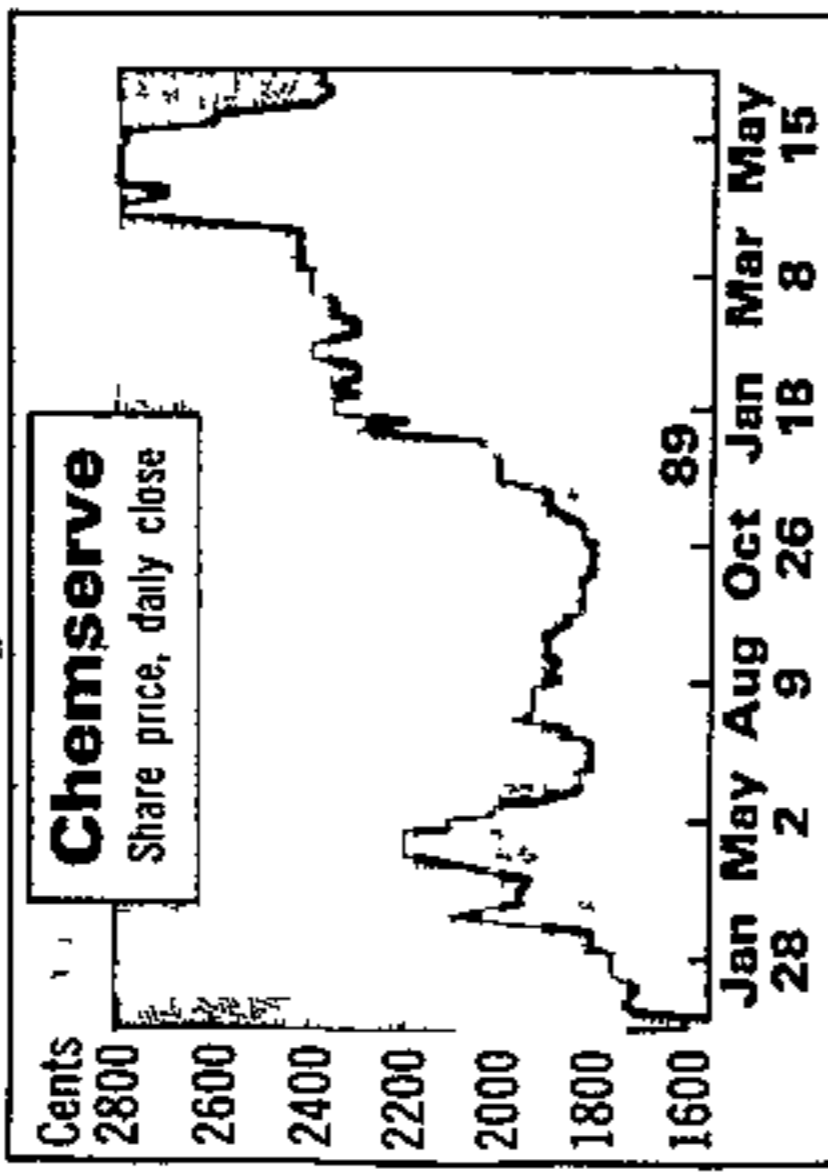
Norvic, Garage Distributors and Henderson are established businesses in growth areas, but my reservations lie with the major shareholder of Lanchem.

House of Investments and its associate Inhouse Marketing — it sells shares in unlisted securities — make claims about their financial acumen which are hard to swallow. I worry that Lanchem could become a depository for underperforming businesses.

Chemserve's earnings go up by sluggish 5% but off a high base

17/11/89
ZILLA EFFRAT

CHEMICAL Services showed a sluggish growth of 5% in attributable earnings for the six months to June, because of the increased costs of imports, a temporary shift in the group's product-mix and a poor performance



Graphic: ROMA REISCH Source: I.F.

from Chemserve Steinhall. The results, however, are off a high base, following the group's annual compound growth of 36% for the past five years.

Attributable profits increased to R7,6m (R7,2m) and earnings were up to 122c (116c) a share. An interim dividend of 38c has been declared, unchanged from the previous interim period.

Chemserve Systems performed extremely well and most other trading operations showed sound performances.

However, Chemserve Steinhall's earnings were affected by imports of raw materials at peak prices during a period of world shortage, compounded by cutbacks in the uranium and gold industries, its major markets.

Financial director Lex van Vught says

Steinhall's abnormally high material costs have already passed out of the system.

Turnover improved 25% to R156,5m (R125,2m). But margins dropped to 9% (11%) because of difficulties in recovering in full the higher imported raw material costs associated with a lower rand. The group imports half its raw materials.

A temporary shift in product-mix to lower value-added traded goods also had an impact on margins.

Van Vught says the group's manufacturing business, its most profitable side, declined in volume as a result of general economic activity.

Its trading activities, which account for 20% of business, increased because of high demand, positively affecting turnover.

The interest bill jumped 52% to R2,6m (R1,7m) as a result of high interest rates and

the reduction of credit terms extended by a foreign supplier.

Interest cover fell to 5,5 (7,8) times, while interest-bearing debt jumped 92% to R38,4m (R20m). Gearing increased to 51% (30%).

While trading conditions are likely to become more difficult during the second half of the year as the economy slows further, operating margins are expected to show some improvement and earnings for the full year should exceed those achieved in 1988, says Van Vught.

Last year's dividend of 100c a share is expected to be at least maintained.

He says the next six months will be a period of consolidation, with the group focusing on getting trading margins to traditional levels.

Chemserve's strategy will be to expand its hi-tech, high-value-added manufacturing business.

Fuel price rise 'aiding govt policies'

Political Correspondent ¹⁸³

The latest 6c fuel price increase was really an extra tax to help finance the Government's "integrationist" policies, the Conservative Party has charged

Mr Clive Derby-Lewis, the CP spokesman on economic affairs and technology, said last night that there was an unexplained "extra 10 percent floating

around somewhere" in the latest increase. He was speaking at a house meeting as the CP's election candidate in Krugersdorp

Stav 181 7787

Mr Derby-Lewis referred to his "unanswered question" of how much petrol was manufactured locally and how much was imported

"I have asked this question in

Parliament and was told that it was not in the national interest to release such figures"

But the real reason was that it would show "the South African motorist is being taken for a ride through additional taxation to help finance the NP government's increasingly unworkable integrationist policies"

Star 19/7/89

Ailing S Steele bought by Supreme

Finance Staff

In its second major acquisition in a year, Supreme Bond Trust has gained control of cash-strapped Sam Steele Holdings, whose subsidiaries make and retail furniture

Supreme is the controlling shareholder in Supreme Industrial Holdings (SI), formerly Mewa Holdings, which was taken over last October for R7,1m

In terms of agreements announced today, Supreme Bond Trust has acquired claims of R45 million by banks against Sam Steele for R38 million

It has also acquired the 49 percent interest of Johannesburg Mining and Finance Corporation in Sam Steele

Subject to shareholder approval, Sam Steele will issue to Supreme 50 million shares at 20c each by capitalising R10 million of the claims of R45 million

Supreme will offer minorities 20c a share



LATE-NITE A/C'S

MILPARK

(Behind Holiday Inn)

TEL: 726-3412

**WINTER
OFFER**

EARLY SUPPER
IN BEFORE 7 PM
OUT BY 8 PM

**25%
DISCOUNT**

D31602

AECI smoothes out problems in production

Star 19/7/89

183

By Ann Crotty

Latest results from AECI show the quality of performance that shareholders can enjoy when the group is free of major production problems. The higher than expected 38 percent surge in earnings to 84c (61c) was also helped by rationalisation in the group's fertiliser division and the generally strong economic conditions

Management capitalised on all of these factors and succeeded in boosting operating margins from 9,5 percent to 11,3 percent. When it is achieved on a turnover of R2,26 billion (up 25 percent from R1,8 billion), an improvement of this extent has a major impact on the bottom line

The improvement in margins helped to counter the impact of a sharp increase in finance costs and a higher tax rate

The higher finance costs reflect significantly higher interest rates and to some extent camouflage the improvement in working capital management

Net trading income was up 47 percent to R255 million (R173 million), financing costs were up from R30 million to R53 million — accounting for 21 percent of operating income compared with the previous year's 17,3 percent

Earnings rose to R130 million from R94 million. An interim dividend of 30c a share has been declared. This is 5c up on the previous interim and reflects an increase in cover from 2,4 times to 2,8 times.

Higher cover

The higher cover won't surprise many shareholders as it is in line with chairman Gavin Relly's reference in the annual report to "the need to increase gradually the level of dividend cover in view of a continued high level of inflation and the difficulties foreseen in raising finance abroad"

Exports account for R201 million, or 8,9 percent, of group turnover. This is significantly ahead of the previous interim's R97 million (5,4 percent) contribution

Exports accounted for around 7 percent of turnover value for the 12 months of financial 1988. This was down significantly from the 10 percent

that exports traditionally account for and was attributed to the production bottlenecks at Coalplex. Now that these have been ironed out, MD Mike Sander is optimistic that exports could account for close to 10 percent of turnover for the full financial year. This should have a positive impact on margins

Looking at the divisional performances, Mr Sanders says that chlor-alkali and plastics performed very well — helped by comparatively strong international prices and the weaker rand

Export performance

Export performance from SA Nylon Spinners more than made up for the higher cost of internationally sourced raw materials

Although there was a softening in demand from the gold industry, overall demand facing the explosives and chemical division was firmer but according to Mr Sander, the week gold market meant that customers were sensitive to cost increases

Sasol has now become a major competitor in the explosives market but Mr Sander appears confident that AECI's size and its strong technology base will help it to defend its position

Despite the one-off costs associated with the rationalisation of fertiliser production facilities, this division managed to make a positive contribution to group profits

On a general note he states that demand for most of the group's products was reasonably strong "We saw a fairly good economy"

Management does not expect the rate of growth to be sustained in the second half

This may be a little conservative. A number of positive developments could see the group sustain its strong first-half performance. Raw material constraints on the polyethylene plants have been sorted out which will not only improve capacity utilisation but should also lift exports and, the second half of the year is seasonally much stronger for the fertiliser industry

But as Mr Sander points out, much depends on the strength of the economy



COMPANIES

AECI exports soar to R201m

1988/89 (183)

By DICK USHER, Business Staff

EXPORTS by chemical giant AECI more than doubled to R201-million or 8,9 percent of turnover for the 1988/89 financial year

Net trading income was up 47 percent to R255-million, financing costs were up from R30-million to R53-million — accounting for 21 percent of operating income compared with the previous year's 17,3 percent

Earnings rose to R130-million from R94-million

An interim dividend of 30c a share was paid, 20 percent up on the previous interim

Looking at the divisional performances, MD Mike Sanders says that chlor-alkali and plastics performed very well — helped by comparatively strong international prices and the weaker rand

Export performance from SA Nylon Spinners more than made up for the higher cost of internationally

sourced raw materials

Although there was a softening in demand from the gold industry, overall demand facing the explosives and chemical division was firmer but according to Mr Sanders, the weak gold market meant that customers were sensitive to cost increases

Sasol has now become a major competitor in the explosives market but Mr Sanders appears confident that AECI's size and its strong technology base will help it to defend its position

In spite of the one-off costs associated with the rationalisation of fertiliser production facilities, this division made a positive contribution to group profits

On a general note Mr Sanders said that demand for most of the group's products was reasonably strong "We saw a fairly good economy" Management does not expect the rate of growth to be sustained in the second half

Union in
talks with
Mobil on
workers'
trust fund

Own Correspondent

JOHANNESBURG —
The Chemical Workers'
Industrial Union
(CWIU), which has al-
ready won from US-
based Mobil a R6,5-mil-
lion payout for
employees as compensa-
tion for disinvestment,
yesterday met a senior
company executive to
discuss massive financ-
ing for a trust fund

General secretary Mr
Rod Crompton con-
firmed the meeting here
with Mobil's internation-
al employee relations
manager Mr Don McLu-
cas, held to discuss "the
two outstanding issues
demanded to ensure a
fair disinvestment pro-
cedure".

The second demand is
for disclosure of the con-
tents of the agreement of
sale between between
Mobil Corporation and
Gencor

The union previously
expressed its desire to
establish a trust which
would fund a variety of
social projects

Mr Crompton said the
parties had agreed not to
make public the con-
tents of their "frank"
discussions

But, he said, Mr McLu-
cas had listened careful-
ly to the union's views

Mr McLucas could not
be reached for comment

183

21/7/89

183

Final

AECI

Showing resilience

AECI's 38% advance in earnings for the six months to end-June is among the better bottom-line performances seen from SA's industrial giants this year. It could also be among the last sets of results of this calibre for a while.

Though buoyant trading conditions helped — and the figures reveal the momentum still in the economy — the percentage gain must be seen in perspective. The 1988 interim period was a relatively low base. Those results were slowed by an extended plant failure at Coalplex that led to imports of substantial tonnages to satisfy local requirements, and EPS rose by only 15%.

Even so, the latest figures reflect improvements virtually all round. For AECI volume throughput is crucial, and the period saw domestic sales volumes increased by 10%. A major factor was new capacity introduced at Coalplex in the third quarter of last year, with the result that the plant ran at design rates throughout.

Also important was the benefit from the rationalisation of the fertiliser industry. Production facilities at Milnerton and Phalaborwa bought from Fedmis boosted fertiliser capacity from the fourth quarter of 1988. Certain older plants at Chloorkop were closed at the beginning of the year, to optimise total capacity relative to the size and location of the main markets.

MD Mike Sander says that the major rationalisation in the fertiliser division has been done but there remains a fair amount to be tackled in areas such as distribution and storage. "Distribution costs of fertiliser are quite high," he says. "We have new assets in the division and we have yet to optimise their potential."

The fertiliser division is now making a positive contribution. After the recent sharp gains in its profitability, Sander expects to see steady improvement, with the emphasis on consolidation. One aspect that should help the division's profitability in the second half is that one-off costs associated with the plant closures have already been absorbed.

Thanks largely to Coalplex, margins rose particularly strongly in the chlor-alkali & plastics division. The group operating margins rose to 11,3% (9,6%). With capacity utilisation generally rising, the margin was well above the level of 10,4% seen in the 1987 first half and was equal to the level for the full 1988 year — margins are usually better in the second half.

Profits could have been better in the polyethylene operation. Raw material constraints which resulted from the fire during the first quarter at Sasol held production to the 1987 levels and also restricted potential exports. Sander says that polyethylene production is fully back on stream, implying its contribution could improve this half.

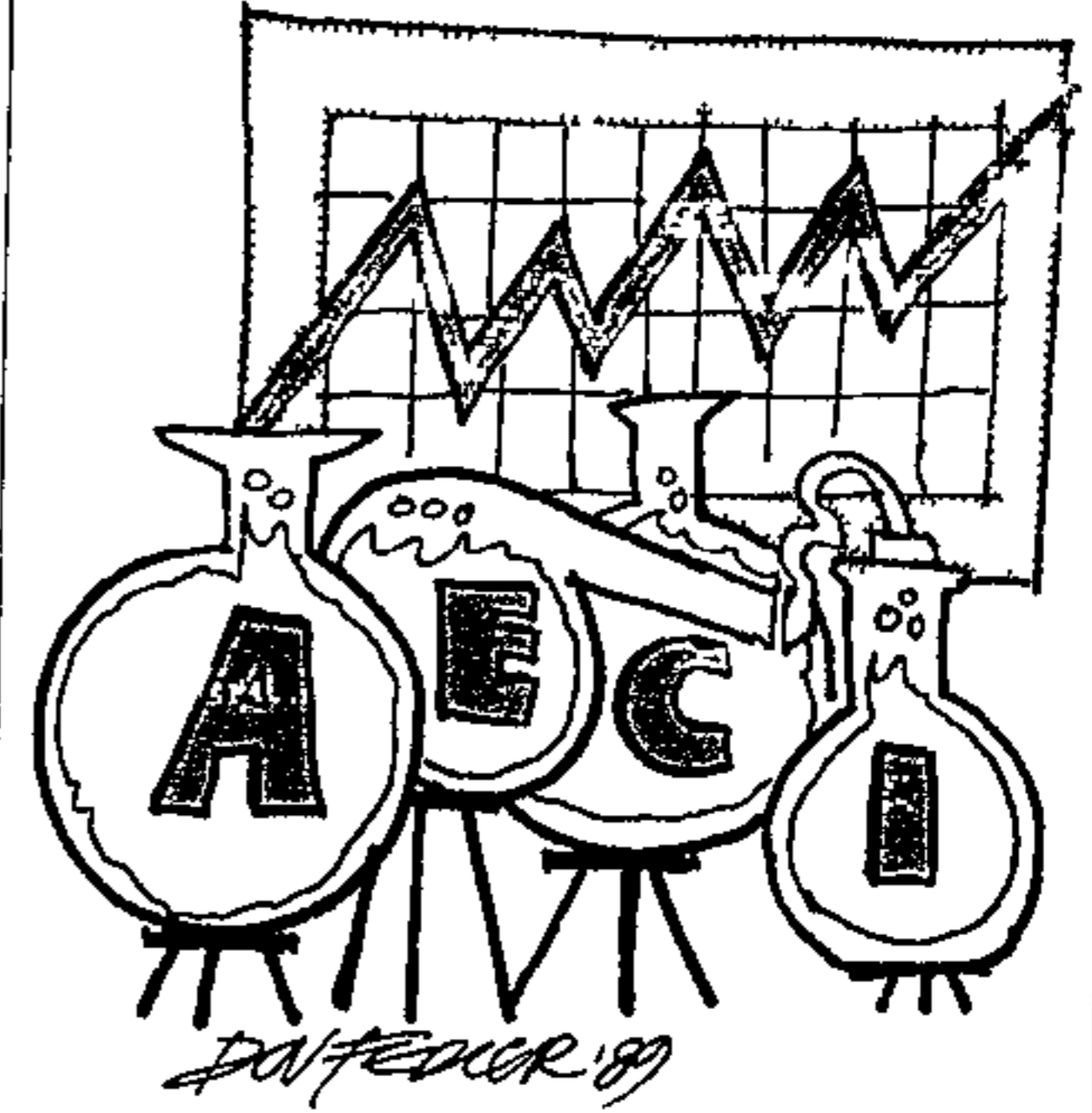
A feature of the interim figures was the more than doubling of exports to R201m (R97m). As a percentage of group turnover, exports jumped from 5,4% to 8,9%. Sander says that the jump was partly because the group did not export polyvinyl chloride (PVC) in the 1988 first half. However, in general the group can export surpluses equivalent to about 10% of turnover, and there is little reason why this figure should not be reached.

Prices of international commodity chemicals, which were reflected also in the domestic markets, provided impetus during the second half of last year. Sander says that prices have remained firm virtually across the board. "I don't really see them going up much from here," he says. "There could be a bit of downside, depending on what your economic views are." After fluctuating sharply early in the decade, these prices are expected to move more closely with economic trends in future.

A weak gold price has meant more stringent cost controls and cutbacks in capital spending in the gold mining industry. This has had some influence on demand for explosives, though Sander says activity remained quite good. With mining wage talks resolved there need be little fear about strikes in the second half, and the non-gold sectors have remained active.

For the rest, Sander thinks the underlying performance of the economy has remained "quite impressive." Its resilience is thought to have much to do with the informal sector, and a sudden drop-off is not expected in areas such as packaging. Two areas that have slackened are automotives and construction. These alone would have a relatively mild impact.

During the past three years, the group produced 60%-63% of its EPS in the second half. That pattern is unlikely to be repeated to the same extent this year, but there should



be substantial growth in the full year's figures, with EPS likely to rise by well over 20%. At 1 850c, the share is off the 12-month high of 2 250c set in March. It could appreciate after these results.

Andrew McNulty

CHEMSERVE

183 *Final*
Margins slide

After five years of lifting EPS by an annual rate exceeding 40%, Chemsolve in the next six months must abandon its expansion programme for consolidation if it is to avoid a possible slide in taxed profits. Though the group maintained market share, it saw taxed profits rise by only 5% and pegged the interim dividend. Essentially, the prices of raw materials and interest costs leapt and trading margins fell.

Financial director Lex van Vught's comment is that "the group has had a good run and should now consolidate and analyse what needs to be done to turn falling margins around."

Management reached this decision after the group encountered difficulties in fully recovering raw material costs associated with the lower rand exchange rate. MD Peter Francois says costs were pushed up before the prices of goods sold could be increased to counter the negative effects on margins. The result was that trading margins slumped to 9% (11%). This seems somewhat surprising, given that the group has been accustomed to coping successfully with exchange rate fluctuations for some time. Francois says the intention is to pass these costs on to the consumer by increasing prices this year.

Another problem which he says occurred during the year was a 50% cut in credit terms by one of Chemsolve's major foreign credit suppliers, "for no particular reason." These tougher credit terms, with higher interest rates, left the group with a shortfall of funds to finance the capital expenditure required to

183 2/7/89
maintain existing facilities. Bank overdrafts were thus increased by 94% to R27,6m to fund working capital. Gearing jumped to 0,50 from 0,30 at December 31, and the interest bill nearly doubled to R38,4m (R20m).

Van Vught says that all options to reduce gearing are being investigated. "Of utmost importance is the need to examine those manufacturing subsidiaries, within the group's 16 operating companies, which showed reduced turnover as a result of a fall in activity," he says.

Francois adds that stock levels have to be tightened and the shift in the product-mix to lower value-added traded goods also has to be reviewed. "While the threat of sanctions last year called for an increase in the level of imported stocks, the directors believe that this threat was over-emphasised and levels can now be reduced," he says.

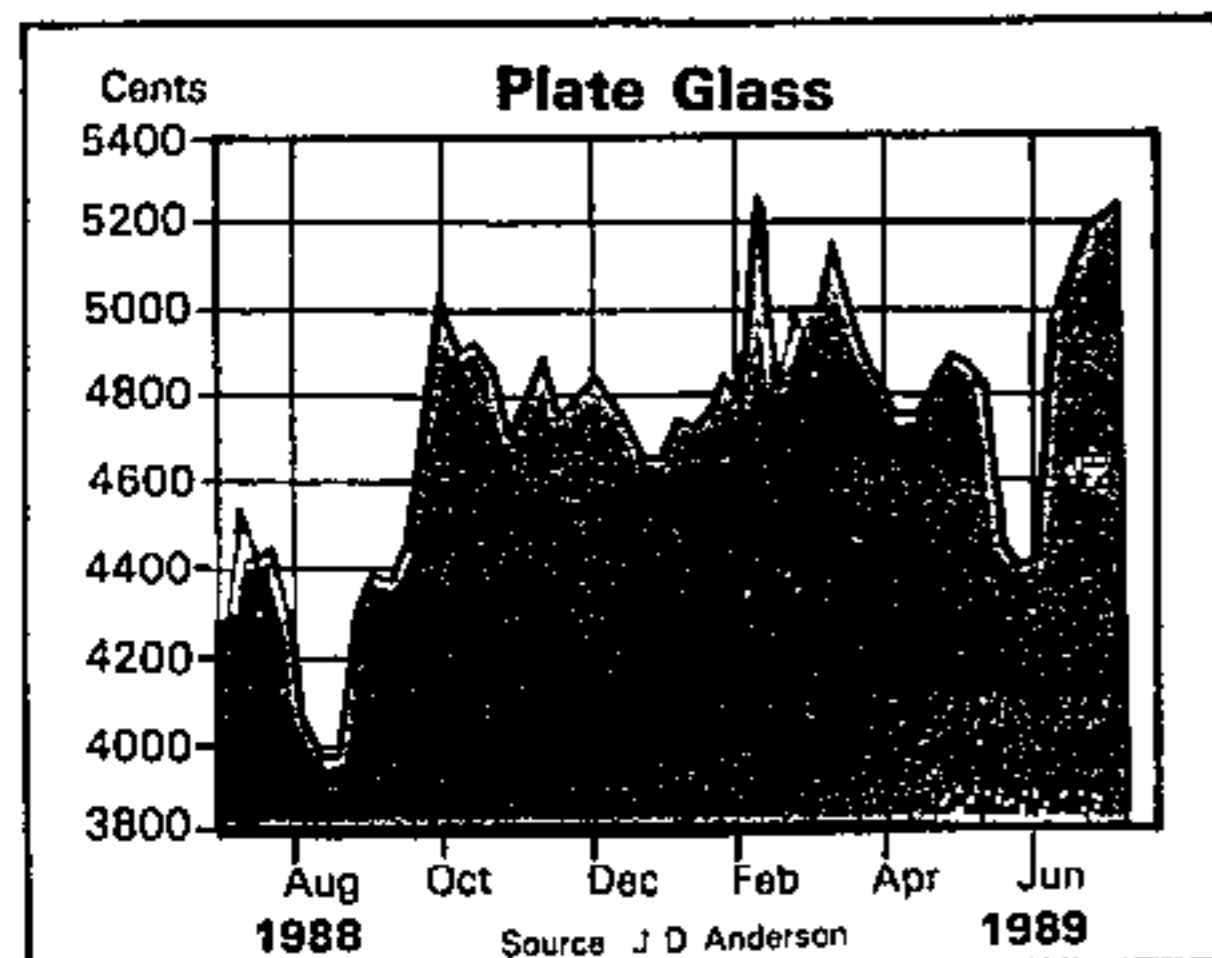
Van Vught takes a sanguine view on the long-term financial outlook. Much of Chemsolve's problems are current and can be overcome, as it has a strong balance sheet and should be able to reduce the debt equity ratio. He adds that the level of skills in the group is high and demand for traded goods remains brisk; this helped overall turnover climb by 25%.

Though trading conditions are likely to become more difficult, the board believes that "operating margins will show some improvement and earnings for the full year should exceed those achieved in 1988."

Compared to the rest of the chemical sector, the share remains well-rated on a dividend yield of 4,2% and a P/E of 7,9. The market appears confident that the earnings trend will be pulled back on track.

Jacques Maghlo

183 Final 2/7/89



Management's dilemmas were well underscored by the past year's performance. Plate Glass's sales outside SA accounted for 64% of the group's total while they gave rise to only 35% of consolidated earnings. The dilemma is that competition is more intense abroad, but that is where the best growth prospects exist. The SA market is growing slowly, particularly as government's latest austerity measures bite, but foreign development costs are a major drain.

Last year establishment costs of new glass outlets in the US resulted in losses of US\$8.4m — about R21.6m taken into the income statement — and further start-up costs are envisaged. The Lubner brothers report 50 new American outlets were acquired, lifting the total to 90. A further 30 openings are planned this year, followed by 40 in financial 1991. Of course some benefits are expected as the new outlets trade profitably, but there remains the prospect that start-up costs will again affect revenues negatively this year.

Similar considerations seem to apply in Europe, where comprehensive developments are planned ahead of 1992. They, too, could involve negative start-up cash flow with benefits deferred for a couple of years. There's nothing untoward about this, but foreign developments will tend to mask the group's real growth and growth potential. Setting the tone for that are the Australian operations which are now generating profits almost matching Plate Glass's own return criteria.

Start-up costs meant the Australian wood division continued to absorb cash last year — something expected to continue this year. And in the US a combination of factors — stock write-downs and adverse currency shifts — meant profits were less than expected. The plan now is to shift away from timber commodity trading towards selling value-added products. Presumably that will involve more set-up costs.

Question is whether these continuing establishment costs will unduly affect the consolidated results. SA may not be fully able to make good expenses elsewhere if the economy slows drastically — though the rand effect is likely to be masked by inflationary price shifts.

More important is the group's eventual scope. Establishment costs can be absorbed without any great strain but there remains the question of when the foreign develop-

ments will start contributing profits in proportion to their sales. The Lubners believe a better balance is possible this year, but there are cash flow and financing strains abroad which imply retentions will be heavy. They mention briefly new foreign financing plans, but do not elaborate.

This year's earnings growth is expected to at least match last year's 20%, which puts the share on a forward yield of 5.2% if dividends rise in line with earnings. That's attractive for a company of this calibre.

Jim Jones

BOLPROP

Higher dividend

Activities: Owns various transport depots, motor dealership premises and houses which are let to associated companies, also owns extensive pine plantations, purifies and supplies water to Great Brak River and surrounding areas and generates supplementary electricity for Bolton footwear.

Control: Holding company is Cargo Carriers Holdings (Pty)

Chairman: W F de la H Beck, managing director S G Chilvers

Capital structure: 5.2m ords. Market capitalisation R9.1m

Share market: Price 175c. Yields 6.9% on dividend, 9.7% on earnings, PE ratio, 10.3, cover, 1.4. 12-month high, 180c, low, 120c. Trading volume last quarter, 143 000 shares.

Financial: Year to February 28

	'88	'89
Debt		
Long-term (Rm)	—	0.08
Shareholders interest	0.95	0.96
Int & leasing cover	n/a	216.6
Debt cover	n/a	10.1
Performance		
Return on capital (%)	3.0	6.6
Turnover (Rm)	1.6	2.5
Pre-int profit (Rm)	0.8	1.7
Pre-int margin (%)	0.5	0.7
Taxed profit (Rm)	0.4	0.9
Earnings (c)	7.8	16.9
Dividends (c)	3.5	12.1
Net worth (c)	483	488

No major change in operating style is being contemplated by Bolton Properties (Bolprop). But the recent sharp reduction in dividend cover and the share's net worth are apparently the reason for its strong rating.

Bolprop's properties came from various parts of the Boltons group before the listings of Cargo Carriers and Bolprop in October 1987. They were valued in that year. Agricultural and forestry land does not normally escalate as quickly as some urban property, so the current net worth is probably somewhere near the true mark.

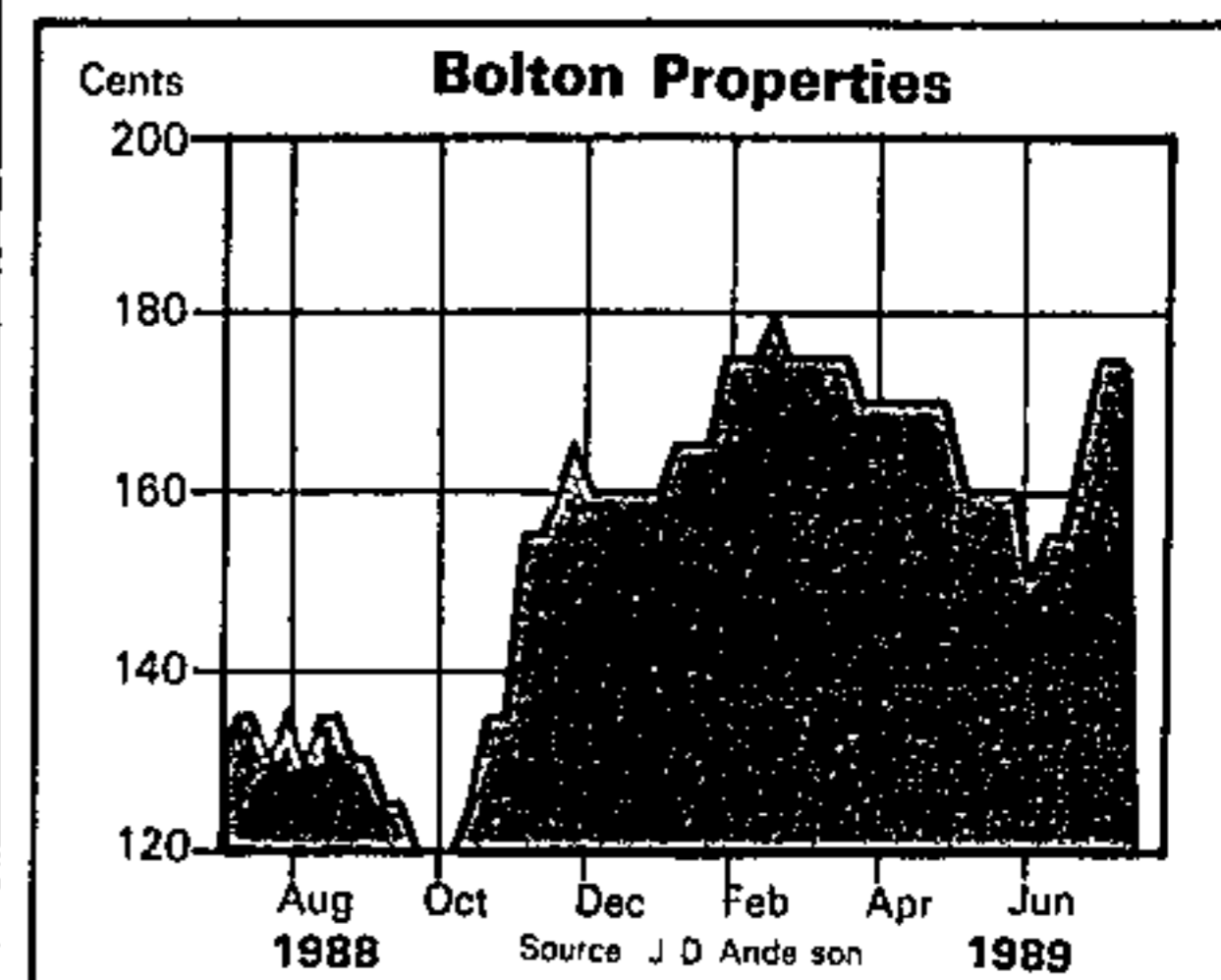
The annual report confirms that the group intends to remain a holder of property for income purposes rather than a trader in land. A major reason for this is the tax it would incur if it developed. However, surplus properties will be sold off. MD Stan Chilvers says

some minor properties were sold last year, sales will not necessarily increase this year.

Chairman William de la Harpe Beck says consideration continues to be given to alternative uses for the tracts of land in the George-Mossel Bay area — 3 000 ha, of which 2 000 ha is under pine forestation.

Last year, turnover rose 54% and attributable profit more than doubled to R0.9m, though the comparison is not valid since rental income from associated companies in the Boltons group, listed Cargo Carriers and unlisted Hallmark Motor Group, only accrued for six months in the previous year. On an adjusted annualised basis, EPS rose 31%. Like most other property companies, returns on capital and equity were low.

Operating income derived 67% from property rentals and 24% from plantations. Income from rentals increased in terms of escalator clauses, and timber sales were higher on better prices. Over 90% of rental income is from property occupied by associ-



ated companies. The associates administer the properties for a fee, allowing Bolprop to be lean. Chilvers says rentals and escalation clauses for the associates are determined with independent consultants.

Dividend cover was cut from 2.2 to 1.4 because high retentions in a company which is not planning developments seemed unjustified. Bolprop has virtually no borrowings, and net cash of R2.4m. De la Harpe Beck says the current level of cover approximates the anticipated sustainable earnings, which should show "moderate cumulative growth over the years".

The share rose considerably between October and February, compensating for the increased dividend. There seems little reason for it to rise or fall much in the short term.

Teigue Payne

Start-up costs *21/7/89*

Activities: Glass manufacturing, processing and selling glass, timber, board and aluminium products

Control: Placor has 49,7% of the equity Placor's largest shareholder is Liberty with 31,7%. The directors own 22,8% of Placor

Executive chairmen: B Lubner and R Lubner.

Capital structure: 16,5m ords of 50c each, 0,5m "B" non-red cum prefs of R1, 2,5m 8,5% red cum prefs of R1, 4m variable rate red cum prefs of R1, 5,3m "B" variable rate red cum prefs of R1 Market capitalisation: R848m

Share market: Price 5 150c Yields. 4,3% on dividend, 9,4% on earnings; PE ratio, 10,7, cover, 2,2. 12-month high, 5 275c, low, 3 950c. Trading volume last quarter, 190 810 shares

Financial: Year to March 31

	'86	'87	'88	'89
Debt.				
Short-term (Rm)	85,1	123,0	159,1	84,0
Long-term (Rm)	99,3	129,0	129,7	219,7
Debt equity ratio	0,50	0,75	0,50	0,49
Shareholders' interest	0,43	0,35	0,43	0,41
Int & leasing cover	2,38	5,17	5,68	5,28
Debt cover . . .	0,50	0,45	0,48	0,62

	'86	'87	'88	'89
Performance:				
Return on cap (%)	12,6	13,9	15,0	17,3
Turnover (Rbn)	1,57	1,68	2,32	2,76
Pre-int profit (Rm)	120,2	137,5	204,2	275,2
Pre-int margin (%)	7,6	8,2	8,8	10,0
Taxed profit (Rm)	51,9	71,9	96,7	123,8
Earnings (c)	203	305	401	483
Dividends (c) . . .	105	145	185	222
Net worth (R)	17,1	19,4	25,6	28,9

P.T.O. 91

...our competitors can't get into the next big game. —
see it. We just give the people The Spectator.

SA feed for chemicals

MANRO Products will spend R2-million on an expansion programme to reduce SA's dependence on imported raw materials for the speciality chemicals manufacturing industry.

Several of these raw materials could be produced in SA, says managing director Bruce Murray. *S/Tues 23/7/84 (183)*

"We have the know-how and have installed plant to provide the facilities. We have bought 7 000m² of land adjoining our Wynberg premises in Sandton to meet growth.

Manro, which recently bought timber-treatment companies Hickson Chemtech and SA Wood Preservers hopes to lift turnover to more than R100-million this year.

The company is one of the leading manufacturers of raw chemicals for the production of detergents and toiletries. It also produces catalysts for the foundry industry.

Polyurethane foam formula changes

AECI subsidiary Industrial Urethanes (IU) has announced a reformulation of the chemicals used in the manufacture of polyurethane foam

Use of the foam in its present form is being discontinued by the mining industry

Polyurethane foam was blamed for the 1987 Kinross fire which claimed 177 lives, and was banned from general packaging and insulation use in mines in January. But it remains the world's most-used insulation for refrigerators and freezers

IU commercial manager Alan Yeates said that his company was well ahead of requirements set at the Montreal Protocol. The Protocol called for reduced use of chlorofluorocarbons (CFCs), which were highly flammable and generated carbon monoxide

He said the level of CFC had been halved, allowing local refrigerator manu-

BRENT MELVILLE

facturers to claim a maximum residual content of 2.5g/l of CFC in insulating material, putting SA in line with standards set by its European counterparts

"World production of refrigerators and freezers amounts to 55-million units annually, with the vast majority using polyurethane foam as the insulating material

"What is not generally appreciated is the fact that not only is polyurethane foam the most efficient insulator, it also acts as a structural element, bonding the outer metal case to the inner liner, forming a laminate of great strength and durability," he said

However, while the first stage of the "CFC reduction campaign" was nearly complete, the technology for producing a CFC-free refrigerator had not yet been developed, he said

(183)

BIDAY 26/7/87

Transfer to main board augurs well for Presmed

There was little fanfare surrounding Presmed's transfer to the pharmaceutical sector last Monday — something of a continuation of its low-key three-year existence on the DCM.

It was listed at an issue price of 30c a share in June 1986. It reached a high of 90c in 1987 before gradually slumping back to its current level of 35c. In its first week on the main board it did not manage to move above that level.

This situation is unlikely to last much longer.

The decision to transfer to the main board was presumably influenced by the desire to give it a higher profile, make it more tradeable and hopefully lift the share to a higher price range.

The move is also in line with the growth in Presmed, which was significant in financial 1987 and 1988 but spectacular in 1989.

In the twelve months to end-February turnover shot up from R5,4 million to R22 million. This quantum leap was mirrored by major changes in the balance sheet, chief of which was the sharp increase in capital employed from R5,1 million to R13,1 million.

Behind the growth in 1989 was the addition of two hospitals and four day clinics. On the income statement this resulted in a fourfold increase in turnover; it dragged margins down from 23 percent to 10 percent; boosted the interest bill from R116 000 to R914 000 and managed to generate an increase of only 33 percent at the earnings level.

On the balance sheet it necessitated the issue of R2,8 million of debentures and the raising of an additional R2 million in long-term loans (long-term liabilities were up to R3,9 million from R1,7 million).

This money was used to fund the R4 million increase in fixed assets — from R1,9 million to R6 million.

If the R4,5 million of intangible assets (represented by goodwill and undervaluation of assets acquired) is included, gearing is 70 percent. Taking the more conservative stance — i.e., excluding intangibles — gearing is a hefty 120 percent.

To an investor not familiar with the industry the changes may seem staggering. But management is not only comfortable with the developments, it is confident about the future.

183
Diagonal Street

ANN CROTTY



MD Carl Grillenberger says the squeeze in margins (historically around 20 percent) reflects the impact of the two additional hospitals, one of which was new and the other acquired as a going concern.

In the case of the latter, only the turnover was taken into the income statement. The acquisition package included the issue to the vendors of prefs convertible into ordinary shares when the hospital breaks the R1 million pre-tax profit mark. Until then profit goes to the vendors.

The hospital's profit is expected to break the R1 million-mark this financial year.

In the case of the new hospital, margins are expected to be squeezed until turnover builds up. Mr Grillenberger says it is necessary to get occupancy levels up to 60 percent to reach a break-even situation.

On the gearing front, Mr Grillenberger says he is quite comfortable even in the current interest rate environment. At this stage no acquisitions are on the cards for the current financial year, so cash flow should help ease things.

Although it will be a year of consolidation, management is expecting turnover in 1990 to increase to R30 million, with operating income up to about R3 million.

This seems on the conservative side. The increase in turnover suggests that there will be a significant improvement in occupancy levels. This points to an improvement in margins, despite the decision by medical aid schemes to grant private clinics 12 percent increases in the face of the industry's actual cost increases of 18 percent.

Presmed's decision to stay with the medical aid schemes reflects Mr Grillenberger's belief that critical to profitability is the need to boost turnover.

In addition, remaining with the schemes means a significantly lower bad debt experience.

SENTRACHEM

(123) Final 4/8/89

Turned around

Activities: Chemicals manufacturing
Control: Sanlam has ultimate control
Chairman: A J vd Berg, managing director J H vd Walt
Capital structure: 89,5m ords of R1, 26,0m pref ords Market capitalisation R809m (ords and pref ords)
Share market: Price 700c Yields 3,6% on dividend, 11,6% on earnings, PE ratio, 8,6, cover, 3,2 12-month high, 850c, low, 380c Trading volume last quarter, 1,3m shares
Financial: Year to March 31

	'86	'87	'88	'89
Debt.				
Short-term (Rm)	163	179	98	154
Long-term (Rm)	549	541	414	356
Debt equity ratio	1,34	0,92	0,56	0,53
Shareholders interest	0,27	0,31	0,43	0,38
Int & leasing cover	1,31	1,42	2,90	3,00
Debt cover	0,09	0,12	0,35	0,44

	'86	'87	'88	'89
Performance				
Return on cap (%)	8,2*	3,6	8,7	12,6
Turnover (Rm)	0,78	1,14	1,25	1,45
Pre-int profit (Rm)	63	64	160	223
Pre-int margin (%)	8,2	5,6	12,7	15,4
Taxed profit (Rm)	17,6	35,3	66,9	91,8
Earnings (c)	18,7*	47,1	64,7	81,1
Dividends (c)	nil	nil	20	25
Net worth (c)	456	439	582	582

* Annualised

Turning Sentrachem around has been no mean feat, but the task was essentially completed in the past financial year with several acquisitions, disposal of ballast and renewal

TRADING DIVISIONS

Profit Contributions (%)

	1988	1989
Plastics	22	28
Agriculture	20	28
Foodstuffs	23	21
Industrial chemicals	31	19
Mining chemicals	6	5
Rubber	(2)	(1)
Total	100	100

of existing operations

Most important was the sale of the Fedmis fertiliser interests to a consortium of competitors. The sale, five months into the financial year, resulted in a comparatively slow 15% turnover growth measured year-on-year. But strip Fedmis out of both years and turnover grew by 39% and pre-tax income by 42%. Those probably best measure the group's turnaround, particularly as it was from a comparatively high trading base.

Last year's 12,6% return on capital seems less than management would like, particularly as there were occasions in the Seventies when the return touched 25%. The next target is a 16% return needed to support further capital investment and could be within reach this financial period. This, however, will need a return to profits by the rubber division, which continues to generate red ink. MD Johan van der Walt does not express a view on when rubber profits are likely, but the aim is to develop new uses for synthetic rubber to improve crucial plant loadings.

Sentrachem aims to improve plant loadings by exporting 15% of its total production. That seems to be in contrast to AECI, which has no specific export volume targets and which allows exports to fluctuate depending on what capacity is available after satisfying the home market.

Equally as important as the trading and profit improvements is the continued balance sheet restructuring. Fedmis was sold for R230m, fractionally above book value and the cash used directed towards cutting debt and redeeming preference shares. Apart from anything else this enhanced balance sheet strength puts Sentrachem in a better position to expand and make acquisitions. Van der Walt reckons the consolidated

debt fixed capital ratio will be reduced to 0,41 from 0,471 at the end of the past financial year. And that, he says, will be despite planned capital expenditure of R240m.

Last year, the group bought out the minority shareholders in a couple of divisions and diversified into a new business by buying a 50% stake in an adhesives and resins producer. Simultaneously, several expansion projects were completed — a new chlor alkali plant was commissioned and the plastics division introduced new products.

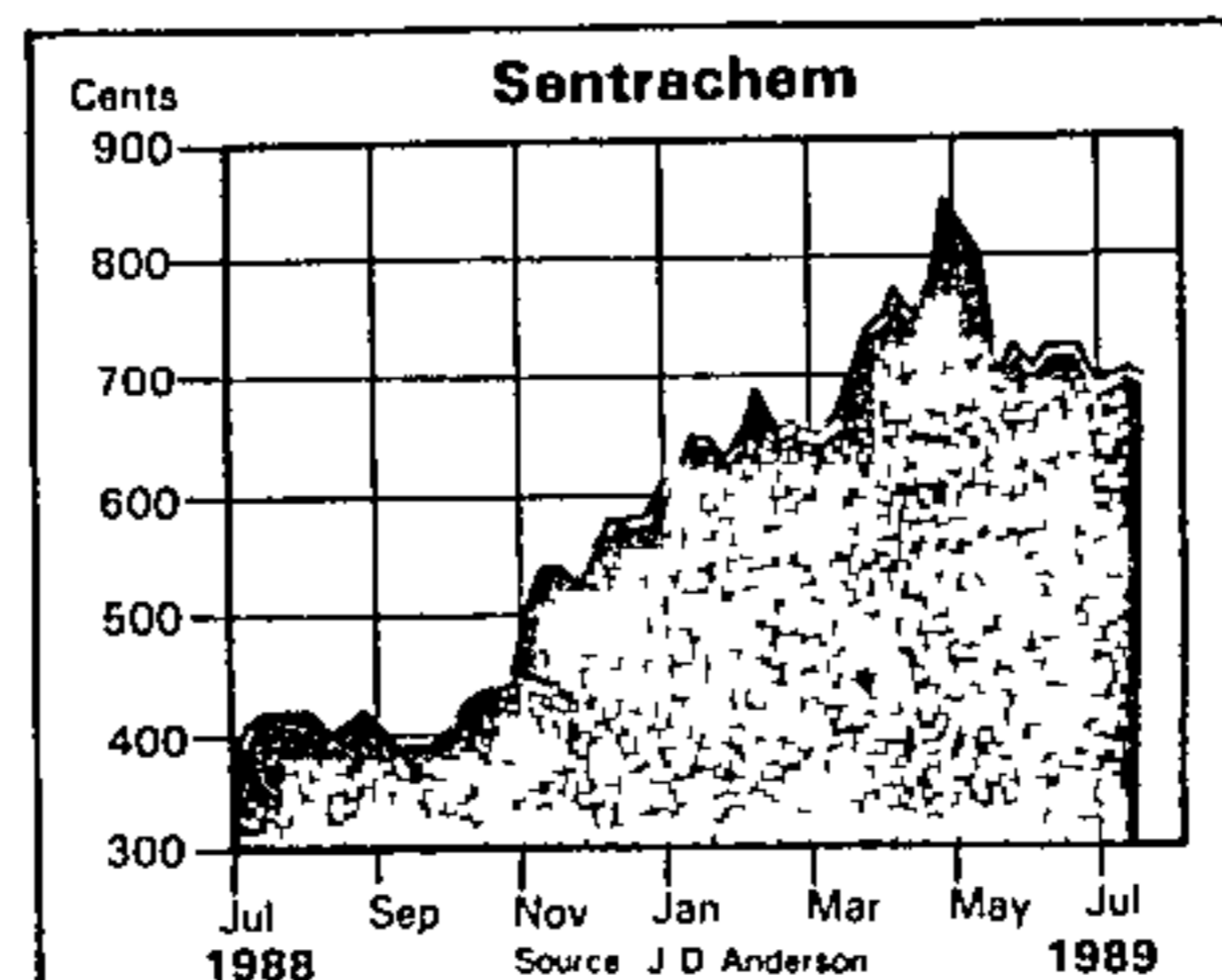
If return on assets reaches management's 16% target this year, cash flow will be more than adequate to fund expansion projects without any major deterioration in balance sheet ratios. That presumes dividends will remain covered at least three times. This year's earnings growth is, not unsurprisingly, expected to be less than last year's 35%.



Sentrachem's Van der Walt ... improving plant loadings

Nevertheless, a 20% increase is not out of the question, accompanied by a dividend increase to 30c. At 700c, the share is on a comparatively low forward yield of 4,3%, but it is a yield which recognises the improving utilisation of assets and the sounder profit potential.

Jim Jones



183 S/Times 6/8/89

Ethanol go-ahead

By Don Robertson

of 10% ethanol to petrol contains oxygen, combustion
helped to reduce the lead improves and carbon monox-
content. Because ethanol ide emissions are reduced.

A START could soon be made on a R100-million ethanol plant at Richards Bay if the SA Sugar Association (SASA) is given the long-awaited go-ahead this month.

Sugar barons are enthusiastic that the project will be approved.

The first report on the project was submitted to Minister of Economic Affairs and Technology Dame Steyn last September and the Government's decision was expected in the first quarter of this year. It was postponed to June, but John Chance, chairman of SASA, says a decision will be made this month.

The plant is vital to the planned expansion in sugar production caused by recent deregulation of the industry. The expansion is expected to create 13 000 jobs in KwaZulu and Kangwane where a mill will be built.

Without the ethanol plant, the sugar surplus would have to be sold on the volatile export market.

The plant would also result in an increase in production by small growers and open opportunities for newcomers. An additional R55-million a year could be earned by growers.

The ethanol plant could also produce cattle feed and fertiliser as a by-product.

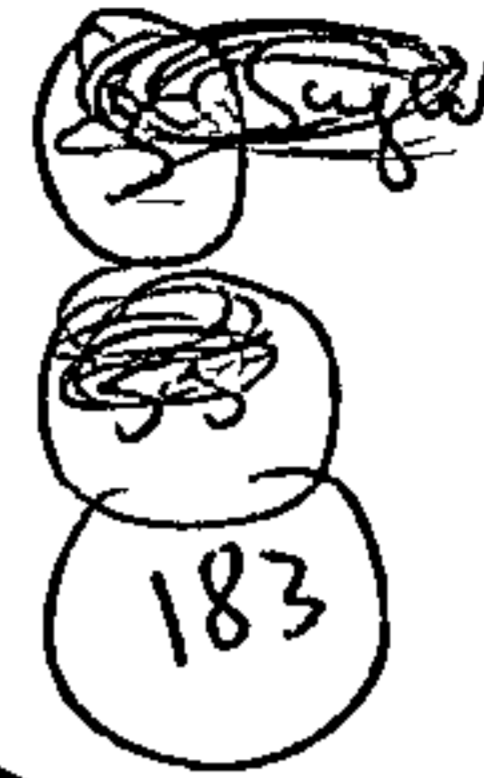
An independent environmental study will be done when the project is approved. The use of ethanol as a petrol enhancer reduces lead content. In America, the addition

Sugar-fuel

ster 9/8/89

on way,

says DP



DURBAN — The Government was planning to give the go-ahead for ethanol production from cane sugar from a National Party election platform, Mr Kobus Jordaan, Democratic Party Umhlanga candidate predicted last night.

If the Government does give the go-ahead for ethanol production as a petrol extender it could give the industry, which is already gaining from the increased international sugar price, a major boost

Full-scale ethanol production could provide as many as 25 000 jobs in Natal, kwaZulu and kaNgwane, Mr Jordaan said

Mr Jordaan said at a DP meeting in Stanger that people in the sugar industry were being told an "important announcement" would be made by Deputy Minister of Economic Affairs and Technology, Mr George Bartlett, at an NP meeting at Ginggingdhlovu in the heart of the sugar belt on August 15.

Mr Bartlett today declined to confirm or deny the claim

"We will wait and see if he is correct or not on August 15 He obviously thinks he has some sort of inside information"

Mr Renier Schoeman MP (NP Umhlanga) said he was not aware of what Mr Bartlett would specifically announce at the meeting but "I have asked him to deal with the industry

"Obviously he will be as up to date as possible He is the Deputy Minister in charge of the sugar industry and there will be

Own Correspondent

a tremendous interest in whatever he says"

Mr Jordaan said he would welcome the announcement but asked why the Government had not come to the aid of the sugar industry when it had been saddled with a R327 million debt as it had come to the aid of maize farmers who received a R400 million pay-out this year.

Elections

Mr Jordaan said the Government could not only announce sops to the voter from its R1 billion "petty cash" for the elections, such as announcements like an ethanol plant It should also spell out decisions on issues such as the final consolidation plans for kwaZulu.

● Plans to build a new R500 million oil refinery at Mutare are at an advanced stage, according to Zimbabwe's Energy Minister Mr Kumbirai Kangai

He said the refinery would have a bias towards diesel because of the high demand by industry and heavy transport

Mr Kangai said Zimbabwe may import power from Cahora Bassa if peace is restored in Mozambique

(Report by B Cameron, 85 Field Street, Durban)

Fred Whitehead unimpressed by listing benefits

By Tom Hood
CAPE TOWN — The list of disillusioned companies escaping from the stock exchange could include Fred Whitehead, a Cape painting contractor, analysts believe

Whitehead's share price has recovered to 17c after plunging to 10c last week

The shares were listed at 90c in November 1987

Asked if he was considering taking the escape route, chairman Mick Whitehead said on Wednesday "At the moment there is no firm action in that direction"

The long-established Cape business is not the only one to show no benefit from the money it raised for expansion by its listing

Only one dividend of 3,5c for the year to June 1988 was declared, but shareholders were offered shares instead of the cash so that the company could "conserve cash resources"

Mr Whitehead was frank in an interview about business in the past year "We have had a very difficult year from our troubles in the Transvaal"

Figures for the year to June are not available yet

Mr Whitehead said he would not like to make any forecast yet about the results, but said it was highly unlikely a dividend would be paid

The company reported a first-half loss of R753 000 after a R1,2 million taxed profit for the year to June 1988.

Referring to the plunge in the share price, he said very few shares were traded and it needed only a small number to affect the price dramatically

"Someone sold off 30 000 at a very low figure," he added.

Mr Whitehead also disclosed that Dreamcoat, acquired in 1987 after the listing, and one of the biggest painting contractors in the Transvaal, was to be closed down. The results had not met the profit warranties

"We are in the process of taking legal action. The Transvaal operation was getting out of hand

"We are not closing down the Marmaran business in the Transvaal

"Other operations are going well and we have very good order books"

8/20.11/8/84

183

183

Mossgas costs go up

Mossel Bay project to cost extra R1,3 billion

Own Correspondent

JOHANNESBURG — The Mossgas project is going to cost about R1,3 billion more than the cabinet budgeted for last year — but it won't affect the price of fuel, says the government. The Minister of Economic Affairs and Technology, Mr Danie Steyn, maintains the money to pay for the extra costs won't affect the fuel price or involve any disbursements from the Treasury.

But the Democratic Party's energy spokesman, Mr Roger Hulley, said the government should consider suspending the project and call for an expert review.

According to current estimates, the capital costs of the project, after the first offshore platform is installed, will be about R7,8bn, 20% higher than the escalated (money of the day) budget of R6,5bn.

The chief executive of Mossgas, Mr Bernard Smith, blames the increased costs to various factors including design changes, capacity increases, demand inflation, the weak rand and the rise in GST.

Engineering design improvements to increase fuel production and reduce operating costs account for R398 million of the R1,3bn increase. But the largest increase of R453m was due to inflation in the process plant construction industry, he said.

The estimated costs of the onshore base have increased 39% to R3,3bn, while those of the offshore base have increased 23% to R1,5bn.

Mr Smith says the rescheduling of project activities because of later delivery times of equipment and shortage of skilled personnel added R43m to the escalation figure.

Mr Hulley said a statement by Mr Steyn contained

a number of generalities, such as improved plant efficiency and project definition, which attempted to throw up "a fine-sounding smokescreen around the hard and shocking admission" that the Mossgas project costs had been underestimated by billions.

"Minister Steyn's statement does not alter my opinion at all that the Mossgas project is a shockingly bad economic decision on the part of the government," said Mr Hulley.

"My basic criticism is that the government is spending many billions to achieve oil production by a hugely expensive and complicated method at some five times the cost of ordinary refinery equivalent capacity."

Design changes

In his statement, Mr Steyn said the capital cost of the Mossgas project had increased as a result of engineering design changes, but there had been a corresponding economic pay-out in terms of higher revenues and reduced operating costs.

He said that more detailed engineering design studies show that the ability of the onshore plant's original production capacity has been increased significantly in order to optimally utilise the offshore gas resource at Mossel Bay.

The statement noted that "further factors which have impacted on project capital costs are cost inflation considerably higher than the increase in CPI in the engineering and fabrication industry both locally and overseas, the sharply deteriorating exchange value of the rand, improved project defi-

nition and rescheduling of project activities."

Mr Steyn said the current estimate of the capital cost of the project after installation of the first offshore platform was R7,8bn in escalated money values (money of the day), which was some 20% higher than the escalated budget figure of R6,5bn originally approved by cabinet.

"Provision has been made for funding of the additional expenditure in such a manner that it will not impact on the fuel price or involve any disbursements from treasury," Mr Steyn said.

The latest progress report on the project had been submitted to cabinet, Mr Steyn said.

In response to the question of Mossgas's commercial viability, Mr Smith says calculations which take into account the current 6c per litre synfuels levy show that Mossgas will break even with an international oil price at \$19 a barrel.

It will be able to make interest payments at \$12 a barrel and service its debt at \$15 a barrel.

He says the price of oil is expected to move around \$16 in the short term, but is likely to rise to \$19 or higher in the next decade.

These estimates are based on Mossgas's forecasts of future operating costs, exchange rates of the rand and world oil prices.

Mr Smith says it is hoped that the project would commence in the first half of 1992. At the end of July the total project was 30% complete.

However, the current cost estimate does not include the costs of building a second platform, included in original cost estimates.

Mr Smith says it may only become necessary to build this second platform in seven years time.

(Report by Z Ertel, 11 Diegenaal St, Jhb and B Steek, 122 St George's St, Cape Town)

18/8/89.

TWINS (183) *Small*

Entangled

Activities: Manufacturing pharmaceuticals, medical supplies and personal care products

Control: Premier Group has ultimate control

Chairman: S Krok, chief executive A Krok

Capital structure: 91m ords of no par value, 7m "A" variable rate red cum prefs of R1, 8m "B" variable rate red cum prefs of R1, 37m "C" variable rate red cum prefs of R1 Market capitalisation R214m

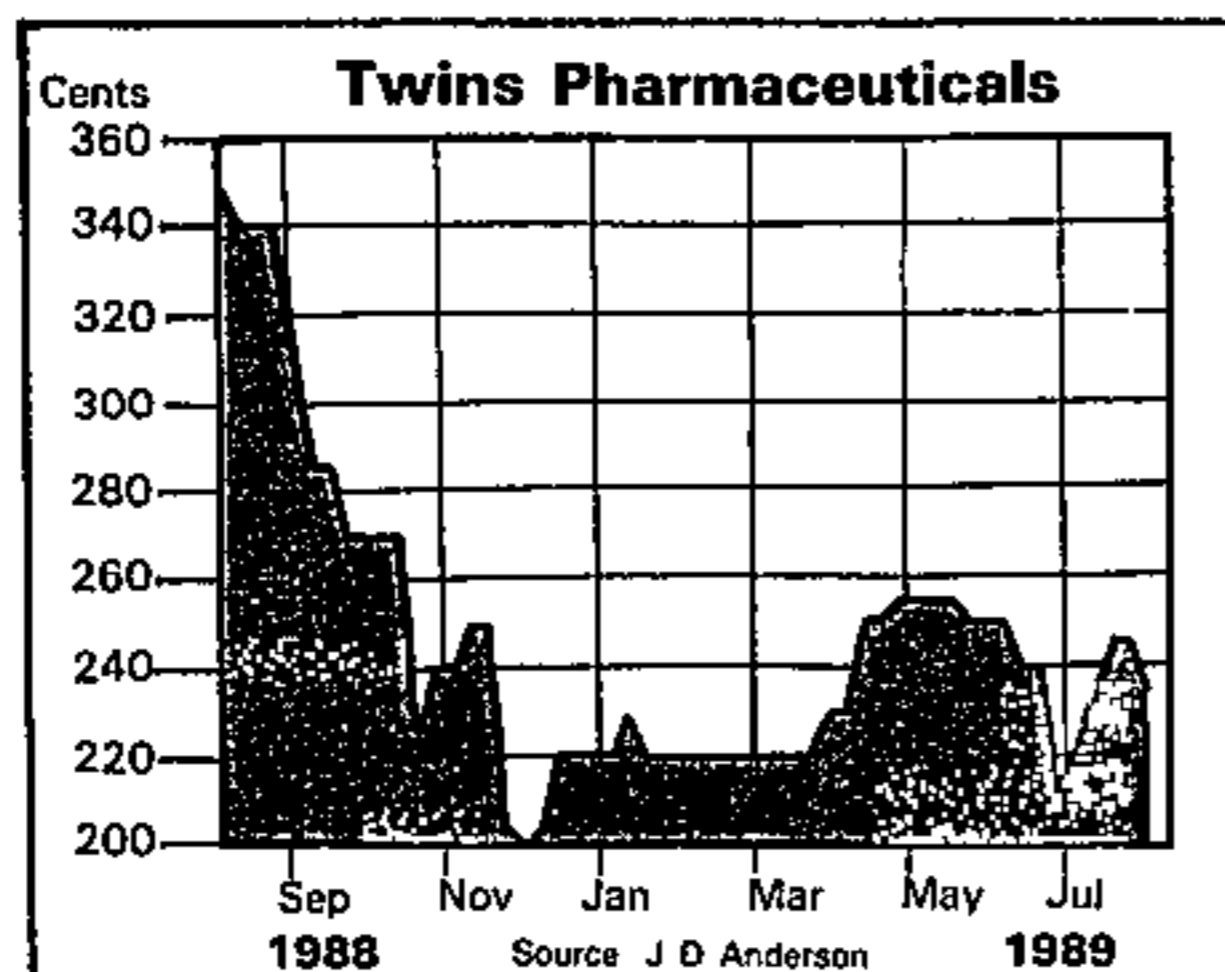
Share market: Price 235c Yields 6,0% on dividend, 15,4% on earnings, PE ratio, 6,5, cover, 2,6 12-month high, 350c, low, 200c. Trading volume last quarter, 20 585 shares

Financial: Year to March 31

	†'88	'89
Debt:		
Short-term (Rm)	8,9	8,2
Long-term (Rm)	26,4	63,7
Debt equity ratio	0,22	0,39
Shareholders' interest	0,53	0,48
Int & leasing cover	7,1	5,6
Debt cover	1,06	0,87
Performance:		
	†'88	'89
Return on capital (%)	16,1	21,0
Turnover (Rm)	134	426
Pre-int profit (Rm)	30,0	75,6
Pre-int margin (%)	22,3	17,8
Taxed profit (Rm)	19,1	41,8
Earnings (c)	30,7*	36,1
Dividends (c)	12*	14
Net worth (c)	164	168

† Eight months * Annualised

Twins' reporting leaves much to be desired. The balance sheet is convoluted — you get there in the end but have to unravel all the netting out of assets and liabilities explained in the notes and untangle the combination of long- and short-term debt. Nor do the Krok twins themselves do much to help shareholders evaluate the group. There are no divisional breakdowns of sales or profits, nor is there any statement of the group's prospects for the coming year. To cap it all, the annual report gives no details of the AGM's date and venue — the notice calling the meeting



is sent out separately

Essentially Twins, like many other pharmaceuticals firms, has plugged away at promoting its branded products. That, presumably, provides the best guarantee of margins. And it is probably needed if draft legislation permitting generic drugs is passed by parliament and prescription drug margins are clipped. Subsidiary Safimed, which suffered a profit drop last year, has negotiated agreements with foreign generic drug makers to manufacture new generics in SA.

The company has not yet come up with an answer to what some health authorities believe are the dangerous products it sells, such as skin lighteners. Twins counters that there has never been adequate proof that skin lighteners are dangerous if used correctly. Nevertheless, the company hopes to find alternatives to the hydroquinone contained in skin lighteners and believes reformulation of lighteners will result in tighter laws on hydroquinone having no effect on sales. But, with no divisional trading breakdown, it is impossible to estimate any possible effect.

Subsidiary Safimed, which is 51%-owned, was the main problem area. Its earnings tumbled 22% and its external borrowings increased to R40m from R25m. These are "temporary setbacks," the Kroks say, and are due to delays in rationalising and reorganising Safimed's businesses. Restructuring will continue this year and management hopes cost savings will offset the higher interest costs of financing the present level of operations.

The directors give no indication of this year's likely profit performance, but the market does not rate the share particularly favourably within its sector, though that is probably because the tightly-held scrip rarely trades. Presently, the shares are quoted above their 12-month low, but well below the high. There seems no compelling reason to expect a re-rating.

Jim Jones

SI Tues 20/8/89

183

Royal in merger

By Julie Walker

10c to 205c on Friday ahead of the announcement. It trades about 12 times fore-

cast earnings after the acquisition of Royal Beech-Nut from Nabisco.

ROYAL Corporation is to merge its Lovasz chemical interests with Holpro (K Holtz Holdings) to set up the largest distributor of pharmaceutical raw materials in Southern Africa.

The merger will double the size of Lovasz, which supplies raw materials for chemical manufacture. Lovasz was worth about R20-million in the balance sheet at February 28.

Holpro has been in business for 22 years. It is strong in finished pharmaceuticals and chemicals, and in medical and analytical laboratory instrumentation. Holpro also owns the agencies to several chemicals under licence.

Royal chairman Vivian Imerman says that although Lovasz and Holpro operate in the same sector, there is little duplication in customer and products.

At present Fedsure owns Holpro, and although the terms have not been made final, Royal will have at least 75% of the company as well as the management.

A listing will be sought for the new chemical and allied supplier in the chemicals & oil sector of the JSE.

No details have been given about the price paid, or about the effect the deal will have on earnings or net asset value of Royal.

Royal — which was renamed from Lovasz after the deal with Beech-Nut — shed

The rand's world value

	R1 equals		One foreign unit equals (R)	
	18/08/89	18/08/88	18/08/89	18/08/88
US \$	0 3612	0 4056	2 7682	2 4657
UK £	0 2316	0 2395	4 3171	4 1758
Deutschemmark	0 7100	0 7733	1 4084	1 2932
Japanese yen	51 84	54 20	0 0193	0 0184
Swiss franc	0 6126	0 6487	1 6324	1 5416
French franc	2 3977	2 6173	0 4171	0 3821
Canadian \$	0 4284	0 4988	2 3452	2 0058
Italian lira	510 08	571 75	0 0020	0 0017
Zimbabwean \$	0 7880	0 7560	1 2690	1 3227
Australian \$	0 4781	0 5043	2 0916	1 9828
Trade weighted value of rand, % change against 1974 base				38/38

Domestic interest rates

	MONEY MARKET		
	Friday 18/08/89 %	Friday 11/08/89 %	Friday 04/08/89 %
SARB accommodation rediscount rate TBs	17,00	17,00	17,00
Treasury bill tender rate	17,17	17,06	17 17
Basic call of discount houses	17,25	17,25	17 25
Three-month banker acceptances	17,35	17,35	17 40
Three-month NCDs	18,35	18,24	18,45
Three-year RSA stock	15 90	15 84	16,19
Prime overdraft rate	20,00	20,00	20,00
All-in yield of finest acceptance credits	18,34	18 34	18,40

	CAPITAL MARKET	
	SECONDARY MARKET	RATES ON MOST TRADED STOCKS
	Average Previous Month	As on Friday
Long-term RSA stocks	17,21	17,07
Long-term Escom stocks	17,21	16,98

Best sections this week

	Av % Mv	Av D/Y	Av E/Y
Curtailed Operations	53,8+	0 4	0,0
Diamonds	4 2+	3 4	11,0
Bevs, Hotels Leisure	3 4+	5,9	12 8
Printing & Publishing	3 3+	5,0	16,2
Pharm & Medical	2,8+	4,9	14,4

London gold

Overall market this week

(Ordinary Shares Only)

Min-Max Non-Min Total

Vile odours sweet for weed-killer Farm-Ag

By David Carte

THE trouble with Farm-Ag is that it does not understand gearing, says a stockbroker's analyst

The trouble with analysts is that they do not understand gearing, says Farm-Ag managing director Robert Maingard

The statements highlight a gulf in attitude and understanding between the Maingard brothers' roisterous agricultural chemicals company and brokers' and institutional analysts

Transformed

With turnover in the past six years jumping from R66,5-million to R153,6-million and big losses in 1984 and 1985 transformed into a pre-tax profit of R13-million in 1988, Farm-Ag is quite a company, notwithstanding the decline in earnings from R11,6-million to R8,2-million in 1989

The market balks at Farm-Ag's debt equity ratio of 1:5 and the fall in interest cover from 4 to 2. It also does not like earnings that go backwards, as Farm-Ag's did last year

But an unchastened Mr Maingard relates shareholders' funds of R49,8-million to the long-term assets they are funding — fixed assets of R34,7-million and investments of R15,5-million

Debt, he argues, is funding stocks and debtors

Accent

"I can understand concern if our stocks were high-fashion luxury items, but they are not," he says heatedly in his strong Mauritian-French accent

"The raw materials in stock are internationally tradeable commodities, and the finished goods are bread-and-butter lines for farmers. Without these chemicals, farmers cannot plant. Agricultural chemicals are more basic than food. Our stocks are like gold"

And the debtors?



ROBERT MAINGARD... don't bother about debt, our stocks are like gold

"Our debtors are the who's who of the chemical industry"

The other interests are designed to reduce seasonality, though, ironically, lawn mowers are also heavily biased towards summer

Capil, which makes electric, gas and paraffin heaters, does best in winter. This company was to have been listed before the great crash. Farm-Ag would have sold 40%, realising its own purchase price and keeping 60%, so the investment would be in the books at no cost

Disgusted

Most of Farm-Ag's non-chemical interests have a large market share. The M5 Group claims to be second in lawn-mower manufacture, and Hacks Group is No 1 in sock manufacture. Farm-Ag has 40% of Hacks and Nimian — "the bluest of blue chips"

Which is all very well. But when interest rates are 20% plus, debt of R65,5-million is inevitably going to whittle away profits and earn a company a lowly JSE rating, says the stockbroker's analyst

Mr Maingard is disgusted at the way investors are valuing a company which he founded in his backyard in 1956 and now formulates products for Monsanto, Bayer, ICI and other world chemical giants

He believes Farm-Ag has done well for shareholders,

raising net asset value from 75,2c a share in 1985 to 367,4c and paying 162c of dividends as well

Essentially, Mr Maingard is making the old industrialist's complaint about Wall St — financial types who understand nothing but their own crummy ratios will dump an industrialist and his finest investment projects all for one lousy quarter's earnings

I visited the plant at Canelands, near Verulam, Natal. It is all home-built. With the help of CH Wu of Taiwan, Farm-Ag can build chemical plant more cheaply than anyone else. It is thus able to ensure that capital investments pay for themselves in one to three years

The philosophy is to make products similar to those of the multinationals when their patents expire. The plant has a low-tech look. It comprises mainly mixing vats into which vile smelling liquids and gases are passed

Cheaper

What comes out kills weeds, grasses and bugs. About 85% of production is import replacement. Thanks to the rand's fall, Farm-Ag's products are a good deal cheaper than their imported equivalents

Quality is good enough for the multinationals which pay a fee for Farm-Ag to do formulation

Farm-Ag tries to keep off the turf of bigger companies such as Sentrachem and AECI. Few of its products clash with theirs in the market place. Recently it sold its wholesaling division to Staalchem, in which it acquired a 35% stake

Mr Maingard says Farm-Ag is not vulnerable to the economic climate in agriculture. It has made money in the most appalling farming conditions. In better times, when more marginal lands are planted, profits will improve — but he stresses that this is a stable business

Invulnerable

"Even after a drought, if a farmer wants to plant at the beginning of the next season, he has to buy our fumigants and herbicides. It is only towards the end of the season, when his crop is a write-off because of drought or hail, that he can stop spending on pesticides, etc"

Having moved into lawn mowers, socks, electric heaters, and toiletries, Farm-Ag has been criticised for losing focus. But Mr Maingard defends diversifications. All of them are aimed at import replacement

Because they are used on maize, sugar, wheat, vine and tobacco crops, agricultural chemicals are seasonal. Most sales are made in spring and summer

Most of Farm-Ag's non-chemical interests command large market share. The M5 group claims to be second in lawn mowers and Hacks is number one in socks. Farm-Ag has 40% of Hacks and Nimian & Lester holds 60%. Hacks is the proprietor of the Biogard green ring trademark, which allegedly prevents socks from becoming smelly

Potter & Moore is well known in specialised niches in toiletries and pharmaceutical manufacture and distribution

M5's Stiletto and Miracle mowers are well-priced, top-quality items and are moving well. Last summer there was plenty of rain, but not enough heat to get lawns growing

The import surcharge was a blow. There has been a swing from petrol to electric engines. As a result, M5 ended the year overstocked with engines

Optimistic

Mr Maingard and team are optimistic for M5 this year

Finally, there is a 23% stake in Bearing Man, the third biggest distributor of bearings in SA

The market seems to be concerned about whether Farm-Ag can make the transition from backyard operator to chemical major

Most of all, it is worried about the R67-million debt. The company is confident that by squeezing stocks and debtors it can bring debt under shareholders' funds of R50-million in the current year

Cash flow last year, excluding earnings of associates, was R15,2-million. In a crisis, the company could pass its dividend, saving R6,1-million

In addition, investments could be realised — so Farm-Ag's survival is simply not in question. Upside in the event of interest rates declining is enormous

At 270c, the share is 3,2 times last year's reduced earnings. The dividend yield is a fat 16,7% and the discount to net assets is 26%

The impression is that in a market that has lost sight of all but the blue chips, Farm-Ag is an absolute steal

Royal in deal

Star 2/1/87 Finance Staff 183

Royal is merging its chemical interests, which operate as Lovasz Chemicals, with those of K Holz Holdings (Holpro)

The basis of the agreement is that Fedsure Holdings, which has acquired Holpro, has agreed to merge the company with Lovasz to create a new chemical, pharmaceutical and allied raw material supplier which will seek a listing

The terms of the deal are yet to be determined, but Royal will have a minimum 75 percent controlling interest in the company, as well as day-to-day management control, with Fedsure acting as an institutional shareholder.

The deal will have no material effect on Fedsure's earnings or assets value. Until the terms are finalised, it is impossible to evaluate the effect upon Royal.

Nevertheless, Royal chairman Vivian Imerman is enthusiastic about the likely benefits

"Holpro is a highly respected company and its products augment those of Lovasz. Although both are in the same basic sector, there is relatively little duplication in customer and product spectrum between the companies" he says.

"The management and staff skills of both will combine to benefit the new group, forming a team of outstanding experience and proven track record"

Conf Times 22/8/83
Campaign now in factories

JOHANNESBURG. — The defiance campaign by the MDM has begun to surface in factories with workers coming out against alleged discriminatory policies practised by managements.

The Cosatu-affiliated Chemical Workers' Industrial Union (CWIU) said yesterday that hundreds of black workers at a Janssen Pharmaceuticals plant in Johannesburg had begun to defy a company ruling that they clock in when they begin their work shift.

"All workers who are obliged to clock in are black. The majority who work without clocking in are white. Our membership considers this to be a discriminatory practice and, therefore, is defying it," the union said in a statement.

However, management had warned CWIU members they face dismissal if they do not clock in today.

Janssen Pharmaceuticals could not comment immediately, a spokesman saying that only the executive director could deal with the issue. He was out of town. — Sapa

Go-ahead awaited on 'fuel from cane'

12645
31/8/87

(S) (183)
(S)

The Argus Correspondent

DURBAN — The government is expected to announce today the go-ahead in principle of a multi-million-rand ethanol-from-sugarcane plant at Richards Bay.

The Deputy Minister of Economic Affairs and Technology, Mr George Bartlett, was expected to announce the project at a lunchtime meeting of businessmen in Empangeni today.

The project, which will provide ethanol as a fuel additive and will have a major impact on fuel imports, is expected to get under way within a year.

20 000 JOBS

There was speculation earlier in the election campaign that the government would be announcing the project before election day.

It project is expected to create more than 20 000 jobs in Kwazulu and Kangwane.

This would mean additional jobs at milling plants as well as a major boost to small sugar-planters in the national states.

(News by B Cameron, 85 Field Street, Durban)

Ethanol nod to sugar industry a sweetener?

AKKUS 1/9/84 (1) (2) (3) 183

The Argus Correspondent

DURBAN. — The government go-ahead in principle to the sugar industry to produce ethanol as a fuel additive has been generally welcomed but a question mark has been raised over its political timing

The Deputy Minister of Economic Affairs and Technology, Mr George Bartlett, however, denied the announcement was timed to coincide with the election six days away

"I would have made the announcement in May if I could," he said.

He made the announcement yesterday on the Natal North Coast where the National Party has its back to the wall in both the Umhlanga and Umfolozi constituencies

The Democratic Party Umhlanga candidate, Mr Kobus Jordaan, welcomed the go-ahead

but said he found the timing typical of National Party attempts to buy voters

Mr Jordaan, who predicted earlier this month that the government would announce the project before election day, said it should not only make long overdue announcements like the ethanol plant

"It must also spell out what it intends doing about other major issues in Natal

"We challenge them to spell out their final consolidation proposals for Kwazulu

Single unit

"The Democratic Party sees Natal and Kwazulu as a single unit which must be reflected in second-tier government"

Mr Jordaan said the sugar industry had also been saddled with a R327-million debt which it had to solve itself

Against this, maize farmers had been bailed out of a R400-

million debt by the government

The National Party Umhlanga candidate, Mr Renier Schoeman MP, who attended the NP meeting where the announcement was made, said "I am delighted the government has taken a positive decision. It will have a dramatic effect on the economic well-being on large parts of Natal

"I am also glad that the government has taken a final decision because the uncertainty could have had a negative effect on the whole project"

He paid tribute to the supportive roles played by Mr Bartlett and Mr Stoffel Botha as the Natal Cabinet Minister

He said any allegation "that this is an election sweetener is petty and small-minded"

(Report by B Cameron, 85 Field Street, Durban)

● See page 13

183 1/9/89

This, with new products launched during the year, increased sales and market share. Turnover rose 26% to R23,8m and EPS 21% to 13,2c.

Dersley believes new technology, enlarged capacity, improved efficiency and a low tax base, mean that Darmag is well-placed to maintain the trend. The dividend was thus raised by 165% to 5,3c.

The operating divisions performed solidly during the year. In the plastics division, higher turnover was generated from both battery and electronic components, but the shift towards the use of plastic materials curbed demand for rubber products. Dersley says alternatives are being developed to replace capacity in this division. The engineering division benefited from growing demand for specialised plastic moulds.

However, the move to the Ciskei and lower product prices affected the balance sheet. With working capital up by R1,2m, bank borrowings were raised by R1,5m and gearing was lifted by year-end to 0,46 (0,34). Chairman Donald Buchanan says the mainly one-off costs of last year's strategic moves

DARMAG (183) Final

Relocation effects

Activities: Manufactures plastics, rubber and engineering products, primarily for the automotive and mining sectors, and sanitary ware.

Control: Directors hold 57,5% of the equity.

Chairman: D A Buchanan, managing director R Dersley

Capital structure: 22,15m ords Market capitalisation R18,8m

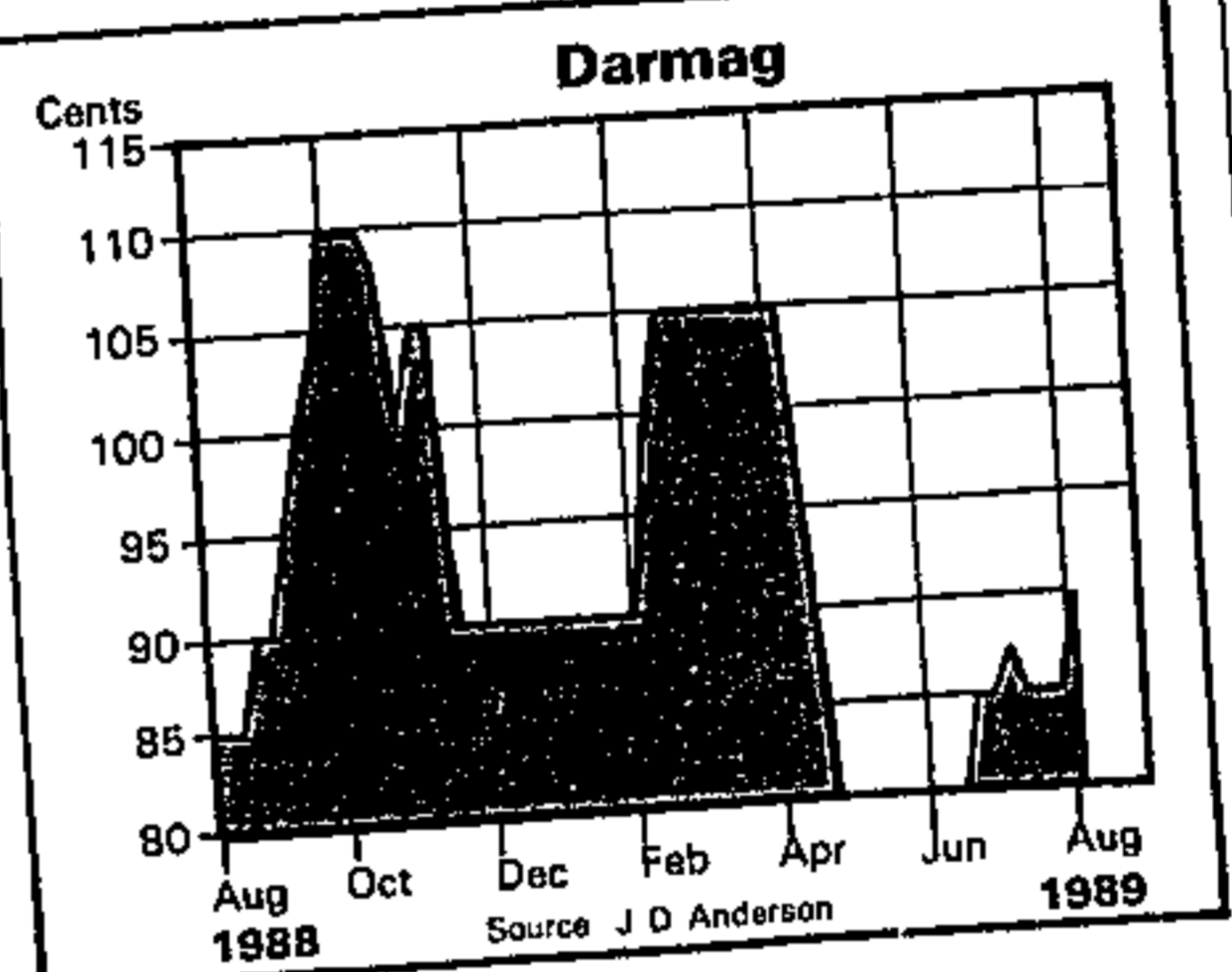
Share market: Price 85c Yields 6,2% on dividend, 15,5% on earnings, PE ratio, 6,4, cover, 2,5 12-month high, 110c, low, 77c Trading volume last quarter, 46 850 shares

Financial: Year to February 28

	'88	'89
Debt		
Short-term (Rm)	1,0	1,8
Long-term (Rm)	2,4	2,3
Debt equity ratio	0,34	0,46
Shareholders' interest	0,44	0,47
Int & leasing cover	7,9	7,0
Debt cover	0,88	0,91
Performance:	'88	'89
Return on capital (%)	20,1	21,8
Turnover (Rm)	18,9	23,8
Pre-int profit (Rm)	3,1	4,0
Pre-int margin (%)	16,6	16,8
Taxed profit (Rm)	2,4	2,9
Earnings (c)	11,6	13,2
Dividends (c)	2	5,3
Net worth (c)	32,3	39,2

Though Darmag's year to end-February was seen as one of consolidation rather than a chase for turnover, the group increased market share and returns on capital and equity. The return on equity reached 33,7%

Relocation of the factory to Ciskei improved operating efficiencies and enabled a reduction in prices, says CE Monty Dersley



should be worked out of the system in the new financial year.

The tax rate rose slightly, but remains of minor concern. The rate is only 14,4% (13,3%), mainly because of tax exemptions gained from the move to the Ciskei.

Buchanan says the group is well-placed to increase market share and launch new products. Positive earnings growth is expected this year. The share stands on a p e of 6,4 and looks worth watching.

Jacques Magliolo

M.L.W. 1/9/89

S.S. 183

Petrol from sugar by 1992 ?

The Argus Correspondent

DURBAN — Natal's new ethanol blend of petrol could be available at the pumps in January 1992, Mr John Chance, vice chairman of the South African Sugar Association, said in Durban yesterday

Welcoming the Government's approval in principle for the new ethanol project, Mr Chance said it would give a major boost to the deregulation process, help the industry to expand and directly create more than 14 000 jobs

It would "broaden and strengthen" the economic base of the mainstay of the economies of Natal, KwaZulu and the Eastern Transvaal. The announcement also gave a go-ahead for the proposed new sugar mill and other industrial expansion in the Eastern Transvaal

The R120-million distillery would be built near Richards Bay

at a site still to be determined and be owned by the Sugar Association itself. However the actual operation might be contracted out. Details of the financing of the project still had to be worked out

Mr Chance said while approval had been given in principle several practical decisions had to be taken in consultation with many bodies, including the oil companies, the Department of Water Affairs and the Department of Mineral and Energy Affairs

Product diversification to reduce dependence on the volatile export market could benefit the sugar industry. Fuel alcohol had been singled out as the only product with a market volume that could sustain substantial diversification. The ethanol project would provide an on-going renewable source of energy that could be maintained indefinitely

He said the industry had for

over a decade studied the use of ethanol in several countries and conducted field tests on local vehicles

These tests had indicated the use of ethanol would be beneficial to the environment, reducing pollutants like lead, hydrocarbons, smoke and carbon monoxide

Ethanol was a recognised octane enhancer

He said final technical aspects were still to be decided, but it was not likely engines would need adjustment to take the new ethanol blend, which probably would be sold mainly in Natal. Sasol's blends already were in use in the Transvaal, while Moss-gas products might prevail in the Cape

"We do not see any technical difficulties, as in the US all automobile manufacturers have extended their warranties to cover ethanol blends. Our plant will produce an extremely high grade of ethanol," he said

183 

Fighting discounts

mail

MDS Mediscor has been forced to postpone by one month the launch of its network of pharmacists offering cut-rate prescription medicines because of "considerable resistance" from wholesalers and other pharmaceutical interests, says MD Kosie van Zyl. The launch was set for Friday but will be delayed until October 1.

Mediscor has recruited few pharmacists in Johannesburg and the West Rand, where Van Zyl says wholesalers are exerting the pressure. However, it has built a strong network in Pretoria and the East Rand and among black pharmacists, he says.

As it happens, Van Zyl may have an unexpected ally — the Competition Board

1/9/89




D. van der Merwe

The board is considering charging wholesalers with breach of competition

Under the law, retailers receiving financial backing from a wholesaler can't be required to buy more than 50% of their stock from that wholesaler. Van Zyl charges that some wholesalers, who now supply up to 100% of the stock of some pharmacies, are threatening to cut off supplies to retailers who sign up with Mediscor. The board has referred the case to the SA Police, according to board chairman Pierre Brooks.

"There has been no other official complaint, but if a boycott of Mediscor pharmacies were shown to be taking place, it would be very likely that the board would find this to be a restrictive practice," Brooks says.

Albert Sachs, director of the National Wholesale Druggists Association, defends the wholesalers, saying they're obliged to

183  *mail* 1/9/89

supply any creditworthy pharmacist on the same terms as any other. Also, they may not supply a company such as Mediscor on better terms.

However, Van Zyl says Mediscor will be able to offer 20% discounts — even if it can't do business with wholesalers and manufacturers. "If we get additional discounts from wholesalers it will help us, but there is sufficient margin in medicine prices to cut prices anyway."

He says Mediscor will order from the 140 short-line wholesalers, who offer the most popular brands of medicine and buy direct from manufacturers, if the larger wholesalers do boycott his company. But Lex Tanenbaum, E J Adcock wholesalers executive director, says it would be "suicidal" for pharmacists to provide 20% discounts. "They are already working on a 6% net margin."

Boet van der Merwe, executive director of the Pharmaceutical Society of SA, says there is no ruling or recommendation from the society on membership in Mediscor. But he adds "Retailers must weigh the financial implications of any business arrangement before signing any contracts. If they offer discounts that are too large, it could drive them out of business."

He says the society opposes medical schemes that restrict a patient's choice of pharmacies. It makes its Medikredit system available to all pharmacies. "Patients are then able to vote with their feet and to go to another pharmacy if they are unhappy with the service. If they are restricted in the pharmacies they can go to, then they won't be able to do this."

Even before Mediscor begins operations, the mere threat of competition is lowering prices. Medikredit has increased its discount from 10% to 15% or more if Medikredit is used exclusively.

As SA Druggists MD Tony Karis says "Kosie (Van Zyl) has drawn the attention of the public to the cost of medicines. He could have stimulated a wave of discounting" ■

183 Fmwell 1/9/89

ROYAL GROUP

Equal to the task?

■ The potential is there for rapid expansion in highly rated industries

The rapid expansion of Royal — formerly Lovasz — and major support for it from institutional investors, indicates faith in the group's potential. It also signals that institutions are looking keenly for investment possibilities in smaller groups with high growth potential.

When Lovasz was listed in July 1987, the objectives stated in the prospectus included acquisitions. Many companies say the same, but Lovasz's industrial focus — chemicals — sported a number of foreign-held multinationals and there appeared to be excellent possibilities arising out of disinvestment.

Lovasz's acquisitions until its year to end-February 1989 were relatively minor. Not so since then. This year, on acquisitions made, or in the pipeline, it will be almost four times its size last year in turnover terms — more than R200m now, compared with R63m in Lovasz's latest year.

Effective from March 1, it acquired Royal Beech-Nut (RBN) for R45m, as part of the break-up of the American parent, Nabisco. In Lovasz's last year, RBN had turnover of R69m and taxed profit of R4,8m (compared with Lovasz's R4,1m). RBN acquired Manhattan, maker of confectionery products like gums and marshmallows, for R5,4m — apparently at the behest of RBN's SA management.

Acquired simultaneously and injected into RBN were powdered soft drink and jelly product ranges, Sweet Aid and Lushus, for R1,6m. Lovasz's existing small foods division, Trimpak-Crystallisers, was sold into RBN for R5m.

After placings and rights issues to raise a total R60,5m, primarily for these acquisitions, the group's name was changed to Royal and its listing transferred from the chemicals and oil board to industrial holdings. Royal shareholders are being offered a swap of their shares for shares in Royhold, a pyramid to be listed on September 11. The



Chairman Imerman ... a passion for business

group also intends to list Royal's existing divisions — chemicals and foods. Four listings for one group indicates a desire for big growth.

Last week, Royal announced the acquisition of the Holpro group, a former competitor of Lovasz, the price is still being finalised. Details about Holpro are also awaited, but its turnover is about R50m. The businesses of Holpro and Lovasz are apparently compatible — some products are identical — and the two have long been rivals.

Fedlife, one of Lovasz's original institutional backers, bought Holpro as an intermediate step. It will be paying the original vendors, the Holz family, but will take shares in the new, enlarged chemicals company (rather than in Royal).

Dennis Paizes, deputy GM of Fedlife's investment arm, Fedbel, says Holpro is primarily an importer and distributor of industrial chemicals, reagents and analytics (chemicals for testing water). He says Holpro's agencies are particularly valuable.

Lovasz is primarily a trader in chemicals, mainly imported. Its annual report describes its activities as distribution of chemicals and related products, packaging of foodstuffs and manufacture of speciality food additives and enzymes.

Observers say Lovasz is excellently managed and efficient, strong in distribution. Reputedly, it has major overseas operations from which the expanded group could benefit. In his chairman's review, Vivian Imerman deals with them in one sentence: "Our international operations continued to play an important role in the group's performance."

Lovasz's low tax rate last year (3,2%) may be partly attributable to overseas earnings. EPS growth in the past four years has been 33% (1986), 28% (1987), 62% (1988) and 28% (1989). EPS are forecast to grow at least 19% this year.

Pre-RBN, Lovasz's manufacturing activities were minor. Though management's record is good, it has not yet proved itself in this sphere — or shown it can handle large acquisitions.

However, all three acquisitions have capable, stand-alone managements. The deals were not the result of a search by Imerman — RBN and, through it, Manhattan became

available because of American withdrawal. The sale of Holpro was apparently accelerated because its founder, Kurt Holz, is ill. Imerman is not assuming the mantle of a new Jeff Liebesman, who has built up a conglomerate with big takeovers. Lovasz's acquisitions have been largely in compatible product areas.

With Holpro, Royal's turnover will probably be about 55-45 chemicals to food. The purchase of RBN has been criticised for being at a higher price than any other bidder

was willing to pay — and they included some powerhouses in the SA food industry. The bids are not known because of a secrecy clause, but a deciding factor for the vendor was apparently that Imerman undertook not to rationalise the company and its staff.

The pro forma price earnings ratio was about 10, but that included major write-offs which appeared stretched (Fox August 11), on a more conservative basis, it would have been 13-16.

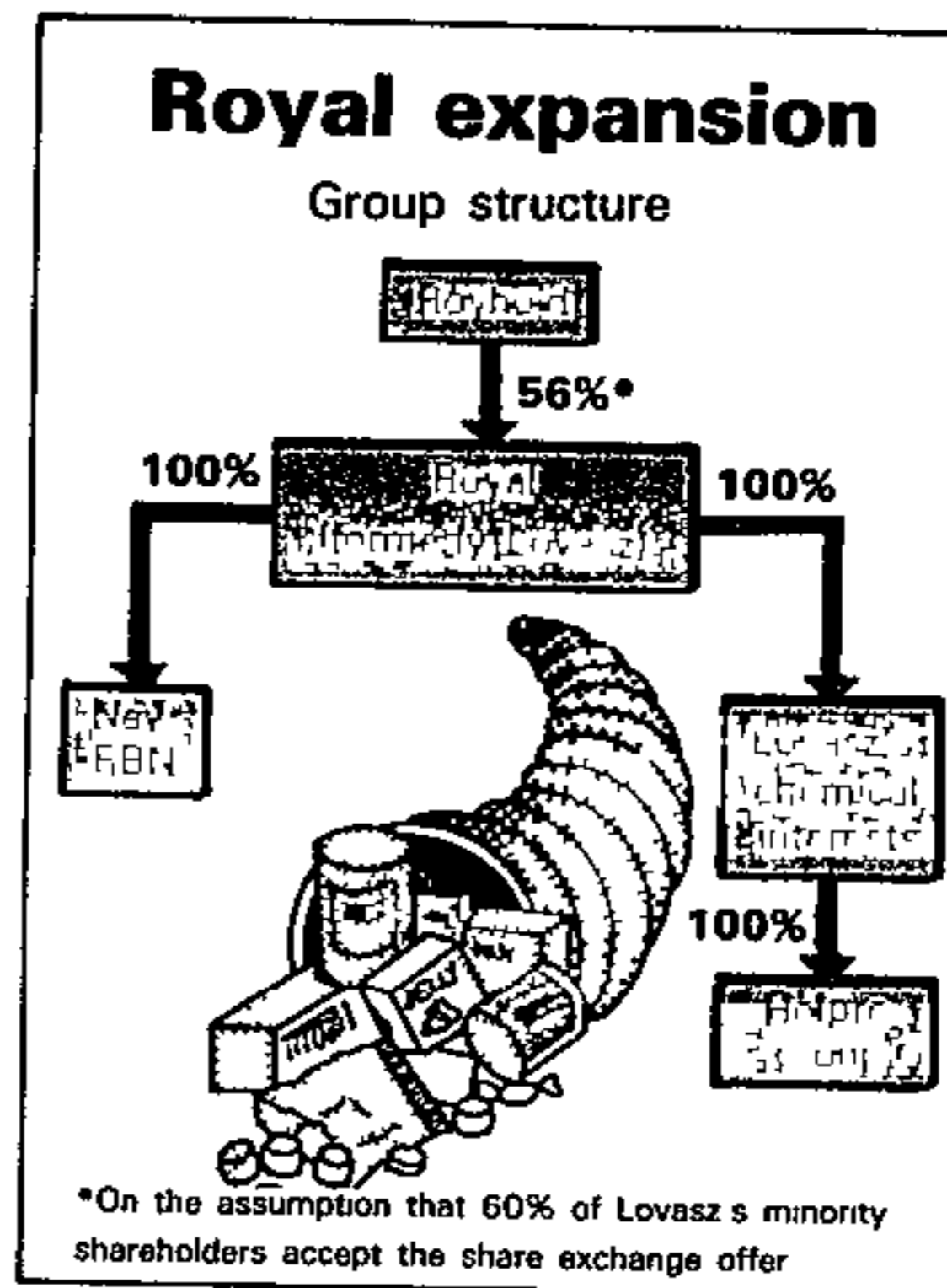
Much of RBN's machinery is old, but many

factories do well on old machinery. Efficiency often depends on quality of maintenance. RBN's leased factory appears full to capacity. Its machinery is not always on double shift, and there is scope for more shifts. But if RBN's products have the market potential claimed, additional capacity will be needed. RBN has benefited from synergies with Lovasz, particularly cheaper imported feedstocks and in rationalised distribution, and could gain particularly in exports.

RBN's price may have been high, yet it may yield well long term. RBN's main potential appears to be marketing and product innovation ability (R26,5m of the R45m purchase price was for trademarks). Its brands have great market strength. Royal Baking Powder was used in the Great Trek (more recent names like Super C, Bubble Yum, Lifesavers and Beech-Nut Rolls definitely were not).

And the brands have a particularly high penetration in the growing black market. RBN MD Dough Johnston says under SA ownership RBN is scaling new horizons in marketing and export.

The Holpro price is likely to be much more favourable than that paid in the auction of



(123)

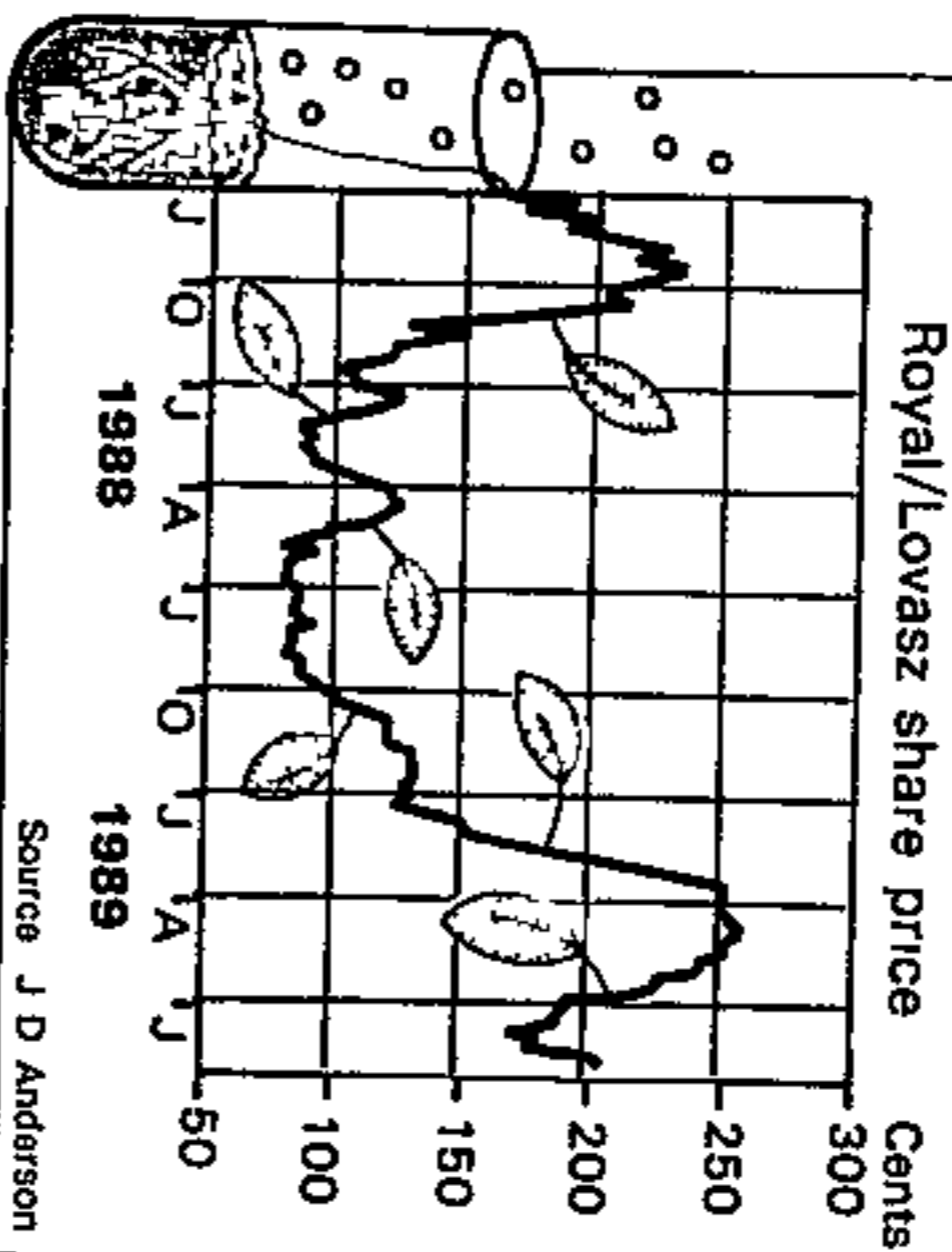
RBN Though Holpro's management will stay, there will surely be some rationalisation of distribution and other facilities — so the immediate synergies may be larger than with RBN. On limited information, Holpro seems an unequivocally favourable acquisition.

Even so, the support of institutions — among them Old Mutual, Sanlam, Fedlife, Sage and Metboard — is surprising. In the recent Royal funding exercise, they took up about R40m in "acquisition shares" (effectively a private placing) and in following the rights offer as minorities. They have also agreed to arrangements ensuring the Imermans retain control, though they will, collectively, hold about 50% of the group pre-Holpro.

One reason for their support is that the group is in both the highly rated food sector and in strategic chemicals, where the entry threshold is difficult. The institutions must also be convinced that management is equal to its new task.

Imerman (33) is young but not inexperienced. He began working in Lovasz at 18 and has not left it since. His father, Samuel (63), who bought Lovasz in 1974, is MD. Vivian can be skittish of publicity (he

Chemistry for growth?



Source: J D Anderson

would not be interviewed for this article, he says, because of the Holpro deal), but has a passion for business. He acts quickly, though reportedly only after considerable thought. Other members of the Lovasz board are experienced and qualified.

Paizes says that when Fedlife first invested in Lovasz it was one of three smaller groups identified as having growth potential over five years. "We cannot continue to just buy De Beers and Barlows," he says. The investment was not costly, the group is strategically placed, and he is confident that

Forward 1/9/89

management in the acquisitions has depth. He is not concerned that a high price may have been paid for RBN — long term, it should be valuable. After the listing, but before that of Lovasz, Fedlife will have about 7.5% of the group.

Another fund manager involved echoes these views, he expects above average growth from the food and chemicals sectors and Lovasz's involvement in both spreads the risk. A third manager says his only question was whether Imerman was not extending himself too far — though he had so far ensured acquisitions had good management. He says blue chips no longer offer good value and any fund manager wants to identify a Waltons or Pick 'n Pay early. Institutions had been able to obtain significant stakes, but he says he would not advise individuals to buy Royal over 200c.

Royal recently rose to 220c, where on its forecast earnings of (not less than) 18c this year and the dividend cover of three last year (3.6 in 1988), it was on prospective earnings and dividend yields of 8.2% and 2.7%. That rating seems optimistic, but the counter could be considered on weakness.

Teigue Payne

Ethanol project will bring benefits to community

12/15/83
183

By BRUCE CAMERON, Political Staff

THE proposed R112-million ethanol from cane sugar plant announced yesterday by the government is small by comparison with the mighty and controversially expensive R7,3-billion Moss gas project

Apart from the huge amount taxpayers will have to shell out on Moss gas the ethanol project will far wider direct benefits and will also give the important sugar industry in Natal and the eastern Transvaal a more stable future

Despite the obvious timing of the announcement to glean maximum political capital there is no doubt that the project will bring many benefits particularly for low income group blacks

There is however likely to still be a debate on its economic viability as the ethanol will be more expensive than the current price of refined petroleum

Unlike the Moss gas project which will employ a mere 1 200 people when it is on stream the ethanol project will provide an estimated 20 000 people with work at a incredibly lower job per Rand cost

This Mr George Bartlett, deputy Minister of Economic Affairs and Technology, says is one of the major reasons for the go ahead for the project

Mr Bartlett, himself a sugar farmer and former chief of the Illovo Sugar company, said in an interview that the whole project had undergone a major investigation over two years before the green light had been given

Initially the idea for the plant came from the sugar industry which was battling under a collapsed international sugar price

Farmers were feeding cane to cattle and digging out their fields and planting timber

Mr Bartlett had just been appointed

deputy Minister and was involved from the start

The issue was referred to a group of accountants who were already involved in sugar as the government-appointed agents who assessed the then fixed price of sugar

The accountants were also involved in the setting of fuel costs for the government

They found the project "looked hopeful"

By then however the government had appointed the National Energy Council and it took over the investigation

The Council felt the project was too small to warrant serious consideration against synthetic fuel projects like Sasol and Moss gas

However it did see that there were socio-economic benefits

Mr Bartlett said at the same time he was working on the deregulation of the sugar industry

There were a number of objectives in deregulating the industry

The first was to allow easier access to the industry, especially smaller farmers and mainly small black farmers

The entry to the industry had been restricted by the quota system that had been introduced to limit the production of sugar cane following price slumps

There were also considerable problems over the transport of cane to mills in which there were many expensive anomalies. The only way to straighten out the anomalies so that no one lost was to increase production

The third problem was the under-utilisation of many mills including the huge and modern Felixton mill. The under-utilisation was adversely affecting price structures

The problem with increasing production to solve the three problems

was the uncertainty and riskiness of the international market

The risks were caused by sanctions with South Africa having already lost markets in the United States and Canada and wildly fluctuating prices

Price fluctuations have become far more marked as result of European production from sugar beet with substantial subsidies being paid and surpluses being dumped at a loss on the international market

The practise has not only affected the efficient South African sugar industry but knocked many third world countries out of the industry altogether

Mr Bartlett said the answer was clearly ethanol. Ethanol production would increase the production of sugar from its current 2,2-million tons by an additional 300 000 tons

Then there was the additional benefits of being able to create extensive labour opportunities particularly for blacks

Unlike the other synthetic fuel projects there was no demand for high technology and skills in providing the jobs and the technology was there.

Mr Bartlett said the Government had no intention of going into cane sugar synfuel in a major way such as Brazil, which was 100 percent on ethanol

Although the production was small in comparison to the Sasol and Moss gas projects, the ethanol plant would make a contribution towards meeting the government's target of making South Africa 40 percent self-reliant

Mr Bartlett emphasised the project was fully privatised with the South African Sugar Association, which was a co-operative of growers and millers, constructing the plant at Richards Bay

"The sugar industry is one of the most self-sufficient and self-regulating industries in the country"

ENERGY

Fuel prices: Shock report

w/k ARGUS 2/9/89

183

Political Staff
A BOMBHELL report of a government-appointed committee, opposing petrol price increases, has been deliberately suppressed by the government while it pushed ahead with three increases — including one to pay for rises for civil servants

The committee warned nine months ago that consequences of a rise could include an increase in unrest and that the inflation rate would be pushed up 30 percent for a 10 percent increase in the fuel price, which could disrupt the entire economy

The results of the investigation have been leaked to Mr Roger Hulley, Democratic Party energy spokesman

The top-level committee was headed by Professor G L de Wet, professor of economics at the University of Pretoria and a number of government departments and institutions were also involved. Professor De Wet was not available for comment last night because he was on a return flight from Paris

However, he said today the report in the early edition of the Weekend Argus was a "total distortion" and he regarded the matter "in a very serious light"

He said his department had

been involved in an investigation for the National Energy Board, but the investigation, which had been publicly announced, had not been completed and had "nothing whatsoever" to do with politics or the election. He denied there was a committee involved headed by him.

Mr Hulley said that in the light of the findings of the committee that the last three price increases could only be described as "reckless"

Bad state

The fact that the government had pushed ahead with the increases in spite of the dire warnings of the committee indicated that the economy must be in an even worse state than the DP had been warning

The committee advised

- For blacks, expenditure on fuel and fuel-driven transport was becoming more important and could become a reason for discontent

- An increase of 10 percent in the fuel price could "give rise to up to 30 percent inflation over a period of two to three years," which could "ultimately disrupt the whole economy. An increase in the price of petrol is a typical shock which gives momentum to the wage spiral and keeps it going"

(Report by B Cameron, 85 Field Street, Durban and F S Esterhuysen, 122 St George's Street, Cape Town)

BIBury 7-19-89

183

Economic downturn dents Kemtrade profit

THE costs of high borrowings and the economic downturn dented Kemtrade's profit growth in the six months to June and are expected to affect the group's earnings for the full year.

The budget toiletries, pharmaceutical sundries and cosmetics manufacturer and distributor's attributable profits fell 33% to R151 000 (R228 00), equivalent to earnings of 1.2 (1.8c) a share.

No interim dividend has been declared in line with the group's policy to pay one dividend at the end of the financial year.

ZILLA EFFRAT

Financial director Alec Levy says sales were slightly below budget, with the trading environment being fair, but affected by the economic slowdown.

However, on a turnover growth of only 19%, operating profits jumped to R440 000 (R295 000) as margins improved in certain of the group's operations.

The interest bill rose to R174 000 after the positive interest received balance of R10 000 in the previous interim period.

Total interest-bearing debt jumped 198% to R4m (R1.3m).

Levy says borrowings increased to finance the group's investment in Herbal Cosmetics and Read Optical, as well as increased debtors and stock.

The group's tax rate increased to 34%, from the 25% enjoyed in the previous period as the result of an assessed loss in a subsidiary, says Levy.

Goodwill of R928 000 in the balance sheet relates to the group's acquisition of

Cosmopolitan Cosmetics and mainly pertains to the Mary King, Three Flowers and Tricks trademarks.

As the group is strong in the gift market, earnings are traditionally higher in the second half. This trend is expected to continue.

However, in the light of the higher costs of borrowings and expected downturn in the economy, Levy says earnings may not match the 6.2c a share achieved in the previous financial year.

Mynkar battles adversity

Steer 8/9/89

Finance Staff

183

Mynkar, which makes, sells and hires out portable toilets, had a 12,5 percent rise in pre-tax profit to R2,5 million for the 12 months to June

A dividend of 3c a share has been declared

The increase was achieved from a 57,6 percent rise in turnover from R11,9 million to R18,8 million.

Group CE Peter Brown says profits failed to match turnover growth because of inflation, tax and fuel price increases.

He says cash resources were further strained by higher GST payments and Regional Services Council levies

He adds: "No matter what the authorities say about inflation being in the mid-teens, raw material components in our factories increased by 23 percent in

the first six months of this year

"Taking all these factors into account, I have come to the inescapable conclusion that companies such as ours, which strive for excellence, profitability and growth just cannot finance their increasing market share by means accepted as the norm in the Western — by making honest profits and paying reasonable taxes"

While hiring out toilets still forms a very important part of the operation, emphasis is being placed on expanding the sale of other sanitation equipment from the Isithebe factory and modular buildings from the Fiberform division

Mynkar has set up two offshore toilet hiring companies, which are expected to generate significant export revenue in financial 1990, with offshore dividend income starting to flow in 1991

183 Menell
8/9/89

CONSOL

From glass to tyres

Activities: Manufactures glass, plastic and paper packaging, plastic sheeting and glass tableware and processes industrial minerals

Acquired Goodyear Tyre & Rubber on July 1

Control: Anglovaal Industries holds 55,4% of the equity The ultimate holding company is Anglovaal Holdings

Chairman: C S Menell, managing director P J Neethling

Capital structure: 64m ords of 5c Market capitalisation R864m

Share market: Price 1 400c Yields 2,4% on dividend, 7,3% on earnings, PE ratio, 13,7, cover, 3,1 12-month high, 1 500c, low, 542c Trading volume last quarter, 374 606 shares

Financial: Year to June 30

	'86	'87	'88	'89
Debt:				
Short-term (Rm)	11,7	8,3	3,7	7,5
Long-term (Rm)	39,3	22,8	18,2	63,2
Debt equity ratio	0,42	0,14	n/a	n/a
Shareholders interest	0,43	0,47	0,50	0,45
Int & leasing cover	5,0	9,3	7,48	n/a
Debt cover	0,95	1,75	3,0	1,3
Performance:				
Return on cap (%)	18,0	21,2	23,2	20,5
Turnover (Rm)	403	504	637	738
Pre-int profit (Rm)	51,6	63,9	96,3	120,8
Pre-int margin (%)	12,8	12,4	15,1	16,4
Taxed profit (Rm)	25,1	30,4	51,7	65,4
Earnings (c)	40,4	48,4	81,5	102,3
Dividends (c)	15,0	17,5	27,0	33,0
Net worth (c)	204	224	280	352

About five years ago Consol was essentially a glass manufacturer. That changed when the group moved into other sectors of the packaging industry and invested in manufacture of plastic and paper products. The recent acquisition of Goodyear Tyre & Rubber resulted in a further, much more radical diversification.

One thing is not expected to change. Consol has long been a strong cash generator. That was a major reason why the group was chosen, among the companies in Anglovaal Industries, as the vehicle to acquire Goodyear. Another reason was that Consol is considered to have limited scope for acquisitions in the packaging sector.

Goodyear's latest published accounts show that it has similarly strong cash-generating capabilities. If profitability can be held even close to the levels of the year to December 1988 then, once the takeover is digested, Consol should remain cash rich.

The deal took effect on July 1 so Consol's accounts for its year to June show the position immediately before this occurred. The pre-interest return on sales was 16,4% and the return on total capital employed was 20,5%. With depreciation held around R22m, gross cash flow totalled R90m.



Consol's Neethling ... targeting market share

(R66m) The total interest-bearing debt at June 30 — including R30m of the R50m in redeemable prefs raised to help fund the Goodyear deal — was R101m (R21,9m), matched by cash balances of R172,2m (R55,3m). The result was a net cash balance of R71m (R33m).

The take-over circular shows that in the year to December Goodyear produced pre-interest income of R63,9m on turnover of R410,8m, with a trading margin of 15,6%. Total capital employed amounted to R93,1m, with no borrowings. The pre-interest return on total capital (including current liabilities) was about 42%.

MD Piet Neethling says the US parent had been taking as much out of the company as possible, and the deal included payment to the seller of the dividend for the period to end-June. This may explain the cash balance of only R619 000. In the six months to June, operating income of R46m was achieved on turnover of R240,4m, giving a margin of 19,1%. Neethling says that Goodyear's profits will be lower in the second half, a major reason being the nine-week strike, which this week remained unresolved.

Before the strike production was running at capacity but in July output fell as low as 30%, and sales were being made from stocks. Production has since been lifted to 60%-70% and Neethling says there are signs the strike could be ending.

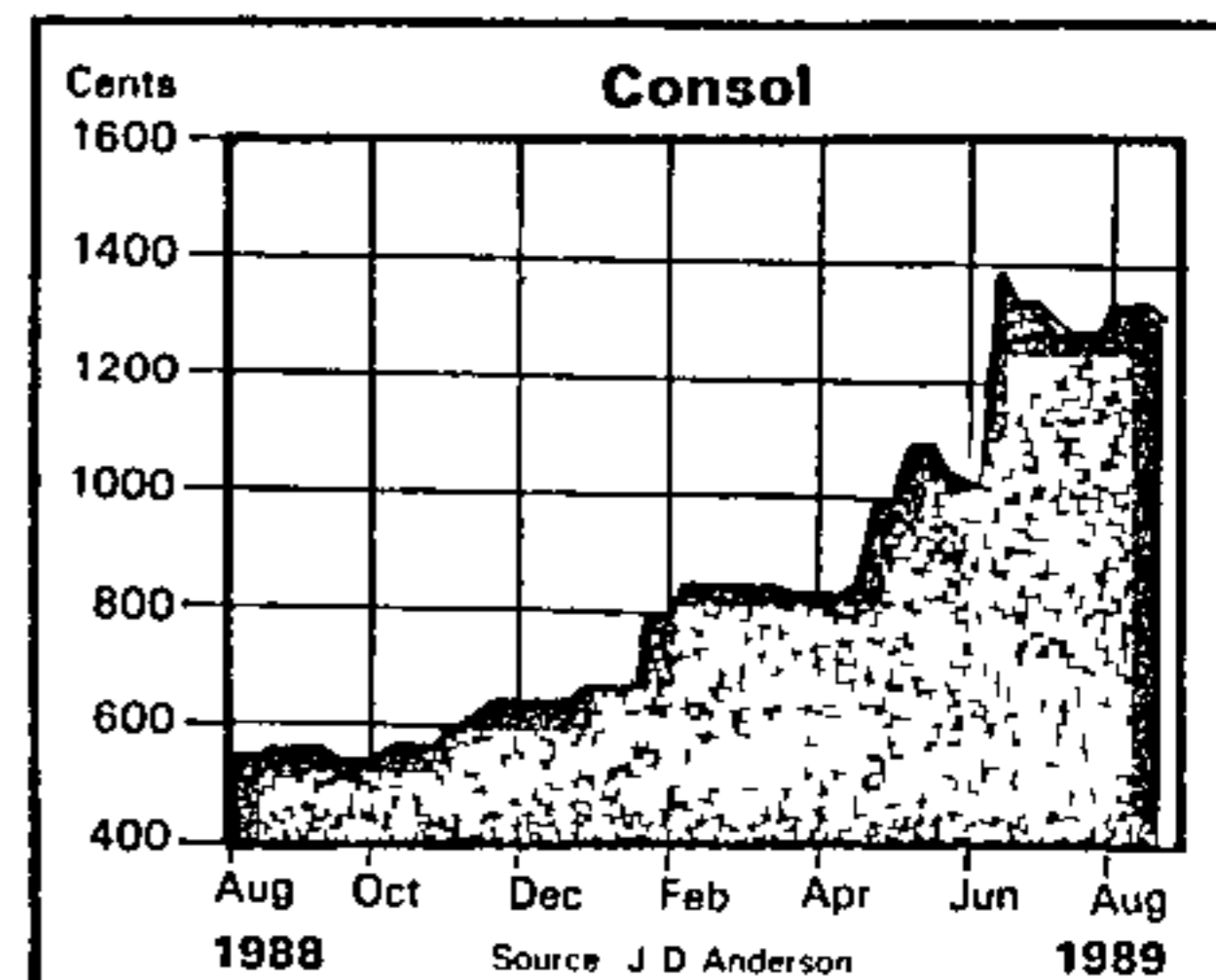
The acquisition has also resulted in Goodyear paying higher royalties to its former US parent. Previously these were charged at a nominal level. Neethling declines to quantify the royalties, he says they have doubled but remain industry competitive.

Even when Goodyear is over the strike, its trading margin could be thinner. But the

interest cover should remain adequate and a marked benefit for Consol's earnings is expected. Chairman Clive Menell says that, had Goodyear been consolidated with Consol for the 12 months to December, EPS would have increased by 21%. The increase would have been greater had the relevant period been the year to end-June.

Effects on Consol's balance sheet will depend on the treatment of goodwill. On Goodyear's 1988 profits, the R176m purchase price translates to an inexpensive p/e of about 5,7 times. However, the price includes computed goodwill of R76m, which Consol intends to retain as an asset.

The *pro forma* balance sheet, incorporating the acquisition had it been in place at December, shows interest-bearing debt (including R50m redeemable prefs) of R174m against shareholders' interest, after deduction of goodwill, of R136m, cash is not shown, but I'm told it was R33m. The *pro forma* net tangible asset value per share is 213c, 36% below the actual 332c at December 31. The circular states that the gearing on the *pro forma* balance sheet "takes no account of the cash generation within the



Royal Group Holdings to be listed today

183

11/9/87 Finance Staff

Royal Group Holdings (Royhold), the pyramid company of Royal Corporation (Royal), makes its JSE debut today

Royal Corporation holds a 100 percent interest in Lovasz Chemicals and Royal Beech Nut, which are major operators in trading in strategic chemicals and pharmaceuticals and the manufacture, marketing and distribution of confectionery and dry groceries

Shareholders in Royal were recently offered the opportunity to swap their shares in Royal for those in Royhold on a one-for-one basis

Expected share price

The Royhold share price is accordingly expected to settle at around the same level as Royal's, currently priced at about 175c a share

Holder of 35,128 million shares accepted the offer, giving Royhold a 52 percent stake in Royal

On that basis, Royhold will consolidate Royal, whose earnings are expected to be about 18c a share for the financial year to February 1990

With a dividend cover policy of around three times, Royal will distribute about 6c a share, which Royhold, being purely an investment company, will pass on to its own shareholders

On those figures, Royhold shows a forward P/E ratio of 9,7 and a dividend yield of 3,4 percent

Ciba-Geigy steps into Canadian takeover battle

Star 13/9/87

183

LONDON — Ciba-Geigy, the Swiss chemicals and drugs company, has moved to take control via a US joint venture of Connaught BioSciences, a leading Canadian vaccines maker, in a move which could lead to a new shake-up in the world pharmaceutical industry

The Swiss company, the world's fifth biggest medicines group, has offered \$652 million to buy Toronto-based Connaught, which is among the top three North American vaccines producers

The deal would be effected through JV Vax, a US joint venture between the Swiss company and Chiron, a small Californian biotechnology group with which Ciba-Geigy has a number of collaborative research programmes

However, Connaught is already the target of a rival proposal from Institut Merieux, a vaccines maker controlled by Rhone-Poulenc, the French state-owned chemicals and drugs group. Institut Merieux has proposed merging with Connaught in a share swap

Connaught shareholders are due to vote on this deal on September 28, and Ciba-Geigy said its offer would be conditional on them rejecting the French bid

A takeover of Connaught would continue the recent series of drug-industry mergers involving some of the biggest companies in the business

In the past few months, the UK's Beecham has joined forces with SmithKline Beckman of the US while Squibb and

Bristol-Myers, both of the US, have linked. A further merger has been between two other US companies, Merrell Dow and Marion

Under the terms of the proposed deal, Ciba-Geigy would provide most of the cash for the Connaught acquisition, but over several years Chiron would be able to provide share capital in the new venture

Ciba-Geigy said a merger involving its US joint venture and Connaught would create a beautiful marriage. It said the Canadian company, which specialises in vaccines for influenza, diphtheria and whooping cough, would provide development and marketing skills which would complement the research ideas of Ciba-Geigy and Chiron

Ciba-Geigy and Chiron are working on a number of new vaccines using new techniques in genetic engineering. These products could be used against diseases including malaria, herpes and AIDS.

The two groups have also formed a joint company to develop and sell vaccines. So far this company, called Biocine, has no revenues

In recent years Ciba-Geigy, like many other large European drugs companies, has been keen to expand in North America. Yesterday it said that if the Connaught deal was accepted the Swiss company's alliance with Chiron could eventually develop into one of the world's top vaccines groups — Financial Times.

Star 14/9/89

183

Malbak buys Wyeth as US parent quits



Tom Chalmers

By Ann Crotty

Another Malbak acquisition and another US disinvestment. This time around it's pharmaceutical group Wyeth-Ayerst.

Yesterday Malbak said it had bought an 80 percent interest in the infant food and ethical drugs producer from its US parent, American Home Products Corporation.

The acquisition will not have any immediate material effect on earnings, dividends or the net asset value of Malbak ordinary shares.

In what seems to have become customary with US disinvestments, detailed information is fairly thin on the ground because of sensitivity over the issue.

But industry sources say Wyeth-Ayerst's turnover is around R80-R90 million a year.

Working on the assumption that operating margins are in the region of 15-20 percent and allowing for tax and interest payments, a price-tag of R70-R80 million seems to be on the cards.

The SA company will continue to pay royalties to its former parent.

The name will be changed, but Wyeth will have continued use of its existing brand names.

Malbak executive director Tom Chalmers would not comment yesterday on the turnover level or the price paid, saying the matter was sensitive.

But he did say a technical

knowhow agreement had been signed with the US group.

The deal will give a significant boost to Malbak's pharmaceutical activities, lifting annual turnover to above R200 million.

Mr Chalmers said, "Wyeth-Ayerst is well-managed, financially sound and already holds a major share of its principal markets."

"We believe that under Malbak's ownership, its considerable potential for continued real growth in financial as well as operational terms will be fully realised."

The trend has been for local operations to perform well once they have been released from US owners who tend to be ambivalent

about having an operation in SA. This ambivalence makes them reluctant to invest resources to ensure that the asset is maintained at its most efficient level.

The existing management team will continue to run the business. Although released from strict adherence to the Sullivan code, Mr Chalmers says that basically Malbak does adhere to it.

Wyeth-Ayerst's major areas of interest are infant nutritional products (including SMA), hormone drugs and oral contraceptives (including Logamin).

Malbak has been in contact with Wyeth-Ayerst for a number of years. It bought an East London production facility from Wyeth about three years ago.

Biday 14/9/89

MALBAK BUYS INTO BABY FOODS, DRUGS

BRENT MELVILLE

MALBAK is continuing on its acquisition trail with the cash purchase of 80% of infant food and ethical drugs producer Wyeth-Ayerst

The announcement comes in conjunction with the announcement by Wyeth-Ayerst's parent, US-controlled American Home Products Corporation, that it intends to disinvest from SA

The equity interests of American Home Products includes SA subsidiary Wyeth-Ayerst and two related entities. Market sources place the purchase figure at between R70m-R80m. The other 20% is to be spread among an unnamed group of local investors.

Malbak executive director Tom Chalmers says the acquisition will "significantly" expand the group's pharmaceutical business — pushing turnover to "well in excess of R200m"

Sources say 1989 sales for the group — which joins several of Malbak's recent pharmaceutical acquisitions including East London based Pharmador, previously Swiss owned Lagamed, haircare giant Schwartzkopf and MPS laboratories — should top R100m

And Malbak is planning to restructure its medical division, previously under the Protea Medical banner, into a separate division. Following the purchase, Chalmers estimates that the division will rank within the top five health care companies in SA.

"Wyeth-Ayerst is well-managed, financially sound and already holds a major share of its principal markets," said Chalmers.



● CHALMERS

183 Nutritional

Wyeth's present MD Francois du Toit and his management team will continue to run things and licensing and supply agreements will be in effect for a limited period of time to allow for a smooth changeover to new owners.

Wyeth has an estimated 37% share in the infant nutritional products market, 37% of the tranquilliser market and 46% of the oral contraceptive market in SA. It is also a leading producer of hormone drugs.

"The acquisition is not expected to have any immediate material effect on earnings, dividend or the net asset value of Malbak ordinary shares," says Chalmers.

Exceptional growth sees increased Safren earnings

B/Duy 14/9/89

183

CAPE TOWN — Safren, the parent company of Safmarine, Rennie's and Kersaf (76%), has posted a 38% increase in attributable earnings to R213,1m, reflecting exceptional growth in its diverse shipping and leisure related activities

Earnings a share of 404c (up 38% from the previous year's 293c) and a final dividend of 180c (up 33% from 135c) exceeded analysts expectations for the year to June and should please shareholders

Operating profit before depreciation increased by 44% to R779,4m on turnover which grew by almost R1bn to R3,8bn

While the group managed to reduce its interest bill by R9m to R21,9m, its tax commitments grew by 76% to R203,4m. Rennie's significantly higher tax rate appears to have contributed to this burden

Nevertheless, taxed profit attributable to outside shareholders in subsidiaries and preference shareholders grew by 41% to R410,4m, leaving ordinary shareholders with R213,1m before an extraordinary item of R7,6m

Safren's 76% stake in the leisure sector through Kersaf contributed a marginally improved 41% to bottom-line profits, with Kersaf reporting 40% growth in attributable earnings to R115,4m

But, given the sensitivity of the group's

LESLEY LAMBERT

shipping activities, directors are reluctant to provide a break-down of the contributions of Safmarine and Rennie's which merged in 1984 and are not quoted as separate companies

The most they will say is that Safmarine had an "excellent year and continues to

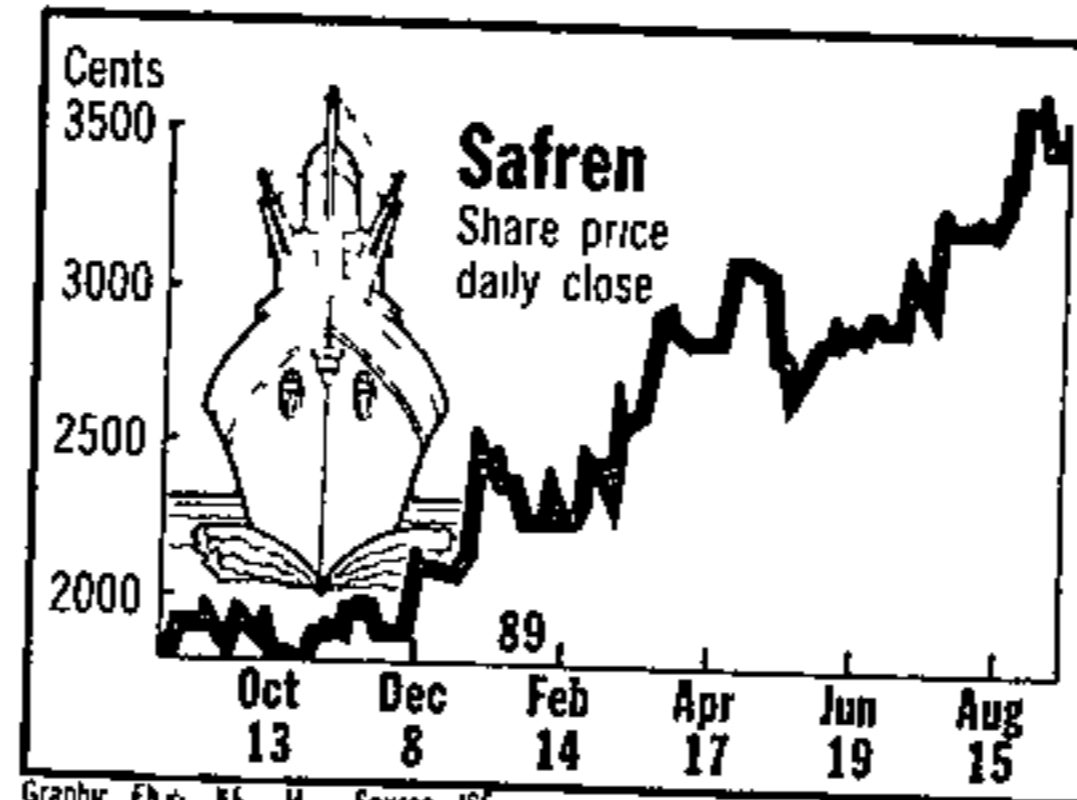
With Rennie's growth only satisfactory, Safmarine's performance must indeed have been excellent in flourishing import and export markets

Safren is very import sensitive. The imported goods it ships tend to be of a higher value-added secondary and tertiary nature than the lower value-added primary products it exports. Thus, it thrives in economic upswings when imports are stronger

The opening of an offshore operation in Switzerland earlier this year and general expansion into international shipping appears to be aimed at ironing out problems related to the cyclical nature of the domestic economy

While Kersaf's share closed 25c down at R22 yesterday, Safren's was unchanged at R35,50. This puts Kersaf on a P/E of 14,3, compared with a sector average of 15,1 and Safren on a P/E of 8,8, compared with 8,5

The market appears to underrate the shipping interests, by rating Kersaf's contribution to NAV at almost 67%, when its contribution to attributable earnings is only 41%. Analysts say this could be the result of a lack of information about Safren



expand its activities in the international shipping field," and that the Rennie's Group performed "satisfactorily" despite a significantly higher tax rate

Calculations suggest that Safren's earnings, excluding those of Kersaf, grew by almost 37% and continued to contribute the lion's share to profits

7 000 on
Mossgas
'at peak'

Political Staff

ABOUT 7 000 workers will be employed on the Mossgas project during the third quarter of next year, the Minister of Economic Affairs and Technology, Mr Danie Steyn, said yesterday

This figure represented the peak period of construction, he added, and would be sustained for only about six months

Unveiling the official emblem of the Mossgas project at Mossel Bay, Mr Steyn said the Mossgas management had gone to great lengths to ensure minimal disturbance to the unique culture of the region

It was Mr Steyn's last official function as a minister, as he did not seek re-election to Parliament on September 6

Mr Steyn said the entire project was more than 30% complete and was on target for bringing the first gas onshore in just under two years

State pays R12, you pay R100 for same multi

MUCH of the blame for rocketing medicine costs is laid at the door of pharmaceutical manufacturers

Poor labour productivity and machinery use, the State Tender Board and controls are the main reasons for soaring prices, says a report by the National Productivity Institute (NPI)

Chemists add a 50% mark-up, so medicines are becoming too expensive for the average citizen

For instance, 250mg of the antibiotic Amoxil, which was sold to the State Tender Board for R12,56 in January 1988 — the latest available figure — is retailed to the public at R100,19

Rheumatism

Zyloprim (300mg), used by gout sufferers, was sold to the board for R1,30, but retails at R45,95

Antibiotic Bactrim 500 is sold to the Government for R32, but to the public at R497,30. Rheumatism sufferers have to pay R40,32 for Brufen (400mg) sold to the board for R15,35

Naprosyn, also used by rheumatics, costs the State R35, but the public has to pay R295,61 for 250mg

The low prices to the Tender Board are related to

By Don Robertson

quantity and better bargaining, say manufacturers

The NPI says most pharmaceutical products have risen in price by 241% since 1980. This compares with the rise in the production price index of 178% and the consumer price index of 198% in the same time

Most pharmaceutical manufacturers concede that cheap sales through the State tender system force them to make the private buyer pay more

About half of the participants in the survey agree that State tender prices are subsidised by the private market, and 30% will not comment. Another 17% disagree with the suggestion

The NPI says low productivity is an important reason for rising costs. The report says that productivity has shown no increase since 1984 — as evidenced by a 5,4% decline in production volumes, but no decline in the labour complement

It recommends that urgent attention be given to productivity to contain prices

The NPI's research shows that average labour produc-

From Page 1

tivity in the industry is 51,7% compared with an acceptable 68%. This suggests that productivity could be increased by 31,5%. At the same time labour use could be increased by 13,6% and efficiency by 17,3%

Average equipment use is only 38,9%, indicating a potential improvement in ma-

Medicines

chine output of 105,7% to a figure of 80%

The industry is currently worth more than R2-billion a year and private dosages of medical and pharmaceutical products represented 1,6% of total private consumption expenditure in 1986

8 Times 17/1/89

183

183

183

183

6/11/89
17/1/89

Annual report ends years of Safren company silence

B/Day 26/9/89

183

285

392

CAPE TOWN — Safren has broken with tradition in its newly released annual report, to provide a five-year breakdown of its diverse operating company's individual contributions to bottom-line profits

The disclosure suggests a change in attitude from past years when the giant parent of Safmarine, Rennie's (75%) and Kersaf (76%) disclosed as little information as possible about its separate companies, largely because of the sensitivity of its international shipping operations

The break-down shows that wholly-owned shipping company Safmarine contributed R1 568,5m, or 41,2%, to turnover for the year to June 1989, leisure group Kersaf R1 309,1m (34,5%) and freight and transport company Rennie's R855,8m (22,5%)

But, while Kersaf achieved more operating profit from its turnover, contributing 51,2% to an operating profit of R779,4m, Safmarine moved ahead of it at the bottom-line, contributing 43,8% to taxed earnings of R213,1m against Kersaf's marginally improved 41,1% contribution

Safren chairman and CE, George Alastair Macmillan, confirmed in his statement that Safmarine had had an excellent

LESLEY LAMBERT

year with the development of trading opportunities outside the core SA operations contributing substantially to the improvement

He said plans to establish an operating base in Switzerland had been completed and that the company continued to expand its activities in the international shipping field

With the planned unification of the European Community coming up in 1992, Macmillan said management was concentrating its efforts on ensuring that Safren remained at the forefront in the transport of cargo to and from Europe

Dampening

Internationally, he said all trade routes were experiencing strong competition. But, the charter market had managed to hold its ground with the result that freight rates had increased and were expected to maintain higher levels in the year ahead

A strong performance by Rennie's had been offset by a higher tax rate which had reduced growth in attributable earnings

While both companies benefitted from an increase in imports during most of the period under review, higher duties and surcharges began dampening demand and reducing volumes during the final quarter

Macmillan warned that this trend was expected to continue, slowing Safren's growth during the current year

Safren is import sensitive. The imported goods it ships tend to be of a higher value-added secondary and tertiary nature than the lower value primary products it exports

This means it thrives in economic up-swings when imports are stronger and will rely on its international bases to assist in ironing out problems related to the cyclical nature of the domestic economy



● MACMILLAN

Macmillan said the group's investment in the leisure sector through Kersaf had achieved another set of record results. However, while the rapid expansion of the past few years was expected to continue, Kersaf's earnings growth was expected to slow down if trading conditions were affected by restrictive monetary and fiscal measures already introduced

"The next 12 months are not going to be easy for the SA economy," Macmillan said in his statement.

Fire-damaged Matus & Co moves in with Tarry

THE directors of tool wholesaler Matus & Company have assured the market of continued supplies and "minimum delay in deliveries" following the fire which destroyed the company's premises in Hardy Street, Johannesburg, on Saturday, together with stock amounting to R5m

Local suppliers have rallied round and

TERRY WILKINS

the company is importing large consignments by air. Matus is in the process of being acquired by major tool wholesaler the Tarry group, which is part of the FSI group, subject to certain conditions being fulfilled

filled

The directors have decided to merge the two operations in Johannesburg and will immediately trade as Matus out of the Tarry complex in Eloff Street Extension. Tarry MD Lindsay Ralphs was optimistic that a much larger Matus would be effectively operating soon

in
rt
Bid-
both
ding
and
rms
ny's
as a
1 the
ency
nced

as to
and
Bid-
num
Divi-
divi-
s
bjec-
40%
funds

Scarred then sacked

183
28/09-4/10/89

From SIZWE ZONDANI
PORT ELIZABETH. — A
worker whose face and
body are covered with sores
allegedly as a result of
chemicals he worked with,
has lost his job after return-
ing from sick leave.

And according to doctors,
several other workers at the

same firm face serious health
risks.

James Baartman, 32, said he was
fired from Chem Serve Colloids
in Port Elizabeth's Markman
township for absenteeism.

"I took sick leave during the
September 5 - 6 stayaway because I
needed to see a doctor about my
skin. When I returned to work, I was
made to sign a final warning notice.
I refused to sign a dismissal form,"
Baartman said.

Baartman began working at the
company in 1984 and developed skin
lesions two years later.

He claimed that the company ac-
cused him of lying about his illness
which they said he acquired in the
township.

According to Baartman's doctor,
the sores are relieved by steroids but
become aggravated when he returns
to work.

The doctor, whose name cannot be
revealed for professional reasons,
said he has two other patients from
the same company suffering from
similar skin problems. He has re-
ferred one of these workers to a spe-
cialist.

Baartman said that several other
workers at the company have also
consulted doctors for skin problems.

Chemicals

Baartman's doctor warned that
workers at the factory faced a serious
health threat from a chemical sub-
stance called Acrylamide.

Acrylamide, which is imported
from Britain and used for making in-
dustrial chemicals, is believed to
cause cancer if people are overex-
posed to it.

A pamphlet which accompanies the
chemical warns that Acrylamide can
attack peripheral nerves and that re-
peated exposure may cause cancer.

Baartman claimed that no protec-
tive clothing, other than dust masks,
were provided to workers.

He said that workers often handled
torn bags of Acrylamide and chemi-
cal dust blew in their face when they
poured the chemical into the stirrer.

Factory manager Brian Smit said he
was at a "loss for words".

"No medical reports have come to
me and I do not know what to say."

Smit said Baartman had been fired
for constant absenteeism and that if
workers complained to him about the
chemical, they would be taken to a
company doctor.

He said that safety tests were done
on a regular basis — PEN

By Don Robertson

THE pharmaceutical industry has reacted strongly to a report by the National Productivity Institute (NPI), blaming poor productivity for the rising price of medicine

The Pharmaceutical Manufacturers Association (PMA) says the report has done an injustice to the industry

PMA executive director John Toerien says the news release by the NPI was one-sided because it stressed only negative aspects of the industry

He says the synopsis to the report mentioned that companies taking part in the survey were well managed and operated at a high level of efficiency

S/Times 1/10/89

Muti-makers strike back

In the report, the NPI found that poor labour and equipment use and the effects of the State tender system were the main reasons for rising prices of medicine. It was also reported that most manufacturers believe that sales under the State tender system were subsidised by the high price of medicines sold to the individual.

The average price of medicines has risen by 241,5% since 1980 — much higher than the increase in the production price and consumer price indices

Mr Toerien says the report

claimed that "optimal production productivity in the participating companies is hampered by a number of uncontrollable factors, namely relatively low production volumes, fluctuating demand and rigorous Government control of quality"

"The future of ethical products, the main product range of most of the participating companies, is influenced by the production of generic medicines. The latter is obviously more attractive to customers because of price considerations, but its therapeutic equivalence is

not beyond doubt

"The industry practices sound labour policies financially the companies perform well, which is also in the interest of the SA economy"

Mr Toerien says it is a pity that these aspects were not highlighted because that would have given a far more balanced view of the industry and would have eliminated unnecessary speculation

Clive Stanton, managing director of Lennon, a member of the SA Druggists group, says production at his company is well above the average for the industry and that in some cases two and three shifts are worked

As one of the largest manufacturers of generic drugs in the world, high volumes are essential and in January this year, it was possible to reduce or at least maintain prices of some medicines

183

Acquisitions help Twins grow

In 1989 Twins came of age in the pharmaceutical industry, claim the Krok brothers.

It is unclear how they reached this conclusion. Is it due to 1989's record sales and net earnings, or is it the product range?

Today Twins operates in the areas of pharmaceuticals, consumer products and visioncare.

Through a controlling interest acquired recently in listed Salters-Fisher Med Holdings (Safimed), it also operates in the areas of medical and surgical equipment and supplies, veterinary and animal health products and generic pharmaceuticals and household medicinal products.

Twins has grown through a costly policy of acquisition. Trademarks cost R94 million, while goodwill cost R38,9 million — a total of R132,9 million for intangibles, with no amount written off.

In 1989 debt more than doubled to R68 million and seems set to climb as the company is obliged to redeem its R52 million preference shares on July 1 1990.

The non-payment of tax is helping preserve cash flow at present.

Substantial tax losses are available, but management does not disclose the amount. The income statement provides for a tax equalisation reserve more effectively to bridge the transition of the group to a full tax-paying position. This is a notional charge as no tax is necessary.

In the 1989 year Twins acquired 51 percent of listed Safimed, which was the result of the October 1987 merger of Salters Med Holdings, the Fisher group and Propan Generics.

The current results of Safimed are below expectation, say the Krok brothers, with earnings per share down 22 percent and borrowings increasing by R25 million to R40 million.

This is claimed to be a temporary setback due to delays in rationalisation and reorganisation of the business after the merger in 1987. I query why it is taking so long?

Another eye-catching aspect of 1989's annual report is that 88 mil-

Bottom
Line
183
MICHAEL MENOF



lion out of 91 million issued shares are held by the directors (beneficially and non-beneficially).

Listed Twins is a subsidiary of a private company called Twins Propan Holdings (Pty), with the ultimate holding company being Premier.

With the prior period being only eight months and the Safimed acquisition in 1989, comparatives are somewhat misleading, but percentages are nevertheless accurate.

Sales totalled R426,1 million (1988: R134,5 million — 8 months). Operating income was R75,64 million (1988: R29,98 million), which is a percentage of sales reduced to 17,75 percent (1988: 22,29 percent).

Net interest paid was sharply higher at R13,42 million (1988: R4,21 million), caused by escalating debt.

After providing for tax (predominantly a notional amount), outside shareholders' portion of profit and pref dividends, earnings attributable to ordinary shareholders was R32,86 million (1988: R18,61 million).

As a percentage of sales, the bottom line was down 50 percent to 7,71 percent (1988: 13,84 percent). No explanation is given for the sharp reduction.

Earnings per share were 36,1c (1988: 30,7c for 8 months), with the annual dividend upped to 14c (1988: 8c for eight months).

The most disappointing aspect of the annual report is that the sale and profit contributions from the four divisions — pharmaceuticals, consumer products, Visioncare and Safimed — are omitted. Obviously, Safimed's contribution was a disappointment.

While "management's objective of creating autonomous, focused marketing teams has now been achieved", it is unclear what objectives and prospects for 1990 are.

The balance sheet gives the extent of developments so far. No

amounts have been written off the R94 million trademarks because management says there has been no diminution in value.

Goodwill has increased more than 400 percent to R38,9 million (1988: R9,1 million), presumably through the Safimed acquisition. Strangely, management has offset the R38,9 million goodwill against the reserves. This implies the intangible has been written off.

Why wasn't it written off as an extraordinary item in the income statement?

Imagine the dent it would have made to 1989's bottom line. Debt has jumped to R67,9 million (1988: R32,86 million).

With current liabilities only R55,68 million (1988: R40,27 million), the current ratio now stands at 3,5 times (1988: 2,1 times).

Year-end stocks have more than doubled to R100,2 million (1988: R39,88 million), with a new category "Merchandise R36,47 million" suddenly appearing for the first time.

Preference capital of R52 million is due for redemption next year. Net asset value per share (after writing off goodwill) has risen only marginally to R1,63 (1988: R1,64), compared with a current JSE price of around R2,60 per share.

One cannot tell where Twins is headed.

Sales and income are increasing impressively, mainly through acquisitions. Being under Premier's umbrella has given Twins good exposure.

However, the next two years will put Twins to the test with high debt and interest rates and an economy of reduced consumer spending.

With R52 million of preference shares repayable shortly and tax that will soon become a reality, Twins will need to flex some top financial muscle.

The Krok brothers are smart entrepreneurs and, with their proven track record, should be equal to the occasion.

● Michael Menof bases his Bottom Line column on the contents of annual reports only.

Judgment reserved in toothpaste case

B/Day 16/10/84

183

SUSAN RUSSELL

JUDGMENT in an application for leave to appeal by Unilever subsidiary, Elida-Gibbs, against a court order — prohibiting it from advertising claims about the tartar prevention properties of Mentadent P toothpaste — was reserved in the Rand Supreme Court on Friday.

Elida was taken to court by competitor Colgate on the grounds that the company had made false advertising claims for Mentadent P.

Colgate instituted legal proceedings against Elida-Gibbs after Mentadent P appeared on the market in June 1984 with the slogan "helps prevent tartar" on the package — a week before Colgate launched its own anti-tartar toothpaste.

Expensive

The subsequent trial, which has become one of the most expensive in SA legal history, began before Mr Justice van Schalkwyk in October 1987.

It has been estimated the trial cost the companies about R5m each in legal fees.

Mr Justice van Schalkwyk granted Colgate an order in June this year interdicting Elida-Gibbs from advertising claims that Mentadent P cured or prevented tartar formation on teeth.

The company was also interdicted against making any claims that scientific or clinical evaluations had proved that

Mentadent P effectively prevented or inhibited tartar formation.

Elida-Gibbs last week applied for leave to appeal against both the judgment and the order of costs granted against them.

They said Colgate should pay the costs incurred for some of the legs of the protracted litigation.

Meanwhile Elida-Gibbs has given Colgate an undertaking that, in the event of their application for leave to appeal succeeding, they will abide by the terms of the interdict granted against them pending the final determination of the case.

In a letter to Colgate's legal representatives, Elida's lawyers said their client undertook not to make any claims prohibited by the court order.

"Our client will continue the current sale and distribution of Mentadent P to the trade only until such time as our client's current stocks and commitments in regard to packaged toothpaste, cartons and tubes permit.

"Thereafter (our client) will not manufacture Mentadent P toothpaste in packaging containing any claims which the court order prohibits and will not sell any such packaging to the trade," the letter said.

Usually, if a party is given leave to appeal, the terms of a court order are suspended until the Appeal Court has reached a decision.

tising its own discounts (*Business* October 20), he has scented blood again. This time his target is pharmaceutical wholesalers.

In a complaint, Van Zyl's company, Mediscor, has asked the Competition Board to ascertain "whether any restrictive practices by, or involving, pharmaceutical wholesalers and retail pharmacies exist or may come into existence."

Van Zyl claims that some wholesalers are boycotting his network of pharmacies in an attempt to kill it.

Mediscor is offering 22% discounts on prescription medicines and Van Zyl says vested pharmacy interests are terrified that his discounts will play havoc with their traditionally high margins.

Wholesalers allegedly withheld medicine supplies from certain Mediscor pharmacies.

Board chairman Pierre Brooks says there is evidence from independent sources as well as Mediscor of the possibility that boycott actions had taken or were taking place.

He says this kind of boycott apparently did not take place before Mediscor was formed. "There seems to be a correlation between boycotts and Mediscor members, though I don't want to prejudge the investigation."

Alternate plan

Van Zyl says if wholesalers don't co-operate, Mediscor will have to buy directly from manufacturers. "This isn't the direction I want to go. I want to use the existing wholesaling infrastructure. Many manufacturers haven't been very friendly."

The pharmaceuticals sector is putting on a brave face for the investigation. Tony Karis, MD of SA Druggists, which includes the Link wholesaling group, says wholesalers have nothing to hide.

"I wish we had such power over retailers. Even those who fall under our umbrella have no difficulty buying a large proportion of their needs away from us. We've financed certain retailers through bonds but that doesn't put them in our pockets. If they are unhappy with our prices or service they can transfer their bond to one of our competitors, such as E J Adcock."

Business Dynamics MD Theo Rudman, speaking at this week's National Wholesale Drug Association conference in Somerset West, said Mediscor was given an opportunity to enter the pharmaceutical trade, thanks to the high price of medicine, and should bring much needed competition to the industry.

"Competition at every link in the supply chain is the best way of ensuring the lowest possible prices and the best possible quality and service."

He says the discount war isn't the only threat to pharmaceutical profits. Doctors, who dispense 25% of prescription medicines, get preferential discounts from some manufacturers and often a bonus of free medicine. He adds that medicine prices in the private sector will stay high as long as two-thirds of all medicine is sold to the State, often below cost. ■

PHARMACEUTICALS

Striking back

Irrepressible drug discounter Kosie van Zyl has struck again. After getting the courts to stop a competitor, Medikredit, from adver-

No fusion of chemical firms ^{B/ Dan 16/11/89}

183

ZILLA EFRAT

NEGOTIATIONS between chemical companies Protea Chemicals and Sentrachem, which could have led to a tie-up between them, have been terminated

This was confirmed by Prochem chairman Mike Struwig yesterday

Sentrachem had been expected to acquire Prochem from its major shareholder, Malbak

Struwig said many discussions were held between the two companies at the request of joint shareholder Sankorp

He said discussions had been cordial and friendly, but when it came to the final push the two companies decided it was not in their mutual interests to get together.

However, they did come away with greater respect for each other

The companies were believed to have complementary activities, with Prochem's distribution strength said to benefit Sentrachem's manufacturing side

COMPANIES

New SA Druggists plant will boost exports

ZILLA EFFRAT

SA DRUGGISTS' decision to build a R45m intravenous fluid plant in Port Elizabeth is set to open up significant export opportunities and increase domestic supply of pharmaceutical products given by injection.

The factory, which is expected to be completed by 1992, will produce small glass ampoules and vials, as well as intravenous solutions for use by doctors and hospitals.

SA Druggist MD Tony Karris said the investment was of strategic importance and

was in line with the company's continuing objective to manufacture and market pharmaceutical products for both local and international markets.

He said "Our access to investment capital, sophisticated foreign technology and competent management and staff has enabled us to go ahead with this exciting expansion."

The company has spent three years studying various options related to mar-

kets, technology, machinery and the best siting for the plant.

An agreement with a large European company has secured state-of-the-art technology for the plant and licences have also been obtained to manufacture a number of new and established pharmaceutical products.

The plant is to be built adjacent to the company's Lennon plant and will take strain off SA Druggists' Bethlehem factory which does not have the capacity to significantly increase its production of in-

travenous products.

"Single-shift capacity at the new plant will produce far greater volumes than are currently produced," said SA Druggists GM Clive Stanton.

The introduction of a second shift would allow the company to service considerable export opportunities.

SA Druggists is currently registering a number of new injectable products with the health authorities. Three of these have been launched on the tender market with great success.

183

Fastfax dispute resolved

3 Day 17/11/89
 THE battles between Fastfax, Punch Line and Shadon have been resolved, with a settlement being reached regarding a R2,1m dispute between Punch Line and Fastfax

MELANIE SERGEANT

The deal struck is that Fastfax will pay "much less than the R2,1m in question" and will also drop all claims and litigation against Shadon and/or its staff

Shadon CEO Clive Jandrell says he is pleased the agreement has been reached and that Shadon and its staff are cleared.

Fastfax alleged it suffered damages which it was claiming for loss of business caused through strategic information being found on Shadon's premises — the subject of a court case last month.

The R2,1m stems from amounts Punch Line in turn claimed from Fastfax, to whom it supplied fax machines

Fastfax MD Grant Dunbar says the amount involved discrepancies in yen rates, shipping rates and others, but it has been "substantially lowered with the deal struck."

"More importantly, we will now be in a position to once again discount our rental agreements with the banks — something which was made impossible during the disputes because a cession of debtors was

instituted by Punch Line

"Not being able to discount the agreements led to severe cash-flow problems for Fastfax," he says

In the meantime, Fastfax is finalising details with another party for a capital injection which will allow the company to take up new business opportunities believed to involve diversification into other product markets.



● JANDRELL

● DUNBAR

Standardised suntans on way

8 Day 17/11/89
 THE cosmetics and toiletry industry is to standardise the use of sun protection factors (SPF) on suntan preparations manufactured in SA

TANIA LEVY

Although SPF claims were made on about 90% of these products, only 56% were subject to proper SPF-testing

tail substantiating all SPF claims with approved laboratory testing and including names and concentrations of UV filters and reflectors on packages.

Proposed self-regulatory standards for SPF-testing and labelling were accepted by about 80 delegates at a symposium at Medical University of SA (Medunsa), west of Pretoria, last week

Rules

183

Only 35% provided details of active ultra violet (UV) filters and blockers, she said

The Proprietary Association, who proposed the standardisation, will implement rules for labelling, packaging and advertising of sunscreen products in conjunction with the Advertising Standards Authority.

The SA Bureau of Standards (SABS) will be asked to draw up a national standard specification for sunscreen preparations

Self-regulation would en-

Medunsa professor Beverley Summers said more than 30 companies marketed the more than 150 sunscreen preparations available in SA

NATAL UNREST DEATHS

September 1987 to January 1989:.....	668
February 1989 — November 15 1989:.....	317
Past 24 hours' official toll:.....	.2
TOTAL:.....	.987

b
r
f
d
T
v
u
n
h
s
A
t
o
s
w
D
w
b
J
s
t
t
E
R
b
t
r
b
b
S
s
i
a
b
s
i
n
15
s
i
n
I
r
t
o
p
t
c
t
15
S
i
14
w
11

CAF T123 24/11/89

Gencor gets 84% stake in Trek

JOHANNESBURG — In a move which could facilitate the listing of its energy division, Gencor has acquired BP Southern Africa and Shell SA's stake in Trek Beleggings for R106,2m in cash

The deal, which increases Gencor's stake in Trek from 50% to 84%, marks the coming of age of Trek, says Gencor executive director and head of the energy division Bernard Smith

"Over the past 20 years Trek has gained a great deal from its association with BP and Shell and has benefited from the expertise of its two partners. The time is now ripe for Trek to stand independent."

In addition, Trek has acquired BP and Shell's 30% stake in Chemico for R3,4m. And in another deal, the lubricants manufacturing business of South African Lubricants Manufacturing Company (Samco), currently jointly owned by Trek, BP and Shell, has been sold to Sapref for R82m.

Smith says the sale of Trek's interest in Samco should result in enhanced earnings for Trek in the medium term because it results in the termination of certain distribution and related agreements. Trek will now be able to contract for services independently and streamline certain of its operations

Trek's net asset value will increase by 50c a share as a result of these transactions

Share index futures

Closing prices

1 18
S
qu
Nd
56
Sit
ke
W
1-
o
lo
le
le
al
A

B/Day 24/11/89

Cosmetics transform an import firm into an exporter

LESS than three years ago, specialist importer House of Gallia surprised SA beauty market observers by adding a locally manufactured skin care range to its product line-up, which then comprised only imported brands such as Clarins, Juvena, Oscar de la Renta and Elancyl.

Today, the cosmetics house is considering exporting the local range to the Middle and Far East

When launched in 1987, not only was the new range, known simply as Gallia, the first of House of Gallia's products to be manufactured in SA — it was the first of its products to be distributed through food chains in selected areas.

The marketing strategy for the Gallia range was simple — the product was positioned as "quality

CATHY VAN ZYL

skin care at an affordable price".

The Gallia range was priced at a premium above other similar products, and its packaging was designed to reflect Gallia's promise — the regenerative and healing powers of Evening Primrose oil

According to Gail Blank, Gallia's product manager, House of Gallia's thinking behind the launch was prompted by the rand's decline against the franc about five years ago when local consumers began looking for cheaper items.

Sales in the first year topped R1m and Blank expects to move R3m worth of products this year. About 40% of this will be sold through pharmacies

Gallia will also earn House of Gallia a profit this year, that is, it will have "paid back" the investment on research and development.

Blank attributes Gallia's success to numerous factors, key elements being attractive packaging, availability of testers in stores or the opportunity to buy a trial pack for less than R10, and a healthy promotions and advertising budget (in excess of R500 000 for 1990 tax year)

Gallia recently extended its range to include a cellulite treatment gel. Gallia's gel will retail at around R25, compared to imported products which sell for more than R65

The gel was launched this week after 18 months of research.

Plastics firm's shares could be a good buy

B/Dcm 28/11/89

183

ANALYSIS: STEPHEN RICHTER

JUDGING by its fine track record, Darmag, which is listed in the JSE electronics sector, should be generating buying interest among investors. But the group has been surprisingly out of favour, and dropped to a new low last week of 65c.

Darmag specialises in the manufacture of rubber and plastic products for a wide range of industrial applications. The group proudly displays its six-year track record in the latest annual report covering the 12-month period to end-February 1989.

Turnover has risen to R23.8m in the latest year compared with only R2.6m during 1984. Pre-tax profit advanced strongly during this period to R3.4m from R528 000.

Earnings a share began to accelerate quite sharply during the past three years. In 1987, EPS rose to 7.6c compared to 1.8c the previous year. Darmag then continued to show satisfactory growth with earnings of 11.0c during 1988 and 13.2c for the latest financial year.

Therefore, given the

group's impressive bottom line performance, one would expect a better JSE performance than shown on the accompanying chart. This is especially so given Darmag's fine reception by investors when it originally came to the market in August 1987, just prior to the October crash.

At that time, the group made available 3.5-million shares, of which 2.7-million were offered to the public at 100c. The share price found good support at the 140c level from the time it was listed until the October crash. For most of 1988, the share traded around the original 100c offer price, but bearish sentiment has again dominated Darmag's price action recently, resulting in last week's record low. The fact that Darmag failed to hold above its 200 day moving average confirms the bearish trend.

The JSE listings department confirms that Darmag has not yet reported its interim results covering the six months ended August 1989. This could help explain why

investors have suddenly become nervous of the share.

But a company spokesman says that these results have been finalised, and Darmag should release its interim figures this week.

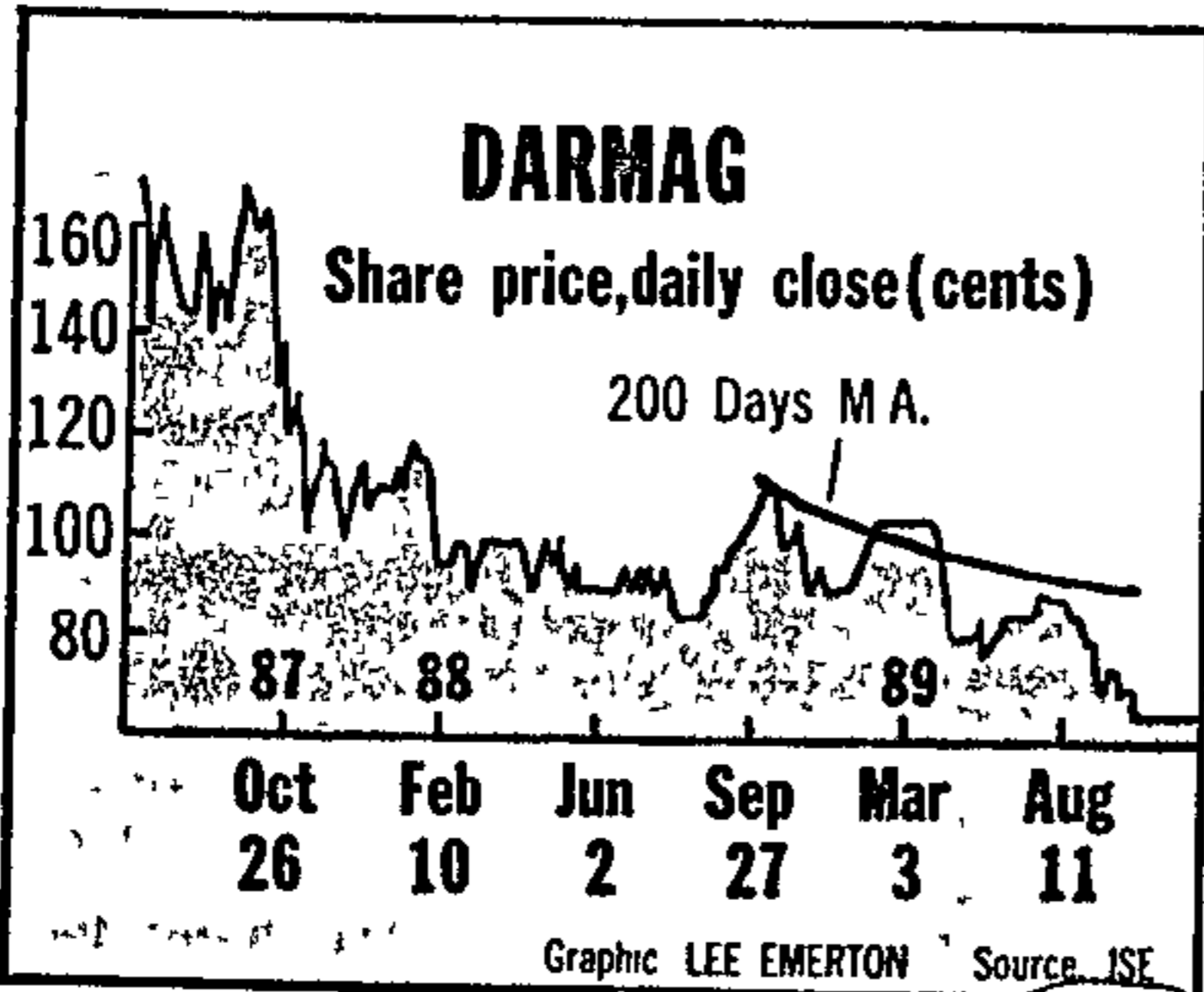
Darmag's basic operations appear to offer good growth potential. Capacity within its plastics division improved by more than 30% during financial 1989. This places Darmag in a good position to capitalise on the swing away from rubber to plastic products in the battery industry.

The group's plastics division was relocated last year to modern facilities in Fort Jackson, Ciskei. Despite the costs incurred in the move,

this was offset by the improvements in productivity and product quality. In addition, the move helped to reduce Darmag's tax rate.

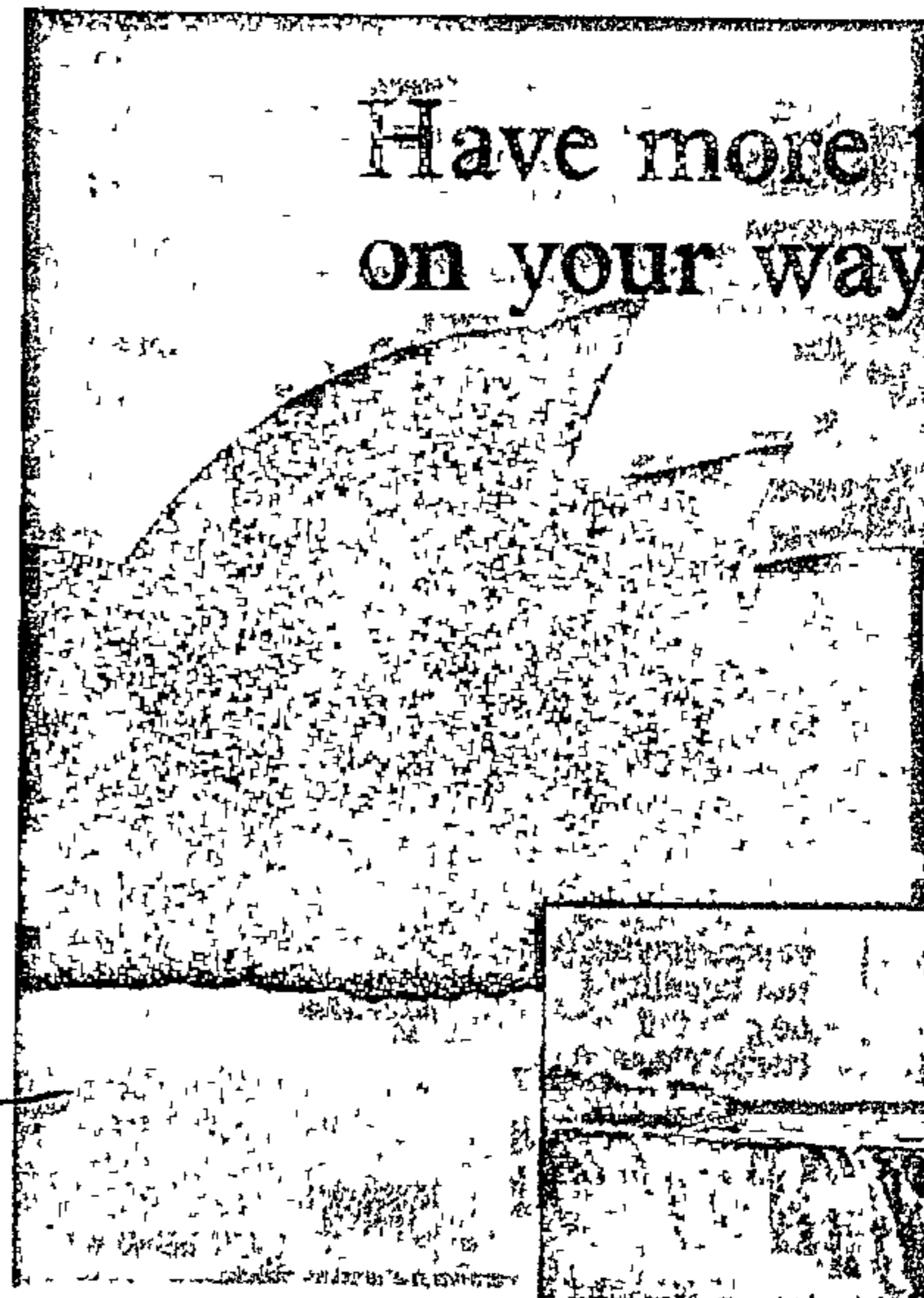
Although Darmag may be affected by the current economic slowdown, it should show a satisfactory performance judging by the six-year track record. But this is difficult to assess until the interim results become public knowledge.

However, with Darmag being involved in the mining industry, this should help the group in the future, given the improved outlook for the gold price. Assuming Darmag had a reasonable interim period, the recent spate of selling may be presenting investors with a buying opportunity.



New Morgan Grenfell offer

LONDON — West Germany's Deutsche Bank AG has made a £950m agreed cash bid for UK merchant bank Morgan Grenfell Plc, a move that could result in a hostile



Crest expected to overcome poor climate

CREST Holdings is expected to show acceptable growth in earnings in the current year in spite of tight economic conditions, says chairman Clive Ramsbottom in his annual review.

Crest holds Crest Healthcare Technology, which manufactures anaesthesia equipment and distributes critical care products.

With current economic conditions un-

183
ZILLA EFRAAT

likely to ease in the short term and interest rates likely to remain high, pressure will be placed on inventory values and cost inputs, says Ramsbottom.

In the year to September, Crest produced earnings of 18.5c (15.2c) a share, up on the pre-listing forecast of 17.5c.

Adcock to maintain good growth this year

By Neil Yorke Smith 29/11/89

183

ADCOCK Ingram (Adcock) chairman Rob Williams says in his annual statement the Barlows-controlled pharmaceutical group will maintain good growth this financial year

Adcock's taxed income rose more than 46% to R38,32m in the year ended September

Markedly improved earnings resulted from strong organic sales growth, enhanced by new products, as well as from the inclusion for the first time of Saphar Med's results for the full year

He expresses concern about possible changes to the Medicines and Related Substances Control Act. Although there is a definite space in the market for quality generic medicines on expiry of patents, Adcock is concerned about possible changes regarding generic substitution

One of the proposed amendments concerns dispensing of generic medicine by a pharmacist without the consent of the prescribing doctor. Williams says once a doctor prescribes a medicine it should not be up to the pharmacist to dispense a substitute generic without the doctor's prior approval

Williams adds this could result in reluctance on the part of research-based companies to introduce new products, and consequent increases in total healthcare costs

Williams suggests an alternative approach would be to vest pharmacists with wider powers to recommend certain medicine categories within strictly defined limits

183

Business Report

Lennon forecasts 33% turnover rise

JOHANNESBURG — The Port Elizabeth-based pharmaceutical manufacturer, Lennon, is expecting a new record turnover of more than R160m for the current financial year to March 1990, MD Clive Stanton said last night. This is 33% up on last year's turnover.

Speaking at a banquet given by the Johannesburg Press Club at which the State President, F W de Klerk, received the Club's News Maker 1989 Award, Stanton said that Lennon was exporting pharmaceutical products worth more than R30m worldwide, earning valuable foreign exchange for SA.

He said that to cope with future demand, the company had just completed a R50m expansion and modernisation programme at its Port Elizabeth plant.

In addition, work on a brand new factory costing R45m would soon commence in Port Elizabeth. Furthermore a specialised R5m manufacturing plant was being constructed in Ciskei.

"These are the things that we as industrialists must do to ensure strong, healthy and growing companies as a contribution to an economically strong

country," said Stanton.

Through an associated company, Lennon had achieved "the capability of producing in SA pharmaceuticals by recombinant DNA technology", he continued.

The first such product was in an advanced stage of development and would command a market of substantial size both locally and overseas.

"Unique research findings made in our laboratories in the field of liver cancer, one of the most common cancers in Africa, hold considerable promise for new methods of early detection and treatment," he said.

"These are exciting new developments and we are proud that, as a South African company, we are keeping abreast of modern technology."

Stanton said Lennon's technology had been developed to meet the highest level of international standards, allowing its products to compete favourably on European markets.

Recently approval was received from the Taiwanese authorities to export to that country, which was a very competitive market — Sapa

COMPANIES

Unusual trading conditions depress Darmag

DARMAG has produced a disappointing 28% drop in earnings during the six months to August because of unusually depressed trading conditions in the battery industry and escalating costs of imports.

The rubber and plastics products producer for battery manufacturers showed earnings of 5.2c (7.2c) a share. Attributable profits were R1.2m (R1.6m) on a 6% rise in turnover to R13.4m (R12.7m).

No interim dividend has been declared in order to conserve the cash situation.



ZILLA EFRAI

Directors say competition, in the face of a diminishing market, seriously affected trading margins. In spite of quality and technical improvements, Darmag had to price its goods below budgeted levels.

Pre-taxed profits were down 68% to R774 000 (R2.4m), but a tax credit of R377 000 led to taxed profits of R1.2m.

Rapid technological changes in the

markets served are challenging the business's ability to adapt.

Some significant milestones, such as the SABS 0157 quality assurance award and installation of a full Just-In-Time system have helped, but a wider range of products is needed to balance the resources of this business, say directors.

Because technical problems delayed the introduction of newly developed products, the rubber division did not recover from product obsolescence as expected.

Directors say difficult trading conditions are envisaged for the rest of the financial year. As a result, earnings of about R1.7m are forecast for the 13 months to March, compared with R3.6m earned in the year to February 1989.

Directors are confident the core business is sound and will improve as the trough of recent economic adjustments pass. They are currently improving manufacturing efficiencies and profit margins, and are reducing fixed overheads.

183 10/01 30/11/89

Colgate gets R7,5m costs

COLGATE has been awarded 75% of the estimated R10m in legal costs incurred in its mammoth two-year toothpaste battle with competitor Unilever

Mr Justice van Schalkwyk handed down a judgment in the Rand Supreme Court yesterday ordering Unilever subsidiary Elida-Gibbs to pay 75% of the costs, including the costs of two counsel

In one of the most expensive court wrangles in SA's legal history, Mr Justice van Schalkwyk granted Colgate an order in June this year interdicting Elida-Gibbs from advertising claims that its Mentadent P toothpaste cured or prevented the formation of tartar on teeth

The question of who would pay costs and an application by Elida-Gibbs for leave to appeal were argued before Mr Justice van Schalkwyk in October.

Yesterday the judge also granted Elida-Gibbs leave to appeal to the Appellate

SUSAN RUSSELL

Division in Bloemfontein against the whole of his judgment, as well as the costs award

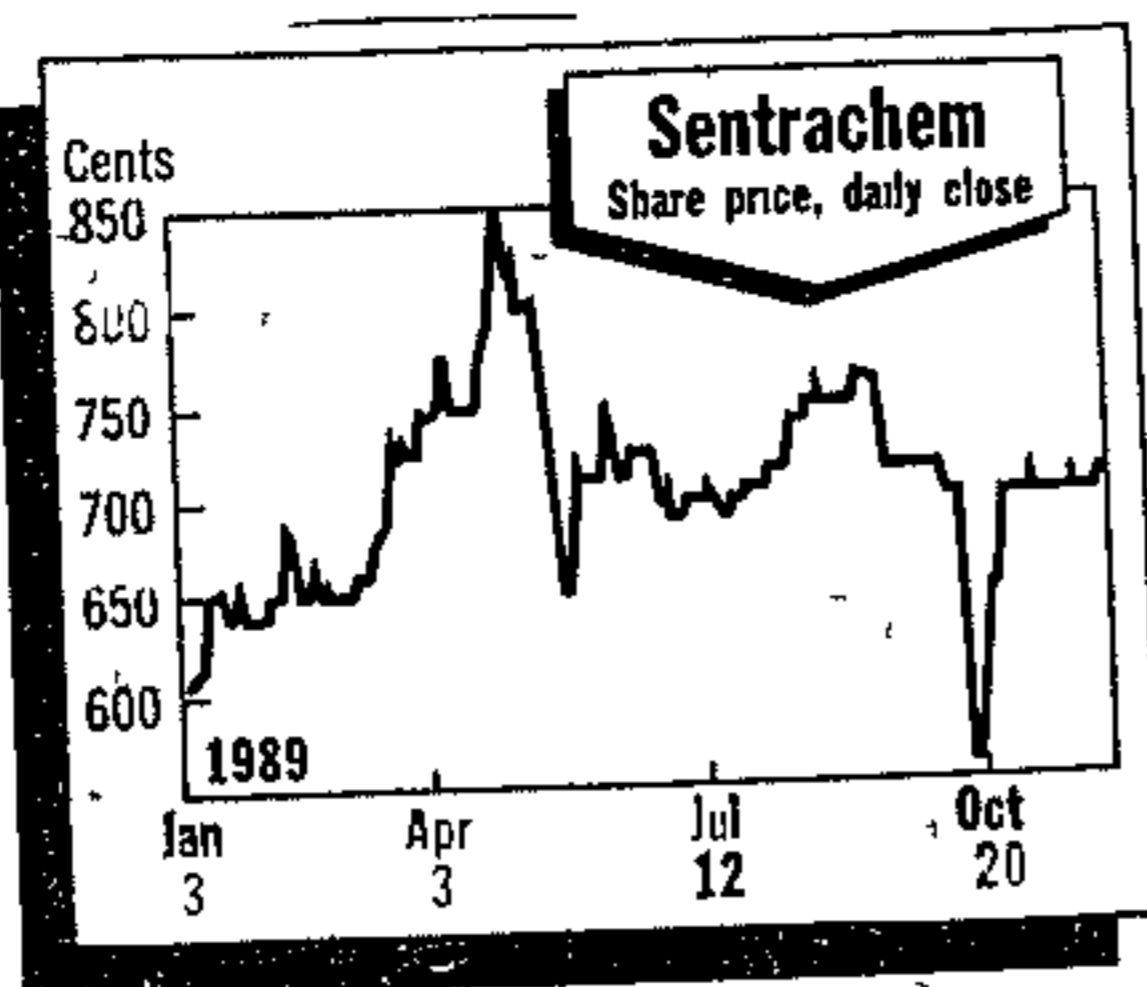
Colgate launched legal proceedings against its competitors when in 1986, a week before the launch of its own "anti-tartar" toothpaste, Elida's Mentadent P appeared on the market with the slogan "Helps prevent tartar" on the package.

The court case, which began in October 1987, cost each party an estimated R5m in legal fees Colgate sued Elida-Gibbs on the grounds that the company had made false advertising claims for Mentadent P

Elida opposed Colgate's application for an interdict contending that its claims could be verified

The judge found that advertisements for Mentadent P created the false impression in the mind of the consumer that the toothpaste was capable of curing tartar

183
6/Jan 11/2/89



Graphic: FIONA KRISCH Source: JSE

Sentrachem hit by softer world prices

B/P Day 11/2/89 ZILLA EFRAT *(183)*

CHEMICAL group Sentrachem's earnings grew only 13% in the six months to September following the softening of world prices for most of its products and the slowdown in the SA economy.

Attributable profits rose to R46,8m (R41,3m), equivalent to earnings of 40,5c (35,8c) a share. An interim dividend of 12,5c (10c) a share has been declared.

MD Johan van der Walt says mixed performances were achieved by the group's operations. Industrial and agricultural chemicals and foodstuffs continued to enjoy healthy growth, and new acquisitions NCS and Expandite performed well.

Karbochem was affected by a drop in international natural rubber prices which placed pressure on its rubber division's margins and exports. However, its other divisions performed solidly.

Safripol and Mega Plastics were affected by the fall in world prices and the local economic slowdown, with Mega experiencing depressed plastic film and pipe markets and a competitive packaging crate market.

Van der Walt says Sentrachem's strategic thrust is to broaden its portfolio in order to ease the effect of economic cycles. Future investments, largely in this direction, include a 40% expansion of the chlor alkali plant for R75m and the building of a maleic anhydride plant for R47m.

For the first time SA Polymer Holdings' results have been consolidated with Sentrachem's. As a result, figures for the previous period have been restated to make comparison more meaningful.

Sales grew 4% to just over R1bn (R995,4m) with export activities being subdued. The turnover figure is, however, distorted because Fedmis's results were in-

□ To Page 2

Sentrachem *B/P Day 11/2/87*

cluded for five months in the previous interim period. If adjusted, turnover would have risen 26%.

With margins being maintained and new plants coming on stream, operating income improved 33% to R116m (R87,3m).

Financial director Robin Morris attributes the 160% rise in net interest to higher interest rates, borrowings to fund the new chlor alkali project and a significant fall in interest earned from an advance to the Afprene Lessor Trust. In addition, preference shares were settled last year and have been replaced with borrowings.

The impact of higher interest rates was, however, softened to some extent by tight control over working capital and a slow-

down in capital expenditure.

The tax rate increased to 41% (33%) with deferred investment allowance benefits beginning to run out and a lower level of tax-free exporters' allowances. This resulted in taxed profits growing only 1% to R51,4m (R50m).

However, attributable earnings were boosted by a 24% drop in income attributable to outside shareholders and the change in preference share policy.

As Sentrachem has changed its year-end to August, the current financial period will be 17 months. A second interim statement will be issued in June covering the year to March.

(183)

□ From Page 1

Austerity curbs may block ethanol fuel plans

Star 1/12/89

183

By Des Parker

DURBAN — The commitment to austerity in the De Klerk cabinet may put paid to the dreams of Natal's sugar industry of an ethanol-from-cane plant

In spite of the Government's agreement in principle to the project, given by former deputy Economic and Energy Affairs Minister George Bartlett days before the September national elections, the whole plan remains firmly on the drawing board

Two committees, with members drawn from state departments, the SA Sugar Association (Sasa), the oil industry and the National Association of Automobile Manufacturers of SA (Naamsa), were formed last month

They met in Pretoria this week to consider the concerns of the oil companies and the vehicle producers about the Sasa proposal to manufacture ethanol and blend it with petrol for Natal

Although members would not comment after the meetings, a source said Sasol's technical arm, Sastech, would continue to investigate the concerns of the petro-chemical industry over the technical specifications of blend petrol

Pricing formula

A spokesman for the oil companies said today. "Despite the pronouncement last week by Kees van der Pol (Sasa's consultant on the ethanol project) that the proposal was on 'yellow', there will be no go-ahead until we are satisfied with the technical properties and the pricing formula

"We must first be satisfied with

the technical specifications of the blend and, following from that, with the pricing formula — which at the levels the sugar industry is talking about would require price support from the State

"Until we are entirely satisfied with these aspects, there will be no deal"

The source said the different stands on price being taken by the oil and sugar industries were "legions" apart

Subsidisation

"The Government has told them to sort this one out themselves, but the price the sugar industry wants for its ethanol is so far from what the oil companies are prepared to pay that it doesn't appear agreement will be reached without considerable subsidisation — either from State coffers or from the motorist at the fuel pump"

Although nobody spoken to was prepared to quote figures, the sugar industry must be concerned that the Government will be reluctant to load the cost of another fuel project on to taxpayers or motorists, particularly with the relative economic pragmatism of the De Klerk administration

Already, the new Cabinet has refused to support synthetic fuel proposals put up by AECl and Gencor because, observers maintain, the authorities believe there is less of a threat to the free flow of oil to the country than there was previously, while there are more than enough alternative fuel arrangements

On top of that, a consultant group reported recently to the Na-

tional Energy Council that the project had no "strategic" value

However, the authorities may be strongly influenced by Mr Bartlett's election "promise"

There are also strong socio-economic advantages in the offing after Sasa's undertaking to open up the sugar industry to thousands of new black growers if it gets the go-ahead on ethanol

Pollution-consciousness also will be a consideration with ethanol being more "environment-friendly" than the lead presently added to petroleum to boost its octane rating

Naamsa neutral

Nico Vermeulen, director of Naamsa, said vehicle manufacturers were "neutral" on the ethanol proposal but insisted that ethanol blend fuel must not cause corrosion of fuel systems or any fall-off in motor performance

Differing conclusions were being drawn from research in countries running on ethanol blend into rusting of engine fuel components, protection against high-speed knock and the volatility of blend fuels in hot, humid regions, such as Natal

"We have a responsibility to motorists," said Mr Vermeulen

"If anything goes wrong with the fuel system of a car, it is the manufacturer who gets the blame, not the fuel producer and certainly not the manufacturer of additives

"But if our concerns can be addressed and assurances given then motor manufacturers would have no problem"

Sentrachem ^{Star 1/12/89} not immune to downturn

By Ann Croft

(1 & 3)

The severity and the extent of the current economic downturn is reflected in the interim figures of chemicals giant, Sentrachem and in management's decision to sharply revise its forecast for the 12 months to end-March 1990.

The revision of the full year forecast is based on the deterioration of trading conditions evident since end-September and strong indications that these conditions are unlikely to improve.

Results for the six months to end-September show earnings per share up by only 13 percent to 40.5c (35.8c) from which a dividend of 12.5c has been declared — 25 percent ahead of the previous interim's 10c.

For a while it looked as though Sentrachem was managing to side-step the effects of the economic downturn.

Back in May, when management announced the financial 1989 results (12 months to end-March), this massive chemicals group seemed to be showing none of the effects of the downturn that economists were talking about.

Even in July — with the publication of the annual report — there was no evidence that a slowdown was affecting the group's performance. Chief executive Johan van der Walt, only re-

ferred to the expected impact of the "anticipated downturn".

The interim figures and, more significantly, management indications that full year earnings growth is unlikely to be even 10 percent up on financial 1989, will certainly test the considerably enhanced rating that this group has enjoyed over the past 12-18 months.

Highlights of the review results are turnover up 4 percent to R1 billion (R995 million), operating income up 33 percent to R116 million (R87.3 million), an almost trebling of finance charges to R28.3 million (R10.9 million), pre-tax income up 15 percent to R87.7 million (R76.4 million), net income hardly changed at R51.4 million (R51 million), attributable income up 13 percent to R46.8 million (R41.3 million).

Stripping out the impact of Fedrus (which was sold five months into the previous interim period), turnover showed a 26 percent advance.

The tax rate shot up from 33 percent to 41 percent "because deferred investment al-

lowance benefits are beginning to run out and the level of tax free exporters' allowances reduced in the period under review.

In June 1988 the share was 380c, it reached a high of 850c early this year. Yesterday it was trading at 710c. Assuming the group can stretch to a 10 percent advance for the full year, then eps for financial 1990 will be around 90c. This puts the share on a prospective price/earnings rating of 7.9 times.

Assuming that dividend cover remains at around 3.2 times, shareholders can look forward to a full year dividend of about 28c a share. This puts the share on a prospective dividend yield of 3.9 percent.

These figures compare with the average historical rating for the chemicals sector of 8 times and 4.7 percent.

What the market must decide is whether the excellent performance since 1985 was a function more of extraneous factors (such as general economic conditions and international commodity prices) than management ability.

If it is the former then the share will likely be deserted until investors perceive the next upturn in commodity prices and/or economic conditions.

In financial 1989, strong local and international economic conditions combined with firm commodity prices, certainly enabled management to produce excellent figures.

But Mr Van der Walt argues a very good case for a proactive management strategy that sees earnings' performance affected — but not dictated — by the extraneous factors. (Despite the significant downturn in the second half, return on capital employed is expected to increase to 16 (14) percent for the full year.)

Mr Van der Walt refers to the group's much broader product base, its import-replacement projects, its niche marketing of value-added products and, the 15 percent target for export sales.

The commitment to a relatively high export exposure is underpinned by the realisation that local production must be internationally competitive in terms of the cost and quality of both the raw material inputs and the plant capacity.

During the review period overall margins picked up. A divisional breakdown shows that the squeeze on margins at Satripol and Mega was made up by improvements in other areas. Margins in the agricultural division were maintained.



Johan van der Walt

Mobil SA's link to US cut

Star 2/12/89
 American MD stays on to join new owners

CAPE TOWN — Mobil Oil southern Africa's last link with the New York based Mobil Oil Corporation, was severed yesterday when it was announced in Cape Town that local managing director Mr R J (Bob) Angel had resigned with immediate effect from the Mobil Oil Corporation.

Mr Angel will be remaining in South Africa to join the Energy Division of the Gencor Group, which acquired Mobil's southern African interests on July 1, according to a statement released in Cape Town yesterday.

Expatriate

Mr Angel (47) was transferred from the United States to South Africa in February 1986 on an expatriate assignment. In March 1987 he was appointed chief executive of the then-South African subsidiary of Mobil.

"South Africa is truly a remarkable place — it is a developing, changing society filled with unequalled promise and opportunities, and we are undoubtedly living at the most exciting and challenging time in the country's history," Mr Angel said yesterday.

He said in business as well there was an urgency and dynamism which was infectious, and he had thoroughly enjoyed his time as chief executive of the Mobil Group in southern Africa.

"Clearly the major event during my assignment has been the acquisition on July 1 of Mobil Oil SA by the Gencor Group. At that time, I told Mobil staff we had every reason to be confident and secure about the future of our company."

Mr Angel said that after nearly six months, he was even more convinced the new ownership was in "our direct and best interests".

"We are a major part of a multifaceted, highly successful group at the very forefront of economic development and progress in southern Africa."

Impressed

"I am tremendously impressed with the quality and vision of Gencor's management, and their imaginative plans for the energy division of which Mobil Oil Southern Africa is an integral part. As we enter the 1990s, we are without doubt at the threshold of a new and exciting era for the South African energy industry," Mr Angel said.

The chairman of Gencor's energy division, Mr Bernard Smith, said Mr Angel's decision to join Gencor reflected his total confidence in the future of the company.

"By choosing to remain in South Africa, Bob Angel has also demonstrated his faith in the economic, social and political future of this country," Mr Smith said.

"We in the Gencor group are delighted by his decision. Bob has 23 years of international experience as a senior executive with the Mobil Corporation and he will be an invaluable asset to our group and to the expanding energy industry in South Africa as a whole," Mr Smith added — Sapa.



Journalists march for press freedom

About 300 journalists and media workers yesterday marched from Johannesburg's Central Church to the Department of Home Affairs to hand over a petition protesting against the limits on press freedom. The Southern African Society of Journalists asked journalists to support march and petition, which was handed to a Department of Home Affairs official "because lions are that since the warning issued to *New Nation* three weeks ago, harassment of the has not ceased". The chief magistrate granted permission for the march. © Picture by Alf K

3 in court over caretaker's death

THREE men appeared in the Johannesburg Magistrate's Court yesterday in connection with the murder of the caretaker of King Edward VII School in Johannesburg, Mr Sidney Robson.

They are Mr Andries de Beer (21) of Carltonville, Mr Petrus Kruger (19) of Vrededorp, Johannesburg, and Mr James Bothma of Hillbrow, whose age is not known.

The men said Mr Robson was strangled with martial arts fighting sticks in his vehicle early last Friday morning and that his body was thrown down an old mine shaft outside Johannesburg.

The body has not been recovered. The men, who were arrested in Durban on Tuesday, have admitted breaking into Mr Robson's house and to charges of robbery, but denied intending to murder him. The trial continues on Monday — Sapa.

Ecology Party makes its entry on political stage

SOUTH Africa's newest political party, the Ecology Party, was formally registered in terms of the Electoral Act this week.

This means that in the next election voters will be able to cast their vote, and elect representatives to municipal councils and Parliament, on environmental issues.

The legally required 500 signatures to register the party were obtained within 30 days. The party claims to have close to 1 000 members.

A steering committee has been formed to handle interim administration and to

plan future developments. A countrywide network of branches is the next step.

Although it has adopted a green heart as its emblem, the Ecology Party has no links with the leftist Green parties in Europe. It believes South Africa needs an unemotional, pragmatic approach and solutions to environmental issues which are unique to southern Africa.

Anyone interested in joining the party should write to Ecology Party, PO Box 41890, Craighall 2024, or phone Mrs Patty van Plätzen at (011) 786-2360.

WEBSTER WATCH

POLICE announced this week that a month ago had detained a former police sergeant, Mr Ferdinand under section 29 of the Internal Security Act connection with the assassination of Dr David Webster. It is now 209 days since Dr Webster was killed. Asked why the police did not reveal the detention suspect at the time, Major Reg Crewe said that "believed it would have hampered their investigation". A reward for information leading to the arrest of Webster's assassins now stands at more than R150 000.

BARAGWANTH BAROMETER

In the week between November 23 and November 29 there was a cumulative shortage of 518 beds in medicine wards at Baragwanth Hospital and night an average of 74 patients slept on the floor. The worst overcrowding on November 26, when there were 69 patients in a 41 bed ward, requiring 28 patients to sleep on the floor. This week a total of fewer patients slept on the floor, thanks to the newly extended wards now in use.

Majority say hit squad exists and condemn its actions

THERE'S little doubt the police "death squads" exist in the eyes of most **Speak Out** callers this week — and most condemn their actions.

Mrs Mitchelson, Riverlea: The death squad comes as no surprise. The SAP belongs to the Government — the fact that I pay for these people is sickening.

Andy Mantjies, Haddon: Anyone who is reasonable knows the death squads exist.

Mark Fuhr, Sydenham: The squad may be part of the police and if they were killing ANC terrorists they have my blessing.

Louis Ardolson, Rustenburg: Death squads exist worldwide and I don't see anything wrong with them.

L Anvil, Rosebank: Individual policemen and police groups have been involved in these scurrilous activities. An honest police force that helps people must be set up.

Hans van Bavel, Hillbrow: The squads exist and the Government knows it. The punishment should be De Klerk's disappearance.

Anita Kuper, Sandton: All free-thinking South Africans believe the police force is corrupt. We are sick and tired of police brutality.



Louis Kuna, Soweto: Police hit squads have existed for a long time.

Laura Hofer, Fontainebleau: The squads do exist. Punishment for corruption in an organisation that is supposed to uphold the law should be the strictest possible.

Tony Motsa, Kabokweni: The death squad is the brainchild of a previous government of which De Klerk was part. He knew about the squad.

Daluxolo Yeki, Isakano: This had to come into the open. Mr Vlok and company will try to hide the squads but they should be given a dose of the medicine they have been prescribing for others.

Siphwe Mfuphi, Kanyamazane: The SAP must root out this vicious squad and they should receive life sentences.

A Rakgomo, Makwassie: The hit squads exist and the question why so

Kanakana Mathibha, Sebokeng: I believe the squads exist within the police, particularly the racist officers who belong to the extreme Right.

Titus Sgudu, Middleburg: The squads exist — I believe the Minister of Law and Order is involved in buying ANC members to man his hit squads.

Mr Alan Bland, Boksburg: It is hard to believe that the Department of Justice and the Department of Law and Order were unaware of the existence of police death squads. If the murder allegations are proved correct, the perpetrators should be hanged.

Mr Guy Mogashoa, Daveyton: There are death squads. Three policemen cannot tell one accurate lie.

Mr Mabutl Manana, Springs: When these people are found guilty, they should be sentenced to death.

Mr Phillip Dempsey, Hillbrow: There should be some sort of inquiry into some of the court cases when you consider that Baragwanth has already served six years for murdering two people — while a gang of blacks can be sentenced to death for just being on the scene of a necklacing.

Miss Allison Tomas, Hillbrow: In 1987

Mr Ahmed Kahn, Lenasia: When you know how many of the police take the law into their own hands and you see how they abuse authority, then you are bound to believe stories about the death squads. The squad should be hanged.

Mr Valentine Mkhize, Bethal: The squad is present. But I don't believe going to be any punishment — just

Mr Thabiso Koto, Isakano: The squads do exist because if you get a from a horse's mouth it's convincing.

Barney Segat, Yeoville: Are we living a vigilante-type nation eliminating times no matter what their political and leanings — something associated the Thirties mafia style assassinations?

Mr Gerald Alper, Beuzidenhout: This whole business is a vindictive and vicious smear campaign to besmirch the and the SADF. The editors of certain papers are printing absolute rubbish, them by people with doubtful and even naï records. I have the highest regard police. Without them many of us victims of ANC terrorists.

Mrs Lynno Digge, Windsor: The squads are shocking and as far as

Adcock highlights hazards of ED 77 ¹⁸³

Adcock-Ingram deserves full marks for the extensive financial information accompanying its 1989 annual report.

Ordinary shareholders who take the time out to come to grips with the implication of all of this information also deserve full marks. *Star 6/12/89.*

Adcock's published figures are based on historic cost accounting principles, which, for financial 1989, produced earnings per share of 143c.

The 1989 annual report includes an additional income statement and balance sheet prepared in terms of the controversial Exposure Draft 77 (aimed at attempting to incorporate the impact of changing prices on a company's financial statements).

Shareholders

For shareholders, one of the results of this effort by management is that they must now decide which of three earnings figures is the most appropriate one to apply — 143c, 279c or 70c.

EPS on an historic cost basis is 143c. On the comprehensive basis (ED77), income per share is 279c. And on current value basis, income per share is just 70c.

The share is currently trading at R23,25, which means its P/E rating could be 16,3 times, 8,3 times or 33 times.

Management is to be commended for being so fast off the mark in responding to a draft only published in September. But from the point of view of the ordinary shareholder, the extent of the differences between the historic and the ED 77 data are so extreme they risk confusion.

Nature

This highlights the radical and controversial nature of the ED 77 proposals, which, in turn, reflects disagreement over exactly what the purpose and nature of financial statements are.

Should they reflect underlying financial strength or should they be historical transaction-based reports?

Until agreement is reached, any attempt to prescribe what information financial statements should contain is likely to be met with discord from both users and compilers.

Diagonal Street

ANN CROTTY



Referring to ED 77, Tucker Klemenberg, technical manager at Price Waterhouse, says. "While the need is acknowledged for financial statements which take cognisance of the effects of changing prices, the solution proposed in ED 77 departs so far from accepted practice that acceptance seems extremely unlikely."

The divergence between the historic and the "ED 77" consolidated figures reported by Adcock is enormous on both the balance sheet and income statement.

Adcock's historic balance sheet for financial '89 shows total assets of R279,3 million. This almost doubles to R526 million under ED 77.

Ordinary shareholders' equity reflects a similar leap from an historic R138,9 million to R403,2 million under ED 77.

Significant

The most significant factor accounting for the difference in total assets is that trade marks are valued under the ED 77 system, but not under Adcock's historic system.

The ED 77 balance sheet values the trademarks at "the sum of the present values of the annual after-tax stream of royalties saved" which, in this instance, is R167,7 million.

Fixed assets are valued at R113,4 million on the historic basis and R189,5 million according to ED 77. Under the ED 77 system shareholders' equity is bumped up by retained income/reserves of R226 million.

These are only R48,7 million under historic. The higher ED 77 figure includes a R55,8 million transfer in financial '89, deemed to be required to maintain the operating capacity of Adcock's assets.

On the income statement ED 77 shows attributable income of R18,4 million (historic R38,2 million). The former includes a deduction of R19,9 million relating to "current cost operating adjustments".

The comprehensive income figure of R74,6 million (279c per share) includes R56,2 million of "value changes not from operations", which chiefly relates to revaluation of assets.

Significantly, the net worth per share under the ED 77 system is R14,94 (historic net worth 515c). The former is much closer to the Adcock share price.

ICA LIMITED

Issue

Star 7/12/87

Major new player emerges in plastics packaging industry

183

Finance Staff

A new force in the plastics packaging industry, with a turnover of more than R100 million, has been formed through the restructuring of the plastics manufacturing interests of Rubenstein Holdings (Ruhold), Lenco Holdings and Alfa Manufacturing Industries.

The deal, which involves R100 million in a series of transactions, leaves Lenco as a major player in plastics packaging and allows Ruhold to continue its expansion in the industry.

Ruhold and Lenco will jointly control Alfa, which Lenco rescued from provisional liquidation in May.

The revamped Alfa whose shares were suspended on May 11, will comprise Ruhold's flexible plastics operation, Ruplas, based in IwaNdebele, and Lenco's rigid plastics business, Elvinco, which has its factory at Atlantis in the Cap

Alfa, whose shares are expected to be relisted shortly, is acquiring Ruplas for R27,2 million through the issue of 38,8 million shares at 70,2c each, and Elvinco for R16,2 million through the issue of 23,1 million shares at 70,2c each.

The deal will boost Alfa's pro forma earnings a share for the year ended December 1988, to 9,9c from a loss of 441c.

Ruhold's pro forma earnings would have increased to 17,3c from 16,4c for the year to end-June, while Lenco's pro forma earnings would have risen to 36,7c (35,6c) for the year to end-June.

Alfa's board will be reconstituted, with Lenco's chief executive, Douglas de Jager, becoming non-executive chairman, and Ruhold's executive chairman, Jeff Rubenstein, becoming executive deputy chairman.

The creation of the new packaging group follows the acquisition by Lenco of R36,7 million claims

against Alfa — R28,7 million from Alfa's bankers, to be paid, free of interest in July, 1993, and R8 million from trade creditors for R6,7 million in cash.

Alfa's restructure involves the consolidation in share capital on a one for 10 basis and the sale of its packaging operations, including its properties, but excluding its flexible packaging business, to a company jointly owned by Lenco and Rand Merchant Bank, for R20 million in cash.

Jeff Rubenstein says Ruhold intends to issue R15 million redeemable preference shares, R10 million being used to retire existing Ruplas debt and the rest to finance Ruhold's fast expanding financial services division, Rubenstein Finance Company.

Alfa will be held 40 percent by Lenco and 38,8 percent by Ruhold, while twenty percent of Alfa's shares will be placed with institutions.

R100m force rises from trio's merger

183) ZILLA EFRAT (183)

THE merger of the plastics interests of Rubenstein Holdings, Lenco Holdings and Alfa Manufacturing Industries will create a new force in the packaging industry with a turnover of more than R100m

A series of transactions will lead to Ruhold and Lenco jointly controlling Alfa, which Lenco rescued from provisional liquidation in May *B/Dan 7/12/89*

Alfa, suspended from the JSE in May, will change its name and be relisted shortly. It is currently taking legal advice on its position regarding certain misrepresentations made in previously published figures for the year to December 1988.

Re-stated figures, the result of the misrepresentations and additional write-offs and provisions required to comply with those of Lenco, showed Alfa made a loss of 48,8c a share compared with the earnings of 18,2c a share previously reported.

Further losses were made in the seven months to July, but directors said Alfa had been in a break-even situation since then and was expected to return to profitability with the new deal.

The revamped Alfa will hold Ruhold's flexible plastics operation Ruplas and Lenco's rigid plastics business Elvinco. It will acquire Ruplas for R27,2m, through the issue of 38,8-million shares and Elvinco for R16,2m through the issue of 23,1-million shares, all at 70,2c a share.

Alfa's restructuring involves the consolidation in share capital on a 1-for-10 basis and the sale of its packaging operations, including its properties but excluding its

To Page 2

Plastics merger

B/Dan 7/12/89
flexible packaging business, to a company jointly held by Lenco and Rand Merchant Bank for R20m cash.

Ruhold will issue R15m redeemable preference shares, R10m to retire existing Ruplas debt and the rest to finance its services division.

Lenco will have a 40% stake in Alfa,

183)

From Page 1

Ruhold 38,8% and 20% will be placed with institutions. Lenco and Ruhold will transfer an equal number of Alfa shares to a jointly held company which will own 50,1% of Alfa's issued share capital.

The new Alfa, which will have a gearing of about 25%, will aggressively pursue growth both organically and through acquisitions.

WEEKEND ARGUS PROBE

A SECTION of Louw Street in picturesque Paarl resembled a chemical war zone this

week as men clad in protective clothing, goggles and breathing masks removed about 25 tons of toxic chemical waste — some of which had lain in a warehouse for at least 14 years — to a safer site.

And Weekend Argus was told that two other similar "storage sites" are located in the Paarl district, containing about 75 tons of chemicals, some of it extremely toxic, which would be cleared out this month.

The potentially lethal chemical waste was removed from "storage" this week after a major distributor of agricultural chemicals in the area moved premises and the owner of the warehouse wanted to redecorate his property — an indication that the "ugly mess", as one of those engaged in the clean-up called it, may have continued lying around in the central Paarl warehouse until something serious happened.

The operation is part of a clean-up organised by International Chemical Industries (ICI)/Kynoch (the companies have amalgamated) whose Agrochemicals division supplies farmers in the Boland district with herbicides, pesticides and fungicides.

I was in Paarl this week when I accidentally came across the removal of the waste and stopped to have a look.

I was horrified that such a mountain of corroded drums, broken bottles and leaking plastic containers — most carrying red skull and crossbones warning signs, stickers saying "Poison, extremely toxic" and others with "Flammable liquid" clearly printed on them — had been allowed to deteriorate into a stinking, chemical mess potentially harmful to humans, animals and the environment.

One high-pressure gas container — discovered hidden on a ledge high above the floor of the building and containing Methyl Bromide, a lethal toxic gas — was so corroded that the removal men said they would need specialised personnel to handle it.

"It will have to stay here until we find someone who knows how to handle it — our company is not qualified to handle toxic waste which is under pressure. What a place to store it — I guess they operate on the 'out of sight, out of mind' principal," said one of the men.

MARK STANSFIELD was driving through picturesque Paarl when he accidentally came across an operation to clean up 25 tons of chemical toxic waste in an old warehouse. A number of the corroding cannisters had been there for at least 14 years ... and there are another two warehouses harbouring 75 tons of similarly hazardous waste.

Poison in a Warehouse



Pictures: MARK STANSFIELD, Weekend Argus

Weekend FOCUS 3

Waste disposal to 'come clean'

INTERNATIONAL, Chemical Industries/Kynoch were to be congratulated on deciding to "come clean" after storing potentially lethal toxic waste in a Paarl warehouse for about 14 years, experts in the field said.

But they disclosed that thousands of tons of similar products he hidden in warehouses all over South Africa or have been dumped in places where they could cause horrific damage to our ecology and our health in the future.

Mr Steve Kumber, manager of Waste-Tech's Cape Town-based Class One toxic waste disposal site at Visserstok, said many companies here had approached them and asked for routes to remove toxic waste from their premises.

"In most cases that is the last we ever hear from them ... getting rid of toxic waste in a scientific manner costs money, so many firms simply carry on storing what they have or get rid of it in unorthodox ways rather than pay to have it removed and either stored or neutralised at our plant," he said.

An example of what is happening to tons of toxic waste was related by a toxic waste removal expert, who wishes to remain anonymous.

MASTERSLEISURE

Masterbond Trust makes major investment in SA leisure industry.

Advertisement Feature

Club Mykonos is the result of a strategic decision by one of SA's fastest-growing and most successful financial institutions, Masterbond Trust, to invest in the burgeoning leisure industry in this country.

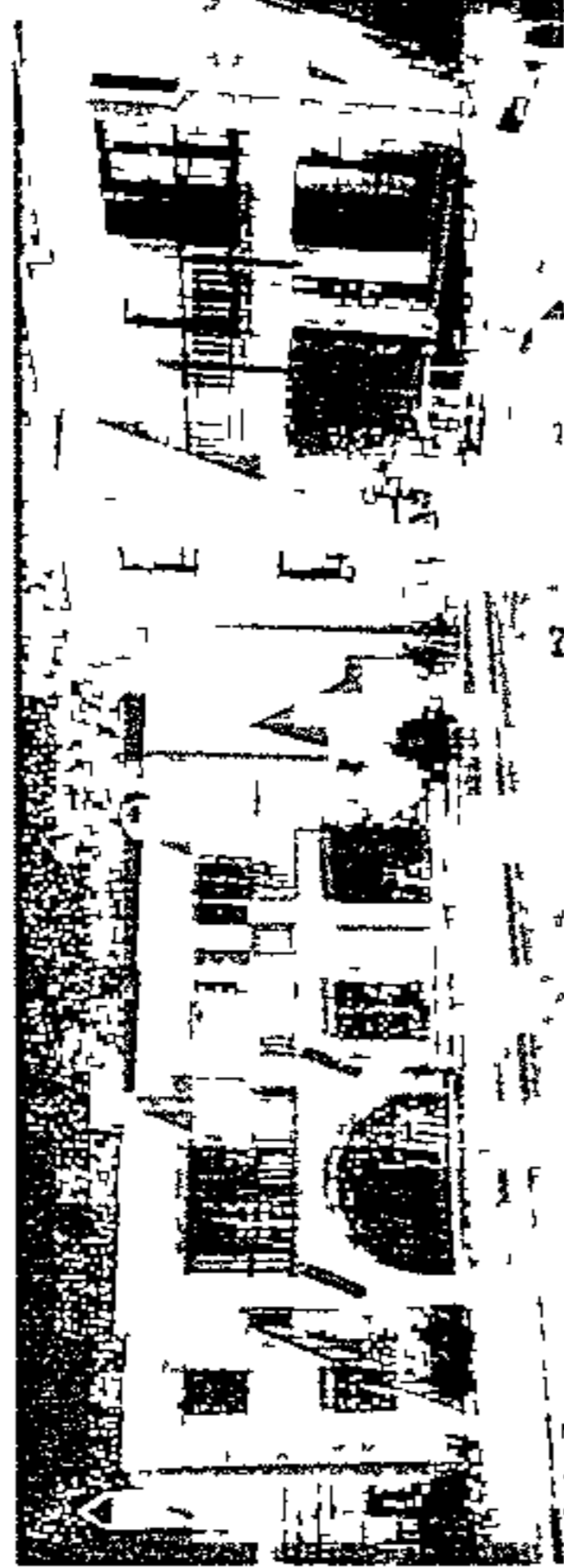
Masterbond Trust has an enviable record of blue-chip investments, and is in control of funds in excess of R350-million. It is thus strongly placed - through its leisure marketing and development arm, Masterleisure - to drive the ambitious project. As a result, Club Mykonos is emerging as one of the most successful resorts on the South African coast.

In line with its decision to strive for excellence in the resorts it develops, Masterbond has entered into an agreement with the country's top management group, Protea Hotels, who currently manage 60 hotels and resorts throughout South Africa. Protea is responsible for the smooth running of bookings, accommodation, restaurants and related services.

The company also oversees the magnificent Athena Convention Centre at Club Mykonos, catering for groups of

up to 400. Apart from its unsurpassed convention facilities, the centre has a full health club, with aerobics and weight training areas, indoor heated swimming pool, four squash courts and five tennis courts.

Masterbond is already well entrenched in its new direction, with other highly successful ventures under its aegis, including Marina Martinique in the Eastern Cape, the Southern Cape resort Fancourt, and timeshare city hotel Park Avenue, in Gardens, Cape Town.



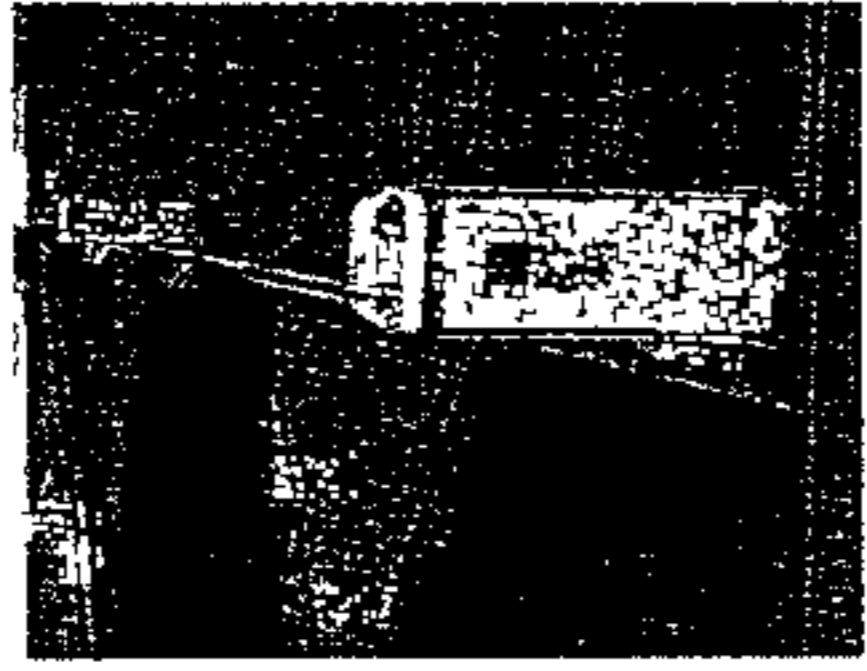
Club Mykonos Marina - a major contribution to SA yacht fraternity

The South African yachting fraternity, for many years under-served by harbours and landside facilities, has responded with enthusiasm to the magnificent new marina at Club Mykonos Langebaan, acknowledged as the most modern in the country.

Aside from every conceivable convenience, the Club Mykonos marina is within one of the safest harbours on the SA coast, and one of the seven safest in the world.

The marina offers berthing for around 140 craft, in the utmost luxury, which includes individual power and water points on the floating jetties, with facilities for telephone and cable television.

Convenience is a priority, with easily accessible slipway and fueling dock. Repairs can be done easily and efficiently, with provision made for craft to be transferred to

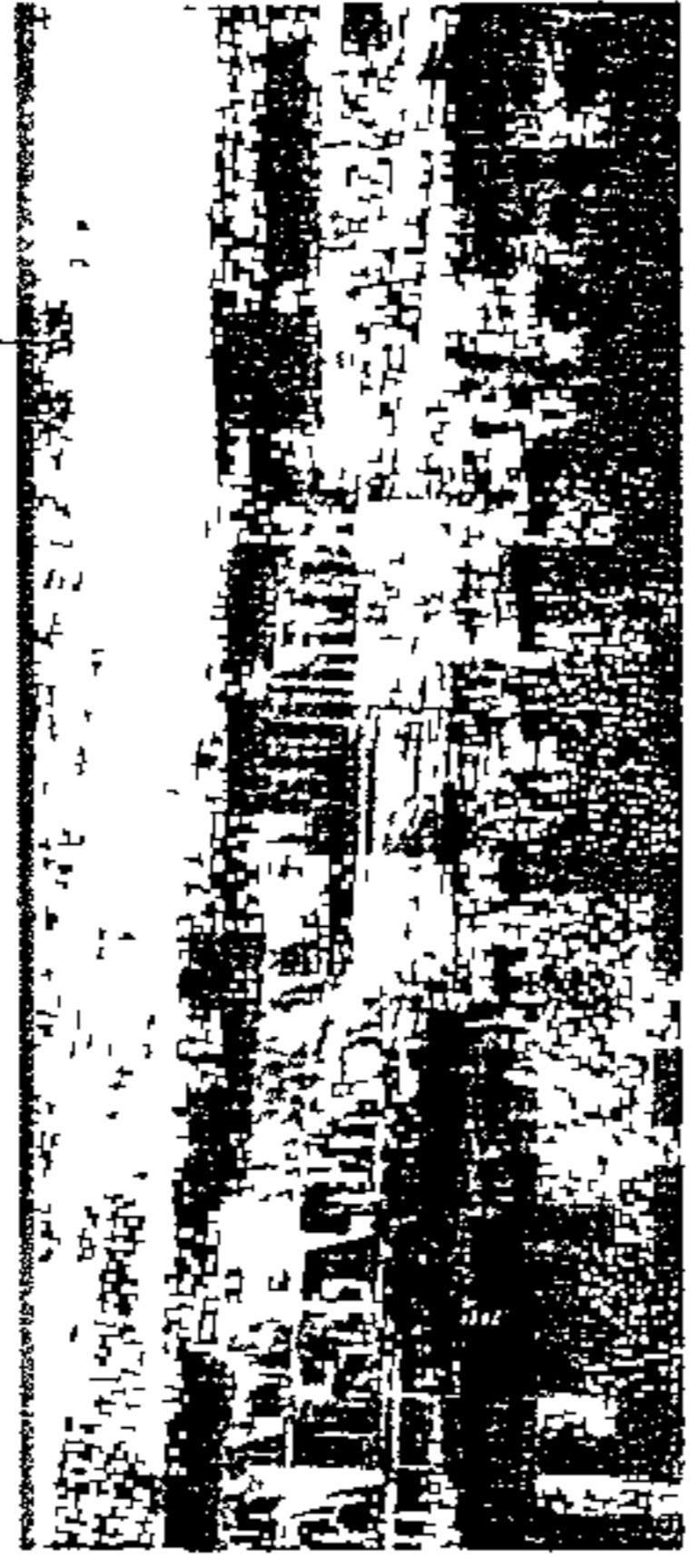


the hard by a massive 25-ton straddle carrier, which will lift boats directly from the water and transfer them to dry berths. Professional boat repair and maintenance services are provided.

Yachtsmen will find that convenience is not the only factor that makes Club Mykonos attractive. The cruising waters around Langebaan are among the most beautiful in the world, and the fun activities and leisure facilities - including restaurants, boutiques and dockside taverna, could keep even the most enthusiastic yachting land-bound.

Club Mykonos marina has a competitive edge too, with many sponsored regattas on the calendar during the current season and planned for years ahead.

Not least of the contributions to the sport is the sponsorship under the aegis of Club Mykonos of the brand-new yacht built in Cape Town by Keith Bellamy and skippered by Geoff Meek.



MASTERSLEISURE

nesburg chemical manufacturer had approached a government department about the disposal of cyanide, one of their waste products.

"The officials told them to store the canisters of cyanide in small concrete blocks. These accumulated on the premises over the years until about a year ago when the company's manager changed," he recalled.

"He saw all these blocks lying around and used them to build a retaining wall around the property. The government officials were horrified when they found out and told him to break down the wall and get rid of the cyanide blocks in a responsible manner.

"They apparently looked for disposal options but it would appear that they never utilised them.

"Out of curiosity I went around to the company's premises. The blocks had been removed. God knows where, but if, as I suspect, they were thrown away on a municipal dump site as builders' rubble, they have probably been salvaged and have been used somewhere. Who knows? We could be talking about township houses now built out of blocks containing cyanide," he said.

MOST toxic waste experts blame poor government legislation for the toxic mess in South Africa.

But that is soon to change.

The government is in the process of drawing up new legislation and experts who have seen draft copies say both the regulation and penalties for not conforming have been tightened.

"I think we are finally entering the era of responsible management regarding the estimated 5,000 tons of toxic waste produced in this country every year," Mr Kimber said.

Waste-Tech have a virtual monopoly when it comes to the disposal of toxic substances in South Africa.

They operate four of the five existing toxic waste disposal sites nationally. The only other one is operated by the Cape Town City Council.

new premises could not leak into the nearby Berg River in the event of a disaster.

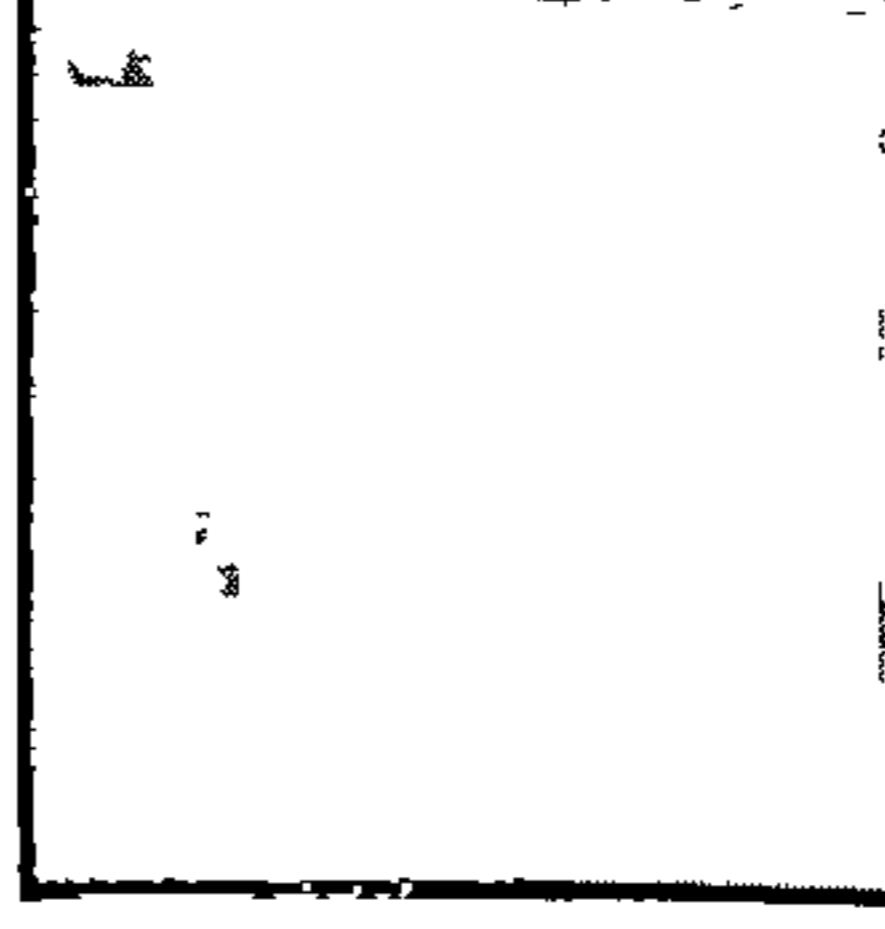
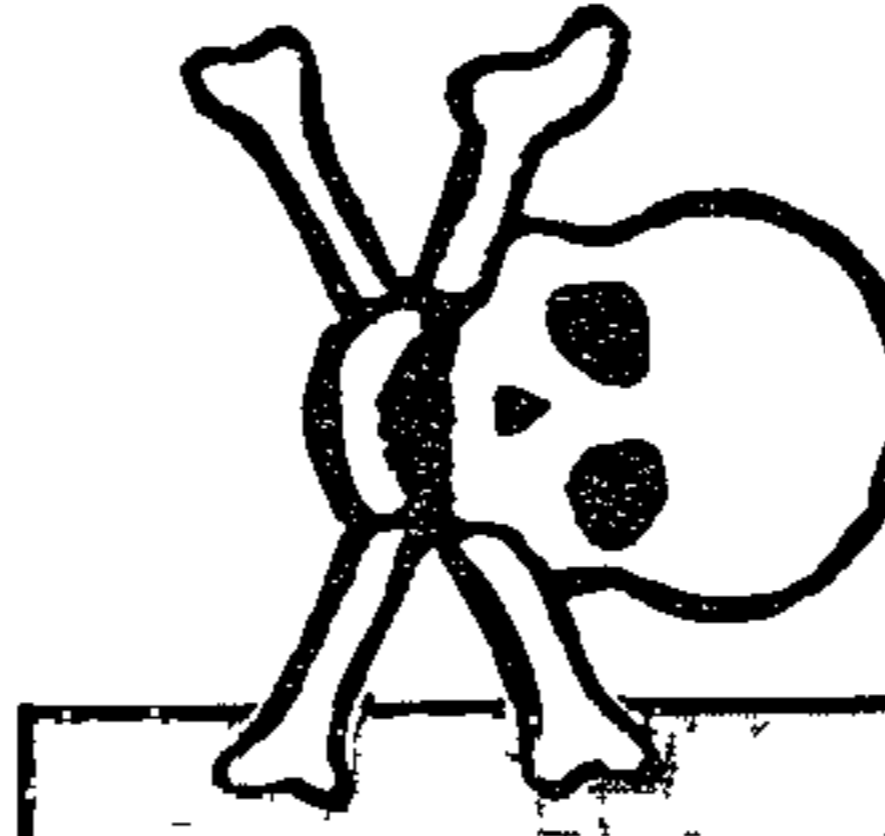
A special enclosed containment dam has been built beneath their storerooms should any chemicals leak out of the storerooms during heavy rain or flooding.

Several residents of the town have expressed concern at the building of a chemical storage plant close to the Berg River.

Mr Kempton-Jones says he was not aware of such concerns being expressed and the precaution of building the dam was taken of his company's own accord in the interests of safety.

Waste disposal workers remove toxic chemicals which had lain in a Paarl warehouse. Some of the chemicals had been lying there for up to 14 years.

Below right: A used canister of Methyl Bromide found in the warehouse. The canister had been lying there for at least 30 years when the premises were used by a fumigation company who had built special chambers for the use of the gas.



had been "stored" on the roof by the previous tenants of the building - a fumigation firm.

One of the men engaged in the clean-up said most of the chemicals would have had "disastrous effects" if they had managed to leak into sewers or underground water supplies.

The contents of the warehouse have been removed to Waste-Tech's Visserstok toxic waste disposal site. Waste-Tech operate nationally in the removal of toxic waste and have four Class-One toxic waste disposal sites in South Africa.

Although many of the labels on containers of the chemicals removed this week had been corroded to such an extent that they could not be read, a few 50kg containers were labeled "Aflon 50 WP", a schedule B2 herbicide which carried the warning that the contents should be kept away from all foodstuffs.

Others, some labelled "Velenoso", carried the skull and crossbones warning sign, while others, containing "Rogor 20W" were labelled "poisons". A few labelled "Ultracide" carried large stickers saying "Poison, extremely toxic".

There was at least one container of crude calcium cyanamide.

Most containers were corroded or damaged.

INTERNATIONAL Chemical Industries/Kynoch Cape Manager, Mr Ken Kempton-Jones, disclosed that some of the containers "may have contained substances banned by the government".

"But these, if present, would have been in small quantities," he said.

Substances banned by the government because of their harmful effects include Dieldrin and DDT.

Mr Kempton-Jones said most of the chemicals had been stored in the warehouse and had accumulated over "about 14 years" because they were either past their effective shelf life or were damaged containers.

"We estimate that about a third of the 100 tons is harmless and there were no chlorinated compounds amongst what was in storage," he said.

When asked if ICI/Kynoch had other similar storage sites in the Cape, Mr Kempton-Jones said "a little bit was stored in the Eastern Cape at the moment".

"Most of the stuff has been brought down here (to Paarl) from our branches. We're having a major clean-up," he said.

"We are going about getting rid of our toxic waste in a responsible manner by giving it to Waste-Tech at tremendous costs. We could have simply taken it out into the country and buried it," he added, pointing out that under existing legislation this would be a legal method of getting rid of these harmful substances.

BOOK issued by the government's Plant Protection Research Institute - the "bible" for most farmers and suppliers of agricultural chemicals - states clearly that "regardless of the toxicity" of a particular pesticide it can be buried - "as long as (the substance) can be covered with 0.5m of soil and as long as the burial site is not less than 100m from a sunken dam, earth dam, well, borehole or spring".

This method does not take into account the permeability of the soil and other ICI/Kynoch spokesmen said farmers had been using this method for years.

"Any farmer who approaches us on the subject of getting rid of toxic chemicals is referred to Waste-Tech from now on," Mr Kempton-Jones said.

A spokesman for Waste-Tech said masks and other protective clothing had been used because the chemicals were located in a confined space and because of the deterioration of the containers.

ICI/Kynoch Agrochemicals recently moved premises in Paarl and spent several million rand on ensuring that chemicals stored on their

No. R. 2690

8 Desember 1989

WET OP MISSTOWWE, VEEVOEDSEL, LANDBOUMIDDELS EN VEEMIDDELS, 1947 (WET No. 36 VAN 1947)

REGULASIES BETREFFENDE DIE REGISTRASIE VAN MISSTOWWE, VEEVOEDSEL, LANDBOUMIDDELS, VEEMIDDELS, STERILISERINGSINSTALLASIES EN PLAAGBEHEEROPE-RATEURS, APPELLE EN INVOERE.—VOOR-GESTELDE WYSIGING.

Ek, Jacob de Villiers, Minister van Landbou, hande-lende kragtens artikel 23 (4) van die Wet op Mis-stowwe, Veevoedsel, Landboumiddels en Veemiddels, (Wet No. 36 van 1947)—

(a) maak hierby bekend dat ek van voorneme is om die regulasie in die Bylae uit te vaardig; en

(b) nooi belanghebbende persone hierby uit om besware teen of vertoë aangaande die voorgestelde regulasie binne vier weke na die datum van publika-sie hiervan skriftelik aan die Registrateur: Mis-stowwe, Veevoedsel, Landboumiddels en Veemid-dels, Privaatsak X343, Pretoria, 0001, voor te lê.

J. DE VILLIERS,
Minister van Landbou.

BYLAE

Die regulasies gepubliseer by Goewermentskennis-gewing No. R. 1449 van 1 Julie 1983, soos gewysig by Goewermentskennisgewings Nos. R. 96 van 20 Janua-rie 1984, R. 2055 van 14 September 1984 en R. 1053 van 3 Junie 1988, word hierby verder gewysig deur Tabel 1 daarvan deur die volgende tabel te vervang:

“TABEL 1

GELDE BETAALBAAR

Doel	Bedrag betaalbaar per aansoek
1	2
A Aansoek om die registrasie van—	
(a) 'n misstof, veevoedsel of ster-liseringsinstallasie	R 190,00
(b) 'n landboumiddel of veemiddel	R 380,00
(c) 'n plaagbeheeroperateur	R 95,00
B Aansoek om die hernuwing van die registra-sie van—	
(a) 'n misstof, veevoedsel of ster-liseringsinstallasie	R 95,00
(b) 'n landboumiddel of veemiddel	R 190,00
(c) 'n plaagbeheeroperateur	R 45,00
C Betaling bykomend tot dié in paragraaf B vermeld, in die geval van 'n laat-aansoek om die hernuwing van die registrasie van—	
(a) 'n misstof, veevoedsel of ster-liseringsinstallasie	R 50,00
(b) 'n landboumiddel of veemiddel	R 95,00
(c) 'n plaagbeheeroperateur	R 45,00
D. 'n Appèl ingevolge artikel 6 van die Wet	R500,00”.

No. R. 2690

8 December 1989

FERTILIZERS, FARM FEEDS, AGRICULTURAL REMEDIES AND STOCK REMEDIES ACT, 1947 (ACT No. 36 OF 1947)

REGULATIONS RELATING TO THE REGIS-TRATION OF FERTILIZERS, FARM FEEDS, AGRICULTURAL REMEDIES, STOCK REME-DIES, STERILISING PLANTS AND PEST CON-TROL OPERATORS, APPEALS AND IM-PORTS.—PROPOSED AMENDMENT

I, Jacob de Villiers, Minister of Agriculture, acting under section 23 (4) of the Fertilizers, Farm Feeds, Agricultural Remedies and Stock Remedies Act, 1947 (Act No. 36 of 1947), hereby—

(a) make known that I intend to make the regula-tion in the Schedule; and

(b) invite interested persons to submit any objec-tions to or representations concerning the proposed regulation in writing to the Registrar: Fertilizers, Farm Feeds, Agricultural Remedies and Stock Re-medies, Private Bag X343, Pretoria, 0001, within four weeks from the date of publication hereof.

J. DE VILLIERS,
Minister of Agriculture.

SCHEDULE

The regulations published by Government Notice No. R. 1449 of 1 July 1983, as amended by Government Notices Nos. R. 96 of 20 January 1984, R. 2055 of 14 September 1984 and R. 1053 of 3 June 1988, are hereby further amended by the substitution for Table 1 thereof of the following table:

“TABLE 1

FEES PAYABLE

Purpose	Amount payable per application
1	2
A. Application for the registration of—	
(a) a fertilizer, farm feed or sterilising plant	R 190,00
(b) an agricultural remedy or a stock remedy	R 380,00
(c) a pest control operator	R 95,00
B. Application for the renewal of the registra-tion of—	
(a) a fertilizer, farm feed or sterilising plant	R 95,00
(b) an agricultural remedy or a stock remedy	R 190,00
(c) a pest control operator	R 45,00
C. Payment in addition to that specified in para-graph B, in the case of a late application for the renewal of the registration of—	
(a) a fertilizer, farm feed or sterilising plant	R 50,00
(b) an agricultural remedy or a stock remedy	R 95,00
(c) a pest control operator	R 45,00
D An appeal in terms of section 6 of the Act	R500,00”

183

183

GENERIC DRUGS (183) 15/12/89

Hooked on brands

All too often it seems that government is for deregulation as long as no special interests are opposed. This time it was a heavy-weight, the multinational drugmakers. Predictably, government caved in.

Under pressure from major drugmakers government has announced it will drop a clause in the new Medicines and Related Substances Control Amendment Bill that would have allowed pharmacists to dispense generic drugs rather than the more expensive branded ones doctors usually prescribe.

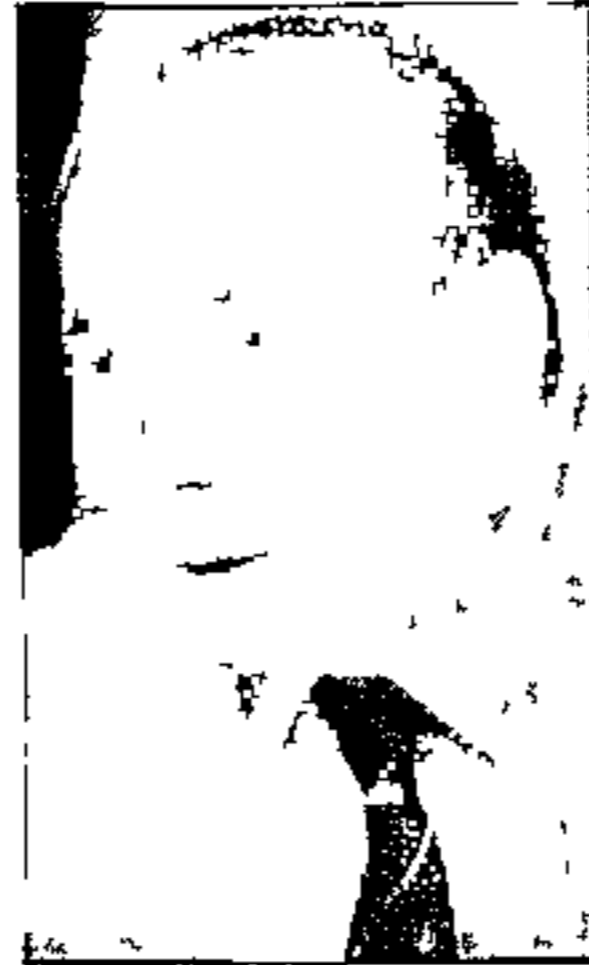
Pharmacists, consumer groups, manufacturers of generics and other supporters of generic drugs will get another crack at the big pharmaceutical companies, but not before the 1991 legislative session at the earliest. This is because government won't reconsider the issue until the De Villiers Report on Health is released, probably next year.

The lobby for generics, led by SA Druggists and other SA generics manufacturers, argue that up to R100m could be cut from the nation's drugs bill without compromising health if pharmacists were allowed to substitute generic drugs for branded prescription drugs.

Generic, or no-name, substitutes for branded antibiotics, Valium and many other prescription drugs, have been on the market for many years. But private-sector generic prescription sales total only R70m, far below their potential, because pharmacists are not allowed to dispense generics unless a doctor prescribes them. And doctors are usually



Karis



Speedie

loyal to brand names

In the US and UK, which have far more liberal laws regulating pharmacies, the story is different. While generics make up less than 10% of SA's total prescription market, they make up 40% of the markets in the US and UK.

However, the SA generics market has grown rapidly in recent years, thanks to more medical schemes reimbursing members for no more than the generics price.

But medical schemes are ambivalent over whether substituting generics would mean long-term savings.

"There would certainly be short-term savings but if branded products were driven off the shelves, then the price of their generic equivalent may well shoot up," says Rob Speedie, executive director of the Representative Association of Medical Schemes. "The power of the big, local generic producers would be enormous."

Wellcome MD Colin Loubser calls generic substitution an unfair trading practice because the patient is not getting exactly what the doctor ordered. He doubts that generic substitution will lead multinationals to withdraw from the country.

He adds "Innovative companies have to recoup their research costs, so they have a much higher cost base than generics companies. If a company feels it won't even recover the promotional costs on a new drug, it may not launch it."

SA Druggists MD Tony Karis says there is a lot of sabre-rattling from multinationals but they won't leave as long as they make money. "Only 25% of drugs have a generic equivalent available in SA so they would be unlucky to lose 12,5% of turnover to generics. They might even decide to reduce their prices to preserve market share."

He says that if substitution were allowed, doctors would always be able to specify "no substitute" on their prescriptions.

Pharmacists are certainly disappointed that generic substitution isn't coming yet. Boet van der Merwe, executive director of the Pharmaceutical Society, says it believes "the pharmacist should have the right to substitute therapeutic equivalents where it is considered to be in the patient's interest, the pharmacist should be allowed greater discretion in supplying a greater range of products."

But one of the thorny issues is therapeutic equivalence. Loubser says a generic drug may have the same proportion of an active ingredient but the inert substances could alter how fast the patient absorbs the drug.

There would be no issue, of course, if doctors stopped prescribing the most expensive, state-of-the-art drug when a cheaper equivalent may be just as effective.

The Medical Association of SA says it believes that doctors will mend their ways. To help them along, according to Bernard Mandell, chairman of the association's federal council, it will strengthen its peer review system to censure doctors who overprescribe.

Petrol price to rise, but not in city

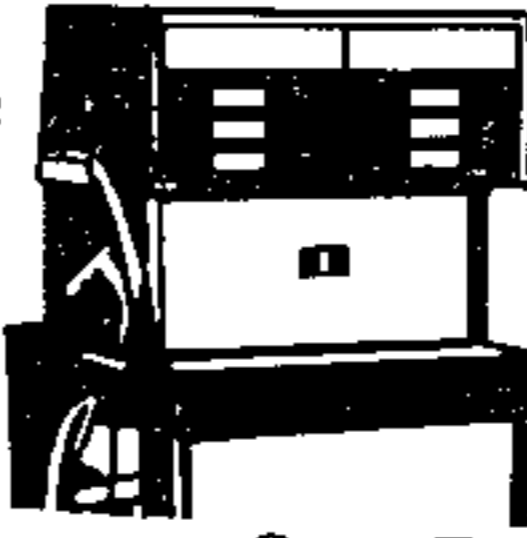
PRETORIA — Petrol and diesel prices are to increase between one and three cents a litre on January 1 — but the increases will not affect areas served by pipelines, the National Energy Council announced here

The increases, said the council, are a result of tariff increases announced by the South African Transport Services

In addition, the price of illuminating paraffin will increase up to two cents a litre "due to higher transport tariffs in respect of illuminating paraffin transported and distributed in drums, cans and tins"

Areas such as the PWV, are exempt
For example, there will be no petrol

AR643
22/12/89
183



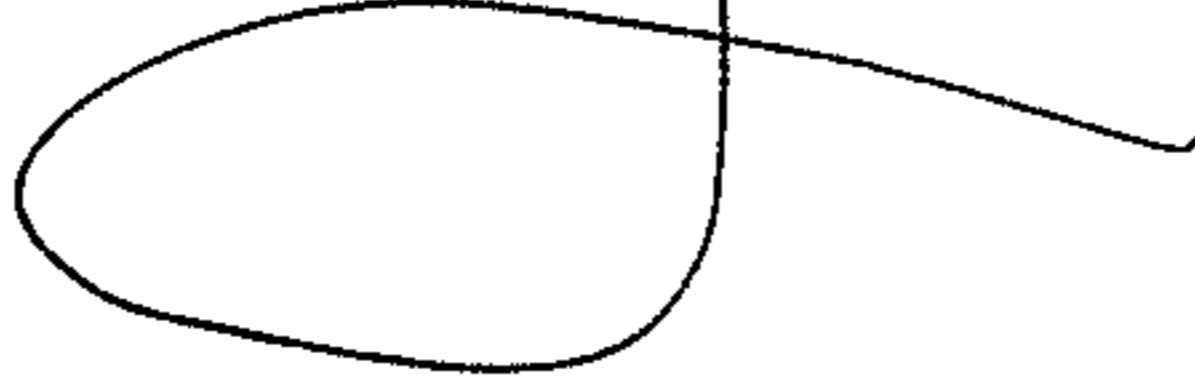
price increase in Cape Town, Durban, East London, Port Elizabeth, Johannesburg or Pretoria — but petrol will go up two cents a litre in Bloemfontein and one cent a litre in Beaufort West

Uppington motorists will also have to pay an extra one cent, according to figures supplied by the council — Sapa

MANUFACTURING - CHEMICAL PRODUCTS

1990

JAN - MAY



Beating prospectus

Activities: Makes and distributes anaesthesia equipment and other health care products

Control: The directors own 70% and W & A (through Citizens Holdings) 10% of the equity

Chairman and managing director: C Ramsbottom

Capital structure: 6,87m ords of 1c Market capitalisation R4,5m

Share market: Price 65c Yields 10,8% on dividend, 29,7% on earnings, PE ratio, 3,4; cover, 2,8 12-month high, 120c, low, 60c Trading volume last quarter, 19 000 shares

Financial: Year to September 30

	'86	'87	'88	'89
Debt.				
Short-term (R000)	—	—	1 005	76
Long-term (R000)	—	—	208	307
Debt equity ratio	—	—	—	0,09
Shareholders' interest	—	—	—	0,46
Int & leasing cover	—	—	—	69,8
Debt cover	—	—	—	3,88
Performance				
Return on cap (%)	—	—	—	28,2
Turnover (Rm)	9,5	11,6	13,1	15,2
Pre-int profit (Rm)	1,8	2,0	2,2	2,5
Pre-int margin (%)	—	—	—	16,5
Taxed profit (Rm)	1,3	0,9	1,0	1,3
Earnings (c)	11,4	13,1	15,2	19,3
Dividends (c)	—	—	—	7
Net worth (c)	—	—	—	60

* Pro forma prelisting figures

Activities: Manufactures and distributes pool equipment, chemicals and related products, bathroom fittings and video cassettes

Control: AECI holds 57% of the equity

Chairman: P J D Gubb, managing director G Hartogh

Capital structure: 20,2m ords Market capitalisation R9,1m

Share market: Price 45c Yields nil on dividend 4 0% on earnings, PE ratio, 25 0 12-month high, 150c, low, 45c Trading volume last quarter, 107 000 shares

Financial: Year to June 30

	'87	'88	'89
Debt			
Short-term (Rm)	0 6	2 8	6 3
Long-term (Rm)	0 8	3 6	3 5
Debt equity ratio	0 10	0,65	0 91
Shareholders' interest	0,67	0 50	0,45
Int & leasing cover	3 92	7,15	2 07
Debt cover	n/a	0,25	0,08
Performance			
Return on cap (%)	13 2	12 2	4 0
Turnover (Rm)	18 6	20,4	25 1
Pre-int profit (Rm)	1 4	2 4	0 9
Pre-int margin (%)	7 7	8 0	3 6
Taxed profit (Rm)	1 0	2 0	0 4
Earnings (c)	6,9	12,8	1,8
Dividends (c)	nil	4	nil
Net worth (c)	37	48	50

* Pro forma

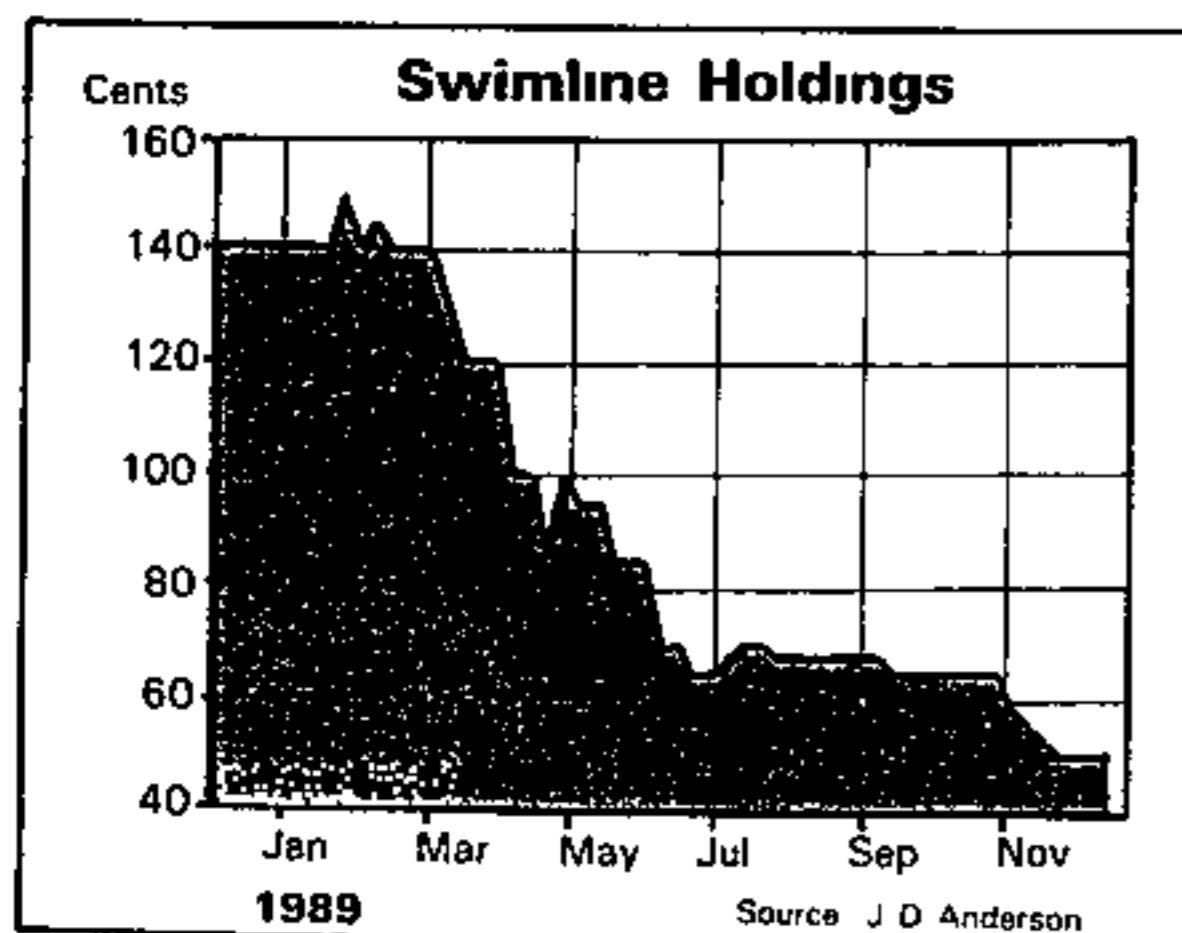
to the growth path will take some time Unless something can be done about the gearing, the recovery is likely to be retarded by another substantial increase in interest charges Despite doubling last year, 1989 interest payments amounted to only 9,3% of the year-end borrowings total, suggesting a further doubling this year could be on the cards

The interim report will probably give some indication of the success achieved in turning the group around Until then, the only reasonable advice is to exercise caution Investors should also bear in mind that Puttergill accepted the current market price of 45c for his shares — which he would presumably not have done had he thought the valuation unreasonable

Brian Thompson

was supposed to be at least 30%, saw an 86% decline with resulting EPS of 1,8c, the lowest level since 1982

Most logical explanation is over-ambitious expansion plans Pointing in this direction is the fact that the total asset base of the group has more than doubled over the past two years, from R10,9m in 1987 to R22,7m at



June 30 1989 Operationally, it involved buying a foreign subsidiary and establishing manufacturing facilities for such diverse products as bathroom fittings and video cassettes

Another significant contributor to the growth in assets has been a hefty increase in working capital Aggregate stock and debtors doubled over the two-year period, while the ratio of net working capital to turnover increased from 18% to 33%

The asset growth would have been acceptable had it been accompanied by a commensurate improvement in sales But turnover growth since 1987 has averaged just over 16% a year The bottom line is that asset-turn has collapsed to only 1,1 times Put another way, the company is taking 91c in assets to generate every R1 in sales — so it's not surprising to find gearing is now 0,91

It is not clear whether the performance over the past year was responsible for the

board changes or change of control that occurred Of the seven directors listed in last year's report, three are out — including the chairman, John Puttergill, who until AECI bought him out was one of the major shareholders and had been responsible for putting the group together in its present form Other departures were the financial director/secretary, and the original founder of Swimline It may also be significant that the vacancies created on the board have not been filled According to the directors' report, there is no intention of doing so "for the time being"

The market has responded to the release of the annual report by driving the share down to a new low of 45c — half the issue price and less than one-third of the high shortly after the listing Reasons, this time, are easier to find While the acting chairman, Peter Gubb, believes improved results will be achieved this year, his review leaves the impression that a full recovery and a return

Protea predicts lower earnings for new period

ZILLA EFRAT

183

PROTEA Chemicals's earnings for the six months to February 1990 are unlikely to match those achieved in the previous comparable interim period, says chairman Mike Struwig in his annual review

The group's budget for the current year has been revised because of restrictive measures introduced by the authorities and the down-trend in business activity *B10M 5/11/90*

In view of this forecast, certain restructuring and stringent cost reduction programmes have been introduced throughout the group

These have led to retrenchments and redundancies in certain divisions and the disposal of Cremark Chemicals. By the end of the year the group employed 1 776 (2 026) people

Struwig says continued asset management remains a priority to reduce the impact of the expected lower level of earnings on the group's balance sheet.

In the year to August turnover increased 25% to R373m. However, earnings of 22,8c a share, after adopting the partial method for providing for deferred tax, reflects a marginal drop on the previous year's 22,9c

Struwig attributes the fall to the delayed commercialisation of projects which will come to fruition this year, a loss made in the polyaluminium chloride project and the sharp rise of R5,1m in interest paid

He says margins, particularly in the trading division, were again under pressure by intense competition

Borrowings to permanent capital rose sharply to 81% (55%), exceeding the group's objective of 35% to 75%

Struwig says the matter is receiving close attention and emphasis is being placed on funds management

The current ratio remained unchanged at 1,3 1 while interest cover fell to 2,6 (4,7) times

A dividend of 7,75c (7,25c) a share was declared — covered 2,9 (3,2) times

Good 1990 predicted for plastics

15/Jan 5/11/90
THE plastics industry was set to double its annual growth rate in 1990 from that of the past two years, a Plastics Federation of SA (PFSA) spokesman said yesterday

The growth rate for the industry in 1988 was 6,4%, last year it was 10%, but for 1990 it was expected to rise to an all time high of 15%, he said

Immediate PFSA past president Roger Cockram, said by the end of the year the industry's annual turnover would be over R7,5bn, which compared favourably with last year's R6,9bn

Cockram said the industry was in the most stable position that it had been for the past few years. He said one reason for this was Sasol's announcement that a new R437m polymers production plant would open early this year

The plant would be capable of producing 120 000 tons a year. Of this figure Sasol would expect to export 50%, said Sasol media manager Jan Krynauw

183
Business Day Reporter

The percentage of imported raw materials used in SA, as opposed to those produced locally in 1988 was 26%, but the new plant would substantially reduce this percentage, said Krynauw

Cockram said the implementation of Phase 6 of the local content programme for the motor industry would improve the industry's security and stability

However, Amalgamated Plastic Industries director Peter Hewitt said the apparent growth in the industry was misleading

Demand

He said that the annual turnover increase to R7,5bn was devalued to a great extent by the inflation rate

He added that the availability of locally produced raw materials which would be increased by the new Sasol polymers production plant would over-

shadow the demand for the materials. "This excess in raw materials will surely cater for a strong export market but the poor image that the rest of the world has of SA as a result of the present political climate is the main stumbling block in this regard," he said

An improvement in international relations would widen the export market and increase technological standards in the industry, Hewitt said

"The industry is in for a 'revolution' in the next five years. This will come about as a result of an improved political environment and a rationalisation in the industry aimed at improving its productivity"

A leading member of the industry said he had high hopes for the industry but it still had a long way to go

This was demonstrated in a PFSA survey done at the end of 1989 which showed that SA's use of plastics was well below that of the rest of the Western world

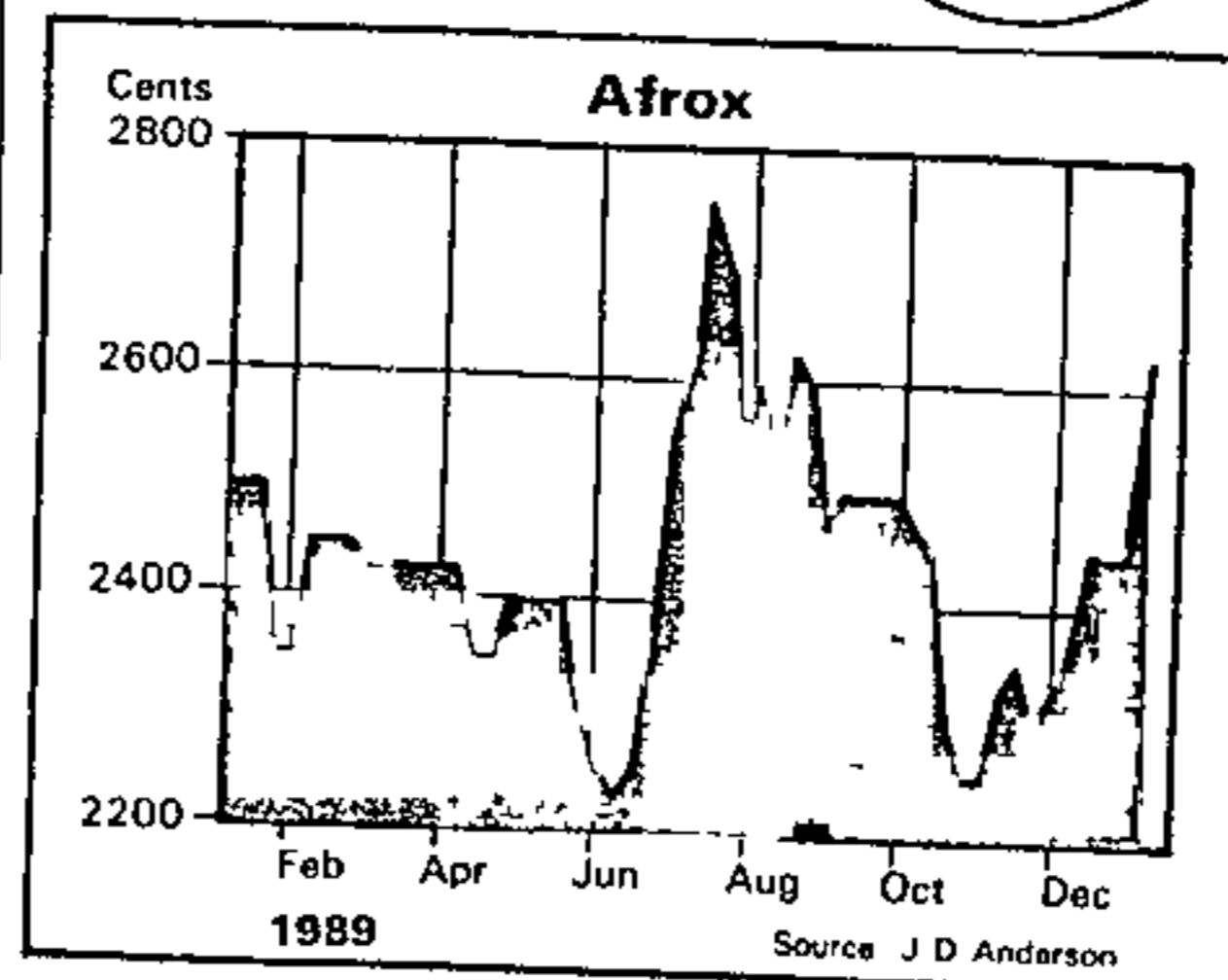
Stepping on the gas

A year ago chairman Peter Joubert cautiously hedged his forecasts for the coming period. Afrox had just completed its best trading year and was entering a period of considerable economic and political uncertainty. In fact, fiscal 1989 turned out to be the best ever and the group extended operations with a heavy capital programme.

This time around Joubert is again cautious. But he makes it clear Afrox can easily maintain the rates of capital spending needed to expand its business and that the benefits of earlier spending will start flowing to the bottom line this year.

The gases and welding divisions, which provided a virtually unchanged 81,6% of

FINANCIAL MAIL JANUARY 12 1990



Activities: Manufacturing gases and welding products. Operating private hospitals.

Control: BOC Group Plc has 58% of the equity. **Chairman and managing director:** P G Joubert.

Capital structure: 29,96m ords of 50c. Market capitalisation R779m.

Share market: Price 2 600c. Yields 3,8% on dividend, 6,6% on earnings, PE ratio, 15,2, cover, 2,2. 12-month high, 2 750c, low, 2 100c. Trading volume last quarter, 247 000 shares.

Financial: Year to September 30

	'86	'87	'88	'89
Debt				
Short-term (Rm)	19,7	13,2	44,4	88,3
Long-term (Rm)	50,0	44,7	60,4	120,7
Debt equity ratio	0,17	0,06	0,25	0,44
Shareholders interest	0,56	0,61	0,56	0,51
Int & leasing cover	7,0	27,9	36,9	8,9
Debt cover	1,6	1,5	1,0	0,6
Performance				
	'86	'87	'88	'89
Return on cap (%)	18,4	15,9	16,4	17,0
Turnover (Rm)	391	448	567	728
Pre-int profit (Rm)	73,6	92,7	113,4	149,3
Pre-int margin (%)	20,6	20,7	20,0	20,5
Taxed profit (Rm)	37,0	46,9	59,2	68,2
Earnings (c)	91,5	113,6	146,7	170,5
Dividends (c)	50	61	75	100
Net worth (c)	898	1 127	1 304	1 478

consolidated operating profit after additional depreciation, generates faster returns than the private hospitals (13,7% of operating profit), which helps explain why return on assets rose despite the heavy expenditure, which lifted total assets by 26% to R877m. The rate of spending on the gases division will continue this year, Joubert says, adding that returns on investment will be comparatively rapid with buoyant markets facilitating sales.

Joubert's views on health care have been expounded before. Principally he believes health care charges should not be subsidised and that large sections of the hospital service should be privatised. Afrox's own hospitals remain "fettered by an unrealistic medical aid fee structure," though this does not affect the company which has contracted out of hospital billing.

The developing returns from health care interests are unlikely to increase hospitals' proportional contribution to profits materially, simply because returns on investment in gases rise more rapidly. Nonetheless, hospitals should eventually weigh in with about one fifth of profit sometime in the Nineties.

The heavy capital programme has contin-

FINANCIAL MAIL JANUARY 12 1990

ued to lift net borrowings and Joubert expresses some concern about the effect of high interest rates. Total borrowings doubled last year to R209m, lifting the debt equity ratio to 0,44. There is room for more debt and the group is not up against the borrowing barriers caused by its foreign ownership.

On historical yield considerations the share is fully-priced, but past yields do not provide an adequate measure of investment value. Afrox represents a virtually irreplaceable asset situation and its forward earnings should continue to grow strongly in real terms when many firms are forecasting real declines.

Jim Jones

Birth of paint giant said to be imminent

B/Dam 12/11/90 183

BRENT MELVILLE

AILING paint group Vadek is at the centre of market speculation that there will be a major reshuffle in SA's R1,5bn-a-year paint industry.

Industry sources are adamant that a major paint producer is interested in acquiring JSE-listed Vadek — effectively creating SA's third largest paint group.

However, no details of potential suitors were available yesterday.

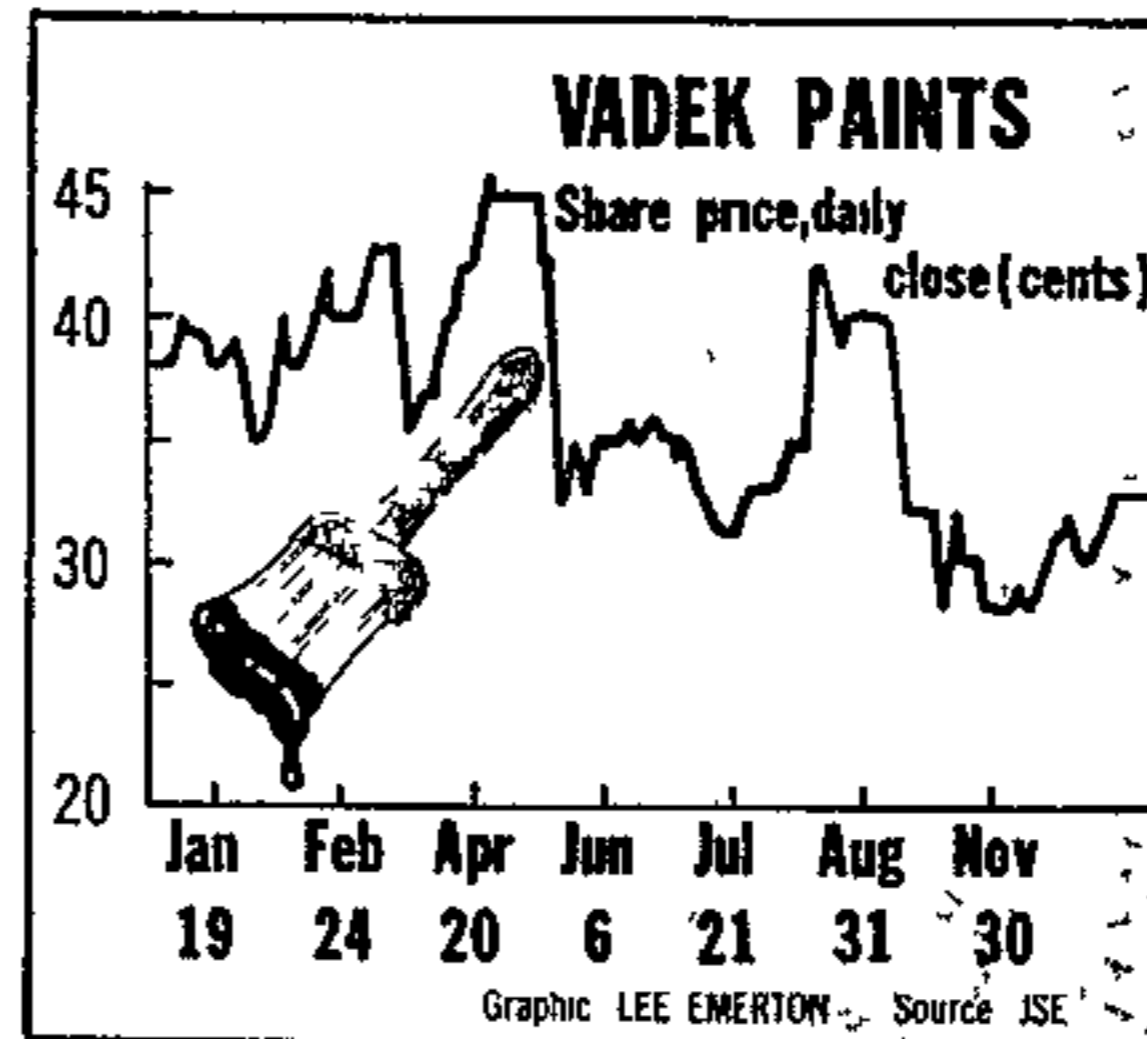
The two major players in the industry are Barlow subsidiary Plascon and AECI's Dulux, with turnovers in the region of R500m and R300m respectively.

The SA Paint Manufacturers Association identifies the other main producers as Vadek, Cedar Radex, Chemical Specialists, Albestron and Dacra.

Rewa Investment Holdings acquired a 44,8% interest in Vadek last September for a cash consideration of 38,97c a share. The agreement included an undertaking by Rewa to make a similar offer to minorities before January 24.

Vadek chairman John Vadas yesterday denied any knowledge of a third party offer to minorities and said it was "news to him".

He added, however, that he would definitely consider selling his 17,5% shareholding if an offer was "attractive enough".



He said that so far Rewa had not made good its undertaking to minorities. Last month Vadas obtained a court order compelling Rewa to make the minority offer by February 28. He added that the offer would include interest at prime from December 6.

It is known that Magnum Investment's Martin Summerley is acting for Rewa in an "advisory capacity". Rewa has also invested in complementary paint group Albestron.

Analysts said any offer would have to be about 40c a share. Rewa has interdicted the JSE from dealing in any shares owned

□ To Page 2

Paint giant

by it, meaning that to be successful any offer would have to be accepted by virtually 100% of the minority shareholders — including Vadas.

Vadek's unpublished interim results to August, paint less than a pretty picture. In the six-month period since its year-end, retained earnings of R501 000 have turned into a loss of R3,2m.

On turnover of R19,9m (R16,7m), Vadek showed an operating loss of R326 000 (+R1,2m). Interest charges bit off a further R703 000 (R116 000), resulting in a pre-tax loss of R1m (+R1,1m). And a hefty R420 000 was set aside for the tax man.

Main reason for the bad news was an extraordinary loss of R2,6m, which Vadas said was due to losses on the sale of the

group's paint contracting division Master Coatings.

In addition the group wrote off an amount of R322 000 for amounts owing on the debtors account by the general paint contracting subsidiary.

Vadas says if this had been included in the extraordinary item the effect would have been to reduce the net loss attributable to shareholders to R287 000 — translating into an earnings loss of 3,0c (+4,7c) a share.

Vadek closed yesterday at 33c. Traditionally tightly held, the share has come off its low hit in mid-December of 28c in high volume trading with almost 200 000 shares trading hands.

183 □ From Page 1

Afrox looks to be a share for all seasons

Star 16/11/90

Engineering group Afrox tends to perform relatively well in periods of downturn and brokers are not expecting this year to be an exception.

In the annual report chairman Peter Joubert says the group structure, together with its range of products and customers, ensures that cyclical swings in the economy are evened out.

Mr Joubert expects group markets to remain buoyant in the current financial year and believes there is great potential for further organic growth.

He says the productive capacity of the gases division will continue to be expanded and that the returns from healthcare should start increasing this year as expenditure tails off.

Afrox, though its manufacturing companies and trading outlets, makes and markets gases, welding products, fluid-handling systems and a range of high-technology industrial products.

The group operates and has interests in several private hospitals.

In the year to September 1989, the gases and welding operations maintained their contribution to group profit before interest and tax at 82 percent.

The contribution from the healthcare division rose from 12 to 14 percent.

Other businesses accounted for less than five percent of group pre-interest profit, compared with more than six percent previously.

Group turnover climbed 28 percent from R566,7 million to R728 million in the 12 months to September.

Improved operating efficiencies pushed trading profit up 31 percent from R112,1 million to R147,3 million.

After a 60 percent rise in the share of trading profits of associated companies, pre-interest profit increased 32 percent from R113,4 million to R149,3 million.



However, a fivefold increase in net interest paid from R3,1 million to R16,7 million and a higher effective tax rate of 48,6 percent (46,4 percent), resulted in taxed profit rising by 15 percent from R59,2 million to R68,2 million.

After charging additional depreciation of R15,6 million to reflect the current cost of assets consumed and deducting outside shareholders' interest of R1,6 million, attributable profit grew 16 percent from R44 million to R51,1 million.

This provides inflation-adjusted earnings of 170,46c a share (146,72c).

On an historical accounting basis, the increase in earnings is 15 percent from 193,42c a share to 222,47c. The dividend for the year was lifted from 75c a share to 100c.

As a result of expenditure to upgrade and expand operations, net borrowings almost doubled to R200 million, bringing gearing to 28 percent, which is still regarded as conservative for a capital-intensive industry.

Net asset value appreciated 13 percent from R13,04 a share to R14,74. Inflation-adjusted earnings place Afrox, priced at R28,25, on a P/E ratio of 16,6. If historical cost earnings are used, the P/E ratio reduces to 12,7.

Both these figures exceed the sector average of eight and brokers say the share is probably fully priced in the short term.

COMMENT: Afrox's share price has recently risen steeply to new heights on good demand. Although the share is in a primary bull trend, profit-taking could result in a short-term correction.

Star 17/1/90

Consol and M&R close to agreement

Finance Staff
Consol Plastics said yesterday negotiations between Consol Limited and M&R Plastics had reached an advanced stage and that, if successful, would result in M&R acquiring certain flexible packaging and industrial products interests from Consol

MD Dave Spindler said agreement between Plastall Limited and Consol Limited was probable and, if successful, Plastall would acquire Consol's construction and agricultural sheeting business

As one of SA's largest plastic converters, Consol Plastics is very widely spread and the deals should facilitate an increase in market focus for Consol, which is strengthening its position in rigid plastic markets and in selected flexible plastic markets of strategic importance

Conclusion of negotiations will result in the acquisition by Plastall of certain production equipment, which will be relocated, and the takeover of the branch operations in Durban, Port Elizabeth, Bloemfontein and Cape Town

Agreement with M&R will result in it acquiring the Germiston factory operation

Consultations are continuing with employee representatives

The division of the current operation into two going concerns, with employees joining the different existing teams of the two potential acquirers, means retrenchment of a number of salaried and wage-earning personnel remains inevitable

But Mr Spindler said Consol had undertaken to assist those affected to obtain alternative employment

Focus is on chemical production

Synfuel role of Sasol 1 to be phased out

183

BID copy 18/1/90

IN LINE with Sasol's strategy to move further into high value added chemicals, the Sasol 1 plant will be revamped and diverted from synthetic fuel production.

GM Dave Day says diseconomies of scale, inflation and the aging equipment at Sasol 1 — commissioned in 1955 — make synfuel production less profitable there than at Sasol 2 and Sasol 3.

As a result, Sasol 1 will continue to produce industrial gases but will be revamped to produce the high value added chemicals which make the largest contribution to growth in group earnings.

The plant's synfuel production will be phased out, but Day says this will not affect general synfuel supply as both Sasol 2 and Sasol 3 are producing substantially more than their original design level.

He says synfuels are likely to remain the mainstream of Sasol's business for many years, and co-products from Sasol 2 and Sasol 3 synfuel production will go to Sasol 1 for further development.

Sasol has been involved in intensive R & D to build new equipment and introduce new processes to the chemical functions of Sasol 1.

The group has spent R136m over the last two years on upgrading and streamlining Sasol 1 for this chemical processing, and it expects to spend substantially more in introducing the new processes and equipment.

Day says Sasol 1 has already been moving in the direction of chemical production

ZILLA EFRAT

for some time. The original ethylene plant has been revamped and is using feedstock from Sasol 2 and Sasol 3. A blending plant has been installed at Sasol 1 for making customised solvents.

After extensive R & D, the standard purification plant at Sasol 1 has been upgraded to produce high-purity phenols.

The design of new technology at Sasol 1 for special wax and chemical production is being given high priority, and various options are being examined.

Day says if current design is duplicated and modernised the new processes can go on stream within months. However, there are advantages in new technology which looks more attractive but which will take longer to implement.

The research will also develop new chemical processes and methods to take up other intermediate streams.

Existing equipment from an uneconomic plant that had been shut down will be used to purify the industrial alcohol n-Propanol, an important building block in chemical and pharmaceutical applications.

About half the envisaged output of Sasol 1 will be exported, and in some areas South Africa's dependence on imports will be reduced.

Day says more sophisticated jobs will be available to the people of Sasolburg, and staff will be redeployed and re-trained. The revamped plant will contain the latest environmentally friendly technology.

Making a splash

F/M 19/1/90

183

With the local market for automatic suction pool cleaners all but saturated manufacturers are increasingly turning their attention overseas

Helga Schneider, chairman of Baracuda Automatic Pool Cleaners, predicts the overseas market will soon be more important than the domestic market

While separate pressure cleaners are still popular overseas, sales of suction cleaners, which work off the filtration systems of pools, are overtaking them. The three top-selling automatic suction pool cleaners in the US, Europe and Australia were all designed in SA.

Schneider claims there's nothing available overseas that can equal Baracuda, Kreepy Krauly or Aquanaut. Three years ago Baracuda was judged the world's leading pool cleaner. Last year, an Australian pool magazine organised a competition between pool cleaners from all over the world and Baracuda was again judged the best performer.

The SA industry has capitalised on its technical supremacy by exporting and establishing factories overseas to make SA-designed cleaners.

"Exports have to be camouflaged to some extent because of sanctions," says Schneider, "but this did not stop the sale of 43 000 units abroad, mostly in North America, in 1988. Last year we increased sales by 25% in North America and sold 10 000 in Europe. After years of trying we are now legally allowed to export to Brazil, which has 300 000 pools."

Schneider expects 1990 to be even better for Baracuda because it has developed a new cleaner, the Manta, for pools with vinyl liners, which are popular overseas. A trial shipment of 10 000 was "snapped up soon after arrival and we've put another 15 000 on dealers' shelves," she says.

The export market will soon eclipse the local market entirely. "The local market is virtually saturated," says Schneider. "It absorbed about 78 000 cleaners in 1989 which, at R250 a cleaner, gave it a value of less than R20m.

"The replacement market absorbed

60 000 and was manufacturers' major source of local business — the vast majority of the 378 000 pools in SA are already fitted with automatic cleaners. The only additional units sold were those fitted to the 18 000 new pools built in 1989."

Margins are also much better on overseas sales. "Cleaners are very cheap here because of intense competition between manufacturers and because we use our export proceeds



to keep down prices," says Schneider.

Cheap local prices create other complications. "Speculators buy cleaners at retail prices and export them at a profit. We want to stop this as no back-up service is provided, unless they're sold through accredited agents. And often cleaners designed for SA pools don't work properly overseas."

The total pool business is substantial. "If everything is added together — the building of new pools, the sale of pool chemicals and automatic pool cleaners, as well as those exported — turnover for the entire industry has topped the magic R1bn mark. It was worth R1,2bn in 1989."

Agreement over these issues is hard to find. Despite an association of manufacturers, the major players bicker over the size of the market and their respective market shares. However, they do agree on the growing importance of the export market.

Quoting research done by Markinor, Schneider claims Baracuda had a 58,1% market share of the SA pool cleaner market in 1989.

Kreepy Krauly MD Scholto Manthe disputes this figure, claiming Baracuda added exports to local sales to grab top slot. He says his research shows Kreepy Krauly is the market leader. He won't reveal its market share but says he instructed his advertising agents to demand that Baracuda should prove its claim satisfactorily or he would complain to the Advertising Standards Authority.

It's not surprising they're at loggerheads. Some years ago the two were locked in a costly legal battle over patent rights.

According to Manthe, the SA pool cleaner market is growing at 8% per year and was worth R15m-R20m last year. He estimates only 50 000 units were sold in 1989.

He says Kreepy Krauly is well established and growing in Europe and North America. It is now moving into Italy and Greece where

more private pools are being built.

Manthe gives Aquanaut a 10% share of the SA market but Aquanaut MD John de Groot, who is also chairman of the SA Automatic Pool Cleaner Association (to which all three

manufacturers and Plastiflex, a hose manufacturer, belong), insists it has 20%-25%.

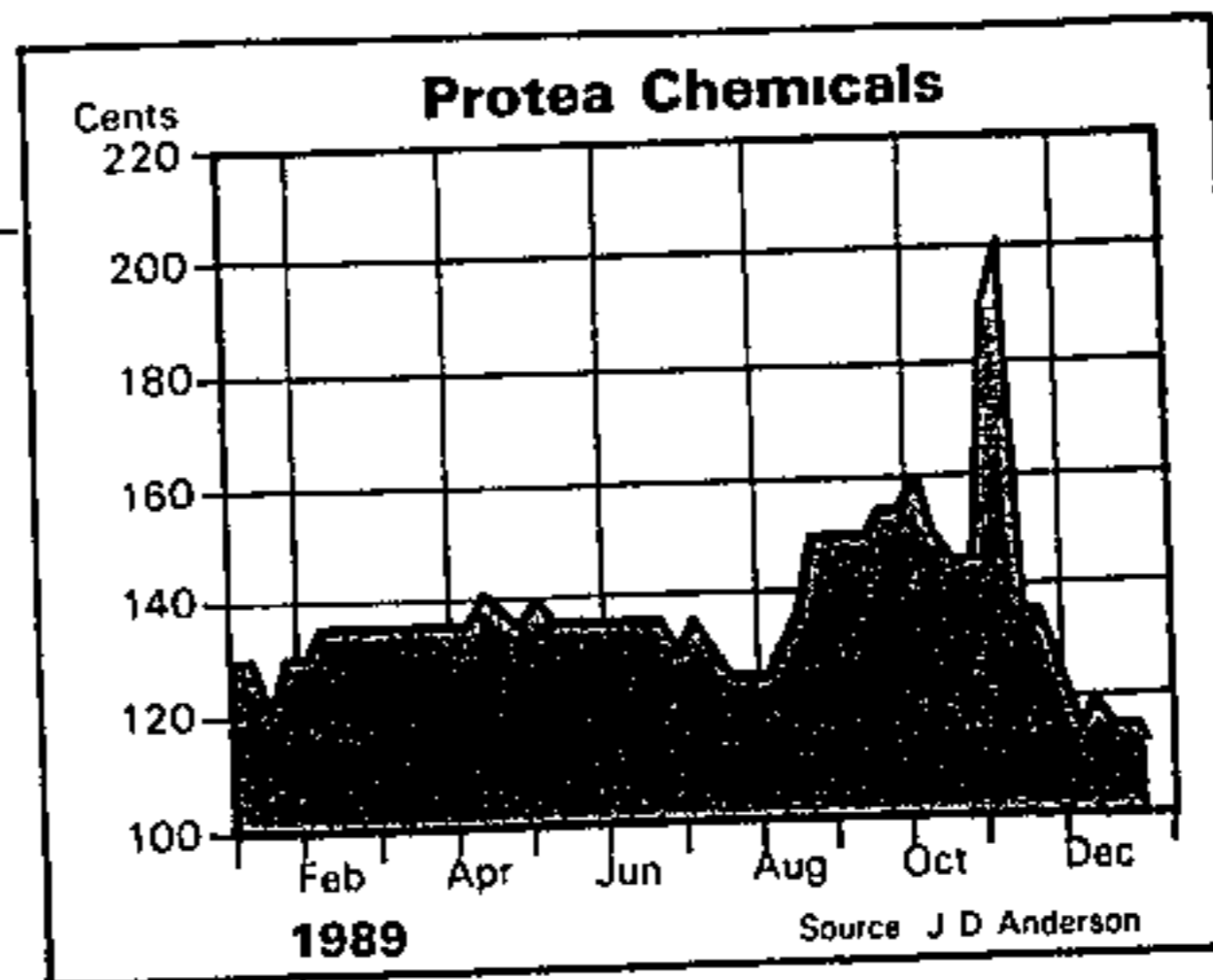
De Groot supports Baracuda's claim to be market leader and estimates 50 000-60 000 pool cleaners, including the 15 000 bought by first-time pool owners, were sold in SA last year.

Johan Deale, MD of Olin, which markets HTH products, maintains R100m worth of pool chemicals were sold last year with pumps and filters worth R50m and the pool cleaner market only R10m.

Pools are missing from that list. The National Spa and Swimming Pool Institute of SA does not know how many pools were built last year. Not all pool builders are members.

Both Swimline and Olin claim supremacy in the pool chemical sector. Deale says Olin has a 60%-65% market share. Swimline's Gary Hartogh disagrees but refuses to come up with his own estimates of how the market is broken down. Once again, both competitors have crossed each other in the marketplace. Swimline was involved in litigation with Olin little over a year ago and last year Olin brought a Supreme Court action against Control Chemicals over alleged infringement of trade marks.

De Groot says one of the aims of the pool cleaners' association is to obtain accurate statistics on pools, cleaners and the replacement market, which can be used to the industry's benefit. It seems that seldom has there been a greater need.



PROTEA CHEMICALS

183

Missed targets

Activities: Manufactures speciality chemicals, plastic products, corrosion resistant valves and pumps, and mining accessories

Control: Malbak 86,3%

Chairman: M Struwig

Capital structure: 46,6m ords

Share market: Price 112c Yields 6,9% on dividend, 20,4% on earnings, PE ratio, 4,9, cover, 2,9 12-month high, 200c, low, 105c

Trading volume last quarter, 685 000 shares

Year to Sep 30	'87	'88	'89
Debt			
ST debt (Rm)	21,7	18,0	28,6
LT (Rm)	2,0	12,3	19,7
Debt equity ratio	0,47	0,54	0,81
Shareholders' interest	0,40	0,34	0,33
Int & leasing cover	5,81	4,63	2,62
Return on cap (%)	17,4	19,4	17,8
Turnover (Rm)	223,6	297,9	373,0
Pre-int profit (Rm)	18,5	21,4	25,7
Pre-int margin (%)	8,3	7,1	6,9
Earnings (c)	18,6	22,9	22,8
Dividends (c)	7,0	7,25	7,75
Net worth (c)	109	118	128

Shareholders will have to dig hard and deep to find anything to be optimistic about in this annual report — at least in the short term. Rapid growth experienced in the years before the 1987 listing has completely dissipated and indications are that the current year's earnings could be down.

Chairman Mike Struwig fully expects a decline in the first-half and, while he does not specifically mention the full year, there must, given the way the economy is heading, be more than a shadow of doubt about the group's ability to make good a first-half decline during the second six months.

In general terms, main reasons for the last year's lacklustre performance were squeezed margins and substantially higher interest charges. *FIM 19/1/90*

Operating margins have been dropping steadily since they peaked at 8,3% in 1987, first to 7,1% in 1988 and now to 6,9%. This is attributed to competition and costs associated with new products that have not yet contributed to profits.

As far as interest charges are concerned,

group borrowings soared from R30,3m to R48,3m, compounding the rise in rates and contributing to virtual doubling of interest payments from R4,6m to R9,7m. This more than absorbed the marginal gain in operating profit and it was left to a lower tax rate (33,5% against 36%) to level the bottom line.

To complete the litany of woe, the group failed to meet every one of its performance and balance sheet targets other than dividend cover which, at 2,9, is still well within management's objectives.

But there are a few positive signs. For instance, asset turn continues to improve, which supports the premise that problems in the trading arena are not being compounded by poor asset management. The same applies to working capital control — net working capital in relation to turnover continues to decline, again suggesting satisfactory internal controls. *FIM 19/1/90*

This may not be much comfort in the short term but looking further ahead it is probably worth considering Prochem's position in the "development" division of Malbak. This division is a collection of bits and pieces which, in the context of the enlarged Malbak group, are too small to form focused divisions alone. The implication is they will either be developed until they graduate into fully-fledged divisions or might be sold. *(183)*

The unsuccessful negotiations with Sentrachem last year further suggest that, if a sale of Prochem is contemplated, the companies concerned will not be given away. Either way, a share such as Prochem gains a certain speculative appeal. Malbak itself has shown considerable success in acquiring companies on terms favourable to itself, and there is no reason why the same should not apply to other companies in the group. In the event of a sale, it can be assumed the terms would probably be favourable, which in turn would reflect in the offer to minorities.

Meanwhile, market disenchantment with Prochem is reflected in a high 6,9% dividend yield and — a rarity in the industrial market now — in the fact that the 112c share price is below net worth. There could well be money to be made here but, in view of the current year's outlook, timing is problematic.

Brian Thompson

183

23/11/90

Medical aid inquiry nears completion

LINDA ENSOR

THE Competition Board's investigation into possible restrictive practices in the medical aid sector is at an advanced stage and should be completed in about a month's time.

Board chairman Pierre Brooks says it will then be submitted to Trade and Industry Minister Kent Durr.

The board is also investigating alleged restrictive practices in the pharmaceutical and video industries.

Brooks says the aim of the investigation into medical aid schemes — which commenced early in 1989 — is to look at the role they play with regard to the costs of health services and to examine whether there is sufficient competition.

An aspect of the probe is the role of the Representative Association of Medical Aid Schemes.

The investigation has also examined whether insurance companies could become more involved in providing cost-effective medical aid cover.

Regarding the pharmaceutical industry Brooks says there have been allegations that pharmacists have been instructed to boycott Mediscor, an intermediary acting between medical aid schemes and pharmacists in competition with the Pharmaceutical Society's counterpart, Medikredit.

Brooks says pharmacists have allegedly been threatened with a withholding of supplies by wholesalers should they contract with Mediscor which offers a discount to members of medical aid schemes contracted with it who purchase medicines from contracted pharmacies.

The investigation into the video industry which is under way concerns allegations that video distribution firms are involved in restrictive practices vis à vis video outlets in that outlets are required in terms of distribution contracts to purchase a package of videos for the first month of their launch and are not allowed to select individual videos.

THE first methane gas to be extracted from the Johannesburg City Council's Robinson Deep refuse disposal site was pumped during the first week of January, a council spokesman said yesterday.

And AECI project spokesman Robbie Vermont said the gas was pumped about 17km from the refuse site to AECI's cyanide factory south of the city.

Vermont said it was expected that 1 000m³ of gas would be pumped from the refuse site every hour during

EDWARD WEST

phase 1 31 Dec 25/1/90
He would not disclose the project cost

A council statement said Phase 2 of the project, the upgrading of the cyanide capacity of AECI's Klipspruit factory, would be undertaken at a later date.

The gas would enable the council to grow vegetation more easily on the site and would accelerate biodegrading of the refuse

Henkel SA signs agreement

Edward West (183)

HENKEL SA signed an agreement with Kenochem subsidiary SA Amines last week to manufacture a fabric softener base compound at Henkel's Trochem plant in Wadeville

Trochem spokesman Dennis De Gersigny said Henkel also planned a R3,5m investment by its shareholders, Rembrandt and Henkel Kgae of West Germany, to erect an esterification plant at Wadeville to manufacture chemical compounds used in the cosmetic industry

The new plant would save SA R5m in foreign currency, he said.

Plastall buys Gundle plastics

Plastall has announced the acquisition of Gundle plastics, construction and agricultural sheeting business from Consol Plastics. The disposal by Consol is part of a plan to streamline its widely spread operation and to focus its attention on the plastics market.

The purchase consideration of R7 million is to be settled in cash with the initial R1,28 million payable on the acquisition date and the balance over 120 days.

Plastall, which recently moved from the DCM to the main board of the JSE, is a major manufacturer and distributor of polyethylene bags and sheeting.

Plastall chairman Bob Wenteler comments "The Gundle business complements the existing business of the group as well as facilitating access to a national distribution infrastructure."

The addition of the Gundle business will moreover expand Plastall's current product range and will ensure greater market share.

Plastall recently reported results showing a 62 per cent increase in earnings per share to 22c. The acquisition will have no effect on NAV per Plastall share.

(183)

Share 11/21/90

Consol finalises sale of flexible plastics, package operations

ZILLA FRAT

CONSOL Plastics has finalised the sale of its flexible plastics operations to Plastall and M & R Plastics. *B1Pm 11/2/90*

Plastall will acquire Gundle plastics, construction and agricultural sheeting business for about R7m cash, while M & R has bought Consol's flexible packaging and industrial products for an undisclosed amount.

Plastall's purchase of the Gundle business includes various patents, copyrights, trade marks and trade names, as well as the right to use the trade name Gundle.

Plastall, which recently moved from the DCM to the main board, manufactures and distributes polyethylene bags and sheeting through wholly owned subsidiary Plastall Flexible Packaging. *183*

Network *(20)*

Plastall Chairman Bob Wenteler said: "The Gundle business complements the existing business of the group as well as facilitating access to a national distribution infrastructure with branches in Johannesburg, Cape Town, Port Elizabeth, Durban and Bloemfontein.

"This national network will enable us to offer a comprehensive service to Gundle and Plastall customers."

The addition of the Gundle business would expand Plastall's current product range and would ensure greater market share, particularly in respect of the construction and agricultural sheeting products, he said.

The acquisition will have no effect on NPV per Plastall share, but is expected to make a significant contribution to earnings in the year to September.

SA chemicals industry facing tough challenges

B/Dan 11/2/90 ZILLA EFRAT 183

SECTORS of the local market offered growth opportunities for SA's larger chemical companies, but commodity exporters could be hard hit as chemical plants came on stream in other countries and the rand strengthened

So said Chemical Marketing and Consulting Services' CE Henry Laing at Irish & Co's chemical seminar yesterday

Laing said in the medium term, the best local opportunities were expected in areas such as consumer/household products, mining, black housing, plastics specialities and agricultural products

Most of SA's listed companies were well exposed in these areas and as a result would show volume growth of about two to three times GDP growth

Existing competition would, however, probably increase, especially in larger volume chemicals. As a result, income as a percentage of turnover would stay at existing levels or even decrease somewhat, he said

Internationally, the long-term least profitable chemical products had been commodities with little differentiation and lots of suppliers.

The most profitable were highly differentiated speciality and consumer products, protected by patents or formulations

Between these were pseudocommodities such as plastics and overtraded formulated chemical products such as paints and adhesives, as well as monopolistic or protected chemicals like cement

Capex involvements

Laing said the two sectors in the chemicals industry that had continued to report high profits were specialty chemicals and chemically based consumer goods such as pharmaceuticals and cosmetics

The major capex involvements of SA's larger companies — AECI's Sau Pan Soda-Ash project, Sasol's polypropylene and Sentrachem's recently completed Chlor-Alkali renovation — were for commodities or well-traded pseudocommodities which would not add very exciting income on net asset value

SA's major export activities were in the area of commodity chemicals and commodities.

In areas where SA was strategically placed with raw materials, the export potential would continue to be good

However, it was in the area of commodities that problems lay

Laing said it was possible that the trends of the mid-1970s would be repeated. Following huge shortages and the inability to meet demand in 1974, chemical companies had feverishly planned new plants. Although demand fell off sharply in 1975, managers had continued their expansion programmes

Laing said it appeared that the same was happening now. If world demand dropped off and new capacity kept coming on stream, world prices for organic chemicals could become severely depressed

With the possibility of the rand strengthening, local exporters could be hit very hard, he said

Sasol, AECI and Sentrachem were active in the exports of commodities. While AECI was more established in the export market, Sasol, as a newcomer, was more exposed to fluctuations in the spot markets

He said local exporters should hone their focus on speciality niche markets that were less price sensitive

Coates chairman slams union on 'disinvestment'

Own Correspondent

JOHANNESBURG. — Coates PLC chairman John Youngman has accused the Chemical Workers' Industrial Union (CWIU) of attempting to stir up trouble by spreading unfounded rumours that the company intends to disinvest from SA.

Youngman is on a visit to Coates SA — the subsidiary of the British-based printing ink supplier. He said as far as his company was concerned there were absolutely no plans to pull out of SA.

The recent takeout of Coates PLC by a French multinational would have absolutely no effect on his board's policy which was firmly against disinvestment.

Coates SA owns two plants — in Durban and Cape Town — and the

CWIU claims to represent 80% of the 250-strong workforce.

The union said last week that Youngman had ignored its requests to meet with officials and shop stewards, and this added to their fears that a withdrawal was in the offing.

The CWIU has been demanding of local management for more than two years that it, along with other multinationals, negotiate a disinvestment procedure with the union.

Youngman said he had actually met with shop stewards in Durban on Friday. The only reason he had not responded to requests sooner was because of a tight schedule.

He added the company's position on negotiating a disinvestment procedure was unchanged — there was no point because disinvestment was not an issue.

NEI wilts under high tax burden

By Ann Crotty

A weaker than expected performance from the diesel division and a hike in the tax rate resulted in a disappointing earnings figure from NEI in the 12 months to end-December.

But, in view of the group's excellent track record and the restricted availability of the shares, the drop in earnings from 527,6c a share to 519,7c should do little to dampen investors enthusiasm

Most of the damage was done by the hike in the tax rate which shot up from 37,5 percent to 46 percent and in financial 1989 cost the group R27,4 million compared with financial 1988's tax bill of R18,9 million.

Despite the weakness in the diesel division, group turnover was up 34 percent to R587 million (R438,7 million). Operating income was up 20,6 percent to R69 million (R57,3 million).

MARGINS

The squeeze on operating margins is only apparent as operating profit in any one period cannot be directly related to turnover in that period. However chief executive Blitz Bieber did point out that there was pressure on margins in certain areas

Net financing costs were up 39,6 percent to R9,4 million (R6,8 million). So, by the time that the pre-tax income level is reached, the 34 percent hike in turnover is reduced to a 18 percent improvement from R50,5 million to R59,6 million.

After allowing for the tax bill, net income shows an increase of only 1,4 percent to R31,9 million

(R31,5 million) An increase in shares in issue (to fund two small acquisitions) meant that eps was down to 519,7c.

At the half-way stage when earnings were up 8 percent, Mr Bieber had indicated that full year earnings growth could be in the region of 6 percent. At that stage it was hoped that the tax rate could be held below 46 percent

In addition the extent of the slowdown in the transport sector and its impact on NEI's diesel division had not been foreseen.

Mr Bieber points out that the diesel side of the group's business (which accounts for around 30 percent of turnover and operating income) reacts very quickly to swings in economic activity.

Performance at the electrical division was fairly pedestrian with increased competition squeezing margins. Mr Bieber says that in 1990, turnover will not be chased at the expense of margins

The good news is that mechanical division had a very good year. In addition, at this stage the order books in all three divisions are pointing to strong performances for at least a year or two down the track.

With the hike in the tax rate now out of the way (Mr Bieber believes that exports and capital investment will ensure that the tax ceiling stays at around 46 percent) future pre-tax earnings growth will be fairly reflected in distributable income.

For 1990 Mr Bieber, who retires in July, is looking to eps growth of around 5 percent above inflation.

183
7/2/90
STAC

183

BUSINESS

ENVIRONMENT mania is at last sweeping South Africa, and a more aware public is racing to buy items stamped with "ozone friendly" labels. Shampoos, furniture and even clothes these days display the new stamp of ecological legitimacy

Certain products are said to damage the ozone layer: aerosols, refrigeration coolants, blowing agents for plastic foams and cleaning solvents. All of them contain a destructive molecule, chloro-fluoro-carbon, which erodes the ozone layer, damaging its ability to screen harmful ultra-violet rays

But environmentalists — and some businesses — complain that some manufacturers mislead a generally ignorant public with their "ozone-friendly" advertising

Says Dave Hidden of Pure Gas "Some marketing people are illegally and fraudulently misleading the public to buy products. To say clothes or furniture or roll-on deodorants are ozone-friendly is like saying you shoes or trees are ozone-friendly. It is really stretching the imagination to incorporate products which are not even related to the issue."

Luckily for the aerosol industry, use of ozone-friendly substitutes presents no real problem. Prior to the panic, many aerosol manufacturers were already using non-CFC gases. The alternatives to CFCs are butane, hydrocarbon alternative propellant and di-methyl-ether, which are totally harmless, say environmentalists

Though aerosols contribute to only 15 percent of the problem worldwide, the president of the Aerosol Manufacturers Association, Ray Rivers, says initially aerosols were responsible for half the CFCs emitted into the atmosphere in South Africa (where there are far fewer fridges

Corporate ecology's a good seller, but is it real?

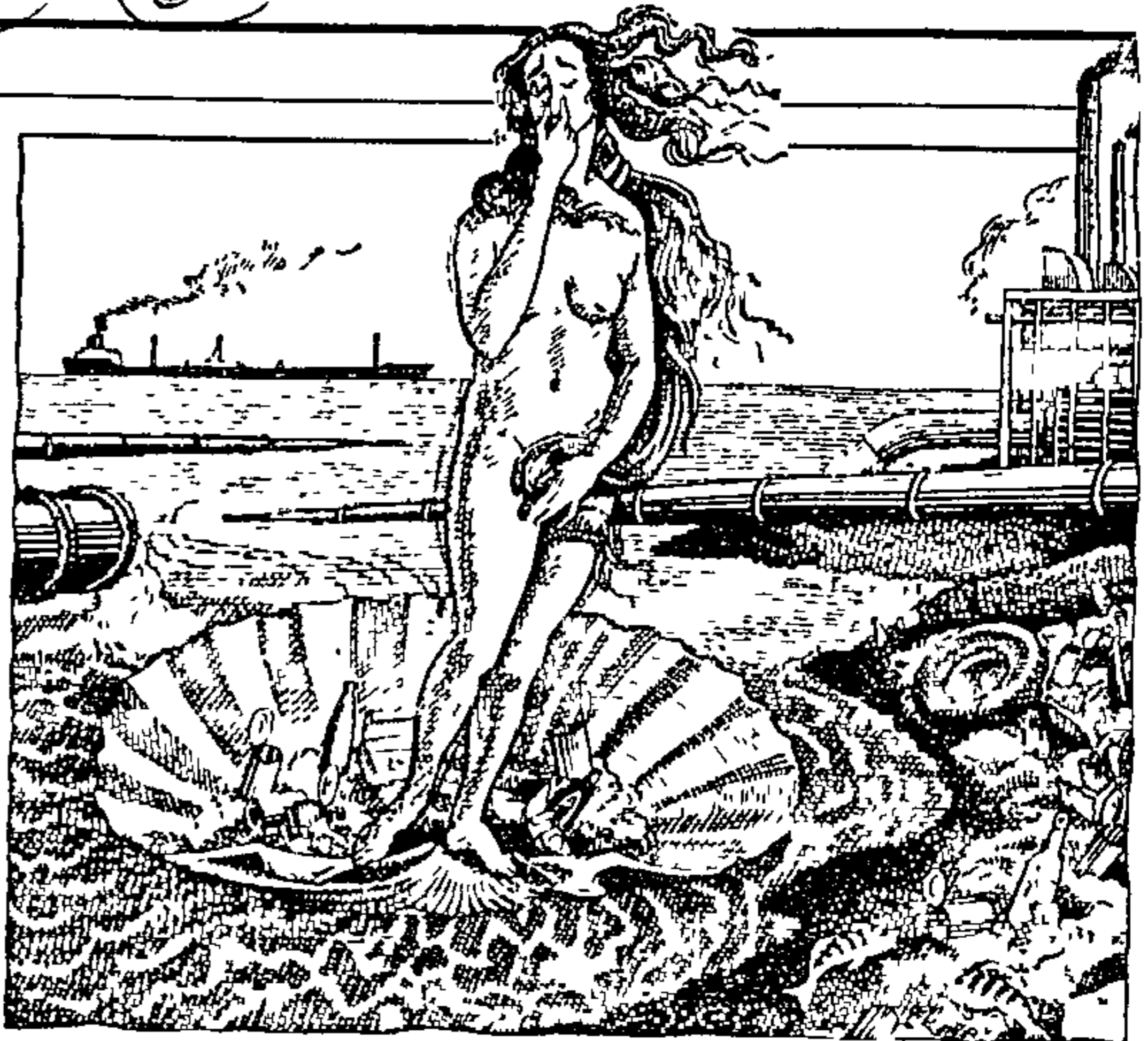
The public races to buy ecologically 'friendly' goods, but experts complain that much is no more than a marketing ploy
PHILIPPA GARSON reports

than in other industrialised countries).

This situation, Rivers says, is changing monthly, and aerosols now contribute to about one third of the problem. "Most aerosol manufacturers have already switched from CFCs — by mid-1990 the whole industry will have converted to other gases"

Rivers says that much research has been necessary to produce aerosols as close as possible to their ozone-enemy predecessors, because the alternative gases have different evaporation properties.

Medicinal aerosol sprays still contain CFCs, and no substitute gases are currently available. Also the reams of red tape blocking fast changes in the medical sphere cause this sector of the industry to lag behind. But according to Rivers, medical aerosols contribute to only one



Consumers protest ecological damage — and business responds

percent of the problem

The alternative gases are slightly cheaper than those containing CFCs, especially since the demand for CFCs has dropped significantly and the price of the gas has subsequently rocketed. AECI is South Africa's sole manufacturer of CFCs

Companies are having to spend vast sums, however, to change their plants to accommodate the new gases which are more flammable when stored in bulk. Some, like Elida Ponds, are building entirely new factories. This company has spent R10-million on a new aerosol factory in Phoenix Industrial Park, Durban

For those people who still use deodorant sprays, production of Elida Ponds' new ozone-friendly brands such as Ego, Impulse, Shield and Pears will start next month

A more controversial issue is "ozone-friendly" refrigeration, which some say does not technically exist.

Most fridges, says Paul Tinker of Industrial Urethanes (an AECI subsidiary which supplies refrigerants to manufacturers), have reduced quantities of CFCs in their insulation foam. But the same concentration of CFCs is still present in the compressor system of fridges, and as yet, says Tinker, there is no substitute substance available. Many feel that until fridges are completely CFC-free, manufacturers should not advertise their products as "ozone-friendly"

According to AECI marketing manager, Keith Arkell, the production of an alternative refrigerant is in the pipeline. This product, refrigerant 22, contains similar molecules to CFCs, but these are less stable and disintegrate before they reach the ozone layer. Some companies, like Pick 'n' Pay, are importing this gas for their new fridges. But Dave Hidden, M.A. of Pure Gas, sounds a warning note: "This gas is less ozone-damaging in that it contains five percent of the CFCs present in other refrigerants. However we cannot yet give the assurance that this has zero effect on the ozone layer."

He says the gas is only being considered overseas, "whereas here people are rushing ahead and grabbing onto the nearest solution to absolve

themselves of the problem"

Major progress is being made to convert from CFC to foam-blown packaging, which is abundant in the food industry.

While some companies are contemplating the switch, others, like Atlantis, a major food packaging supplier, have converted their whole factory to using butane as a blowing agent

Cut-price chlorine¹⁹⁸³

FCC International — 50% owned by New Company Investments — has won an export contract worth R500 000

A Mauritian company will buy a chlorine generator used in the production of so-

dium hypochlorite for the textile industry

Chlor 2000 is probably the only small-scale generator of chlorine, producing up to a ton a day at 13 times cheaper than the cost of granular chlorine *5/11/83 11/2/80*

D/Day 13/2/90

Chemserve set to bag two associate firms for R24m

183

CHEMICAL Services' flat growth in earnings of 1% in the year to December, announced today, follows a poor performance from subsidiary Chemserve Steinhall and higher financing costs.

This speciality chemicals group in the AECI stable is negotiating to acquire Albright & Wilson's stake in

associate companies SA Paper Chemicals and Akulu Marchon for R24m, MD Peter Francois said yesterday

Chemserve produced attributable profits of R19m (R18,7m) and earnings of 305c (300,6c) a share. The annual dividend of 100c a share remained unchanged from the previous year

Earnings are off a high base, and the group has shown a compound annual growth rate in earnings of 28% during the past five years, says director Lex van Vught.

Francois says negotiations to acquire full control of SA Paper Chemicals and Akulu Marchon have reached an advanced stage. Rationalisation benefits are expected from the deal. Both companies are involved in growth industries

SA Paper Chemicals, of which Chemserve holds 40%, is involved in speciality chemicals for the paper industry, while Akulu Marchon, of which it holds 50%, produces raw materials for the



● FRANCOIS

ZILLA EFRAT

detergent, toiletry and cosmetic industries

Van Vught says these acquisitions would have no effect on earnings in the next two years, but that there would be substantial effects thereafter

Francois says the group's subsidiaries in general showed strong improvements, especially Industrial Oleochemical Products and Chemserve Systems

However, Steinhall's earnings showed a negative R6m turnaround. It was affected by the carry-through of the high price of guar beans from the previous financial year — the result of monsoons in Asia.

In addition, a guar plant has been built in Zimbabwe, eliminating Chemserve's exports to that country. A downturn in the uranium business, Steinhall's major market, also left its mark.

However, Francois is optimistic

about Steinhall's prospects. A new plant has been built for modified polysaccharides. It opens up new opportunities for the company and takes it out of the mining market. The raw materials situation has also stabilised

Chemserve's turnover rose 18% to R336m (R283m), with operating margins falling to 13,2% (14,5%) mainly because of problems at Steinhall. Net operating profit increased 7% to R37m (R34,3m). The interest bill soared to R6m (R3,3m), while interest cover fell to 6,2 (10,4) times because of higher interest rates and a supplier changing its credit terms

Francois says Ansac, the world's major supplier of soda ash, changed its terms by 90 days as a response to the AECI plant under construction in Botswana. Chemserve was unable to pass these cost increases on to the market place because of long-term contracts

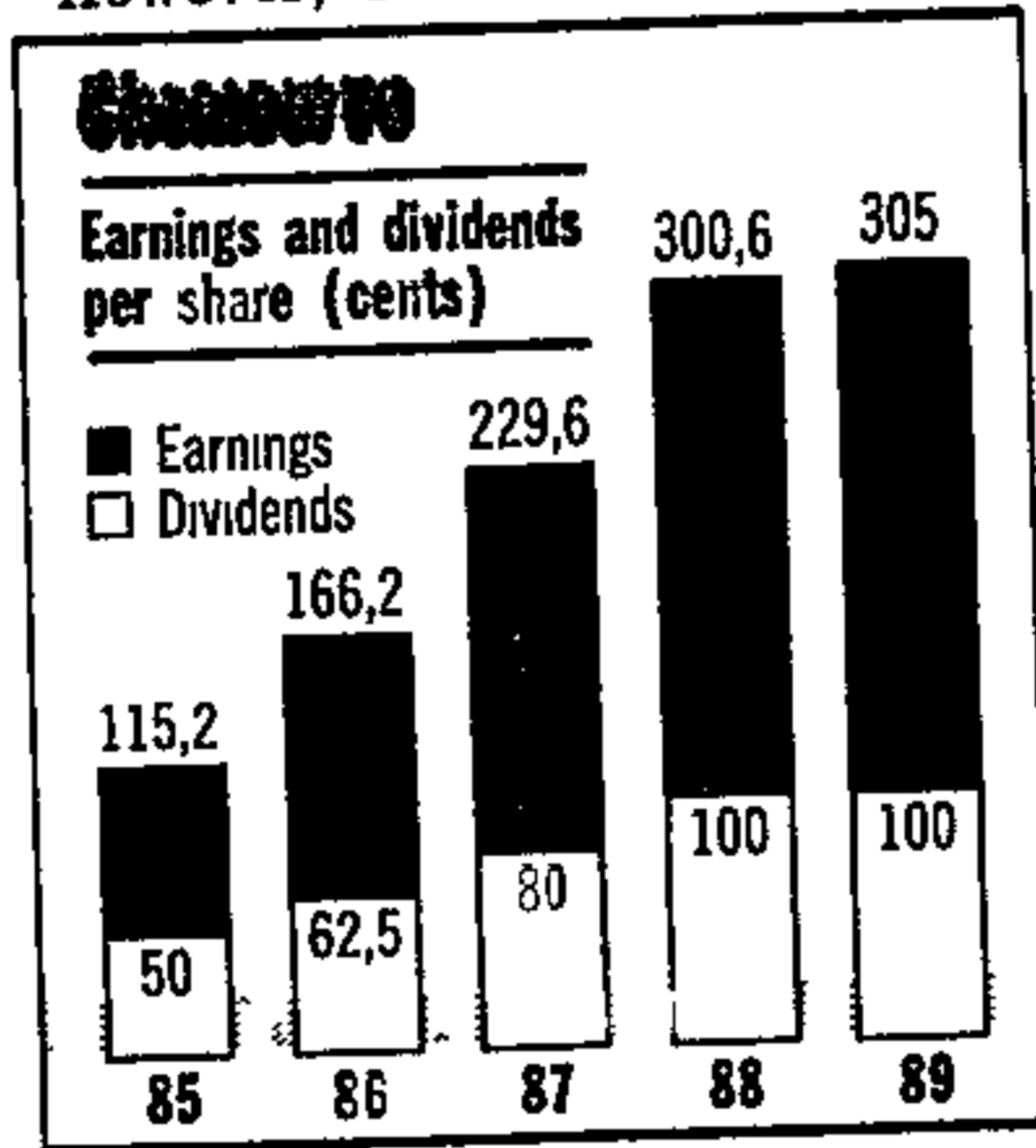
The gearing of 31% (30%) was down from 51% at the interim stage because of an increased trading cash flow in the second half

Van Vught says about 4% of turnover is generated from exports. With some exciting unexploited opportunities available, Chemserve is looking to expand its foreign sales

Import risks have also been somewhat reduced. Imported raw materials for the manufacturing operations fell to 40% from 50% in value terms

Francois says Chemserve is fairly recession-proof as it is in the speciality chemicals market

Given a socially and politically stable year, he is cautiously optimistic about Chemserve's prospects



Graphic: FOMA WIRSCH Source: CHEMSEERVE

Philosophical split

Outwardly, Pharmaceutical Manufacturers' Association recommendations, unveiled recently in Cape Town, are in line with the

116

views of the healthcare sector as a whole. Most of the text is concerned with such popular themes as individual responsibility in healthcare and the promotion of privatisation and deregulation. Buried in the text, however, the grinding of axes is still audible. Though the association is an affiliate of the Pharmaceutical Society of SA, there are differences of opinion on some key issues.

When it comes to prices, the manufacturers feel immune to criticism. There have been six major investigations into the cost of medicines, starting with the Snyman Commission in 1961, and all found manufacturers' prices were not excessive.

The upshot is that the association feels it can take the high ground against the rest of the industry.

For instance, it favours allowing retail pharmacists to advertise the price of prescription medicines. However, the society is sticking to its long opposition to the suggestion. "The society, at least at this stage, believes that advertising the prices of prescriptions will have little effect upon the price of medicines, bearing in mind that doctors select the products prescribed for patients," says society executive director Boet van der Merwe.

A more serious rift is over generic substitution. The association has opposed in court the right of pharmacists to substitute a branded medicine for a cheaper equivalent and will do so again unless unambiguous legislation is passed soon. Generic manufacturers are hoping the De Villiers Report, expected to be made public this year, will support them.

Association president Hugo Snyckers is uncertain of the benefits of measures that encourage the use of cheaper drugs, such as the Maximum Medical Aid Price, which reimburses members for no more than the price of a generic.

"There are short-term cost savings in these ad hoc measures but only a proportion of medicines can be substituted by therapeutic

equivalents"

Snyckers is supported by Wits Commerce Dean Duncan Reekie who argues that "the thrust towards generic substitution is possibly misplaced in that the potential savings in hospitalisation costs from the discovery of new drugs are so large that they justify the encouragement of the innovative drugs companies"

However, Van der Merwe points out that generic substitution and code lists "are found to assist in containing costs" in provincial hospitals, so by implication they should contain costs in the private sector.

The medical aid movement stands somewhere in the middle. Representative Association of Medical Schemes executive director Rob Speedie says the movement encourages generic prescribing when appropriate but wants a balance between cheap medicine and encouraging innovative research-based companies.

"SA must continue to have access to new medicines but, in order to do this, multinational companies need to enjoy sufficient returns from their branded products" ■

Refocusing Consol

Diversification was once the centrepiece of corporate strategies. But focus is the watchword now as companies get back to their core business. Packaging company Consol is now following that route (183) ~~(183)~~

The Germiston-based company has sold off its Industrial Flexibles Division, which it bought from AECI nearly five years ago. The company previously traded as Gundle Plastics and the landmark Gundle Plastics blimp near Jan Smuts Airport will change its name yet again.

Consol sold its flexible consumer and industrial packaging lines to M&R Plastics. The sale will mean layoffs but neither Consol or M&R is saying how many.

The core of the old Gundle business — its construction and agricultural sheeting interests — were offloaded to Plastall. Consol will now concentrate on rigid packaging products, but will continue to operate three manufacturing plants on the flexible plastics side.

"We would have needed to invest a considerable sum of money and re-focus the product range if we were to keep the ex-Gundle business," says Consol Plastics MD Dave Spindler.

Consol has good reason to concentrate on its strength — rigid packaging. It's the only domestic manufacturer of plastic bottles that are labelled as they're moulded and it holds a dominant position in the child-resistant packaging market for the pharmaceutical industry. The company plans to invest in its 2 l PET bottle production and is now developing a 1,5 l returnable PET bottle for the soft-drink industry. ■

CHEMSERVE

Off the boil

The upset in Chemsolve's record of strong earnings growth which became evident in its first half continued through the full year to end-December. But management is confident of restoring its record in 1990.

The directors had predicted real growth for the year. Interim EPS were 5% higher and the full-year increase was only 1%. MD Peter Francois says the apparent further slowdown was because the second half of 1988 was exceptionally strong.

The major problem was in subsidiary Steinhall, which makes guar powder and derivatives for the flocculation in the mining industry. It had large stocks of raw materials whose value fell. Francois says there has also been market shrinkage in uranium and a guar plant, formerly an excellent market, has been set up in Zimbabwe. This amounted to a reversal of R6m, compared with the group's R37m operating profit. Steinhall has commissioned a new polysaccharide plant whose products will diversify the company into the paper industry.

Another problem was the withdrawal of favoured agent status by US group Ansac, which supplies SA's soda ash. Chemsolve distributes this, but will be switching to the Botswana product when the Sua Pan project produces from next year. Ansac reduced its credit facilities by 90 days and the additional finance needed added R2m to the interest bill.

Though the total interest bill was 80% higher at R6m, gearing was reduced from 0,51 at interim to 0,31. Financial director Lex von Vught says this was achieved through destocking after the threat of sanctions to raw materials supplies seemed overblown and generally tight stock and debtors control.

The improvement in gearing is temporary. Chemsolve is acquiring the 60% of SA Paper Chemicals and 50% of Akulu Marchon which it does not own from its British partner in both, Albright & Wilson, for R24m. Van Vught says this will initially lift gearing above 0,70. While interest rates are high the



Chemsolve's Francois ... acquisitions planned

FORMULA FAILS

Year to December 31	1989	1988
Turnover (Rm)	336	283
Pre-tax profit (Rm)	30,8	31
Attributable earnings (Rm)	19	18,7
Earnings (c)	305	301
Dividends (c)	100	100

acquisitions are unlikely to affect EPS, but they will provide scope for significant rationalisation.

Van Vught says all last year's adverse surprises are on a recovery track. Chemsolve's business changes constantly and is highly competitive, but the group is budgeting for 20% higher bottom line earnings this year. The compound annual EPS increase over five years has been 28%, and there is no indication of a permanent problem. However, the share has slumped from R28 in April to R18 in January. It has since risen to R20, where the 5% dividend yield may offer recovery potential.

Teiguo Payne

4 FSI-linked firms

issue cautionaries

61/16/49 ZILLA EFRAT

183

IN LINE with FSI's expansion into the R2bn-a-year healthcare market, four companies in which it has interests have issued cautionary announcements

These are Noristan Holdings, Aurochs Investment Holdings, Citizens Holdings and Crest Holdings. Speculation is that some rationalisation is to take place between these companies.

Noristan, in which FSI's W & A Investment Corporation has taken a 20% stake, is to be FSI's vehicle for entry into the healthcare markets.

Noristan bought the controlling interests of Aurochs from W & A in December and Aurochs was to start operating in the healthcare industry

Citizens, a subsidiary of W & A, has a 20% stake in Crest, a medical equipment manufacturer.

A message from the people who work at Mobil

Nearly three thousand of us work at Mobil, and many thousands more work with us in service stations, general dealers, spazas and supermarkets. Many people reading this use Mobil products every day.

We are a local company in every way with a very real stake in South Africa's future. We are truly committed to this country. As in any large group of South Africans we come from different backgrounds, religions and languages. And, of course, we have different political views.

Without shouting about it, for many years we have negotiated with all shades of opinion. Through the Mobil Foundation, and our extensive community programmes, we have made substantial investments to help bring about a new and better South Africa. Our company's operations, too, have made an important contribution to job creation and economic development in our country.

But, until now, we felt that too many people were saying too much while talking past each other. Violence, rhetoric, posturing and jargon seemed more important than finding real solutions.

Now we see significant changes which unite us in the hope that common sense and a common wealth will replace the selfishness of the past. Leaders on all sides are now showing real courage and starting to talk — and more importantly, to listen — to each other. Let us join hands with them!

The solutions might still be some time in coming, but the fact that the process has started, gives us hope that very soon now unique economic and political solutions will be developed here at home — by South Africans. In time, we believe South Africa will be restored to its rightful place in the world community.

Until then, we will continue to do everything we can to facilitate this urgent process. We at Mobil are firmly committed to progress, and we dedicate all of our energy to this goal.

This week it feels especially good to be a South African.

Mobil

Corporate Image 4499

18/12/90
183

C/Proc
18/12/90
183

ST Times 18/2/90
183
Staalchem going back into its shell

STAALCHEM'S minority shareholders should seriously consider whether or not they want to stay aboard

Six weeks ago Staalchem announced the sale of its steel interests, the rationale being that it could focus on the distribution of agricultural chemicals

The last paragraph of the announcement says Staalchem is considering disposing of its remaining assets — surely a contradiction. The shares dived to a low of 28c — having been 50c six months ago. They have rallied to 35c

CAPITAL

Staalchem was listed in 1987 when it placed 3.7-million shares at 80c apiece. The purpose of the issue was to improve the capital base and provide funds for expansion. The directors insisted that capital was adequate

The company was founded in 1973, but lay dormant for 13 years. When it became a public company it acquired six subsidiaries, centred on what were Kobus Du Toit's former interests. Mr Du Toit resigned as managing director of the group last year

The six divisions comprised roof-sheeting businesses Du Toit Sunk & Staal and industrial sheet-roofer Hyperdek. Green-Chem supplied calcium hydroxide slurry ready for use. Crystal

Chemicals distributed agricultural chemicals, Speedwel Landbou supplied pesticides, etc to the Brits district

Valued at zero, Du Toit Import & Export handled the export of corrugated iron — with the promise of timber, cement and steel later — to Southern Africa

The prospectus described Kobus du Toit as the driving force behind the Staalchem group and as an entrepreneur with initiative and creative ideas

In the year to February 1988 Staalchem bought Crop-Sure and J&S Distributors. More than 800 000 shares were issued in payment

In the following year, Staalchem Properties and Stricker Holdings were bought. The property belonged to Mr Du Toit and H G Loubser, of the same address as the company secretary Marthinus Loubser

CLAIMS

Mr Du Toit received cash of R237 500 and 250 000 shares at 40c each, and Loubser R712 000 and 750 000 shares, for Staalchem Properties

On February 28, 1989, Green-Chem was sold back to Mr Du Toit for R1.2-million cash. Effective from the next day, he also bought back all the steel roof sheeting

How did Mr Du Toit fare in his three-year foray on the stock market?

Before listing, he sold his businesses to Staalchem for the issue of 3.521-million shares of 5.5c each. The total consideration is given as R195 513

Yet the placing of shares to investors was done at 80c apiece. This valued Mr Du Toit's investment at R2.8-million

RIGHTS

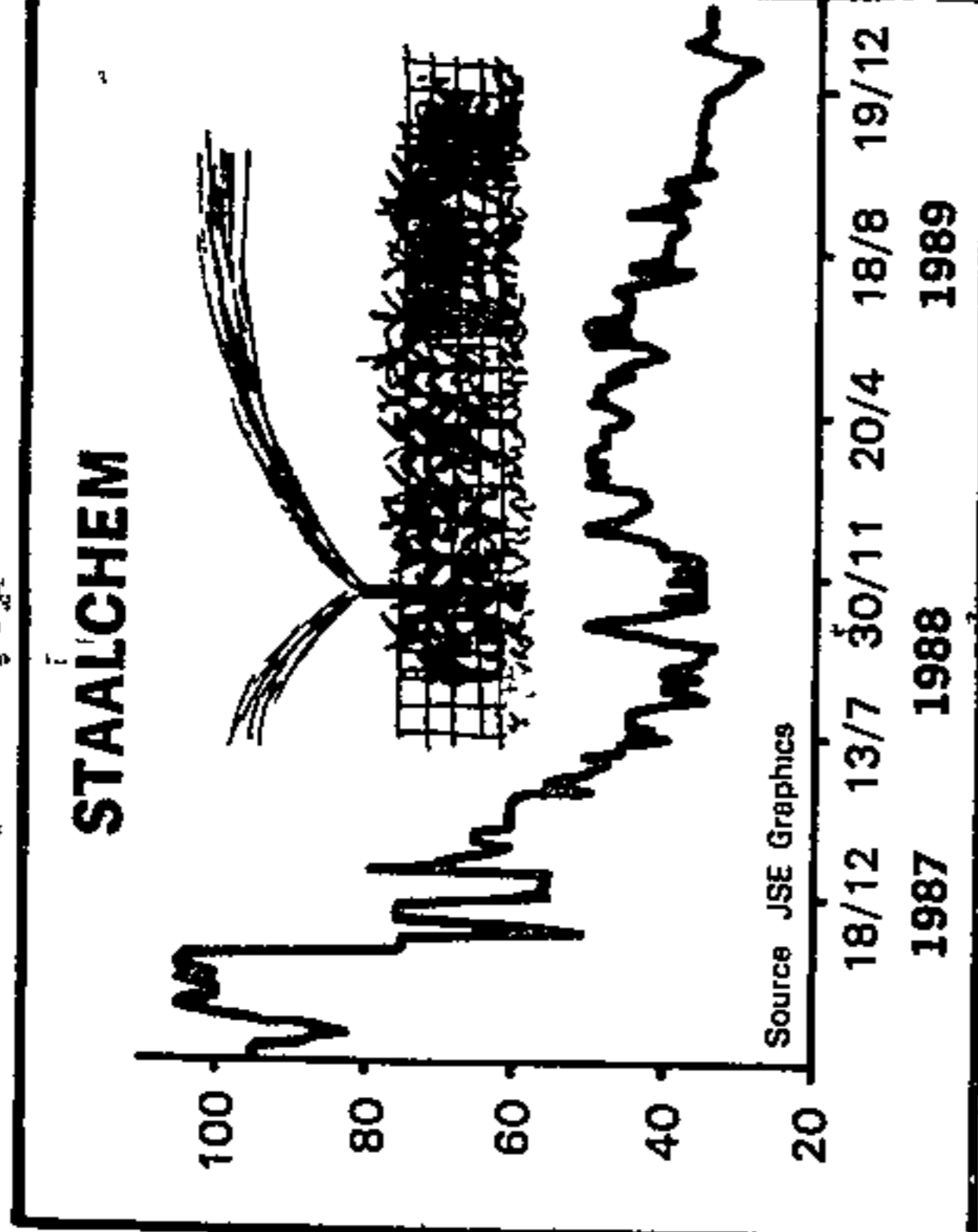
He sold the property to Staalchem and received the equivalent of R337 500 while he was managing director of the group

Green-Chem was originally valued at R58 000, rising to R843 636 at listing. Mr Du Toit bought it back for R1.2-million cash

The steel-roofing businesses were originally valued at R246 000, and R3.5-million at listing. Mr Du Toit bought them back for R854 000 and picked up claims against the companies of R9-million. Mr Du Toit resigned his directorship last year

On February 28, 1989, Staalchem bought Farm-ag's agricultural chemical wholesaling division (Farmach) for R5,79-million cash, and 50% of Agroserve — the owner of certain agricultural product registrations — for R4.45-million settled by 8.9-million shares of 50c

Farm-ag came to own 35% of Staalchem, but underwrote the subsequent rights



Source: JSE Graphics

That will require a big improvement

Staalchem's new managing director, Frank da Serra, ignored my calls for several weeks, finally referring me to Richard McElligot of Farm-ag

PLENTY

Mr McElligot says a plan is being drafted to determine Staalchem's future. The most likely outcome is that it will become a cash shell. The company still owes plenty to Farm-ag, the sale of the steel businesses not realising enough to liquidate debt

Mr McElligot says Farm-ag will probably buy Staalchem's assets. It could be that the only profit Staalchem makes will come from the businesses sold to it by Farm-ag

Farm-ag became involved with Staalchem on the strength of management projections which never materialised

The cash-shell route seems to offer the best prospect for minority shareholders. The current share price of 35c seems high when the outlook is so uncertain

● Staalchem and Farm-ag issued a warning on Friday

PLAN

In the six months to August, Staalchem earned taxed profits of R900 000, or 3.7c on 24-million shares in issue. It notes that the agricultural division — constituting the major part of the business — does best in the second half

At the interims, management expected earnings a share to equal last year's fully diluted 11.7c. I calculate Staalchem will need attributable earnings of R4-million to match that, fully diluted

offer which raised R4-million at 45c. It or its nominee had to take up another 3-million shares not bought by shareholders. Farm-ag now owns 77%

Staalchem comprises Staalchem Seed & Chemicals, Staalchem Properties, Farm-ag's Farmach business and 50% of Agroserve

Farmach made R2.4-million before tax in the year to February 1989, according to the report accountants. In the same time, Staalchem made pre-tax profits of R3.2-million

I assume that 60% came from the retained business. Therefore, the pre-tax total earned to February 1989 is a little more than R4-million. Let's assume taxed earnings of R2-million. On the current 33.7-million shares in issue, that is 6c a share

At the interims, management expected earnings a share to equal last year's fully diluted 11.7c. I calculate Staalchem will need attributable earnings of R4-million to match that, fully diluted

Major earnings rise by Aurochs

SYLVIA DU PLESSIS (183)

FSI property arm and Noristan Holdings subsidiary Aurochs Investment Company has lifted earnings by 51% to 86c (57c) a share for the year to December following the continued high occupancy rate of properties in its portfolio

Aurochs, soon to be developed as a health care company following Noristan's acquisition of a controlling shareholding last year, increased attributable income to R2m from R1,4m

This is based on turnover up at R5,8m (R4,2m) and a reduction in finance charges to R897 000 from R2,5m. Dividends of 57c — 36% higher than the corresponding 42c and covered 1,5 (1,4) times — have been declared

In terms of Noristan's plans to sell Aurochs' properties and develop it as a health care business, the company's property subsidiaries will be sold to Hunts, the vendor of the controlling interest, by June 30

This transaction will leave Aurochs with R15,7m for investment in health care activities and no borrowings, while its JSE listing will be retained. The company's year-end has been changed to June to coincide with Noristan.

B/D in 19/2/90

Union threatens to strike ~~(183)~~ (183) STAK 20/2/90 over centralised bargaining

~~(183)~~ By Drew Forrest

Cosatu's chemical union has taken its first step towards strike action at Caltex over demands for centralised bargaining in the oil company

A Chemical Workers Industrial Union spokesman confirmed that a dispute was declared on the issue last week

The union already bargained centrally for Caltex depots, but the company insisted that its refinery, near Cape Town, was excluded from negotiations, the spokesman said

Caltex's manager of public af-

fairs, Mr Roy Wright, would not comment beyond saying that a meeting on the issue was planned for this Thursday

The CWIU also reported a legal strike over demands for a transport allowance by 60 workers at Caltex's Alrode depot

RELOCATION

The demand followed the closure of installations at Industria and Benoni and the relocation of workers to Alrode last year

● Over 130 workers are on a pay strike at Johnson and Johnson outside Johannesburg, according to the CWIU

AECI Soldiers on in the face of problems

By Ann Croft

The improvement in the second half did not match the 38 per cent advance of the six months to June. But it was sufficient to enable AECI to report a 23 per cent advance in full year earnings — up from 165c to 203c a share, with a dividend of 87c (75c).

The year-on-year improvement would look more impressive (up 30 per cent to 215c a share) if R38 million of write-offs were not included.

Some R23 million of these relate to redundancy payments that followed rationalisation at the explosives and fertiliser divisions.

The remaining R15 million represents the write-off of syngas development costs incurred over three to four years. The write-offs were equivalent to 12c a share.

For the past three years enough has been happening at AECI to complicate comparisons between reporting periods.

In financial 1987, the mining strike impacted on performance. In '88, production bottlenecks at Coalplex knocked first-half earnings. In the first half of '89 fires at Sasol reduced the supply of ethylene, which impacted on the group's polyethylene output at a time when international prices were strong.

The resolution of the Coalplex problems was a significant factor in the improvement recorded in the first half of 1989. However, the impact of the raw material constraints on the polyethylene operation spilled over into the '89 second-half because it took a few months for the group to get back into the international market.

In the 12 months to December 1989, turnover rose 16,5 per cent to R4,7 billion (R4,1 billion). Within this, exports surged 36 per cent to R453 million (R332 million) to account for 9,5 per cent of total sales.

An improvement in operating margins — from 11,6 to 12,7 per cent — boosted trading income 28 per cent to R604 million (R473 million). The improvement was all the more impressive in view of the increased price competition in certain areas of the explosives division.

Finance costs were up to R105 million (R75 million). The tax rate rose from 40,9 per cent to 42,4 per cent. Net income was up 23 per cent to R314 million (R255 million).

A sector breakdown shows explosives, chemicals and agricultural products as the largest contributors to turnover. They accounted for 36 (36,4) per cent of turnover. But, reflecting the increased competition in explosives, the contribution to net trading income dropped from 31,3 per cent to 25,8 per cent.

Chlor-alkali and plastics accounted for 26,9 (28,2) per cent of turnover and 41,4 (33,8) per cent of net trading income.

Polymer derivatives contributed 21,8 (20,5) per cent and 24,3 (24,3) per cent.

Other trading activities, including Chemserve, made up the remainder.

Continued emphasis on productivity should enable the group to beat inflation in 1990 — a year that's expected generally to be characterised by unexciting volume demand and pedestrian commodity prices.

Earnings up 23% on AECI's tight ship

183

B/Dan 21/2/90

AECI's earnings grew 23% in the year to December after tight controls and productivity improvements countered the effects of lower sales growth and softer international prices

The chemical giant achieved attributable earnings of R314m (R225m) or 203c (165c) a share. It declared a total dividend of 87c (75c) a share, up 16% and covered 2.3 times

At the interim stage MD Mike Sander did not expect profit growth in the second half to match the 38% achieved in the first.

Sander says in the second half AECI experienced a softening in international commodity prices for many of its products

However, the group managed to increase its margins by "pulling in its belt" and improving productivity in the second half. It also benefited from recent strategies to remove bottlenecks, upgrading exercises and plant expansions.

Improved results were achieved in most businesses with notable performances from the chlor-alkali and plastics business, fibres and fertilisers

Turnover rose 17% to R4,8bn (R4bn) — after a 25% rise at the interim stage — with growth in domestic sales volume slowing significantly in the second half. However, this improved product availability for the overseas market and export sales for the year increased by 36% to R453m (R332m).

Net trading income grew 28% to R604m (R473m), with operating margins improv-

ZILLA EFRAT

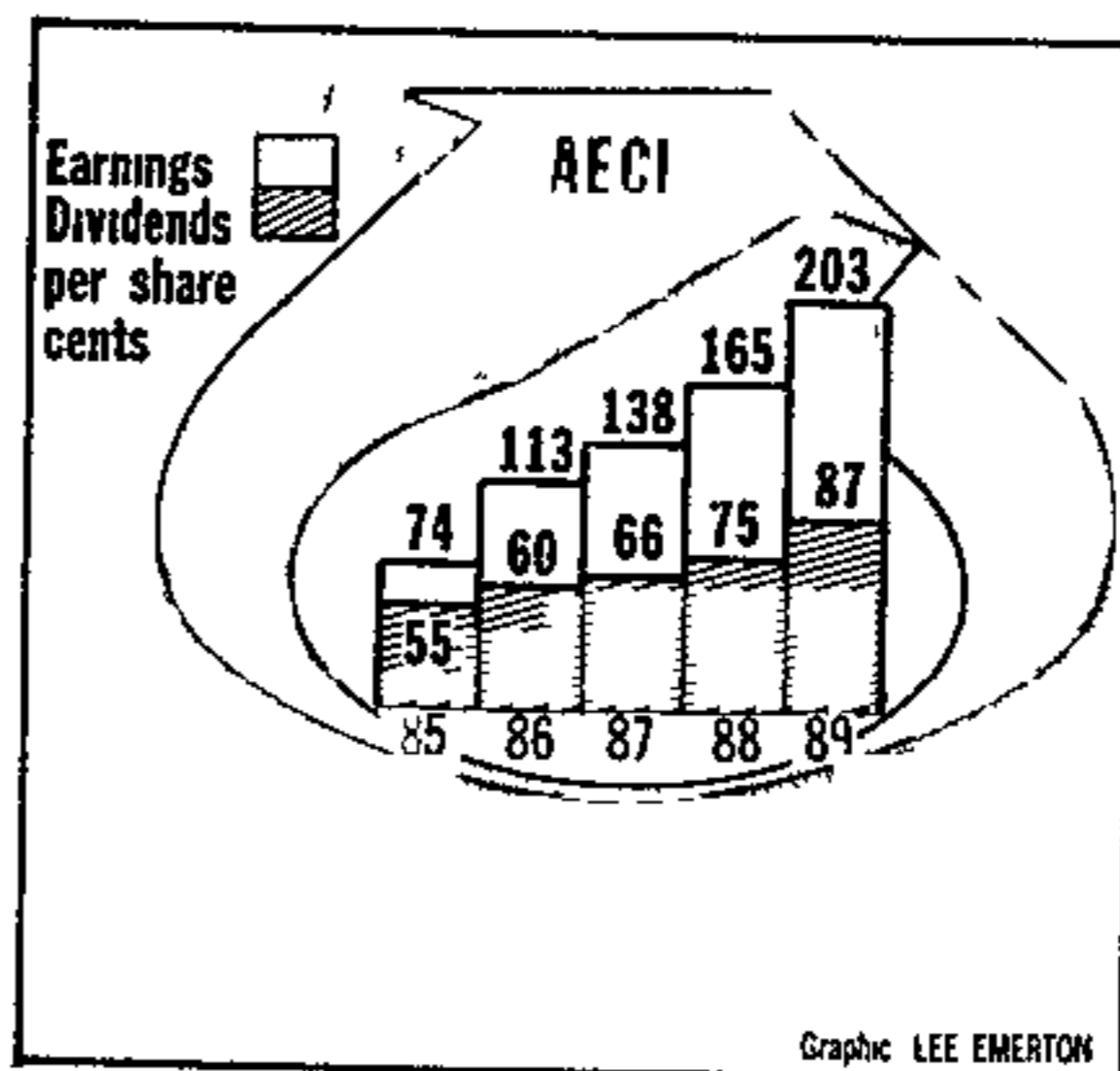
ing to 12,7% (11,6%). However, financing costs increased by 45% to R109m (R75m) because of significantly higher interest rates and a somewhat higher average level of borrowings

On a slight rise in the tax rate, taxed earnings were up 21% to R285m (R235m). They were boosted by a 32% rise in investment income to R37m (R28m)

Despite difficult trading conditions, close attention to asset management reduced working capital to sales to 23% (26%), while gearing improved to 42% (57%)

During the period, government an-

□ To Page 2



Strong growth at Ruhold

572
22/2/90

Finance Staff

(183)

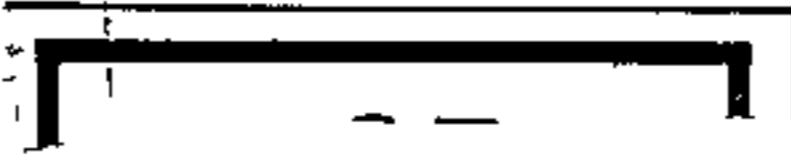
Rubenstein Holdings, which is engaged in the provision of financial services and the manufacture of plastic bags and sheeting, has lifted attributable earnings by 20,5 percent to R3,35 million (R2,78 million) for the six months to end-December. Earnings a share rose to 10,12c (8,4c)

"The bottom line performance would have been further ahead had it not been for labour action towards the end of year," chairman Jeff Rubenstein said

Ruhold's plastics interests will be merged with the plastics manufacturing interests of Lenco Holdings and the flexible plastics division of Alfa Manufacturing to create a plastics packaging group with turnover of around R100 million. The new company will trade as Combined Packaging from March 5

"The reduction in gearing of our plastics operation, following the formation of Combined Packaging, augurs well for our future profitability," he said

P



Faint, illegible text or markings along the right edge of the page, possibly bleed-through or a scanning artifact.

B/Pay 22/2/90

Plastics group Ruhold lifts earnings 20,5%

ZILLA EFRAT

183

RUBENSTEIN Holdings (Ruhold) lifted its attributable earnings by 20,5% in the six months to December

The group, which is involved in financial services, manufacturing plastic bags, sheeting and shrink wrap, and recycling plastic waste, achieved attributable earnings of R3,4m (R2,8m) or earnings of 10,12c (8,4c) a share

Executive chairman Jeff Rubenstein says pre-tax income is not comparable with the previous interim period because of the sale in January 1989 of a subsidiary which contributed more than R300 000 during the period.

Bottom line performance was affected by labour action.

Pre-tax income remained virtually unchanged at R3,5m. The tax rate fell to 3% (15,5%) because the group's finance division, which is tax sheltered, contributed further to group profit in the period under review

Ruhold's plastics interests have been merged with those of Lenco Holdings and Alfa Manufacturing Industries to create a new force in plastics packaging with a turnover in excess of R100m. The new company will trade as Combined Packaging from March 5.

Rubenstein says the reduction in gearing of Ruhold's plastics operation since the merger augurs well for its future profitability and will enable it to continue enlarging that operation.

He says the finance divisions's gearing should drop drastically and expects the financial services division to continue to contribute strongly to profits.

The group will change its year-end from June to February to bring it into line with that of Combined Packaging and Lenco. In the reporting period to February, Rubenstein expects the group to maintain its earnings

Shell's policy 'won't change'

THE HAGUE — The head of the Shell oil multinational said yesterday his company would continue its policy in South Africa of offering blacks jobs, rather than disinvesting.

Royal Dutch/Shell Group's chairman of the board of managing directors, Mr Lo van Wachem, said recent changes in the country, including the release of Mr Nelson Mandela and the unbanning of the ANC, would make no difference to Shell policy.

"Recent developments have had no effect on Shell's view vis-a-vis South Africa. We welcome them and are hopeful about the country's future, although all sorts of things can still go wrong," he told reporters.

Shell has been facing intense international pressure from anti-apartheid activists to quit South Africa and scores of its

Dutch filling stations have been sabotaged in recent years.

Mr van Wachem was addressing a news conference on the group's results for the fourth quarter of 1989, which showed a 45,3 percent surge in net profits to \$1,7 billion (R4,25 billion).

In London, Shell board vice-chairman Sir Peter Holmes said he would not comment on a British government decision to lift unilaterally a voluntary ban on new investment in South Africa.

Sir Peter said President de Klerk had done "a brave thing"

"Before too long it will be time for the West to think of helping the (South African) economy," he said.

"The one sanction which has hurt is the financial one," he said, referring to the freezing by banks of fresh lending to South Africa. — Sapa-Reuter.

Epping firm plans more exports to US

183
Cape Times 22/2/90

By AUDREY D'ANGELO
Financial Editor

EPPING-BASED Fine Chemicals Corporation, which makes active ingredients for the pharmaceutical industry, exports 30% of its production. Its products go to 24 countries, but its biggest overseas customer is the US

It has been an approved supplier to the strictly controlled US pharmaceutical industry since 1983

And at the formal opening of a new R3,5m extension to the factory yesterday GM Graeme Bamford said it was intended to step up exports by at least another 50% this year, mostly to the US

Urging other firms to enter the export market he said "The tide against SA is changing."

The extension was opened by Deputy Minister of Trade and Industry Theo Alant, who said that in 1989 SA exported R1 961m worth of chemicals but imported R4 771m — a shortfall of R2 810m. This meant that about 85% of the active ingredients used by the SA pharmaceutical industry were still imported

Praising Fine Chemicals for expanding its capacity in order to manufacture more, including new products, he said: "The road towards the future development of the Southern African region in general and the revival of the SA manufacturing industry in particular is characterised by the need for adding value to raw materials, exporting manufactured goods and creating jobs"

Alant said official policy "hinges on the three-pronged approach of inward industrialisation, import substitution and export promotion"

Inward industrialisation was a process whereby the potential buying power of the urbanised community created additional demand for local products

"Import substitution is viewed as an important lever to provide stimulus to industrial growth. Indeed, many im-

POPPIES may become a new crop for Western Cape farmers. Fine Chemicals is experimenting — on 10 hectares in Ceres — with a variety which cannot produce opium but provides another drug, thebaine.

This can be used, instead of morphine, to make the popular pain-killer codeine.

"The great advantage of thebaine is that it cannot be put to any illegal use," said Fine Chemicals GM Graeme Bamford. "It cannot give any kind of 'high' and cannot be converted into heroin."

But he emphasised that even if the experiment succeeds it will be years before it is a commercial proposition

port substitution opportunities still exist in SA"

Stressing the need for new SA products which could be exported, Alant continued "Many of our industrialists have, of necessity or by choice, bound themselves to foreign technology licensing agreements

"While this has rapidly opened the doors of opportunity for local manufacturing it has closed the door to exports, which are all too often restricted under such agreements

"In this respect I can assure you that the development of more local technology to further local production and to broaden our country's industrial base is of great concern to the government"

Alant said that in conjunction with a working group for the promotion

of the chemical industry a strategy had been formulated to establish a more positive trade balance and put more emphasis on down the line production and final products

"This should lead to a bigger share for the local manufacturer in domestic and world markets and also contribute to the manufacturing share of final products"

Key issues identified by the working group were.

- The availability of a wide spectrum and quantity of chemical raw materials at prices comparable with those in other countries

- The need to keep prices of intermediate and final products low and internationally competitive

- The need to stimulate the manufacturing of final products through the promotion of technological innovation, entrepreneurship, further beneficiation and exports

"Exports, especially of beneficiated or manufactured products, are viewed as essential in the future growth and expansion of our economy

"Exports will help to make our local industries more competitive and will ensure the broadening of the country's industrial base"

Protein-from-effluent method being perfected

THE University of Pretoria is working on a process capable of turning industrial effluent into a high protein product.

The idea has worked overseas, but the university is perfecting a unique process which would simplify methods presently in operation

A number of companies have shown interest in the project One has already built a pilot plant valued at R1m, said post-graduate engineering student Peter Wille yesterday

"It could be a solution to the world's protein problems We know that fishmeal sources are becoming exhausted," said Wille, one of the project team

The process uses a fungus to absorb

PIERRE DU PREEZ

organic material in industrial effluent and then turns the absorbed material into a product with more than 50% protein content

"We estimate the protein content could be as high as 70%," he said

"At the end of this year it should be safe for use on animals It has been tested on rats, which still seem to be healthy

"There don't seem to be any side-effects"

Wille said the paper and pulp and the petro-chemical industries could benefit from the process

"Its advantage is that compared to

similar systems overseas it is relatively cheap

"The product floats on the water and can be scooped up easily It can also be safely digested

"Capital equipment involved is also not expensive," Wille said

Palatable

183

Research on the project started two years ago

The product still had to be tested in case it produced human genetic defects It would therefore not be fit for human consumption for 10 or 20 years

Asked whether he had eaten some of the product, Wille said he had, and it was "quite palatable"

Sasol's big gamble

It's either a brave or reckless company that enters the highly volatile and hugely capital-intensive polypropylene manufacturing market at this point. Yet this month Sasol's R497m polypropylene plant comes on stream (183)

Polypropylene is known as the octopus plastic because it has such a large variety of uses. It can be converted into anything from battery cases and chip bags to synthetic carpets and woven sacks.

The outlook for profits from Sasol's new plant doesn't appear bright. In the past 18 months the world price of a popular raffia-grade polymer has fallen from US\$1 300/t to \$750/t. Sasol is planning annual production of 120 000 t yet the local market absorbs just over 60 000 t. Moreover, 50 000 t is already supplied by Safripol, jointly owned by Hoechst and Sentrachem. Sasol would need to engage in a bitter price war to capture this business.

But Sasol Polymers MD Koos Brand is optimistic. "These days you don't start a major chemical project without a significant competitive advantage." Unlike Safripol, Sasol gets propylene from coal as part of its synfuel process rather than from cracking petroleum by-products.

That won't guarantee Sasol supremacy. As Wolfgang Raffalsky, MD of Safripol's marketing arm Plastomark, says: "We've been in the business since 1974 and thus have low fixed costs. It means that we should be able to hold our own in a competitive environment, as our performance against imports has shown."

Plastomark has already reduced prices to stop local converters — who make bottles, bags and other products that use plastic —

F/M 23/2/90 (183)
from turning to imports. It cut prices over the last year from R4 070/t to R3 290/t.

Raffalsky says the marketing of polypropylene is totally different from marketing a commodity such as fuel or fertiliser. "Price isn't everything. The business is driven by the needs of the market, which are changing constantly. In plastics there is a premium on service."

Sasol's original reason for building the plant in August 1987 no longer applies.

Polypropylene may still be one of the world's fastest-growing plastics. In every year since 1978 polypropylene demand has grown in volume by more than 10%. But in late 1987 a huge interest in polypropylene manufacture developed worldwide. Then, a few months later, China — a major importer — virtually dropped out of the market because of political pressures.

Raffalsky says SA isn't in a strong position to market exports. "We are miles away from significant markets and don't have an advantage in raw material costs over producers in the Middle and Far East. We aren't in a position to consistently underquote our competitors. However, this does not mean that SA cannot export substantial quantities in the future."

Old habits die hard. In its defence, Sasol is drawing on its favourite old argument of strategic necessity. Brand says Sasol will save SA about R200m in foreign exchange. Sasol expects the plant to be profitable from the beginning, but it may take decades

F/M 23/2/90 (183)
to recoup the investment. "Though the project's fast-track construction schedule increased the total capital cost, the earlier entry into the market will certainly make this a worthwhile exercise," Brand says.

The converters, of course, are delighted at the alternative source of supply that Sasol's entry into the market will give them. Says Consol Plastics MD Dave Spindler: "It's good to have a second local source, especially since we usually have to deal with one supplier in this industry. Not only could we get keener prices, but we'll get a wider choice of grades."

Trading tightens

183

Trading conditions have tightened and the 1990 financial year looks set to be far more difficult for AECI. In the 1989 year, EPS rose by 23% but growth in turnover and earnings slowed sharply in the second half.

While in the first six months turnover rose by 25,2% and EPS by 38%, in the six months to end-December turnover was up on the 1988 second half by only 9,6% and EPS by 14,4%. The buoyancy of the interim figures partly reflected some external factors they were being compared with a low base set in 1988 because of operational problems at Coalplex, and benefits of the rationalisation in the fertiliser industry were coming through.

But there had also been favourable developments in the market and these turned less positive in the second half. International prices of commodity chemicals tumbled from the high levels set towards mid-year and there was a general slackening in domestic demand.

Given that group turnover for the year showed little if any real growth with a nominal increase of 17%, throughput at the plants evidently came under pressure. The group did well to improve trading margins, which rose to 12,7% (11,6%) and enabled a 28% improvement in net trading income. MD Mike Sander attributes the higher margin largely to a productivity drive in the second half. Other factors included the continued benefits of the fertiliser rationalisation, and, equally important, further success in lifting exports.

Sander notes that while domestic sales volume "slowed significantly," this meant more product was available for export sales, which rose by some 36% for the year. Total export sales reached R453m (R332m) and accounted for 9,5% (8,1%) of group turnover.

The ability to place products in foreign markets at reasonable prices has enabled management to maintain adequate plant loadings, which for AECI are critical. SA Nylon Spinners, for example, has been running flat out despite seeing an easing in local demand after mid-year.

Asset management also helped. Sander notes that the increase in working capital

was held to only about 5%. The ratio of working capital to sales dropped from 26% in 1988 to 23% and gearing eased from 57% to 42%.

Chris von Solms, who heads the explosives and chemicals division, says explosives prices have been very keen but he denies that there has been any marked loss of business to competitors. "We're very comfortable with our relationships with all the mining groups," he says.

Among other divisions, Dries Nieuwoudt, executive director responsible for the chlor-alkali, plastics and converters operations, says the Coalplex plants "ran their hearts out" since the de-bottlenecking was completed towards the end of 1988. While this was an advantage, there were also negatives for

were absorbed, resulting from the fertiliser rationalisation as well as shutdown of some nitroglycerine-based explosives capacity because of the shift to newer emulsion-type explosives.

And, now government has decided it will not support further synthetic fuels projects, the group has shifted research away from synfuels and into coal-based chemical feedstocks. It is negotiating recovery of expenses with government, and, meanwhile, has written off the R15m development costs.

Sander is hopeful that international commodity chemical prices have bottomed, though there are imponderables such as trading by eastern Europe and demand from the Peoples' Republic of China. But generally soft conditions internationally, and economic restrictions locally, suggest the group will be facing difficult trading for the first half and possibly throughout 1990.

Andrew McNulty



AECI's Sander ...
more available for exports

the division. In the first half, the polyethylene plants were hampered by shortages of ethylene owing to the fire at Sasol. Supplies resumed after mid-1989 and AECI's No 2 polyethylene plant quickly lifted production but by that time international prices had plummeted.

"Once supplies have been interrupted you don't just walk straight back into export markets," says Sander. "That may be something that will stand in our stead this year." At one stage during the year, says Nieuwoudt, the international US\$ price for polyvinylchloride dropped by 36% and that for polyethylene by 40%.

Von Solms believes there are further gains to be achieved from rationalisation in the fertiliser sector. He says that all the costs were borne last year. Total costs of R23m

FRAME GROUP

Growth costs

Latest interim results from the Frame Group underline the sweeping structural changes under way. Thanks to better throughput at the factories, margins have continued to widen and the result was a 46% leap in operating profit.

On the other hand, net borrowings jumped to R158m from the year-ago R66m and, probably for the first time in decades, finance charges have placed a clamp on bottom line growth.

Given the huge asset base, Frame badly needs a marked and sustained improvement in the overall margin — provided it is done without an excessive expansion in debt. The trading performance has shown welcome gains over the past two years. At the 1989 interim, turnover was up in real terms by some 9,5%, giving enough volume growth to lift the overall margin to 7,2%. This compares with 6,2% at the 1989 interim and only 4,1% for the 1988 first half.

In the 1989 interim, the two major operating companies, Consolidated Cotton Corp (CCC) and Consolidated Waverley Textiles (CWT), saw their margins as low as 3,8%. CCC, which contributes more than two-thirds of turnover and trading profit, suffered from below-budget sales volumes of yarn and fabric, with poor plant utilisation. The blame was placed largely on competition from imports. CWT blamed its margin problems on an unfavourable product mix.

CWT has shown the strongest pickup,

SECOND HALF SLOWS

Year to December 31	1988	1989
Turnover (Rm)	4 083	4 757
Net trading income (Rm)	473	604
Attributable income (Rm)	255	314
Earnings (c)	165	203
Dividends (c)	75	87

183

GROWING environmental awareness and campaigning has the chief executives of some companies squirming

Talking to AECI managing director Mike Sander about "green" issues is clearly not the way to put him at his most relaxed — his is, after all, the group which produces all those chloro-fluoro-carbons (CFCs) which are said to destroy the ozone layer so that strange things happen to the weather

And chemical companies, along with steel and electricity producers, have been prime targets for environmentalists lobbying for cleaner air and water

But although Sander doesn't claim to have all the answers, he's certainly prepared to take on the questions AECI, he says, is addressing environmental concerns

Chemical factories can now be engineered to be cleaner and more protective of the environment than they were 20 years ago AECI is lucky that all of its plants are relatively modern — the oldest dates back 15 years — so that "we are not serious polluters of the environment", says Sander "But there's no question we could do better," he adds. It's policy to examine standards and tighten up if these are not good enough. The

AECI's chief spells out that awkward word: e-c-c-o-l-o-g-y

HILARY JOFFE asks the boss of AECI about that awkward chemical industry problem: the environment

group has started to work with communities around its factories, sharing plans and information

AECI is one of the members of the newly-formed Vaal Triangle Atmospheric Pollution Committee, chaired by the National Health Department and including Iscor, Eskom and Sasol as well as community and environmental groups

On CFCs, Sander notes that there is still no viable substitute refrigerant AECI closely monitors progress in research on alternatives. Through Britain's Imperial Chemical Industries, it can draw on research and can license any technology developed

overseas ICI, which owns 38 per cent of AECI, has a new plant which will be able to produce a substitute for CFCs — but at 25 times the cost.

Sander expresses concern though that the focus on CFCs may be diverting attention from damage to the ozone layer which has nothing to do with the chemical industry — for example by large amounts of methane produced in certain kinds of farming

Methane also comes out of garbage — and here AECI is doing something positive. It has started extracting methane gas at the Johannesburg City Council's Robinson refuse dump, for conversion into chemical feedstocks

This is one of AECI's projects aimed at developing products or processes focused on local opportunities and needs. This is where it concentrates its research spending — around



Mike Sander ... still no viable substitute for CFCs

1.5 percent of its turnover

It is also doing biotechnological research to develop food supplements which improve the nutritional value of foods for animal or human consumption. These are amino-acids, presently being (expensively) imported, which can be made from raw materials produced in Africa, for example by the sugar industry. AECI sees this product as one which would be useful throughout Africa. It will spend R100-million on a new plant. One area of research, which was

stopped in its tracks by the government late last year, was AECI's synthetic fuel project, to make methanol from coal. At the same time the government decided to shelve Gencor's T-project (oil from torbanite), clearly signalling it no longer regarded the oil embargo as a serious problem

Sander says the methanol project was expensive and would have been justified only by a "serious strategic problem." AECI is now applying the knowledge base it acquired to petrochemical projects. But it did write off R15-million on the project in 1989

AECI's financial results for the year to December, released this week, show it increased its bottom line profit by 23 percent to R314-million, from R255-million in 1988. This was despite difficult trading conditions resulting from a slowdown in the economy — the increase in turnover (sales revenue) to R4,7-billion was only just ahead of inflation at 17 percent.

AECI compensated for a slowdown in domestic demand partly by increasing exports, which made up 10 percent of its turnover compared to eight percent in 1988.

It also increased its earnings by making higher margins on sales

Cape chemical firm to step up exports

Own Correspondent 183

CAPE TOWN — Fine Chemicals Corporation, which makes active ingredients for the pharmaceutical industry, exported 30% of its production to 24 countries and intended to step up exports by at least another 50% this year, mostly to the US.

This was said by GM Graeme Bamford at the formal opening of a new R3,5m extension to its factory in Cape Town yesterday.

It has been an approved supplier to the strictly controlled US pharmaceutical industry since 1983.

The extension was opened by Deputy Trade and Industry Minister Theo Alant, who said about 85% of the active ingredients used by the SA pharmaceutical industry were still imported B. Day 23/7/90.

While foreign technology licensing agreements had opened the doors for local manufacturing, it had closed the door to exports.

Government was concerned about this, Alant said, and a strategy had been formulated to establish a more positive trade balance

DIAGONAL STREET

AECI worth more than a raspberry

S/Tues 25/2/90. 183.

THERE'S no pleasing investors on the JSE — AECI comes out with much-improved results and the share price eases by 25c to 1 750c.

The performance is worth more merit than the unkind JSE suggests. Turnover grew by 17% to R4,8-billion, but working capital was only 5% higher in the year to last December.

Export revenue grew by a third to R453-million, nearly 10% of total sales, in spite of a fall in world commodity prices in the second half of 1989.

Earnings a share climbed by 23% to 203c even though financing costs were 45% higher at R109-million.

Group managing director Mike Sander says that after the massacres in China last year, that country withdrew as a major buyer. The decline in commodity prices was compounded by the economic slowdown in Organisation for Economic Co-operation and Development countries.

This has two effects on AECI. Export prices fall, and imports become cheaper. AECI has to follow suit to remain competitive domestically.

An export opportunity was missed because of a fire at Sasol, which provides AECI with the raw materials for polythene production. It is now back on line, but it takes time to re-establish world markets.

AMMONIA

Mr Sander says AECI foresaw the economic downturn and took steps to tighten finances and improve productivity.

Several plants were "de-bottlenecked", and operated on improved margins, making up for the business slowdown.

Explosives, chemicals and agricultural products show a much lower profit margin than do Chlor-alkali & Plastics or Polymer Derivatives.

Mr Sander says that in the first grouping — all stemming from ammonia — explosives are satisfactory with

steady growth, but fertilisers have a history of misery, not least of which is caused by changes in Government policy.

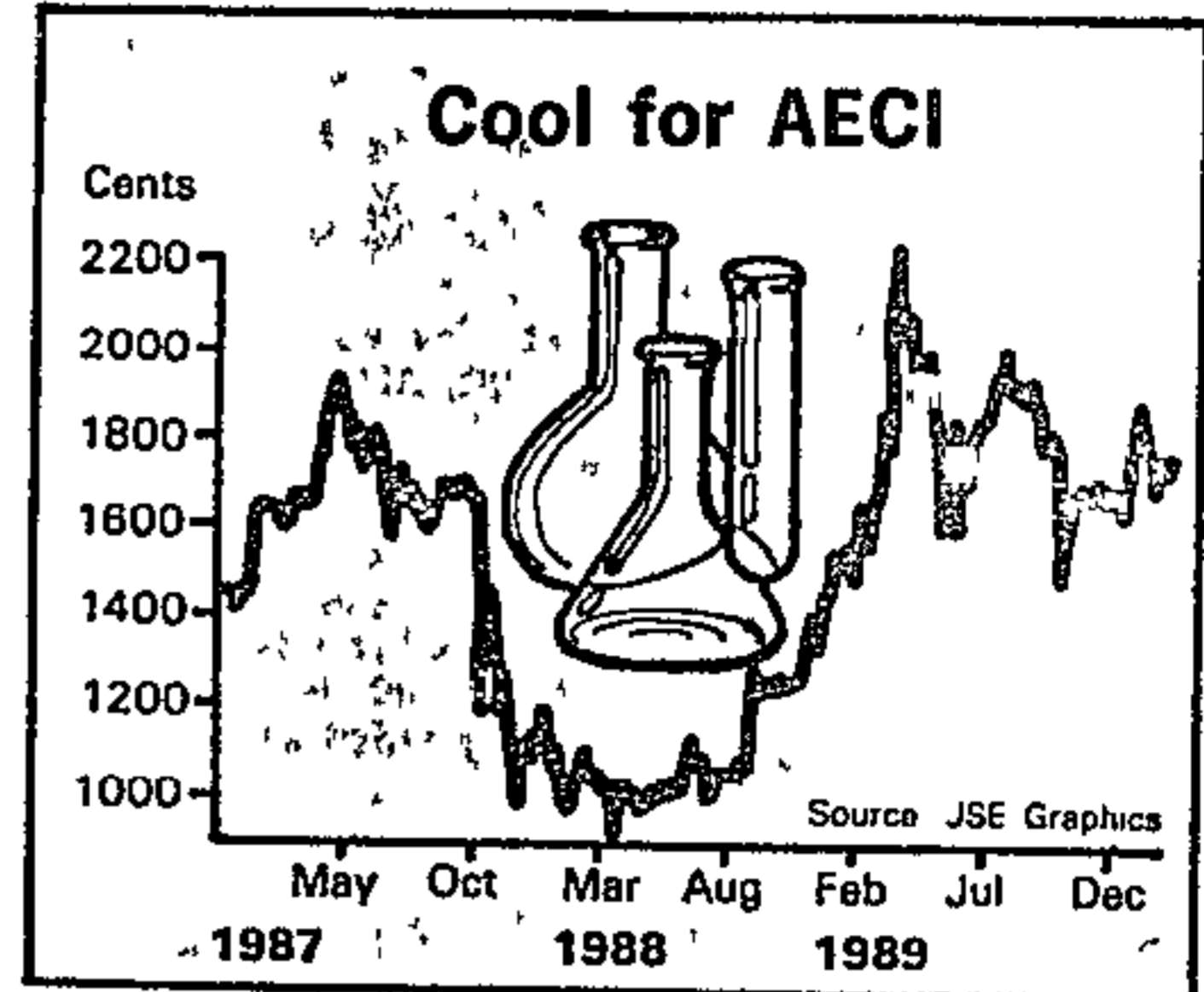
He expects 1990 to be a steady year. AECI should improve on 1989.

"The hatches are reasonably well battened," he says. World commodity prices are likely to remain depressed for two more quarters, rallying from the second half of the current year.

Improved plant efficiency will make more product available for export at competitive prices, especially polythene, although it will probably be sold in the spot market.

AECI reduced borrowings by R100-million to R566-million, although the average for 1989 was higher than previously.

The group absorbed redundancy costs of R23-million. These were incurred from rationalisation in fertilisers and the shutting down of outdated explosives plant as demand shifts to the new emulsion types. Other write-offs arose from the scrapping of the synfuel project.



This gives AECI an opportunity to research anew. The area of biotechnology (amino acids, food supplements, nutrition) is wide open. What sounds like science fiction could become real in a few years.

If we could eliminate the effects of drought and feed the national cattle herd instead of slaughtering it, get the cows and oxen to grow faster with wondrous grazing supplements, improve plant root system in arid areas, we could be laughing.

ETHYLENE

Mr Sander says AECI will concentrate on running its existing plants well, but could look to establish processes in a few years' time when capacity no longer meets demands. Its own ethylene plant is likely.

AECI outpaced associate Chemserv for the first time in years. Yet Chemserv's price of R20 is only 6,6 times earnings whereas AECI's is 8,6.

AECI is much more tradeable.

OHIO proposes to improve its "liquidity and profitability" by making the conditions on its debentures less favourable to holders — retrospectively.

Computer supplier Ohio was floated in May 1987 on the crest of investors' love affairs with electronics listings. Not long after, it issued 3,4-million debentures at 150c.

The unsecured compulsorily convertible subordinated debentures carried a coupon of 14%. The debentures were to be converted one for one into ordinaries in the March of the year after which the ordinary dividend reached 21c.

THUMB-SUCK

The ordinary dividend at the time was 7,5c out of earnings of 17,7c. At a thumbsuck compound growth of 20% a year, the conversion would have taken place in six years. If the dividend on the ordinary had been 21c by then,

Gencor takes R2bn stake in Mossas and other energy interests into its listed subsidiary

STimes 25/2/90

183

WID goes as Southsun Timeshare retrenches

STimes 25/2/90

SOUTHERN Sun Times (SST) has trimmed operations and retrenched former managing director Gavin Michelmore.

With the timeshare business in the doldrums, SST and Southern Sun Hotels have restructured the operation of their Resort Ownership Division.

SST executive chairman Brian Stocks says "This division was previously responsible for the operation of the timeshare sales at eight resorts and for management at 10 Southern Sun hotels."

"The partners have agreed to reallocate its work to eliminate some of the duplication between the division and on site hotel operations."

All hotel duties at the timeshare resorts will fall under the direct responsibility of Peter Smith, managing di-

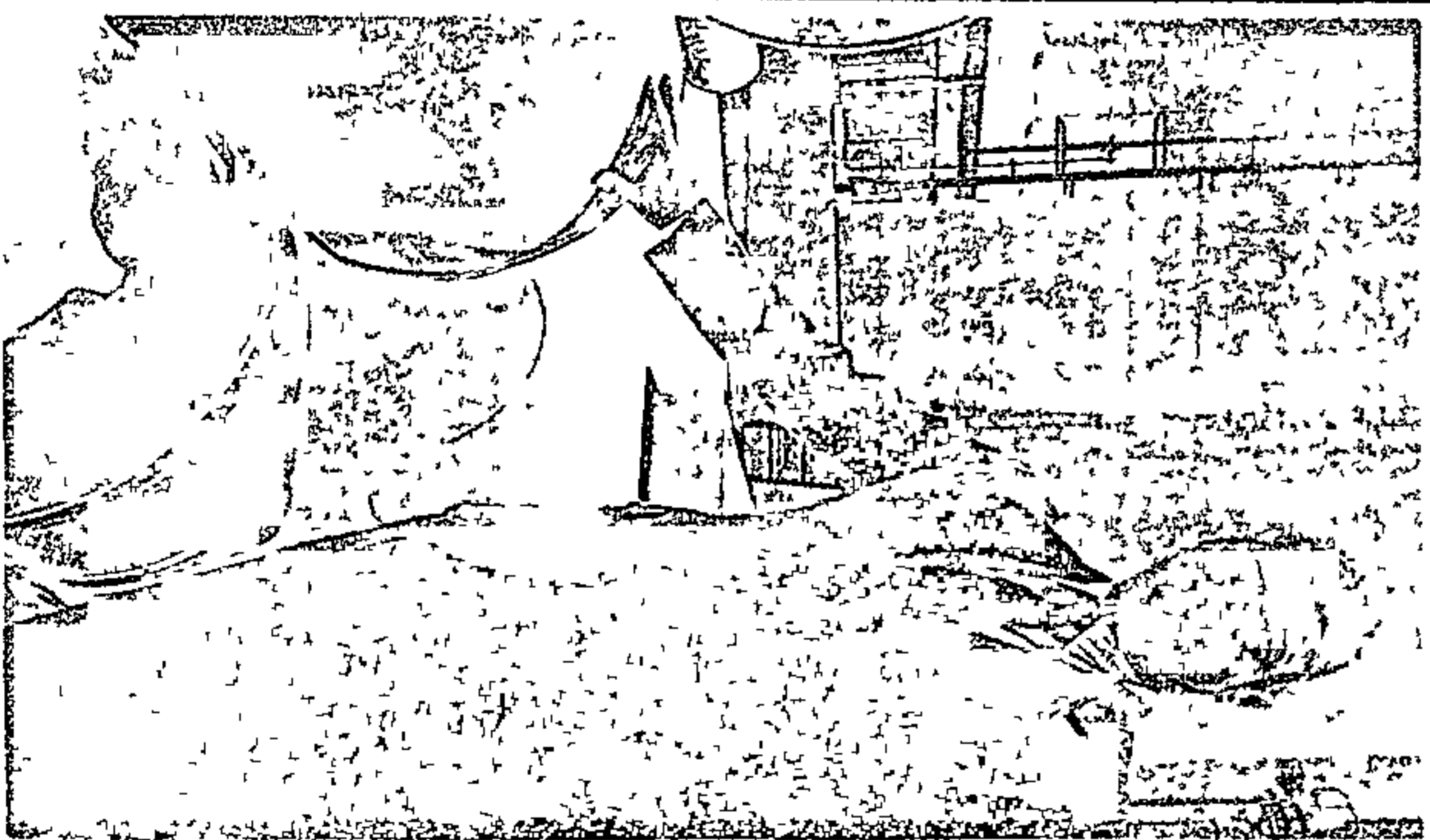
By Charmain Naldoo

The group's share of earnings from SST declined by over 50%.

Mr Stocks says "Our profitability was down because four projects were added to our portfolio - Drakensburg Sun, Pine Lake, Breakers at Umhlanga Rocks and The Palace in Durban."

Southern Sun group managing director Bruno Corte said in the annual report that because of delays in launching and high start-up costs, profit contributions by existing projects - Umhlanga Sands, Beacon Island, Cabana Beach and Sabie River Hotel - were eroded by new projects.

Sun Swop, begun in Mr Michelmore's time with the company and sanctioned by chairman Mr Stocks, provides facilities for existing owners of the SWO1 division.



ROB ANGEL... turned down six top jobs with Mobil to stay in SA Picture: TERRY SHEAN

Barrend takes

STimes 25/2/90

GENCOR is to form a huge energy company by injecting Mobil, its stake in Mossas and other energy interests into its listed subsidiary Trek Petroleum.

Engen, as the company will have turnover of R5-billion and taxed profits of about R200-million in its first year. The group will comprise marketing, production and exploration arms.

The marketing arm, incorporating Mobil, Trek and Sonap, will have 1 500 petrol stations.

The production division will refine oil, producing petroleum and chemicals. Exploration will be by contract with Soekor.

In a R2-billion reconstruction, Engen will come to the JSE boards through the acquisition by Trek of Mobil SA, Sonap, Gencor's 30% interests in the Mossas oil-from-gas project and its 20% interest in Soekor's Bredasdorp basin offshore drilling prospect.

Spread Trek Belegings, listed in 1986 and prominent in the Business Times Top 100 companies, will change its name to Engen Gencor will exchange its 100% Mobil holding for the issue of 89.8-million Engen shares.

Stakes in the Engen group will be Gencor with 84.4%, Genbel with 9.6% and other minorities, mainly existing Trek shareholders with 6%.

Engen intends to give a wider spread, says Engen chairman Bernard Smith. Details about how this can be done have not been decided.

The issue of new shares may mean some earnings dilution in the first year because of the effects of Soekor's exploration.

By Ian Smith

Gencor's oil-from-torbanite scheme, which has been put on ice with other synfuel projects, and minor interests in North Sea oil operations.

A feasibility study for the expansion and upgrading of the Durban refinery at a cost of about R600-million is in its final stages. The total cost over five years could be R1-billion, says Mr Angel.

The project will be aimed at enabling the refinery to take over the Trek refining currently handled by Shell and BP under a three-year agreement, together with other processing and export opportunities.

The revamp will also try to improve total yields, including more by-product chemical feedstocks.

The group's lubricant blending plant is also likely to be upgraded at a cost of about R100-million.

Engen's profits, including the results of Mobil and Soekor from March 1, are forecast at R117.8-million, or 180.8c a share, for the year to August 31. Attributable pro-

fits should be about R200-million, or 181.9c a share. Trek Belegings is expected to declare a 35c dividend next month for the half year to February 28. The new shares issued for Mobil and Genef will not qualify.

Engen is expected to pay a final dividend for the 1990 year of 55c a share. Future dividends will be at least twice covered by earnings.

Mr Angel, who spent 22 years with Mobil around the world, says the formation of an energy group which is not hampered by restrictions on foreign-controlled companies and which has access to huge SA resources, opens up great opportunities.

Balance

Engen will take over the contract to manage Mossas. The balance of Gencor's agreed contribution of about R1-billion is due within six months of the start of commercial production or four months after the project has been demonstrated to be "commercially viable and robust".

This is unlikely to be before the second half of 1992, and if Engen does not take up

● To Page 2



183

nt to JSE

GENCOR is to form a huge energy company by injecting Mobil, its stake in Mossgas and other energy interests into its listed subsidiary Trek Petroleum.

Engen, as the company will be known, will have turnover of R5-billion and taxed profits of about R200-million in its first year. The group will comprise marketing, production and exploration arms.

By Ian Smith

The marketing arm, incorporating Mobil, Trek and Sonap, will have 1 500 petrol stations

The production division will refine oil, producing petroleum and chemicals. Exploration will be by contract with Soekor.

In a R2-billion reconstruction, Engen will come to the JSE boards through the acquisition by Trek of Mobil SA, Sonap, Gencor's 30% interests in the Mossgas oil-from-gas project and its 20% interest in Soekor's Bredasdorp basin offshore drilling prospect.

Spread

Trek Beleggings, listed in 1968 and prominent in the Business Times Top 100 companies, will change its name to Engen. Gencor will exchange its 100% Mobil holding for the issue of 89,8-million Engen shares.

Stakes in the Engen group will be Gencor with 84,4%, Genbel with 9,6% and other minorities, mainly existing Trek shareholders with 6%.

Gencor intends to dilute its Engen holding to give a wider spread, says Engen chairman Bernard Smith. Details about how this can be done have not been decided.

The issue of new shares may mean some earnings dilution in the first year, because of the effects of Soekor's exploration.

But these are likely to be more than offset by the significant rationalisation and synergistic benefits of the new group," says Mr Smith.

Engen will pay R30-million in cash for Gencor's stake in Mossgas and R24,8-million for Gencor's rights and obligations under the Soekor participation agreement.

Seconded

For the first time, SA will be able to claim it has a totally integrated energy group, says former Mobil SA chairman and chief executive Rob Angel, who has opted to remain as managing director and chief executive officer of Engen.

Australian-born Mr Angel was seconded to Gencor for a year after the Mobil sell-out to smooth the transition. But he decided to stay when he recognised the prospects of the new group and Gencor's management style.

"I was given the choice of several international positions with Mobil, but this is the job for me."

Mr Smith says Engen gives investors a unique opportunity to share in the full spectrum of petrochemical activities, from oil and gas exploration to marketing of the product.

In the background and not committed to Engen are

Gencor's oil-from-torbanite scheme, which has been put on ice with other synfuel projects, and minor interests in North Sea oil operations.

A feasibility study for the expansion and upgrading of the Durban refinery at a cost of about R600-million is in its final stages. The total cost over five years could be R1-billion, says Mr Angel.

The project will be aimed at enabling the refinery to take over the Trek refining currently handled by Shell and BP under a three-year agreement, together with other processing and export opportunities.

The revamp will also try to improve total yields, including more by-product chemical feedstocks.

The group's lubricant blending plant is also likely to be upgraded at a cost of about R100-million.

Engen's profits, including the results of Mobil and Soekor from March 1, are forecast at R117,8-million, or 180,8c a share, for the year to August 31. Attributable pro-

fits should be about R200-million, or 181,9c a share.

Trek Beleggings is expected to declare a 35c dividend next month for the half-year to February 28. The new shares issued for Mobil and Genref will not qualify.

Engen is expected to pay a final dividend for the 1990 year of 55c a share. Future dividends will be at least twice covered by earnings.

Mr Angel, who spent 22 years with Mobil around the world, says the formation of an energy group which is not hampered by restrictions on foreign-controlled companies and which has access to huge SA resources, opens up great opportunities.

Balance

Engen will take over the contract to manage Mossgas. The balance of Gencor's agreed contribution of about R1-billion is due within six months of the start of commercial production or four months after the project has been demonstrated to be "commercially viable and robust".

This is unlikely to be before the second half of 1992, and if Engen does not take up

● To Page 2

55 ● From Page 1 (183)

Gencor giant

its option its shareholding will be diluted.

Mr Angel says a projection giving a Mossgas break-even point of \$20 a barrel of crude oil is "reasonable". The current price is about \$21 a barrel.

COMMENT. The strongly rising share price of Trek these past few months shows that the market had wind of the deal for some time. The Friday closing price of 2 300c is 12,6 times pro forma earnings compared with Sasol's PE of about 10.

Engen's tax rate is likely to remain low for several years because of proposed extensions to the refinery. So, given the benefits of more throughput at the refinery, distribution and overhead cost savings, earnings are

likely to spurt in years two and three.

Petrol product demand grows reliably by 4% to 5% a year and Engen is well placed to increase market share. It is an all-cash business Engen is well placed for acquisitions, should any of its rivals consider disinvesting. There is a shortage of this quality of scrip, so the price is likely to move up sharply tomorrow.

The deal illustrates the financial genius of Derek Keys, who bought Mobil for R650-million and which is valued here at R1,9-billion (89,8-million new Trek shares being issued at current value of R23). The deal adds a net R1,3-billion or 120c a share to Gencor's net asset value.



"There are but two p
in the wo
In the long run the s
but the main"

Gencor forms energy giant for JSIE listing

JOHANNESBURG — Gencor announced on Saturday it was injecting its energy interests — its investments in Mobil, Mossgas and Soekor — into Trek Beleggings in exchange for shares and cash

The considerably enlarged entity, called Engen, will be SA's first, fully integrated energy group and will have a turnover in excess of R5bn, a taxed profit of R200m and a market capitalisation of around R2bn, Gencor's statement said

Gencor finance director Tom de Beer said Engen was set to become a major contributor to earnings

"On our current projections we expect that the energy division will contribute about 14c a Gencor share in the present financial year ending August 31, 1990

"Assuming static earnings for Gencor of 105c a share, this means that the division would contribute a meaningful 13% of the group's earnings," De Beer said

He added that Gencor was tremendously enthusiastic about Engen's future potential

"The group has a low debt equity ratio of 18%, is a net cash generator and has the potential to become a real force in the development of the Southern African petro-chemical industry"

According to De Beer, the decision to list the integrated energy group using the Trek Beleggings listing was prompted by Gencor's desire to allow the investing public to participate in this new group

"In Engen we believe that we have a great investment, with exciting potential

183
CMT 7/1/89 26/2/89
"But remember, Gencor had a R1,5bn rights issue last year and we don't need the cash that a public offer would generate. This prompted our decision to inject our energy assets into Trek Beleggings in exchange for 89,8m new Engen shares and R55m cash

"We see this as a first step in a process and envisage that in time Gencor will reduce its investment in Engen as we spread Engen's shareholding still further"

Engen is forecasting earnings of 182c a share in the year ending August 31, and expects to pay a dividend of 90c for the full year

The new shares to be issued will not rank for the interim dividend to be declared in March

At last week's level of R20 the Trek share price currently stands on an 11 times price earnings ratio and, if this share price is maintained after the transactions and once the name has been changed to Engen, with the 110m shares which will be in issue, Engen could have a market capitalisation of around R2,2bn

If one were to take the published costs of the assets that are being injected into Engen — R650m for the purchase of Mobil, a total of R106m when Gencor took out the BP and Shell investments in Trek Beleggings, the R30m Gencor paid for its 30% interest in Mossgas and the R24,8m that is being paid for Gencor's participation rights in Soekor — and measures this up against Trek's probably market capitalisation, one can see that Gencor's executive chairman Derek Keys has indeed fulfilled one of Gencor's stated missions

He has certainly created additional wealth for Gencor shareholders

On analysts' suggestions of a possible market capitalisation of R2,2bn, Gencor's 84,4% interest in Engen could be worth around R1,8bn

Commenting on the developments, Engen chairman and Gencor executive director Bernard Smith said Engen was an excellent opportunity for the SA investing community

"Under one umbrella we house a complete and logically integrated energy group

"Engen encompasses exploration for oil and gas with our participation agreements with Soekor, production capability via our 30% interest in Mossgas, refining and the ability to produce various chemical feedstocks at Genref (the Mobil oil refinery in Durban) and three independent and competing fuel marketing companies — Mobil, Trek Petroleum and Sonap

"Within the enlarged group there are excellent opportunities for rationalisation in common areas such as production distribution, systems, technology and finance"

Smith added that the group is already engaged in detailed engineering studies to expand and upgrade Genref

The creation of Engen requires certain approvals and a circular to Trek Beleggings shareholders is being prepared and will be circulated in due course

The transmuted listing statement will be published in early May and the new name comes into effect at the same time — Sapa

Gencor awaits high profits from Engen

ENGEN, Gencor's new petro-chemical giant announced on Saturday, could contribute as much as 13% of the group's earnings, says Gencor finance director Tom de Beer.

Engen will be SA's first fully integrated energy group. It will have a turnover of more than R5bn, a taxed profit of about R200m and a market capitalisation of about R2bn, Gencor said in a statement.

The company will combine Gencor's energy interests — its investments in Mobil, Mossgas and Soekor — in a listing through Trek Beleggings in exchange for shares and cash.

Gencor executive director Bernard Smith will be chairman of Engen, with Robert Angel, formerly of Mobil, as MD.

Other Engen board members are Tom de Beer (Gencor executive director), Neville Deudney (Mobil MD), Norman Kennelly (Gencor energy division, GM special projects), Derek Keys (Gencor EC), Errol Martin (Genref MD), Naas Steenkamp (Gencor executive director), Sarel Steyn (Trek Petroleum MD), Theo van der Pas



● ANGEL

Business Day Reporter

(Mossgas general manager technical)

Smith said Engen was an excellent opportunity for the investing community.

"Under one umbrella we house a complete and logically integrated energy group."

"Engen encompasses exploration for oil and gas with our participation agreements with Soekor, production capability via our 30% interest in Mossgas, refining and the ability to produce various chemical feedstocks at Genref and three independent and competing fuel marketing companies — Mobil, Trek Petroleum and Sonap."

De Beer said the decision to list was prompted by Gencor's desire to allow the public to participate.

"On our current projections, we expect the energy division will contribute about 14c a Gencor share in the present financial year ending August 31 1990," De Beer said.

"Assuming static earnings for Gencor of 105c a share, this means the division would contribute a meaningful 13% of the group's earnings."

Gencor was tremendously enthusiastic about Engen's future potential.

"The group has a low debt equity of 18%, is a net cash generator and has the poten-

□ To Page 2

Engen profits

tial to become a real force in the development of the southern African petro-chemical industry.

"In Engen we believe we have a great investment, with exciting potential. But remember, Gencor had a R1,5bn rights issue last year and we don't need the cash that a public offer would generate."

"This prompted our decision to inject our energy assets into Trek Beleggings in exchange for 89,8-million new Engen shares and R55m cash."

"We see this as a first step in a process, and envisage that in time Gencor will reduce its investment in Engen as we spread Engen's shareholding still further."

Engen is forecasting earnings of 182c a share in the year ending August 31, and

expects to pay a dividend of 90c for the full year. The new shares to be issued will not rank for the interim dividend to be declared in March.

At last week's level of R20, the Trek share price currently stands on an 11 times price earnings and, if this share price is maintained after the transactions and once the name has been changed to Engen, with the 110-million shares which will be in issue, Engen could have a market capitalisation of about R2,2bn.

The creation of Engen requires certain approvals and a circular to Trek Beleggings shareholders is being prepared.

The transmuted listing statement will be published in early May and the new name comes into effect at the same time

□ From Page 1

Selling the service station is the way to influence motorists

THE only effective way to market fuel is by marketing the service station which sells it.

Trek Petroleum CE Sarel Steyn says. "The only difference between the various brands of fuel on the market is in the additives.

"Although these have an effect on the performance of the fuel, it is a hidden effect which cannot readily be evaluated by the man in the street.

"As a result, in marketing the issue becomes the

service, locality and general quality of the service station, its attendants and its technical staff," he says.

Steyn tends to downplay the actual differences between one brand of fuel and another

Parameters

"I wouldn't want to suggest the additives in other manufacturers' fuels do any less than they claim to, but the specifications of all petrol brands have to fall within specific parameters

"We believe, from the point of view of the average consumer, marketing on the basis of additives in the fuel is irrelevant. Although we put various additives into our fuel, we do so in the belief that this is a natural and automatic part of customer service.

"Our fuel is as good as anything else available, but the real reason that a customer will go back to a garage is the service he gets there."

And service, says Steyn, is an ongoing process

"Locality is important — people will tend to use the petrol station that is most convenient to them

Intangibles

"But if one petrol station stands out by virtue of intangibles like cleanliness, the friendliness of the pump attendants or the management, it will attract customer loyalty

"A surprising number of people will adjust their plans to a significant extent to enable them to fill up at

a petrol station where they are made to feel welcome"

To promote this emphasis on service, Trek runs national and regional competitions for pump attendants. These are assessed and awarded

In addition, general service station staff take part in a "Top 100" competition, in which the prizes are fully paid and subsidised overseas trips

"We know this approach works. Trek was established in 1968 and has been nominated as one of the

Sunday Times' top 100 companies since 1977," says Steyn

The company has 381 service stations operating throughout SA under various systems ranging from dealerships to wholly owned businesses

"We have a particularly strong thrust into the black areas, since this is where we perceive most of the market's growth potential

"We have put together a number of schemes in conjunction with black entrepreneurs," he says

While in the meantime unproductive assets are lying idle. Significant proportion of its cost, he says, which has forced it to put a significant proportion of its assets as a hidden trade

Selling the service station is the way to influence motorists

THE only effective way to market fuel is by marketing the service station which sells it

Trek Petroleum CE Sarel Steyn says "The only difference between the various brands of fuel on the market is in the additives

"Although these have an effect on the performance of the fuel, it is a hidden effect which cannot readily be evaluated by the man in the street

"As a result, in marketing the issue becomes the

"We believe, from the point of view of the average consumer, marketing on the basis of additives in the fuel is irrelevant. Although we put various additives into our fuel, we do so in the belief that this is a natural and automatic part of customer service

"Our fuel is as good as anything else available, but the real reason that a customer will go back to a garage is the service he gets there."

And service, says Steyn, is an ongoing process

"Locality is important - people will tend to use the petrol station that is most convenient to them

Intangibles

"But if one petrol station stands out by virtue of intangibles like cleanliness, the friendliness of the pump attendants or the management of the management, it will attract customer loyalty

"A surprising number of people will adjust their plans to a significant extent to enable them to fill up at

a petrol station where they are made to feel welcome"

To promote this emphasis on service, Trek runs national and regional competitions for pump attendants. These are assessed and awarded

In addition, general service station staff take part in a "Top 100" competition, in which the prizes are fully paid and subsidised overseas trips

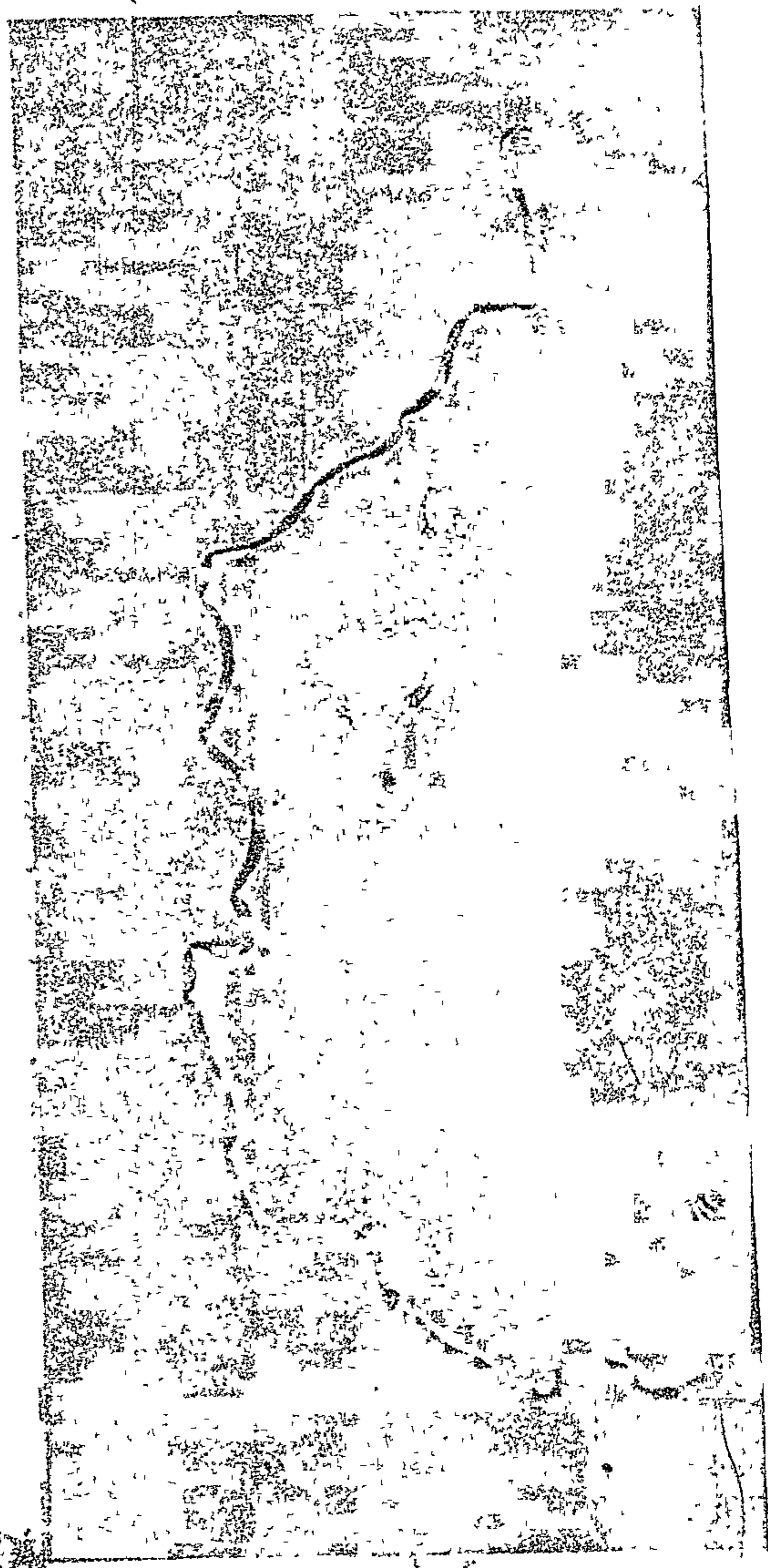
"We know this approach works. Trek was established in 1968 and has been nominated as one of the

Sunday Times' top 100 companies since 1977," says Steyn

The company has 381 service stations operating throughout SA under various systems ranging from dealerships to wholly owned businesses

"We have a particularly strong thrust into the black areas, since this is where we perceive most of the market's growth potential

"We have put together a number of schemes in conjunction with black entrepreneurs," he says



Engen gets favourable but nervous welcome

183 Bldg 2-7/2/90

THE JSE reacted favourably in nervous trading yesterday to the creation of Engen, Gencor's new energy giant announced at the weekend.

Trek Beleggings is to be renamed Engen and will include interests in Trek, Mobil, Sonap, Genref, Mossagas and Soekor. The share closed 50c higher yesterday at 2 400c in thin trading, but was bid as high as 2 500c.

Engen director Norman Kennelly says the number of shares issued to Gencor by Engen of 89,8-million (enlarging Engen's equity to 110-million shares) was decided on the basis that Trek Beleggings' earnings would remain basically constant after the dilution of equity. Yesterdays' share price gives Engen a market capitalisation of R2,6bn on its expanded equity base.

Kennelly referred to the official notice, which shows Engen's net asset value (NAV) rising from 760,7c before, to 857,3c after, the transactions.

However, it is also stated that these NAVs "exclude the revaluation of investments in Sasol and SA Lubricants. Trek Beleggings previously reported an NAV on August 31 of 903c inclusive of these revaluations."

The conservative NAVs published were probably at the suggestion of the JSE, and Engen's merchant bankers and sponsoring brokers.

Says Gencor executive director Tom

ANALYSIS BARRY SERGENT

de Beer "Gencor had a R1,5bn rights issue last year and we don't need the cash that a public offer would generate." But perhaps the most vexed question in the creation of Engen is prospective earnings. The official announcement shows forecast 1990 earnings slipping 5,4% from 192,3c before to 181,9c after the transaction.

It is stated that this marginal decline is due to the effects of exploration activities. However, "it is expected that the decline will be compensated by the impact of significant rationalisation and synergistic benefits expected to accrue following the transactions. As these cannot be accurately identified at

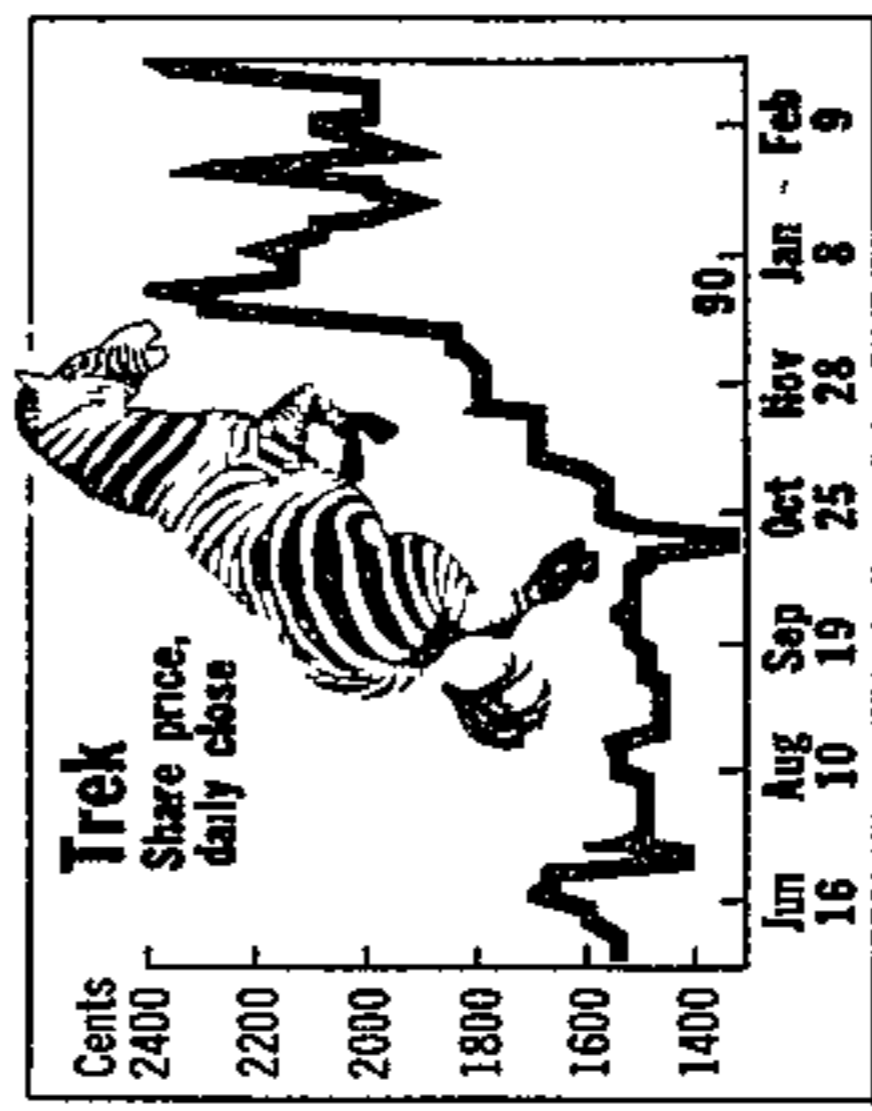
this stage, the effects have been excluded from the forecast earnings off the expanded equity base."

Possible future investments by Engen are enormous in today's money, up to R1,4bn for the Genref refinery in Durban (including upgrading and increasing capacity), a possible R1bn for Mossagas, and cash for acquisitions.

De Beer says the creation of Engen was the first step in a process which includes Gencor reducing its investment in Engen as Engen's shareholding is spread further. It has not been decided how this will be done. Kennelly says Gencor would "more than likely" renounce its rights in a rights offer, so long as its stake in Engen is not reduced to below 50%.

He says another way to spread the number of shareholders would be by making an acquisition. In the meantime, Engen's share price has the potential for appreciation. De Beer says Engen will contribute about 14% per Gencor share in the financial year ending August 31. On static Gencor EPS of 105c, Engen will thus contribute 13% of EPS at the group level, Gencor will be Engen's 84,4% parent.

Sasol, while not strictly comparable with Engen, has crudely annualised profits for financial 1990 of R660m, 9,1% of its R7,2bn market capitalisation. Engen's forecast profits for financial 1990 at R200m constitute 7,6% of its current capitalisation.



GRAPH: FOMA RESEARCH Source: JSE

Star 28/2/90

183

6-day-old AECI strike escalates dramatically

By Drew Forrest

The six-day strike in the ammonia plant of AECI's giant Modderfontein plant escalated dramatically yesterday, with most of the plant's 5 000 black workers downing tools.

Unrest centres on demands for the firing of a white fitter who assaulted a black assistant. The SA Chemical Workers Union has linked the assault to a number of right-wing attacks on workers in the area, although management disputes this.

At a press conference, Sacwu's Mr Humphrey Ndaba said the issuing of a reprimand to the fitter ran counter to normal AECI practice of dismissal in cases of assault. AECI says dismissal has never been automatic.

Workers slice their hours ⁽¹⁸³⁾

^{113/90} By Drew Forrest ~~(183)~~ ~~(183)~~

The drive by chemical workers for an industry-wide provident fund has led to further industrial action — this time at the Rolfes plant near Johannesburg

A Chemical Workers Industrial Union (CWIU) statement said that this week 550 workers embarked on daily stoppages of up to three hours over the company's refusal to join the union-initiated Chemical Industries National Provident Fund

Rolfes managing director Mr Fivos Savvas said management planned to meet the union

The union says a national fund will maximise investment earnings and save on administration costs. Disputes over the issue have erupted at many firms

The CWIU said Rolfes had been unable to offer a coherent reason for refusing to join the fund

18 arrested at illegal strike

CAP: *Trips 1/3/90*
Staff Reporter

EIGHTEEN members of the South African Chemical Workers' Union taking part in an illegal strike at the Marble Lime premises in Bellville, were arrested yesterday

Union organisers said the workers had defied a court order prohibiting them from entering the premises

Police said eighteen people were arrested for trespassing. They appeared in the Bellville Magistrate's Court and were released on bail

183

~~183~~

~~183~~

183

ly giant

case the cost will be covered by cash flow. Borrowings could be used when needed, as Engen will be listed with shareholders' funds at March 1 1990 of about R950m and net borrowings of only R173m — a debt:equity ratio of only 18%. The cash generation at Mobil and Trek has long been substantial. At August 31 1989, Trek had cash balances of R121m.

Apart from Genref, Engen could face major capital commitments in Mossgas, in which it has a 30% stake and a management contract. The initial equity contribution of R30m has been paid, with about R1bn still outstanding — assuming Engen takes up its rights. Smith points out the question will arise only in late-1992 and the options will then be considered.

"Mossgas provides an upside potential with very little downside risk for us," he says. "It could be producing profits by late 1992. So far we don't have a big investment in it and we could decide not to go ahead." The breakeven in real terms is estimated at \$19-\$20/barrel. Smith believes there is "a lot of upside" in the current price of about \$19/barrel. "At \$25 we'd be making handsome profits because it's quite highly geared." Mossgas, like Sasol, would be a rand hedge and would expect to be eligible for the "tariff protection" for synfuel producers.

Equity issues will remain an option, though management would want to go to the market with a clear use for the funds. When Gencor was considering how best to list its energy interests, the message from stockbrokers and institutions was that there would be no difficulty raising, say, R600m-R700m in equity. Certainly, the group would have ample scope to issue shares: only 6% will be held by minorities, with the rest held by the already cash-flush Gencor (84,4%) and Genbel (9,6%). Clearly, Gencor will want to reduce its stake over time.

Detailed documents will be published in three to four weeks. Meanwhile, the group is forecasting EPS for the 1990 year at 181,9c. The dividend cover will be 2,1 times and management does not see a need for higher retention levels.

Andrew McNulty

SASOL F/M 2/3/90

Volumes hit

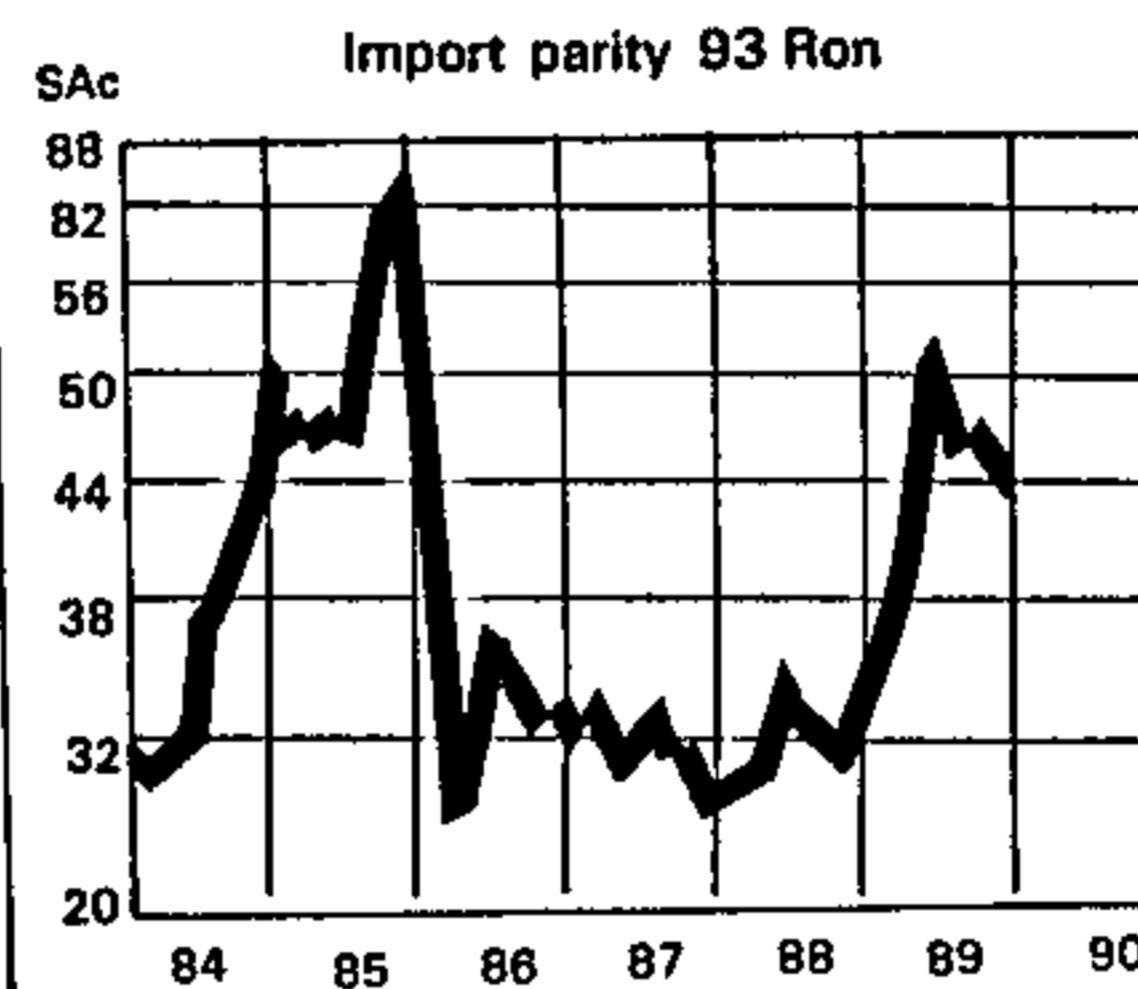
Production problems at the Secunda plants have clobbered Sasol's results for the six months to December and will remain a constraint in the second half.

Earnings rose 18% but would have been

much better had volumes not slumped at Sasol 2 and Sasol 3. Brokers' analysts have seen the results as disappointing and the share weakened after the announcement.

Almost all the major variables other than synfuel and chemical production volumes at Secunda had moved in the group's favour. In particular, the average rand fuel oil price for the six months was some 40% higher than the average for the 1989 interim. There was firmer demand for liquid fuels, a better refining margin and a generally higher level of chemical prices.

Better prices



Also, a new tariff protection mechanism has been introduced with effect from July 1 1989. This, now 7,8c/l, is 30% higher than the previous 6c/l. The higher tariff was thus a significant help in these profits.

The decline in synfuel production follows last year's fire, which occurred because of corrosion downstream of the Synthol reactors. The regular inspection programme at Sasol 2 has been "intensified," and equipment concerned is being replaced with corrosion resistant material. MD Paul Kruger says output dropped by 10%-15% at Sasol 2 and Sasol 3 and will remain below capacity in the current half. Kruger estimates that the second-half shortfall will be about half that of the first.

The group will not be seeking compensation from anyone. Kruger says output at Secunda has been lifted to some 20% above designed capacity, and he reckons that all the effects of the higher output and the threefold scaling-up of the Synthol reactors from the Sasol 1 size could not have been foreseen.

The new tariff mechanism is based on a crude oil floor price, with the floor price now at \$23/barrel. Essentially, Sasol benefits

JACOB DE VILLIERS

Creating fertile ground

Jacob de Villiers jokes that he accepted the agriculture post in President F W de Klerk's Cabinet because he's naive enough to believe he can make a difference

His humility — uncharacteristic for a politician — belies the impact he's had on agriculture after only five months in office. Change is on the way and he's not afraid to say so (*Business* February 23)

De Villiers (51) was possibly De Klerk's most surprising appointment. He stood unsuccessfully for the NP in the general election, losing to CP incumbent Cas Uys in Barberton. He is well known in farming circles but had virtually no political profile.

He was planning to carry on farming citrus and sugar cane at Malelane, in the Lowveld, but De Klerk offered him a challenge. It was an unexpected move, not least of all to De Villiers, who says he is "flattered and overawed".

He now sits in parliament as an indirectly elected MP.

His credentials seem to support his appointment. A BCom (Hons) from the University of Pretoria, a short career in business as an economic researcher and then, in 1963, into farming.

De Villiers has been in agriculture ever since and was elected Farmer of the Year in 1980.

De Villiers also suits De Klerk's team because he is a reformer by nature and religious conviction. He believes in justice and respect for the dignity of man. "The present is not as good as I want the future to be, so I strive to alter things to bring about a better future."

However, it doesn't mean he's out to turn agriculture on its head. He aims to unclutter the industry and make marketing as simple as possible for the benefit of both producers and consumers. He believes subsidies — apart from those in place for socio-economic reasons — skew the economy and don't help farmers.

"Most farmers operate successfully and profitably. They're proud. They don't want to be supported by the State."

He's careful about placing blame for the sector's current state of affairs (widely regarded as over-regulated). "The Marketing Act is 53 years old. Over the years, regulations have been introduced which, on their own, were regarded at the time as healthy

developments. But now the whole system needs revamping so the field can be cleared of counterproductive rules."

It's a diplomatic way of announcing the end of the old style control boards though De Villiers says deregulation doesn't mean no regulation.



De Villiers ... a reformer by nature

He also rejects the notion that middlemen cream off high profits at the expense of producers and consumers. "If farmers believe that, then they should leave farming and become middlemen." He believes middlemen play a vital role. To the extent that excessive profiteering takes place, it should be eliminated when deregulation gives sharper focus to market forces.

Talking about change and bringing it about are two very different things. Agriculture has long been a political football and a powerful lobby in its own right. The

CP regards much of the white rural vote as its core support. De Villiers's predecessor, Greyling Wentzel, fought many a battle with angry farmers.

De Villiers is perhaps less combative. He focuses more on the broader issues than on the purely party political. Agriculture represents about 7% of GDP and 20% of the population relies directly on farm jobs.

The sector also has a ripple effect on over 30% of all industry. "I aim to make the best possible decisions for the industry and economy, though I'm not so naive as to expect to be let off the hook as a politician."

MIKE SANDER

183

FIM 2/3/90

Explosive mix

The economic downturn and softening international chemical prices kept AECI MD Mike Sander busy in the second half of last year.

But with tight controls and productivity improvements, the chemical giant still managed a 23% growth in earnings for the full financial year.

These problems, says Sander, are part of the ongoing management mix. "Things keep changing and to remain competitive a company must adapt."

The real challenge, however, is making participative management and equal opportunities happen in a large organisation like

FIM 2/3/90

183

AECI, while at the same time satisfying shareholders and investors.

Sander (48) has been with AECI for close on 27 years. He believes the company has a role to play in the development of Africa as a successful trading bloc. "AECI could probably be the leading source of technology for the chemical industry in Africa. Our expertise must be shared with countries near us." He says the Botswana Soda Ash project is an example of what can be done. Its benefits will flow to Botswana while SA gets the product it needs.

Sander is used to change. He says whenever he was about to lose interest in what he was doing, AECI thrust him into a new and challenging position.

Though very much a Natal boy, he had the desire to get away from this part of the world while completing a chemical engineering degree at Natal University. The opportunity came in 1963, when AECI offered him an immediate transfer to ICI's operation in Billingham in the north of England.

"I'm one of the few people who thought it was a nice place," he says. But more important was the experience he gained in petrochemical processes and technology.

In 1969, shortly after his return, he was asked to run AECI's speciality chemical business, Anikem. The move into business management opened many new doors. The most important lesson learnt during his eight years at Anikem was that "customers are very important people."

After a short stint at Rand Carbide, Sander took over AECI's plastics division in 1979 — a year before the start of the world oil

Mike Sander ... an ability to adapt



Sentrachem mothballs Newcastle rubber plant

B/Dary 213190

183

ZILKA-EFRAT

THE R120m mothballing of Sentrachem's loss-making isoprene operation at Newcastle will significantly improve the company's future earnings and is a further step out of the volatile commodity chemicals market.

CE Johan van der Walt says the slump in world natural rubber prices, which have dropped from \$1 250/ton to \$780/ton over the past year, means that isoprene rubber is no longer a competitive substitute on local and international markets

"Indications are that there is little prospect of a recovery in the natural rubber price, and therefore, of an improvement in the fortunes of isoprene rubber for at least another three to four years"

He says the plant accumulated a loss of R140m since coming on stream in 1983.

The 1979 decision to go ahead with the plant was based on SA's strategic needs, but at the time it also appeared that the operation would be viable as natural rubber prices were extremely high



● VAN DER WALT

But the plant has never been viable and in 1988 government terminated its subsidy, in line with its agreement

A programme of withdrawal of isoprene rubber from the market will be worked out in consultation with customers to minimise any possible disruption

The local tyre industry, the major uses of isoprene, has been consulted

Sentrachem has also suggested to government that it remove the 25% import duty on natural rubber. This will enable local users to import natural rubber at prices substantially lower than locally produced isoprene

Isoprene rubber production, which accounts for about 50% of the Newcastle plant's volumes and 40% of its sales, will be phased out between April and October this year

Manufacture of butadiene and styrene butadiene rubber will continue as these remain viable businesses

Van der Walt says the plant's closure is expected to knock R100m off turnover, but it will add an average of about 15c to 20c a share to annual earnings over the next three years. It will also improve return on capital employed by about 3% a year.

The full write-off of the plant will be provided for in March although it will continue to run to provide for an orderly phase-out of the market

The total write-off should be less than

R120m and will be reflected below the line. As a result, attributable earnings will not be affected

While gearing will initially rise, but not above 60%, it will drop below 40% within the next two years.

Van der Walt says Sentrachem has taken steps to reposition itself in specialised areas of the chemical industry and out of the volatile and cyclical commodity chemicals market

He says the move out of isoprene, follows Sentrachem's departure from the fertilizer market. All remaining operations are profitable

The group is now looking to add to its activities and will be announcing some new projects in hi-tech specialised chemicals in the near future. It is also examining future alternative uses for the isoprene production facilities at Newcastle

For example, the carbide furnace could be converted to metallurgic processes to produce ferrachrome and the catalyst plant could be changed to make a variety of specialty chemicals

Depending on the progress made to convert parts of the plant to other uses, about 300 to 450 people will be affected by the closure

Even though Sentrachem is trying to find as many alternative jobs in the group as possible, a substantial number will not be directly accommodated

Van der Walt says the Newcastle plant froze all job openings three months ago

Sasol sits pretty on firm demand

S/Times 4/3/90 183

SYNTHETIC fuel plants are unlikely to be built in SA soon, but that does not mean Sasol does not have a great future.

Sasol managing director Paul Kruger says "One cannot justify investment in synfuel plants at present oil prices. They are uneconomic. In addition, the strategic need for such plants has been reduced by the new political climate."

Protection

"Internationally, we are no longer untouchables. But in spite of the improved strategic position, Sasol foresees good growth."

Mr Kruger says that only one third of Sasol's operating profit of R613-million in the half-year to December came from synfuel. A third came from chemicals (ethylene, waxes, phenols, ammonia) and the rest from coal, gas, fertiliser, explosives and refining of crude.

He sees good growth in all areas, including synfuel since protection of 17,5% (7,8c a litre) was granted in February.

Inflation makes a genius out of anyone with a completed capital-intensive plant. That is Sasol's happy position. Not only that, but its plants are operating at 120% capacity.

Identical

Another growth source could be acquisition of the outstanding 50% of Sasol 3. Sasol 3 contributed a dividend of R25-million to synfuel operating profits of R200-million in the past six months.

Sasol 1 hardly produces synfuel. So, by deduction, Sasol 2 made most of the balance of the R175-million synfuel profit. Sasol 3 is an identical plant, capable of similar profitability, provided it is not debt encumbered.

"The outstanding 50% of Sasol is the quickest, easiest privatisation the State could undertake. It could be done at the stroke of a pen. There would be no management hiccup or any other problem."

How would it be priced?
"Just as Sasol 2 and the first half of Sasol 3 were — by

By David Carte

negotiation, with reference to future profitability."

Would Sasol expect to pay the amount off, or would the State get an immediate payment in cash?

"We would pay cash, even if it meant increasing debt or raising funds in the markets." At the end of December, Sasol had long-term debt of R401-million and short-term loans of R14,8-million, which paled against equity of R3,7-billion.

Another reason for Mr Kruger's optimism is that he believes there will be another world oil shortage.

Shortage

"I believe oil prices are in a slow uptrend. I expect the price to reach \$23 a barrel in the next three years — it's nearly \$20 now. A big unknown is what will happen in Russia and Eastern Europe. If production there should suffer, prices could move up sharply."

Mr Kruger says the latest results were depressed not only by a stronger rand, but by the need to be extra care-

ful in ensuring no recurrence of the two fires that devastated the plants last year.

"Ironically, the fires affected profitability this year and not when they happened. Last year we were fully compensated for loss of income. This year we had to shut down plants for inspection and be careful about pushing throughput."

Mobil

Mr Kruger says acquisition could be a source of growth in the future. He has no regrets at having missed Mobil, which went to Gencor.

"We knew it was for sale, but were not interested because we are already big refiners. I think it fits better into Engen. Engen had marketing and distribution arms, but no refinery. Now Engen is a well-balanced company. Still, if another oil company ever left, we would be interested."

Sasol is stepping up coal production at New Syferfontein. That will obviate buying in 5-million tons of coal a year, resulting in significant saving.

The company opened its polypropylene plant 10 days

ago. Mr Kruger says polypropylene is more profitable these days than synfuel. Phenol exports to Europe are proving lucrative.

Sasol claims several breakthroughs in explosives technology. It thinks explosives will give good growth. It is doubtful about fertiliser profitability.

If Sasol is to make money out of technology, it will not be in the synfuel area, he says, but in pollution control.

Reasonable

The interim result in a nutshell: Turnover up by 16% to R2,4-billion, operating income by 16% to R613,1-million, tax rate 48% (1989 46,7%) and taxed attributable profit 18% ahead at R330,2-million. Earnings a share were 58,6c (49,6c) and interim dividend 27,5c (25c).

The directors forecast improved earnings in the second half, suggesting a minimum for the year of 120c. At 1250c, the share is 10,4 times prospective earnings, in line with the market average. The share seems reasonable considering its attractions as an institutional rand and oil hedge.

M & R and Consol scrap factory deal

183

ALAN FINE

A MULTI-million-rand deal between Consol and Murray & Roberts, involving the sale to M & R of Consol's Germiston plastics factory, has been scrapped.

Consol director Hennie Stroh confirmed M & R had notified Consol just 15 minutes before the agreement was due to go through on Wednesday, February 28, that it was walking away from the deal.

However, Stroh denied the deal had fallen through because of a two-day strike in protest against it by the factory's 250 members of the Chemical Workers' Industrial Union (CWIU). The strike began on February 28.

Stroh said M & R had cancelled the transaction because it had been "unable to come to a satisfactory leasing arrangement with the landlord of the property".

He added this did not mean the deal could not be resurrected. Consol had decided to withdraw from the plastic flexibles business as it believed the sector to be saturated.

Right now the factory was running and Consol was keeping its options open, Stroh said.

The CWIU said at the weekend its members had staged a "factory occupation" to object to the conclusion of the deal by Consol and M & R behind their backs — "particularly the items which affected workers".

The deal, the union said, was to include the retrenchment of more than 100 workers and the transfer of others. The company had informed the union of the cancellation of the deal on March 1, and further negotiations on the status of the factory and the workforce are to be held between CWIU and Consol.

Stroh confirmed plans to retrench the employees, and said the company was talking to the union about the matter. He said the union had been informed in October of the pending deal.

Safren profits go up by 19%

ZILLA EFRAT

1183

SAFREN, parent company of Rennie's, Kersaf and Safmarine, achieved a 19% rise in attributable profits in the six months to December. The results follow a 38% rise in earnings in the year to June 1989.

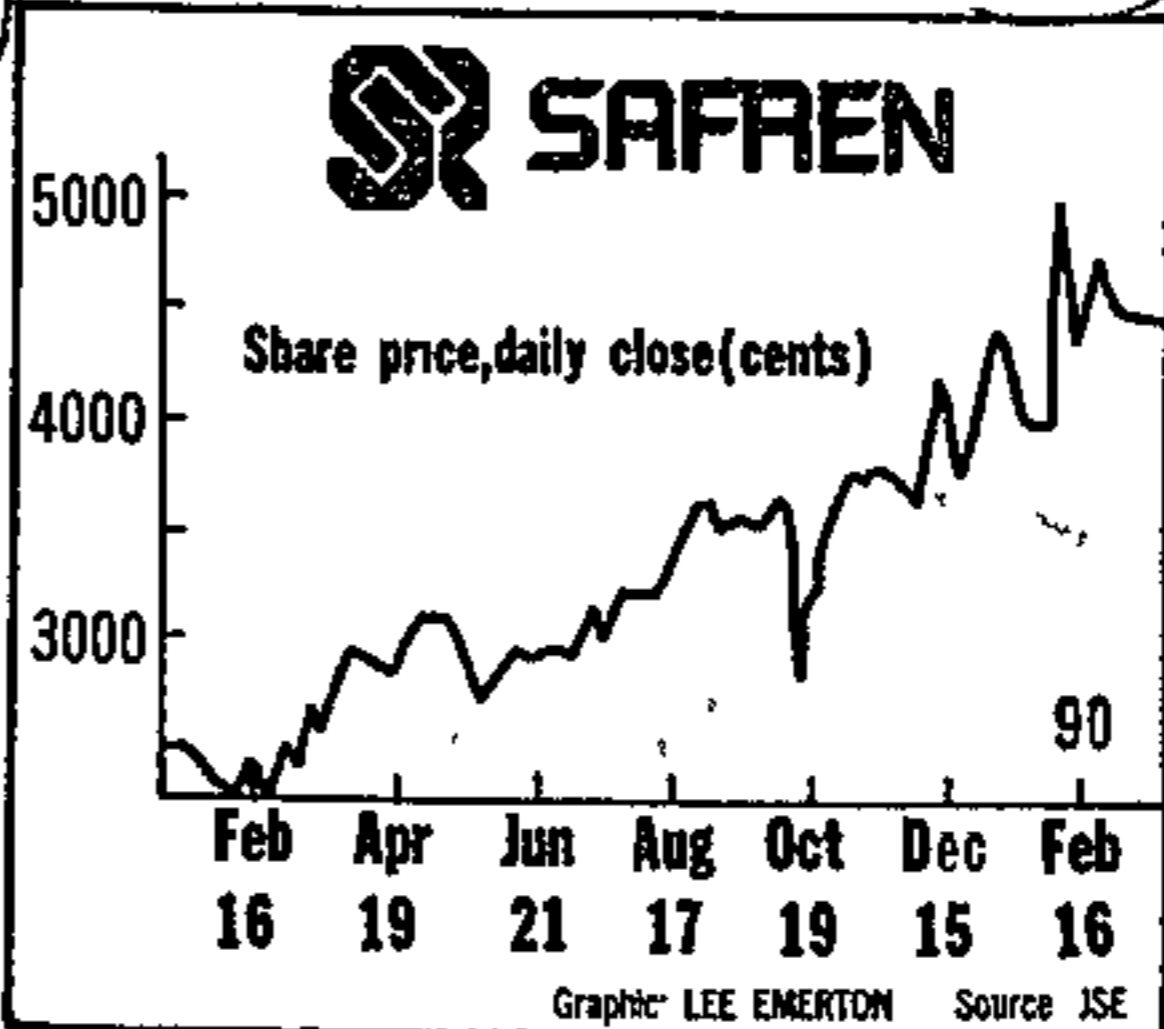
Directors say all the group's divisions performed well during the period and indications are that satisfactory profits should be earned during the next six months.

Earnings rose 18% to 203c (172c) a share on an increase in the average number of shares in issue. A dividend of 55c (45c) a share has been declared, up 22% and covered 3,7 (3,8) times.

Safmarine faced a fall in imports and a softer dollar, while Rennie's operations depend on the SA economy which is currently experiencing a downturn, a director said. Kersaf recently reported a 29% rise in interim earnings.

Kersaf's offshore operation Royale Resorts has not made a material contribution to the group's earnings, but is expected to do so in the next year.

Turnover improved 23% to R2bn (R1,7bn). Unchanged operating margins



06/11/89 573190

led to a 23% growth in operating profit, after depreciation, to R355,5m (R289,2m).

The tax rate rose to 36,6% (33,9%) leaving taxed profits 22% up at R223,9m.

The tax rate will be higher in the first half, as a greater proportion of income from offshore operations will come in the second half. But at the year-end the tax rate will level out.

The group is cash flush, but no major acquisitions are being negotiated.

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT

Yes, *Hansard 6/3/90*

(a) seven members of public and one member of Parliament,

(b) from 11 June 1987 to 5 July 1989 Unfortunately information is only available as to the past three years,

(c) (i) in general, representations were based on people's fear of tartrazine. Requests were made for either the banning of this colourant or stricter control over the use thereof in foods,

(ii) as tartrazine is a substance which is harmful, to certain individuals only, a regulation has been published in terms of section 15(1) of the Foodstuffs, Cosmetics and Disinfectants Act, 1972 in Government Notice no R908 of 1977 as revised by Government Notice no R2298 dated 26 October 1984. This regulation prohibits the sale of any foodstuff containing the colourant TARTRAZINE CI no 19140 unless the word "tartrazine" appears in the list of ingredients in letters not less than 2 mm in height

Hydroquinone

*19 Mr M J ELLIS asked the Minister of National Health and Population Development

What steps have been taken with a view to implementing the banning of the manufacture and importation of products containing hydroquinone, as announced in the reply to Question No 8 on 21 February 1989?

Hansard 6/3/90 183 B344E

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT

Government Notice R1227, published in the Government Gazette dated 24 June 1988, prohibits the use of hydroquinone in cosmetics as from 1 January 1991

However, I am considering advancing the date of this prohibition

Seaweed permit for certain company

*20 Mr E K MOORCROFT asked the Minister of Environment Affairs

Hansard 6/3/90

HOUSE OF ASSEMBLY

(1) Whether a certain company, the name of which has been furnished to the Minister's Department for the purpose of his reply, has been granted a permit to gather seaweed off the east coast of South Africa, if so, (a) who granted this permit and (b)(i) when and (ii) subject to what conditions or specifications was it granted, *Hansard 6/3/90*

(2) whether his Department monitors the gathering of seaweed by this company, if not, why not, if so,

(3) whether the gathering of seaweed by this company has in any way affected the local environment, if so, in what ways? B345E

The MINISTER OF ENVIRONMENT AFFAIRS

(1) Yes

(a) Minister of Environment Affairs, Mr G J Kozé, MP

(b) (i) 1 November 1988

(ii) The Permit Conditions are

1 The Permitholder shall be a member of the South African Concessionaires' Association (SASCA)

2 This permit shall be subject to the following fees, payable to the Department of Environment Affairs, Private Bag X2, Rogge Bay, 8012 (the 'Department')

(a) Annual permit fee of R1 500,00 per concession area payable in advance, and

(b) A levy of R4,00 per ton (dry mass) of all seaweed collected/harvested, shall be payable before or on the 15th day of May each year, and thereafter at six-monthly intervals. The levy shall be submitted together with an appropriately completed levy form VI/13/5/1L. Should payment not reach the Department of Environment Affairs before or on due date, interest at the standard rates for Government loans and advances shall be payable from the due date to the date of receipt

3 Should the Permitholder fail to pay the annual permit fee and/or levies as pre-

scribed in clause B3 above by due dates and still fail to pay such fees within 30 days after payment has been demanded in writing by the Department of Environment Affairs, the Minister of Environment Affairs and of Water Affairs (the 'Minister') may cancel this permit without further notice, and the Permitholder shall be liable for all fees plus interest due in terms of this permit

4 The Permitholder shall, on the prescribed form VI/13/5/1E, furnish monthly to the Chief Directorate Sea Fisheries, Private Bag X2, Rogge Bay, 8012, the details specified

5 Notwithstanding anything to the contrary contained herein the Minister may at any stage during the period of validity of this permit amend or supplement the conditions contained therein, or withdraw and cancel the permit in its entirety, by giving notice of his intention to do so and his reasons therefor, in a prepaid registered letter addressed to the *domicilium citandi et executandi* of the Permitholder, in which case, the Permitholder shall be entitled to a *pro rata* refund of the permit fee

6 Subject to review, this permit may be extended

(a) for two further periods of five (5) years each, or

(b) indefinitely, should the Minister be satisfied that the Permitholder processes locally *To qualify as a local secondary processor a Permitholder shall within the Republic of South Africa convert to final consumer-use a substantial proportion of raw material it handles*

7 The Permitholder may surrender the permit by giving six (6) months' written notice to the Department of Environment Affairs, in which case the Permitholder shall be entitled to a *pro rata* refund of the permit fee

8 This permit is not transferable

9 The Permitholder indemnifies the State against all expenses, losses, actions and claims, including claims for damages, injuries to persons or damage to property

and all costs between attorney and client which the State may be adjudged or obliged to pay, arising directly or indirectly from any action which may be taken by any person(s) as a result of the granting of this permit, or as a result of any act performed by the Permitholder, its employees, contractors or customers, on the said land pursuant to the permit. The Permitholder shall be held responsible for any contravention its contractor(s) may commit while in its employ

10 The Permitholder may at any time apply in writing to the Department for permission to collect/harvest seaweeds excluded from this permit

11 Nothing contained in this permit shall detract from the powers conferred on the Minister and the State President by Sections 4, 5 and 10 of the Seashore Act, 1935 (Act 21 of 1935), in relation to third parties

12 Seaweeds shall be collected/harvested only by collectors in the employment of the Permitholder or of its accredited representative(s) or contractor(s)

13 Seaweeds shall be harvested by hand-plucking or such other method(s) as is/are prescribed by the Department

14 The Permitholder shall ensure that its employees, while engaged in collecting/harvesting operations

(a) shall, as soon as possible, remove and return to the sea all limpets accidentally included with the collected/harvested seaweed,

(b) do not collect any shellfish,

(c) do not create a public nuisance whether by reason of unacceptable noise, smell, or anything likely to endanger public health,

(d) shall comply with all regulations relating to public health,

(e) shall make use of authorised and satisfactory sanitary facilities that shall, if necessary, be provided by the Permitholder where appropriate,

(f) are distinctively dressed so as to be readily identifiable,

THE MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT

Yes, *Heurzel 6/3/90*
(a) seven members of public and one member of Parliament,

(b) from 11 June 1987 to 5 July 1989 Unfortunately information is only available as to the past three years,

(c) (i) in general, representations were based on people's fear of tartrazine. Requests were made for either the banning of this colourant or stricter control over the use thereof in foods,

(ii) as tartrazine is a substance which is harmful, to certain individuals only, a regulation has been published in terms of section 15(1) of the Foodstuffs, Cosmetics and Disinfectants Act, 1972 in Government Notice no R908 of 1977 as revised by Government Notice no R2298 dated 26 October 1984. This regulation prohibits the sale of any foodstuff containing the colourant TARTRAZINE CI no 19140 unless the word "tartrazine" appears in the list of ingredients in letters not less than 2 mm in height

Hydroquinone

Mr M J ELLIS asked the Minister of National Health and Population Development what steps have been taken with a view to implementing the banning of the manufacture and importation of products containing hydroquinone, as announced in the reply to Question No 8 on 21 February 1989?

Heurzel 6/3/90 (183) B344E
THE MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT
Government Notice R1227, published in the Government Gazette dated 24 June 1988, prohibits the use of hydroquinone in cosmetics as from 1 January 1991

However, I am considering advancing the date of this prohibition

Seaweed: permit for certain company

Mr E K MOORCROFT asked the Minister of Environment Affairs

Heurzel 6/3/90
HOUSE OF ASSEMBLY

- (1) Whether a certain company, the name of which has been furnished to the Minister's Department for the purpose of his reply, has been granted a permit to gather seaweed off the east coast of South Africa, if so, (a) who granted this permit and (b) (i) when and (ii) subject to what conditions or specifications was it granted, *Heurzel 6/3/90*
- (2) whether his Department monitors the gathering of seaweed by this company, if not, why not, if so,
- (3) whether the gathering of seaweed by this company has in any way affected the local environment, if so, in what ways? B345E

THE MINISTER OF ENVIRONMENT AFFAIRS

- (1) Yes
- (a) Minister of Environment Affairs, Mr G J Kotzé, MP
- (b) (i) 1 November 1988
(ii) The Permit Conditions are

1 The Permitholder shall be a member of the South African Concessionaires' Association (SASCA)

2 This permit shall be subject to the following fees, payable to the Department of Environment Affairs, Private Bag X2, Rogge Bay, 8012 (the 'Department')

- (a) Annual permit fee of R1 500,00 per concession area payable in advance, and
- (b) A levy of R4,00 per ton (dry mass) of all seaweed collected/harvested, shall be payable before or on the 15th day of May each year, and thereafter at six-monthly intervals. The levy shall be submitted together with an appropriately completed levy form V1/13/5/1L. Should payment not reach the Department of Environment Affairs before or on due date, interest at the standard rates for Government loans and advances shall be payable from the due date to the date of receipt

3 Should the Permitholder fail to pay the annual permit fee and/or levies as pre-

scribed in clause B3 above by due dates and still fail to pay such fees within 30 days after payment has been demanded in writing by the Department of Environment Affairs, the Minister of Environment Affairs and of Water Affairs (the 'Minister') may cancel this permit without further notice, and the Permitholder shall be liable for all fees plus interest due in terms of this permit

4 The Permitholder shall, on the prescribed form V1/13/5/1E, furnish monthly to the Chief Directorate Sea Fisheries, Private Bag X2, Rogge Bay, 8012, the details specified

5 Notwithstanding anything to the contrary contained herein, the Minister may at any stage during the period of validity of this permit amend or supplement the conditions contained therein, or withdraw and cancel the permit in its entirety, by giving notice of his intention to do so and his reasons therefor, in a prepaid registered letter addressed to the *domicilium citandi et executandi* of the Permitholder, in which case, the Permitholder shall be entitled to a *pro rata* refund of the permit fee

6. Subject to review, this permit may be extended

(a) for two further periods of five (5) years each, or

(b) indefinitely, should the Minister be satisfied that the Permitholder processes locally *To qualify as a local secondary processor a Permitholder shall within the Republic of South Africa convert to final consumer-use a substantial proportion of raw material it handles*

7 The Permitholder may surrender the permit by giving six (6) months' written notice to the Department of Environment Affairs, in which case the Permitholder shall be entitled to a *pro rata* refund of the permit fee

8 This permit is not transferable

9 The Permitholder indemnifies the State against all expenses, losses, actions and claims, including claims for damages, injuries to persons or damage to property

and all costs between attorney and client which the State may be adjudged or obliged to pay, arising directly or indirectly from any action which may be taken by any person(s) as a result of the granting of this permit, or as a result of any act performed by the Permitholder, its employees, contractors or customers, on the said land pursuant to the permit. The Permitholder shall be held responsible for any contravention its contractor(s) may commit while in its employ

10 The Permitholder may at any time apply in writing to the Department for permission to collect/harvest seaweeds excluded from this permit

11 Nothing contained in this permit shall detract from the powers conferred on the Minister and the State President in Sections 4, 5 and 10 of the Seashore Act, 1935 (Act 21 of 1935), in relation to third parties

12 Seaweeds shall be collected/harvested only by collectors in the employment of the Permitholder or of its accredited representative(s) or contractor(s)

13 Seaweeds shall be harvested by hand-plucking or such other method(s) as are prescribed by the Department

14 The Permitholder shall ensure that its employees, while engaged in collecting/harvesting operations

(a) shall, as soon as possible remove and return to the sea all impets accidentally included with the collected/harvested seaweed,

(b) do not collect any shellfish

(c) do not create a public nuisance whether by reason of unacceptable noise, smell, or anything likely to endanger public health,

(d) shall comply with all regulations relating to public health,

(e) shall make use of authorised and satisfactory sanitary facilities that shall, if necessary, be provided by the Permitholder where appropriate.

(f) are distinctively dressed so as to be readily identifiable.

sta. 713/99. (183)

AECI and union settle differences

A settlement between AECI and the SA Chemical Workers' Union had been reached, the union announced last night.

Sacwu said AECI had agreed to the immediate reinstatement of five union members previously dismissed for assault and to arbitration or monetary settlement for two other dismissed union members.

"The union helped colleagues, who were dismissed under an inconsistent industrial relations policy," Sacwu stated.

No AECI comment was available last night — Sapa.

insurance

The two men had picked up Stoperth at Johannesburg station and set Plank's car alight after crashing it with the hobo inside. They hoped to claim more than

fraud two insurance companies. Defence lawyers indicated they would bring an application for leave to appeal

Reeva appeal judgment reserved

BLOEMFONTEIN — The Appeal Court in Bloemfontein has reserved judgment in the appeal by Caxton Ltd and five others against the damages they were ordered to pay Reeva Forman (Pty) Ltd and Reeva Success Dynamics (Pty) Ltd for a defamatory article in Style magazine of June 1985.

Justice D J Curlewis, in the Witwatersrand Local Supreme Court on June 13, 1988, ordered that damages totalling more than R2,1m be paid to the two companies

Yesterday R W Nugent, for the appellants, summed up the appeal by saying that whatever Justice Curlewis had in mind as to whether he was awarding special or general damages, what had been claimed were special damages.

Nugent said that in order to get special damages the plaintiffs must prove those damages.

Nugent submitted that a lot of the evi-

dence at the trial, purported to be expert, was not expert evidence at all

He said that unless the Forman companies could satisfy the judges the whole of their losses was caused by the publication of the article, they could not succeed in a claim for special damages. What they were left with was a claim for general damages. *Biday 713190*

Basis

183

He submitted there was no basis to award special damages. The article had been a strong one that might well be deserving of general damages

The appeal was heard by the Chief Justice Justice Corbett, Justice Hoexter, Justice Grosskopf and acting judges of appeal Justice Friedman and Justice Nienaber. — Sapa.

There are two sets of clues but the answers are the same

Gefco, Msauli recovery continues

8/3/90
183

Finance Staff

Boosted by higher dollar prices and a favourable rand exchange rate, asbestos producers Gefco and Msauli continued their strong recovery in financial 1989

Gefco's earnings rose 81 per cent to R23,7 million (R13,1 million), equivalent to earnings per share of 66,1c (36,6c), while Msauli's attributable income was up 58 per cent to R18,1 million (R11,4 million) — 280,7c (177,2c) a share.

Gefco, whose turnover rose by 18 per cent to R98,9 million, has declared a final dividend of 15c for a total of 22,5c (12,5c).

Msauli's total dividend has more than doubled from 35c to 75c after a 30 per cent increase in turnover to R74 million

Chairman Pat Hart says a fairly conservative dividend policy has been adopted because the groups are stepping up their environmental rehabilitation programme, which will cost up to R10 million.

"In addition, Msauli is planning to spend R3,2 million on the continued opening up of deeper levels of the mine, while Gefco is considering diversifying beyond its traditional asbestos operations."

Slight problems

He adds that the Van Brandis gold project, in which Gefco and Msauli each have a 25 per cent interest, is experiencing slight problems. Shaft-sinking is two months behind schedule as a result of unstable ground conditions.

On prospects for the current year, Mr Hart says export prices could come under pressure from lower international prices and a stronger rand exchange rate.

"Nevertheless, both companies expect to remain profitable in 1990, albeit at reduced levels," he says

SENTRACHEM FIM 9/3/90

Dumping a millstone

Sentrachem's Afprene synthetic rubber plant at Newcastle has been a millstone around management's neck ever since the group decided to build it in 1979 (183)
The capital cost, at R430m, was sharply above the original estimate and the plant operated deeply in the red since start-up in 1982. The decision to mothball the isoprene

FINANCIAL MAIL MARCH 9 1990

FIM

9/3/90

(183)

FIM 9/3/90

4

facility — about half the plant — will result in a R120m write-off for Sentrachem this year but should staunch mounting losses

Since the decision to build the plant was taken in 1979, prices and volumes of natural rubber plunged way below forecasts. Now even the strategic need for a domestic source of rubber is deemed to be falling away.

MD Johan van der Walt says at planning stage the international price of natural rubber was US\$1 250/t and forecast to rise about in line with the international inflation rate. Instead it fell to about \$650/t and stayed near that price for about eight years. With the commodity boom in 1988, it recovered to \$1 250 but has since retreated to about \$965.

Domestic rubber consumption shrunk from the late-Seventies level of 120 000 t/year to 73 000 t/year in the middle of the decade. It rose recently to 97 000 t and could take five years to reach the 1981 level.

With the recent rubber price improvement, Afprene's moved closer to the black, the forecast for the 1991 year was a R9,1m profit, rising to an R85m profit by 1995. When prices slumped again, the current year forecast swung to a loss of R22m. The result since start-up has been an accumulated cash loss on isoprene of R143m.

Financial director Robin Morris says detailed studies were done in 1984, 1986 and 1989 to decide on the fate of the plant.



Sentrachem's Van der Walt ... no longer strategic

Financial effects were considered, including tax. "We always thought breakeven was a near thing," he says.

An irony has been the changed view on the "strategic" need for local synthetic rubber production. This was given as a reason for investing in the plant, indeed, Van der Walt says he doubts it would otherwise have been

built. He adds the group will not ask government for direct compensation. "We do not have a strong case to go to government and say they told us to build it." However, the group benefited earlier from a subsidy, as well as import protection, on Afprene products.

For the next three years isoprene production will be mothballed rather than formally closed. Import protection on isoprene could be lifted but government will be asked to maintain the present protection on other specialised rubber products made at Afprene — said to be profitable.

After the mothballing phase, the isoprene plant will be formally closed, though sections may be put to other uses. The carbide furnace could be diverted to other downstream products, arc furnaces could be used for metallurgical products including ferrochrome and ferromanganese, and catalysts could be used in production of specialty chemicals.

Management is confident the rubber division, Karbochem, will see a strong swing in profitability. After the sale of the Fedmis interests in 1988, isoprene is the last of Sentrachem's commodity products to be ditched, and that leaves management free to concentrate on specialised products.

The closure should add an average of 15c-20c per share to earnings over the next three years. Return on capital employed has been targeted at 20% but because of Afprene has

FIM 9/3/90 (183)

been languishing at 14%. Van der Walt now reckons the return will be 19% instead of the expected 16% in 1991 and 20% in 1992.

The decision should be bullish for the share price, which gained 15c to 510c since the announcement, though the current year's results will be affected by weaker trading conditions.

Andrew McNulty

Chemical Services sees good times ahead

CHEMICAL Services' wide product range and variety of markets, together with its innovative spirit, will place it in a favourable position for the next decade, says chairman Dries Nieuwoudt in his annual review

The specialty chemicals group showed a 1% growth in attributable earnings to R19m or 305c a share in the year to December. Its annual dividend remained unchanged at 100c a share.

However, Nieuwoudt is confident the group will revert to a pattern of real earnings growth in 1990 with a commensurate increase in dividends.

This year slow economic growth and

183 *Day 9/3/90*
ZILLA EFRAT

increased competition is expected and management will increase its focus on improving productivity, he says.

The 1989 results were affected by a poor performance by Chemserve Steinhall and higher financing costs.

Nieuwoudt says Steinhall's contribution is expected to be boosted by the commissioning of a new plant.

The acquisition of Albright & Wilson's stake in associated companies Akulu-Marchon and SA Paper Chemicals for R24m will have considerable long-term benefits for the group.

ROB ANGEL

Energy man

FIM 9/3/90
183

"February," says Rob Angel, "was an unbelievable month" He was talking politics but could easily have been speaking about himself Angel has just been appointed CE of Engen, Gencor's huge new energy arm

Angel (48) was CE of Mobil SA until the parent company, Mobil Corp, disinvested last year and sold to Gencor. He agreed to stay on for a year to smooth the transition but, instead of accepting one of the many plums offered by Mobil, he opted to stay in SA and accept the challenge

Of course there were a number of reasons for his decision Three months of FW de Klerk's term as President was enough to convince him the whole political climate was changing, there was the challenge of the job; and his young wife of one year, Lynn, preferred to stay in SA.

Gencor, says Angel, was effectively offering him a blank canvas, saying: "Here are all our energy interests We want you to put them together but we leave it to you to decide how you do it"

That, says Angel, "is unique and exciting" and beats anything Mobil had to offer. (He adds that he would have earned more by staying with Mobil.)

A friendly, relaxed and unaffected man, Angel is excited about the potential of the new job He approves the growth philosophy embodied in the mission statement and management style: creative, independent and participative

The fact that Engen has gone public has also meant Angel going public — a change from his cocooned existence at Mobil where political sensitivities required him to keep a very low profile He says he enjoys the challenge of promoting a public company

Angel was born in Adelaide, Australia, and completed his education there with an honours degree in chemical engineering. His career with Mobil, which started in Adelaide in 1967, spans 22 years and has seen him posted to Singapore, New York (twice), Cyprus and the UK before arriving as deputy GM of Mobil SA in 1986.

In many respects SA has been a home from home — lots of sunshine, cricket, rugby and wine Angel was a fine cricketer and managed a game for South Australia in his youth. His love for Australian Rules football, which has left him with "crooked fingers and

appalling ankles," remains undiminished. He plays tennis, jogs and says many corporate problems have been resolved on the Sea Point promenade

He reads extensively, subscribing to the *Financial Times*, *Wall Street Journal*, *International Herald Tribune*, *Time* and *Newsweek* He enjoys biographies, has just finished reading eight books on World War 2, and also makes time for popular authors like Frederick Forsyth and James Michener

Angel has a reputation in the business world for being hard-working and decisive. He is more a big-picture than a detail man

and considers his strengths to be good communication and delegation skills. His weakness — impatience with delays



Angel ... looking forward to new challenges

FLORIS MOSTERT

FIM 9/3/90

Justice for all

For Brigadier Floris Mostert, solving the David Webster murder is merely part and parcel of heading the Brixton Murder and Robbery Squad "Crime is my business, my bread and butter, my daily life," says the man who's responsible for combating serious crime on the Witwatersrand.

Of course, this murder is somewhat different There have been allegations of SADF and SAP involvement and fierce accusations from the Left and Right

But none of this seems to bother Mostert He's been a CID cop for the past 34 years and, despite a friendly manner and wonderful sense of humour, he leaves no doubts that there are no holy cows in this investigation. "If the police or army are involved — tough, they have to face the music," says Mostert.

He's also unperturbed by Magnus Ma-

LEPPIN FIM 9/3/90

Margins vanish ~~185~~

Activities: Imports, manufactures, distributes and exports food supplements and vitamins.

Control: Directors 76,7%.

Chairman: G Leppin; joint MDs: N Hannemann and T Hannemann.

Capital structure: 8,6m ords. Market capitalisation: R1,5m.

Share market: Price: 17c. 12-month high, 28c; low, 14c. Trading volume last quarter, 36 650 shares.

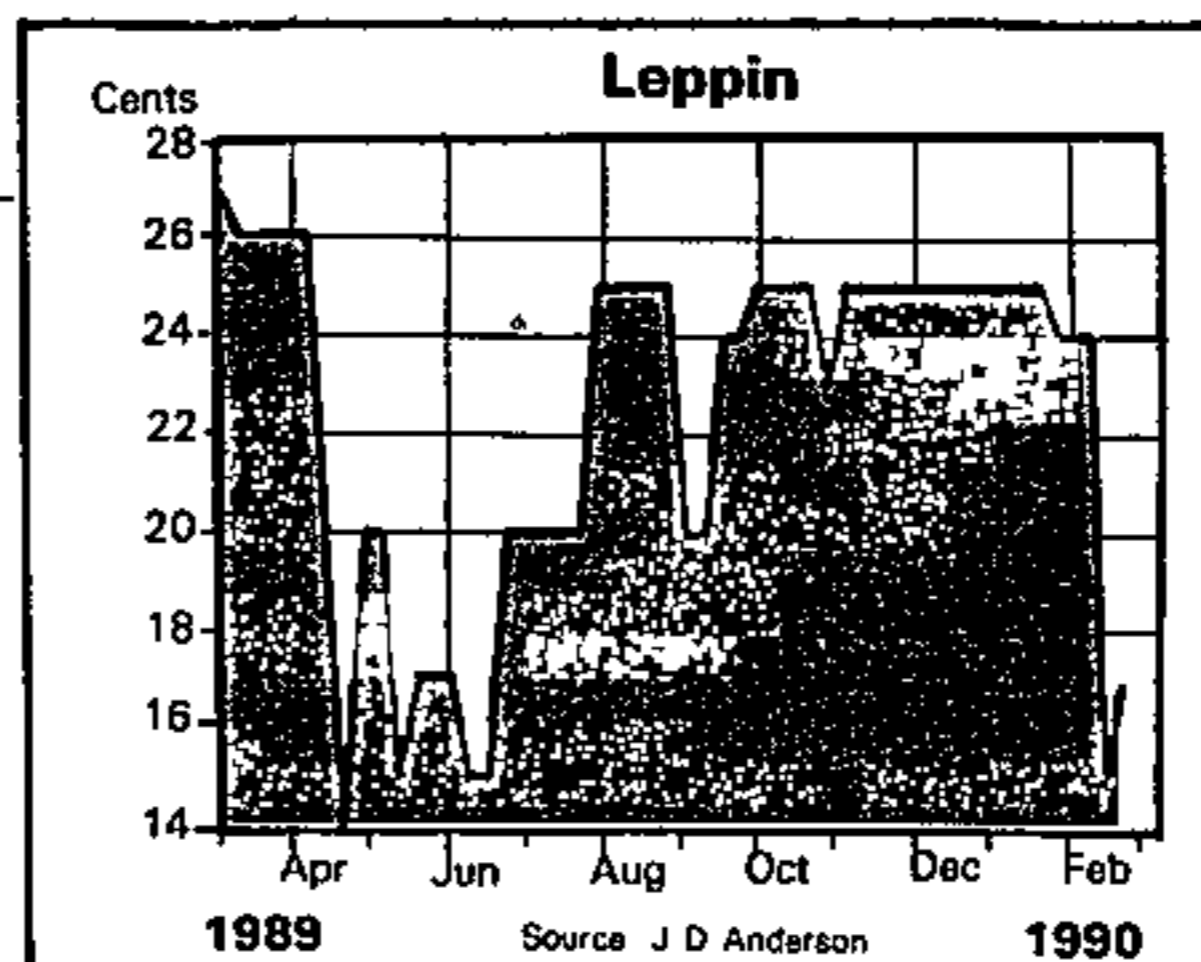
Year to July 31	'87*	'88	'89
ST debt (Rm)	0,3	0,5	0,9
LT debt (Rm)	0,1	0,1	0,2
Debt equity ratio	0,74	0,47	1,07
Shareholders' interest .. .	0,33	0,44	0,27
Int & leasing cover .. .	13,1	3,9	(0,48)
Debt cover	0,8	0,6	0,05
Return on capital (%)	20,3	10,2	—
Turnover (Rm) .. .	3,7	4,4	6,1
Pre-int profit (Rm) .. .	0,3	0,3	(0,08)
Pre-int margin (%) .. .	8,8	6,9	—
Taxed profit (Rm) .. .	0,2	0,2	(0,25)
Earnings (c)	3,2	2,7	(2,9)
Dividends (c) .. .	nil	1	—
Net worth (c)	8	15	12

* Pro forma

183

For the second consecutive year, Leppin Holdings' earnings have fallen despite strong turnover growth.

Management attributes the latest 2,9c per



long term ~~183~~ FIM 9/3/90

The share price is down 37% on infrequent and small trades in the past year but stands 40% above net worth. It appears some shareholders remain optimistic even though the company has failed to meet its forecasts. Meanwhile, a price recovery is unlikely until earnings are firmly in the black Pam Baskind

Woman jailed twice for R295 debt - Shell eases the hurt

By COLLETTE CAINE

UNEMPLOYED mother-of-three Veronica Maruapula was twice jailed for three months for not paying a R295 debt to Shell subsidiary Easigas and was about to be jailed for a third time for the same debt.

Then *City Press* and the Legal Resources Centre stepped in, and instead of going back to prison, Shell gave Veronica a R3,600 cheque.

Easigas managing director Peter Gray said the lawyers who prosecuted Veronica continued proceedings long after Easigas had told them to drop the case.

And this week Shell executive chairman John Kilroe gave Veronica a R3 600 cheque "to make reparations for her suffering".

He also assured her that Easigas would testify in court on her behalf in any action she brings against the lawyers who jailed her in the companies' names.

Veronica bought an Easigas stove and small appliances for R295 in 1983. Then she was retrenched and could not keep up her payments.

Easigas instructed Cape Town lawyers Hazell and Rabbie to sue Veronica.

Gray said he was "dumbfounded" by the vendetta Hazell and Rabbie and their Randfontein correspondents, attorneys Van Ryneveld, Hammes and Wright, had waged against Veronica in the name of Shell and Easigas, as they had been instructed "as far back as 1986" not to proceed against debtors beyond applying for default judgment without specific instruction from Easigas.

Technically, people

don't go to jail in South Africa for debt but for "contempt of court" because a judgment against them becomes an order of court. When they can't pay, they are in contempt of court - and can end up in jail.

To avoid the provision Van Ryneveld and partners got Veronica to sign an acknowledgement of debt form on her release from prison.

As she signed the debt acknowledgement, the procedure started again.

The lawyers said she "voluntarily" visited their offices on her release from jail to sign the acknowledgement.

However, Veronica said that once she was there "they refused to listen to my reasons. They just asked me questions and said I must sign the papers, so I signed. I didn't know that what I signed could send me back to jail".

The acknowledgement added hundreds of rands in legal fees to her debt. She had no money to pay either the debt or the fees, so sat out 180 days in jail.

"When I was arrested, I had to leave my three children with my pensioner mother. There was nothing else I could do because we were struggling to live. I bought the stove and other things when I was working, but I lost my job and just had no money to pay," said Veronica at her small Randfontein home.

After the first jail spell in 1987 she had just found a job when she was recalled to the lawyers' offices and told to sign the papers.

■ To Page 5

c/press
11/3/90

183

Woman jailed twice for R295 debt - Shell eases the hurt

By COLLETTE CAINE

UNEMPLOYED mother-of-three Veronica Maruapula was twice jailed for three months for not paying a R295 debt to Shell subsidiary Easigas and was about to be jailed for a third time for the same debt.

Then *City Press* and the Legal Resources Centre stepped in, and instead of going back to prison, Shell gave Veronica a R3 600 cheque. Easigas managing director Peter Gray said the lawyers who prosecuted Veronica continued proceedings long after Easigas had told them to drop the case.

And this week Shell executive chairman John Kilroe gave Veronica a R3 600 cheque "to make reparations for her suffering".

He also assured her that Easigas would testify in court on her behalf in any action she brings against the lawyers who jailed her in the companies' names.

Veronica bought an Easigas stove and small appliances for R295 in 1983. Then she was retrenched and could not keep up her payments.

Easigas instructed Cape Town lawyers Hazell and Rabbie to sue Veronica.

Gray said he was "dumbfounded" by the vendetta Hazell and Rabbie and their Randfontein correspondents, attorneys Van Ryneveld, Hammes and Wright, had waged against Veronica in the name of Shell and Easigas, as they had been instructed "as far back as 1986" not to proceed against debtors beyond applying for default judgment without specific instruction from Easigas.

Technically, people

don't go to jail in South Africa for debt but for "contempt of court" because a judgment against them becomes an order of court. When they can't pay, they are in contempt of court - and can end up in jail.

To avoid the provision Van Ryneveld and partners got Veronica to sign an acknowledgement of debt for her release from prison.

After she signed the debt acknowledgement the procedure started again.

The lawyers said she "voluntarily" visited their offices on her release from jail to sign the acknowledgement.

However, Veronica said that once she was there "they refused to listen to my reasons. They just asked me questions and said I must sign the papers, so I signed. I didn't know that what I signed could send me back to jail."

The acknowledgement added hundreds of rands in legal fees to her debt. She had no money to pay either the debt or the fees, so sat out 180 days in jail.

"When I was arrested, I had to leave my three children with my pensioner mother. There was nothing else I could do because we were struggling to live. I bought the stove and other things when I was working, but I lost my job and just had no money to pay," said Veronica at her small Randfontein home.

After the first jail spell in 1987 she had just found a job when she was recalled to the lawyers' offices and told to sign the papers.

☐ To Page 5

c/rees
11/3/90

183



P.T.O.

Acquisitions dilute earnings for Noristan

CHARLOTTE MATHEWS

NORISTAN Holdings has achieved a healthy 55% improvement to R3,6m from R2,3m in profits attributable to shareholders for the six months to December, but earnings a share have been diluted by recent acquisitions ~~(183)~~

As a result of the acquisition of Aurochs the number of shares in issue increased by 25%. This increased earnings a share by only 24% at 6,8c against the previous year's 5,5c. The company does not pay an interim dividend (183)

Noristan boosted turnover by 40% to R38,7m from R27,7m.

Operating income rose only 13%, but MD Hugo Snyckers felt this was satisfactory in view of the investments made in people and markets.

Noristan has also been engaged in two new ventures. Noridata, which is involved in computerised systems in the health industry, acquired a software development interest and a hardware maintenance operation during the past six months.

These steps are expected to make a contribution to profits for the six months to June 30.

Adum 12/13/90

Agriland Fertiliser enters local market

(183)

ANDREW GILL ~~(S. G. GILL)~~

A NEW fertiliser company, Agriland Fertiliser (Pty) Ltd, has entered the local market.

The production plant is based in Richards Bay, previously belonging to exporters Indian Ocean Fertilisers.

Agriland MD Rhyme Greef said yesterday the company, registered in January, was aiming for a 8%-10% share of the R1,8bn market. Competitors included Kynoch (45%-48% market share), Sasol and Omnia.

Agriland has a production capacity for granulation of 400 000 metric tons a year. It also has the capacity to produce 70 000 metric tons of mixed fertiliser a year. Annual market sales are 2,2-million tons.

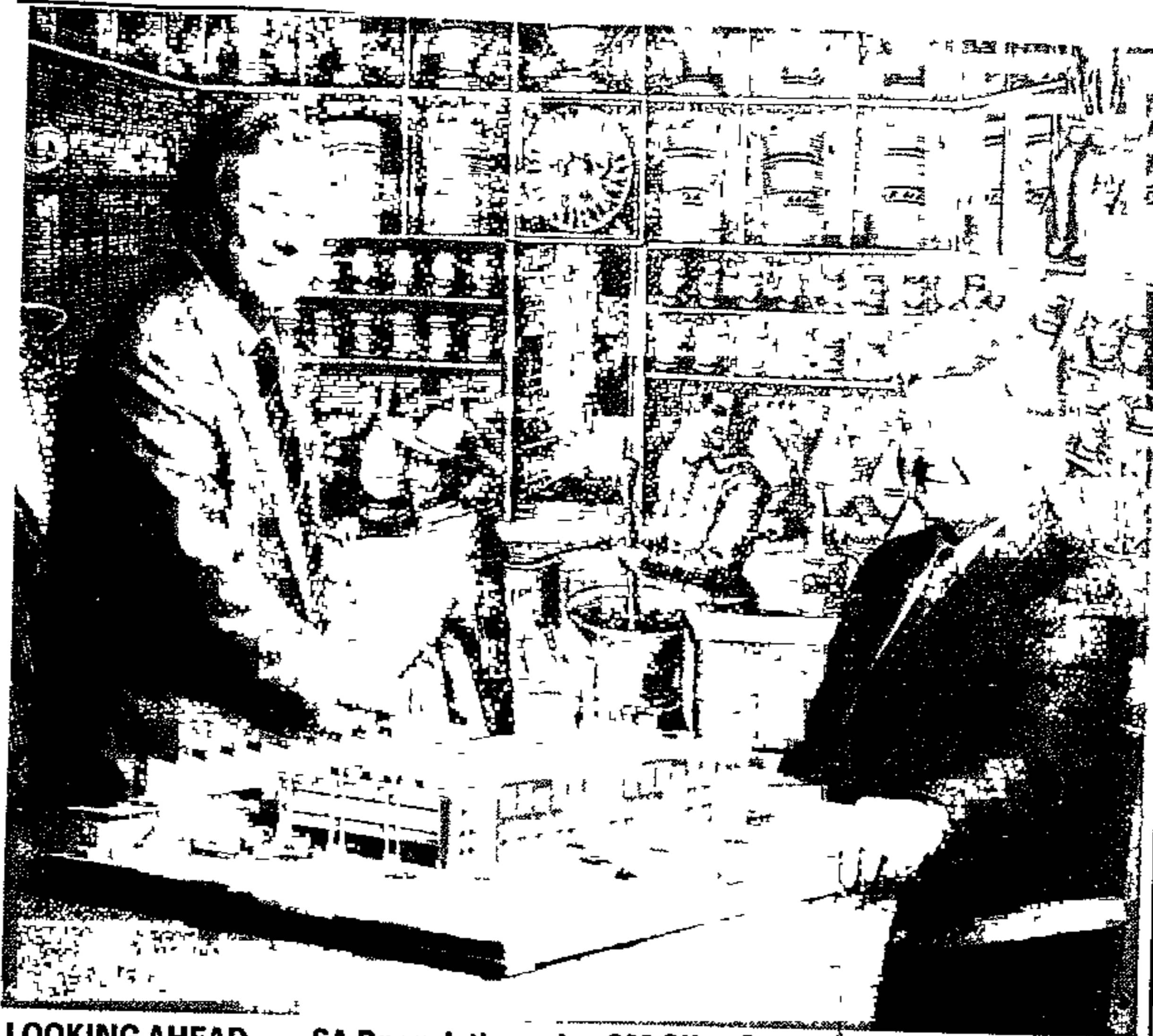
He said that the company was planning to export between 50 000 and 150 000 tons a year.

Annual market turnover was R1,8bn and he was aiming for a share of about R180m.

The announcement followed a move by farmers last year to import cheaper fertilisers, after claiming the local market was a cartel.

Greef said the introduction of a fourth competitor in the industry boded well for farmers. "It has been years since any real competition and since other producers heard about our entry some prices have fallen by 20%."

He realised the SA farmer was under great financial pressure and would do his utmost to co-operate with agriculture for SA's greater benefit.



LOOKING AHEAD . . . SA Druggist's senior GM Clive Stanton and MD Tony Karis

Drug giant aims at exports

PHARMACEUTICAL giant, SA Druggists, is throwing its muscle behind exports

A central export committee is masterminding strategy to get the group's products into huge markets in Europe, the US, the Far East, Middle East and Africa

Exports currently make up less than 5% of SA Druggists' turnover, which is likely to approach R1-billion in the current year to March 30. But in terms of profitability, foreign sales contribute closer to 10%," says managing director Tony Karis.

The group increased its profit by 17% to

R20,2-million in the six months to September 31. *S/Times 18/3/90*

The export push is being spearheaded by three SA Druggist subsidiaries: Lennon, the largest pharmaceutical manufacturer in the Southern hemisphere, Fine Chemicals, which produces pharmaceutical raw materials; and Serevac, which extracts and processes diagnostic enzymes.

A R50-million factory being built at Port Elizabeth will open opportunities for SA Druggists to export turnkey projects, making use of surplus plant.

Fertiliser fury over a 100mining price war

STW 18/3/90

By Don Robertson

THE fertiliser industry, on the mend after eight years of tumbling profits and sales, is facing a new threat which could involve another debilitating price war.

Newly established Agriland Fertilizer plans to enter the market in the next few months to serve an already grossly over-supplied farming community with fertilizer, and the existing big three in the industry — Kynoch, Sasol and Omnia — are furious.

The newcomer to the market enters the fray at a time when the major producers are only now getting to grips with the rationalisation which began in the industry in August 1988.

mining

this fell victim to the Government's spending cuts.

At the same time big employers who were expected to contribute to the fund through a levy by-passed the scheme.

"Some major companies seem to prefer to import foreign labour, which is a short-term solution and almost always leads to an escalation of project costs."

Mossog is contributing another R11.5m, taking its total funding to R42.5-million, to keep the scheme operating until the end of May.

Mr Schmetz is trying to raise money to ensure the training of another 1 200 people by the end of the year.

He says that if the money is not found there will be another influx of 850 expatriates to complete the Mossel Bay contracts.

Some employers believe that trainees taken on after May will not be ready to work on the project.

"But, we believe there will

IOFH Fertiliser sales this year are expected to be about 2-million tons. This compares with a production capacity of 3-million tons.

Dr Greeff expects annual turnover to rise to between R150-million and R200-million and the company to reach profitability this year.

High production volumes through plants are the key to the industry, and a spokesman for one of the major groups says entry into the market by Agriland will seriously jeopardise this.

Warning

"If Agriland is irresponsible in reducing prices to get market share, we will respond."

John Skeen, managing director of Kynoch, says he is obviously not happy with Agriland's entry into the market.

"With the three existing producers there is a surplus capacity, and additional overheads will creep back

into the market.

"If you look at the size of the market and the financial position of the farmers, it is difficult to maintain stable conditions."

Dr Skeen says that the recent decision to reduce prices was a defensive mechanism "to counter non-traditional sources of supply and as a gesture to reduce the price of fertilisers to the farmer."

Agriland's entry to the market follows the purchase of the fertilizer granulation plant at Richards Bay, for an undisclosed sum, and it intends to produce a full range of fertilisers.

In mid 1987, the SA-regis-tered Indian Ocean Fertilizer Holdings (IOFH), a member of the UK-based Indian Ocean group, was successful in its bid for the bankrupt Triomf Fertilizer's Richards Bay plant.

IOFH paid about R105-million in financial aid for the plant and stock — in spite of

an attempt by Louis Luyt, founder and owner of the then bankrupt Triomf group, to prevent the sale.

When IOFH bought the Richards Bay plant it was prevented from selling in the SA market as it was foreign-owned. Instead, it used the facilities to export phosphates, phosphoric acid and DAP.

Threats

Agriland's purchase, although accepted, has not been finalised as the granulation plant will have to be subdivided from the total plant. This could take up to 18 months.

Dr Greeff says that in the meantime his company will rent the facility from IOFH and will start production in the next few months.

He says his company will enter the market with a full range of products at prices lower than those charged by the big three.

He claims that the plant food contained in some of the

fertilisers will have a higher concentrate — up to 45% compared with about 22% — than that of other manufacturers.

Some fertilizer companies have already reduced prices — by 22% in some cases — since it was first learned that Agriland was to enter the market, although this was partly the result of threats of imports from South America at reduced prices.

Dr Greeff says the discount moves are a "panic" reaction by existing producers and warns that if they reduce prices by 20% they will lose annual sales of about R300-million on estimated sales this year of about R1.5-billion.

"I do not want to start a price war, but we must sell at competitive prices to gain an entry into the market. If a price war should start, we are able to survive better than most as we have greater flexibility through our export avenues," he says.

Exemption discrimination dismays IOA

By Robyn Chalmers

LIFE ASSURERS have accused the Government of financial discrimination by not extending the exemption of individual dividends on tax to them.

Old Mutual legal services manager Abri Mering, speaking to thousands of businessmen throughout the country via a special M-Net broadcast, said it was "either an oversight or an indefensible anomaly".

Life offices say the move is a major



break with the trustee principle of life assurance which was introduced by Finance Minister Barend du Plessis in his 1989 budget speech.

According to this principle, the fact that life insurers invest policyholders' savings on behalf of those policyholders means they should be taxed at the same

rate as those policyholders would have been taxed if they had invested the savings themselves.

The Life Offices' Association (LOA) has expressed alarm at the apparent departure from this principle.

As a result of Mr du Plessis' decision not to include life offices in the tax exemption which individuals will enjoy, they will continue to be taxed on two-thirds of dividend income.

STRICTLY IN THE NINETIES

market research million 6'1\$

rights marketing

Sentex oils way to savings

SIGNIFICANT foreign exchange savings and good export potential could be achieved by a South African-developed synthetic lubricant for the textile industry

Named Sentex, the yarn lubricant has been developed by the Senfluid division of Karbochem in co-operation with local industry. It provides an alternative for expensive synthetic imports and locally made mineral-based lubricants.

According to Senfluid product manager Casper Pretorius, the three major benefits of Sentex are its stain-free qualities, local production and cost effectiveness.

Business Times Reporter

textile manufacturers

Mr Pretorius sees many application possibilities opening up within the textile industry, including carpet-weaving and the lubrication of various pieces of machinery.

Applications in other industries will also be investigated, he says.

"Senfluid is confident that the price advantage over imported synthetic yarn lubricants will work in our product's favour.

"Its stain-free characteristics should also make it very competitive with SA mineral-based lubricants that cannot offer the same non-stain advantage."

"With these benefits we can aim at gaining a major share of the local yarn lubricant market, worth about R3-million a year.

"Export possibilities are also being investigated so that Sentex can emulate other Senfluid oil-free products that are creating major interest in environmentally-conscious Europe."

Sentex is substantially diluted before it is applied to textile raw materials to significantly reduce fly-waste and static, which can cause costly problems for

183

5 Times 18/3/90

M & R buys Consol assets

183

RIAAN SMIT

MURRAY & Roberts Plastics has concluded on-off negotiations to buy "major assets" of Consol's flexibles division based in Germiston *Bipam 1913190*

M & R Plastics executive chairman Ray Crewe-Brown said yesterday the new company had been registered as FlexPak Films and would comprise selected assets and product lines which would complement and extend his company's involvement in the flexible packaging market. M & R Plastics declined to put a figure to the deal.

Crewe-Brown said the problems which delayed the completion of the purchase at the end of February "have at last been resolved and the deal will be finalised on March 21".

Consol had decided to withdraw from the flexibles business because it believed the sector to be saturated.

The new agreement did not include the majority of Consol's building and agricultural products.

Farm-Ag acquires Staalchem interests

FARM-AG is to acquire Staalchem's agricultural and chemical interests for R15,4m

Staalchem's remaining assets will be cash and property worth R15,8m, equivalent to 46,9c a share

The deal is effective from March 1 1989 and payment includes R10m owed to the cash shell Staalchem.

Farm-Ag — which holds 77% of Staalchem's equity — is involved in the basic manufacture, formulation, wholesale and retail distribution of agricultural chemicals and the contract packing of toiletries

The group is the target of market speculation that it is contemplating a merger of its chemical interests with another player in the agricultural chemical industry

Farm-Ag and Rale issued a cautionary announcement to shareholders last week that negotiations were in progress that could effect their respective share prices.

ACHMED KARIEM

Farm-Ag has been criticised for being over-g geared, but director Richard McElligott says the company has taken action in this regard

"In November 1989, Farm-Ag subsidiary Staalchem disposed of its steel roof sheeting business which resulted in the borrowing of that subsidiary being reduced by some R13m. (183)

"Farm-Ag announced in January that it had disposed of its domestic electrical division which should result in group borrowing being reduced by a further R22m.

"Further, Farm-Ag toiletries subsidiary Potter & Moore has disposed of certain of its brands which will result in a further reduction in borrowing to the tune of R4m," he said (183)

Farm-Ag retains its 23% interest in listed bearing distributor Bearing Man, and its 40% holding in Hacks

51 Day 1913/90



Peet van der Walt

24/3/90
183

Fedvolks takes on new chief

By Ann Crotty
News that a replacement has been lined up for Fedvolks chief executive Johan Moolman did not surprise the market after last week's announcement that results change was on the cards would be considerably below management's earlier expectations.

Significantly, Mr Moolman's successor, Peet van der Walt (51), comes from Fedvolks' services and pharmaceutical divisions, which have provided solid performances over the years.

Mr van der Walt has been with Fedvolks since 1974 and its services division since 1964, pharmaceutical interests since 1982.

Fedvolks' share price moved ahead on the news, reaching a high of 320c. Analysts were speculating on steps Mr van der Walt might take to improve profit performance and image.

Finance and 1988 and 1989 produced solid earnings figures which had obviously been helped by the sale of assets and the creation of a more focused operation.

But the '88 and '89 performances were also helped by a much healthier economic climate and Fedvolks has never been able to shake off its image of being a fair-weather stock that does well when the economy is strong, but is unable to produce the goods in times of weakness.

Mr van der Walt said yesterday he would be working out a strategy with the board, which could involve a change of direction and/or involve a number of transactions.

Although he would not be drawn on specifics, he voiced some concern about group dependence on economic cycles and said there could be a further narrowing of its focus — implying some sale of assets — implying it may be that he will be given some time to achieve a turnaround before any significant asset sale is forced on him. But parent Sankorp may be running low on patience and want to see something solid.

B/D 4.20/3/90

183

Major export deal for SAD

ANDREW GILL

A MULTIMILLION-dollar export agreement has been signed by SA Drug-gists (SAD) subsidiary Lennon to distri-bute SA scheduled products to a major Middle Eastern country, SAD senior GM Clive Stanton said yesterday.

Stanton declined to give details of the deal, claiming it was extremely sensi-tive, but he said Lennon would capture a third of the country's market in an agreement worth "many millions".

SAD MD Tony Karis said at the week-end that exports accounted for 5% of the company's turnover, which he ex-pected to reach R1bn this year. They contributed 10% to profitability, he said.

SAD — a Federale Volksbeleggings subsidiary — yesterday announced a comprehensive exports drive to in-crease the marketing of its pharma-ceutical products and technology in various African and overseas countries.

Stanton said the export market was vast.

The drive, headed by SAD subsidiar-ies Lennon, Fine Chemicals and Sera-vac, will be co-ordinated by a central export committee.

Lennon recently completed an in-depth evaluation of export opportuni-ties for generic products in major first world countries, he said.

To meet the requirements in those markets, it has increased its research and development budget by 40%.

JEAN-CLAUDE GOFFINET

FIM 23/3/90 (185)

Total challenge

It wasn't love at first sight for Total SA when Jean-Claude Goffinet — then a 26-year-old Belgian immigrant — walked into the oil company's Johannesburg headquarters looking for a job as a chemical engineer. They turned him down.

Nearly 25 years later, he's back as MD of Paris-based Total's SA operation, responsible for 1 100 employees.

"It worked out okay," says Goffinet (50). "It was a good idea to come out in the first place and it was an equally good idea Total had in sending me back."

He knew no one in SA and spoke no English when he arrived in 1966, but pride would not let him return to his sceptical parents in Belgium. The immigration department, which sponsored his trip to SA, lined up a series of interviews, including one with a cooking oil maker.

Oil — the crude type — was his career choice, however. "It's a go-go type industry. It's capital intensive."

His job search landed him at Sasol, where he worked as a process engineer in research and development. "Quite a few turned me down," he remembers with a wry smile. "I'm still very grateful to Sasol."

Joined Total

He worked at the Sasolburg refinery until 1975 when he returned to Europe and joined Total (which gets an accent on the second syllable when Goffinet uses the French pro-



Goffinet ... happy to be back in SA

nunciation)

His first eight years were spent at operations in Holland, Argentina and Paris. In 1983, he moved to the UK, where he was MD of the third largest refinery in Europe.

"It was time to branch off," he says of his move to SA and his first foray into general management and marketing. "Professionally, it's a great opportunity."

Personally, it has its opportunities, too. His wife, Cynthia, is a South African whom he met during the Sasol years. Their two children will continue their education at public schools in England.

When it comes to experience, Goffinet does not sell short his years running a refinery. "If you make a serious mistake, there are serious consequences. It's the ultimate pressure as far as I'm concerned."

From his 29th floor office in Total House in Braamfontein, his worries are somewhat different. Since Total SA is a private company with 42% local shareholding, he can't talk specific figures. He says he inherited a very good operation from Bernard Lafitte, who has returned to the Paris headquarters. "The challenge will be to improve further what he built over nine years."

Unlike other multinational oil companies, Total has not faced the same fierce onslaught from anti-apartheid activists demanding disinvestment. Goffinet says the public outcry never materialised in France, as it did in the US against Mobil and in the Netherlands against Shell.

As to the future, he seems to relish the economic and social changes that face SA in the next few years. "It's going to make the life of professional people very interesting."

Outside the office he plays squash once a week and enjoys fly-fishing and hunting. "Enriching experiences," whatever they may be, are his hobby. His current goal is to learn Afrikaans. He regrets that the Spanish he picked up in Argentina is slipping through lack of practice.

His interest in motor sport dovetails nicely with his new position. "We are sponsoring vintage and antique car rallies. And I hope we will see Formula 1 Grand Prix racing back at Kyalami soon." ■

GEORG MEIRING

FIM 23/3/90

Fighting general

Lt-Gen Georg Meiring assumes command of the army when military strategies could be overshadowed by economics.

In many ways the challenges facing the new Chief of the Army differ little from

Changing horses 183

Peet van der Walt's appointment as Federale Volksbeleggings' MD is hardly surprising after the group's latest disaster under the management of CE Johan Moolman who retires when he reaches 60 in the middle of next year

Earlier this month Federale admitted that problems in the Fedmech and Tek subsidiaries would cut this financial year's earnings below last year's 85,3c despite mid-term expectations of maintained earnings. The results for the year to end-March are due in May and earnings are unlikely to be more than 60c.

Van der Walt will take over operating management of the group from next month. Moolman says no other management changes are planned but the new MD says, however, he has a strategy which may differ from that applied at present and will be discussing it with the board. He believes the group has suffered setbacks but has "great potential".

Van der Walt now heads the services and pharmaceuticals divisions of Federale. Both have grown strongly over the past six years, in contrast to the domestic consumer goods, mineral fibre and food divisions. The pharmaceuticals division, Federale's second largest after food, more than trebled operating profit since 1984 to R64,6m in the 1989 year. The services division's operating profit also trebled over the same period to R32,7m.

An analyst comments that, with hindsight, Moolman's biggest mistake was not to sell Fedmech earlier. Fedmech, in the declining tractor market, is now for sale. But when it goes only part of its losses will be taken below the line, which implies an added depressant on next year's earnings.

Tek was caught with high debt and stocks and is particularly susceptible to a consumer spending downturn. Other investments which turned out to be unwise were in Midas and Teljoy.

Federale's share price has declined steeply since September. At 300c it is far below its 1987 peak of 540c and yields 7% on the total dividend forecast by directors.

Sooner or later its recovery potential could be attractive.

Teigue Payne

FARM-AG/STAALCHEM ^{FIM} 23/3/90

Reducing debt

Farm-ag and its 77% owned subsidiary Staalchem are juggling assets in an effort to reduce debt, improve profitability and refocus the companies

FINANCIAL MAIL MARCH 23 1990

FIM 23/3/90 (183)

Farm-ag on Tuesday relates to other negotiations, expected to be completed in about three weeks. The company retains 40% in hosiery-maker Hacks Holdings and 23% of listed engineering company Bearing Man. McElligot says these are independently run and returns are satisfactory. There are no plans to dispose of them.

The end-February accounts will include the first-time consolidation of Staalchem. McElligot says he expects debt to be reduced by about R29m but this will not all be reflected in the 1990 accounts.

The group's ability to reduce debt to more acceptable levels this financial year seems limited. McElligot suggests that the debt equity ratio may deteriorate from the 1,17 of last year-end, but that a big reduction in borrowings is expected in the current half-year. He adds that successful conclusion of the present negotiations would further reduce debt.

Pam Baskind

FIM 23/3/90 (183)

Farm-ag initially acquired a 35% interest in Staalchem in April, as part-payment for its agricultural chemical wholesaling division Farmach, and 50% of Agrosolve, which holds agricultural product registrations. Farm-ag director Richard McElligot says working capital requirements estimated by Staalchem management before the sale were too low. Additional funds were needed but Staalchem was already overborrowed and bank finance was not available. Farm-ag underwrote a R4m rights issue, which was undersubscribed, and the group was left with a 77% stake.

In addition to its agricultural chemical interests, Staalchem distributed steel roof-sheeting. The roofsheeting interests and Greenchem, which produces lime chemical stabilisers, were sold with effect from end-February 1989 to former Staalchem MD Kobus du Toit, for R1,2m and about R13m respectively. He was joined by a number of Staalchem managers, including the financial director and company secretary. McElligot says these operations were unprofitable, their working capital requirements were excessive and they were outside Farm-ag's area of expertise.

In effect, Farm-ag was funding the entire chemical operation. It has now decided to buy back its former wholesale chemical operations, as well as the Staalchem retail operations (Staalchem Seed and Chemicals), for about R15,4m, and convert Staalchem to a cash shell.

The only asset left in Staalchem is a property company which owns the head office building in Isando. Its book value is R3,55m but McElligot estimates market value at about R2,8m. After sale of the property, Staalchem will have about R15,8m cash. With 33,7m shares in issue, net worth will be 47c, compared with the market price of 30c. The share was listed at 80c in 1987.

Farm-ag, meanwhile, has disposed of other businesses to strengthen its balance sheet and refocus on the agricultural chemical sector, mainly pesticides, fungicides and herbicides. Stock and fixed assets of the domestic appliance and equipment division, held in the M5 group, were sold to Wolf Garden Machinery for about R11m cash, excluding debt and liabilities. Potter & Moore, the toiletries subsidiary, disposed of certain brands for about R4m.

A cautionary announcement issued by

FINANCIAL MAIL MARCH 23 1990

Mynkar in R6,5m move

B10ar 2-13/90 SYLVIA DU PLESSIS

183

MYNKAR Holdings, portable toilet supplier, has announced the disposal of its business to a wholly owned subsidiary of Transport Technical Industries for R6,5m cash — a move that will leave it a cash shell

In terms of the deal, which follows a cautionary announcement last month, Mynkar chairman and controlling shareholder Peter Brown is to receive a restraint of trade payment of R550 000 cash.

The group's results for the six months to December, also announced today, reflect a loss of R193 000 before an extraordinary item and a loss per share of 1,3c (5,8c earnings) Dividends have been passed

Directors said sales of sanitation products, pumps and spares were below expectations, while high overhead costs and finance charges that grew to R431 000 from R107 000 "more than offset" income generated Further, its UK-based hiring operation had not progressed as expected, and directors had considered it prudent to make a provision against the group's investment in this venture, reflected as an extraordinary item of R217 000.

B/day 28/3/90

**SA USE OF CFCs
DROPPING TO
REQUIRED LEVEL****ZILLA EFRAT**

SA IS well on the way to reducing its use of chlorofluorocarbons (CFCs)

The Montreal Protocol, which comes into effect on April 15, calls for the use of ozone-damaging CFC to fall to 80% of 1986 consumption levels by 1993. By 1998 use must not exceed 50% of 1986 levels

AECI Chlor Alkali & Plastics, which has in the past supplied over 90% of SA's CFC requirements, is expecting a huge drop in consumption in the next couple of years.

Marketing manager John Sharpe says consumption of CFCs will have dropped to 70% of 1988 levels by the end of this year and half of 1988 levels by the end of 1991.

In 1988, 50% of all CFCs used in SA were for aerosols products, 25% for foambrown products and 20% for refrigeration and airconditioning.

By the end of this year, a major proportion of CFC consumers in the aerosol and foambrown industries will have switched to substitutes

Sharpe says these are safe if used correctly, but the switchover in the aerosol industry will require costly changes in production processes

However, he says replacing CFCs in refrigeration and airconditioning will take longer. Substitutes have been identified, but will be available only in the mid-1990s as they are still being tested. The switchover to these will also involve costly changes in equipment and lubricating oils

In the meantime, Chlor Alkali & Plastics is building an R18,7m plant to produce an interim product called HCFC 22 which has 5% of the ozone depletion potential of existing CFCs. It will come on stream by mid-1991

To reduce current emissions of CFCs, various local companies are recycling CFCs and AECI is set to follow suit

Sharpe says falling consumption is making it increasingly unprofitable to produce CFCs. As volumes decline, the costs of producing CFCs have risen, resulting in higher prices for the user.

'Notable' showing by AECI businesses

NOTABLE performances were recorded in AECI's Chlor Alkali and Plastics business in fibres, and in the fertilizer area where the benefits of the rationalisation programme had a positive effect on results, chairman Gavin Relly says in his annual report.

AECI achieved improved results in most of its businesses and realised an increase in profit before tax of 24% in 1989 in spite of a significantly slower rate of growth.

Earnings per share improved by 23% to 203c and the ordinary dividend has been raised by 12c to 87c. Dividend cover has increased from 2.2 to 2.3 times. Relly said while the likelihood is for maintained levels of economic activity in 1990, a further improvement in earnings is in prospect. — Sapa

R110m for Engen plant

B10M
29/3/90 ZILLA EFRAI

ENGEN this week approved a R110m expansion programme to increase the capacity of the lubricating oil blend plant at its Genref refinery in Durban, CE Robert Angel said yesterday

The expansion programme is expected to be completed by December 1991

Engen, which comes onto the JSE through the Trek Beleggings listing on April 30, announced earlier this month a two-phase programme to expand the refining capacity at the Genref refinery, part of the interests acquired from Mobil last year

(183)

Faint, illegible text or markings on the right edge of the page, possibly bleed-through from the reverse side.

AECI black strike goes on

Stg 29/3/90 Labour Reporter (183)

A clash has led to work stoppages by both black and white workers at AECI's Midland factory in Sasolburg

A total of 1 750 blacks have been on strike since Friday after a company decision to uphold the dismissal of a worker who allegedly assaulted a white fellow employee, AECI said yesterday

The general secretary of the SA Chemical Workers Union, Mr Humphrey Ndaba, said the worker had first been suspended, then fired after a protest stoppage by white members of the Mine Workers Union

AECI said the dismissal had been upheld in an appeal hearing. The factory is still maintaining production

BCMA says beauty contests degrade women's worth



By SIZAKELE KOOMA

THE Black Consciousness Movement of Azania (BCMA) has lashed out at beauty competitions as tools which perpetuate slave mentality and vehicles that serve the sole purpose of promoting the sponsors' products

In its newsletter *Letsetse* (The Flea), BCMA said people had been so used to the idea of beauty competitions that few of them questioned what it did to black society. It said companies and businesses that wanted to publicise themselves sponsored the competitions.

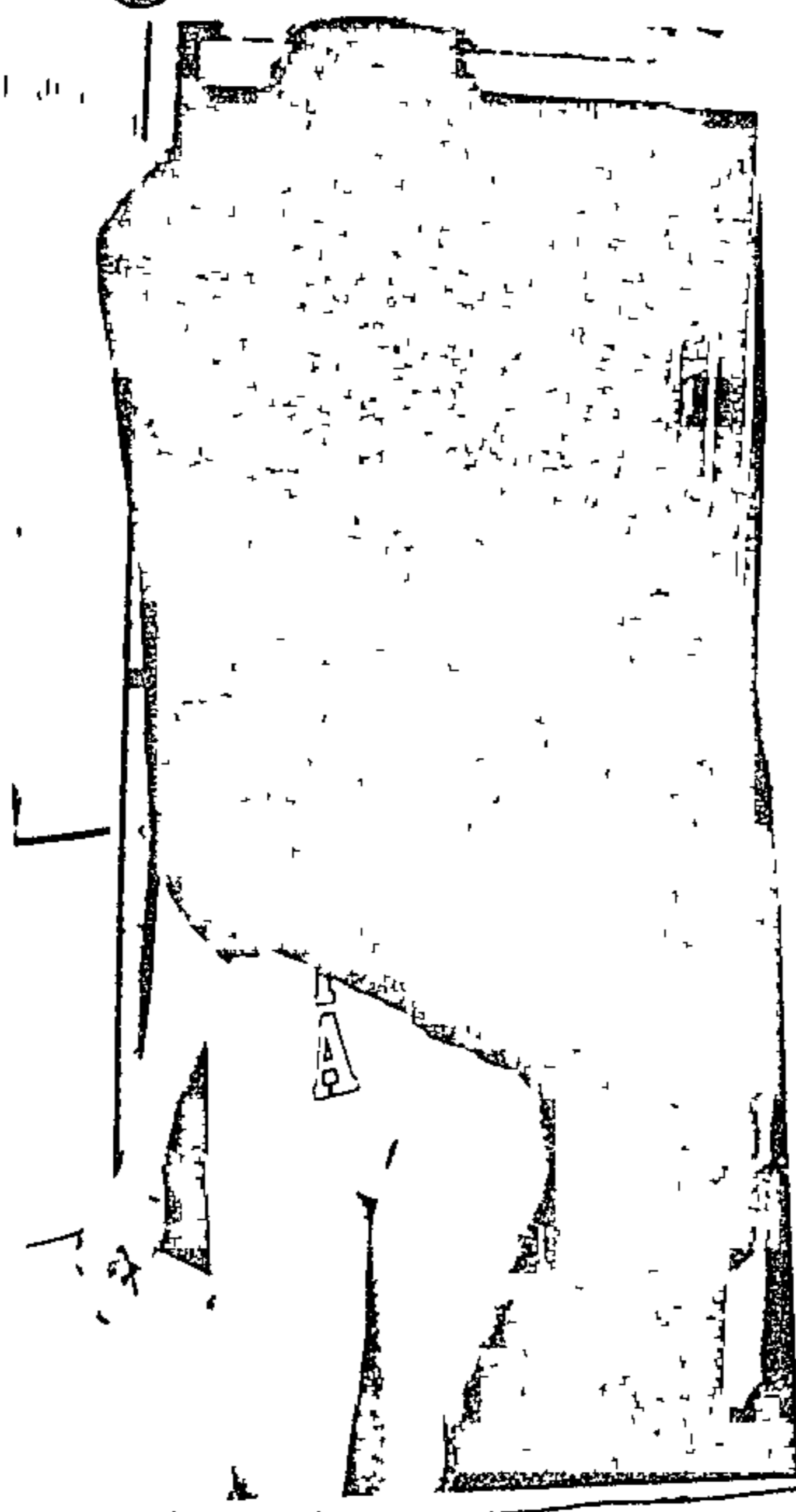
"These competitions damage the well-being of women because all women are looked at the way the promoters evaluate them. Without thinking about it most of us expect all women to adhere to European standards, which have become the basis of judging in these competitions," the article read.

Most of the women who are chosen, it said, had light complexions and long straight hair. If not, they wore European-type wigs. Women who are not light-skinned and do not have long hair are pressurised to try and look white.

Sowetan 29/3/90

African features

183



"There is a company which makes hair-straightening chemicals that has an advertisement which starts by showing a young African woman complaining that her natural hair is 'ugly and tangled'. This slave mentality is reinforced by these contests, the article said.

"Both men and women are not built with the same shape. Yet in a beauty competition, we hear people say 'She should not win. She is too short' or 'She is spoilt by her thick lips'. African features are regarded as a handicap."

The absurdity of beauty competitions lowered the human worth of women who fell outside the age group used in the competitions, the group at which European consumer culture was fixed. The idea that women should become prominent for having an appearance that suits those who define beauty for others, instead of the work they do or ideas they give to society, was the worst result of beauty competitions, the article said.

Trek lifts profit 39%

30/3/90 (125) (43) (24)
Finance Staff

In its last interim report before its transformation into Engen, Trek has announced a 39 percent increase in taxed profit on a 33,2 percent rise in sales for the six months to February. A pro-forma statement by Engen shows results for the first half and the forecast for the full year to be in line with predictions.

Trek sales rose to R587,6 million, while operating income rose R4,9 million to R22,5 million.

Investment income soared 126 percent to R14,3 million, mainly as a result of the extraordinary income of R33,8 million realised by the sale of Trek's interest in the Samco refinery.

The effective tax rate rose from 39,5 percent to 45,1 percent, but taxed profit rose from R14,4 million to R20 million and earnings per share from 71,16c to 99,9c (extraordinary income excluded).

An interim dividend of 35c (1989 32c) has been declared.

The directors say second-half performance should be in line with that of the first half and that the formation of Engen should increase profitability.

According to Engen's pro-forma statement, the enlarged group expects earnings per share of 181,9c for the year to August 1990, compared with 91,9c in the six months to end-February.

This follows on an expected improvement in sales from R2,52 billion to R5,28 billion.

183
Good news for Trek before change

IN ITS last interim report before it is transformed into energy giant Engen, Trek Beleggings has shown a 39% improvement in taxed profits for the six months to February

Engen, which comes to the JSE at the end of April through Trek's listing, consists of Mobil, Sonap, Trek, the Genref refinery, Gencor's 30% stake in Moss-gas and its Soekor participation rights

And pro forma results released for Engen for the six months to August show that the energy giant is well on track towards meeting its earnings forecasts for the full year to August

Trek's earnings, excluding an extraordinary item, rose 40% to 99,9c (71,2c) a share. It has declared an inter-

ZILLA EFRAT

im dividend of 35c (32c) a share, covered 2,9 (2,2) times

Its attributable earnings of R54m (R14,4m) have been boosted by the extraordinary item — the R33,8m profit from the sale of its interests in South African Lubricants Manufacturing Company (Samco) to Sapref

Trek, which has 385 retail service stations, improved its turnover by 33% to R587,7m (R441,3m), while operating profit rose 28% to R22,5m (R17,6m)

Higher interest earned from the proceeds of the Samco sale boosted net interest and investment income by 126% to R14m (R6,2m)

This resulted in pre-tax income rising 53% to R36,5m (R23,8m). However, a higher tax rate at 45% (39,5%) led to taxed profits of R20m (R14,4m)

The pro forma results of Engen, released with Trek's yesterday, show taxed earnings of R101m on sales of R2,5bn for the six months to February. This translates to earnings of 91,9c a share

Directors say these results are in line with the projections made for the full year to August, when the energy giant is forecast to earn R200m — or 181,9c a share — on turnover of R5,3bn

They expect Engen's operating profitability for the second half to be in line with that of the interim period

35/7/90
 B.P.

Improved efficiency boosts Bowler Metcalf

^{510am 30/3/90}
IMPROVED efficiency at JSE-listed plastic packager Bowler Metcalf saw earnings rise 27% to 5,6c (4,4c) in the year to December **(183)** **(184)**

The company, a manufacturer of plastic packaging for essential commodities such as household and person-

SYLVIA DU PLESSIS

al toiletries, pharmaceuticals, printing and decorating, achieved this on turnover which rose by 15% to R12,3m from R10,6m. Taxed profits were R1,4m.

Dividends of 2,25c (2c), covered 2,5 times, have been declared.

EXECUTIVE SUITE

By William W

F 14 30/3/90

(183)

(183)

PEET VAN DER WALT

Clear focus

Through the mixed fortunes of the industrial conglomerate Federale Volksbeleggings, its service sector has been a consistent success. Since 1974, the service contribution to the bottom line has increased from R1m to more than R30m, companies such as Avis, Priceforbes and Interleisure have been built into market leaders. F 14 30/3/90

It was, therefore, hardly surprising when Peet van der Walt (51), who is responsible for services and pharmaceuticals, was appointed Federale MD from April 1

Van der Walt hasn't unveiled his complete strategy for the group yet, but he is prepared to say "We need to regain focus and not get too diversified as we did in the past. There are some weak points in the company which aren't providing good returns and there'll have to be some rationalisation."

He says Federale will still look at opportunities, but only within its defined core businesses — food, motor components, services, pharmaceuticals, domestic consumer goods and mineral fibre.

Van der Walt is a career Federale man. "I have had the good fortune to enjoy new career challenges within the Federale group, first within the finance department and then through my line responsibilities."

Born in Burgersdorp and educated at Rob-

55



**Van der Walt ...
a hands-on approach**

ertson High School and Stellenbosch, he has a picture of Table Mountain in his downtown Jo'burg office to remind him of his home territory. He and his wife Erika have two sons.

After qualifying as an accountant, he joined Federale and spent ten years in the finance department before being transferred to head the service division, where he had a number of successes.

"I'm most proud of the way we built the Priceforbes Group into the biggest risk management company anywhere outside the US and UK. We expanded Fedics from conventional catering into inflight services and airport catering. We also built Avis into the market leader."

He joined the Federale board in 1981 and the following year he was also given responsibility for the pharmaceutical industry and became chairman of SA Druggists. At the time, SAD was one of the black sheep of the group after the Alumina acquisition gave it a weak balance sheet. After rationalisation and the strengthening of the key Link, Lennon and Fine Chemical subsidiaries, SAD became one of Federale's profit centres. In September 1987, just a month before the crash, SAD was relisted and Federale's stake reduced from 100% to 68%.

In the same year, Federale took over Sanlam's cinema interest Satbel and joined forces with Kersaf to form Interleisure, which subsequently acquired a sports division that includes wholesalers Game Set and Match and retail outlets such as the Golf Discount Centre and the Pro Shop. This acquisition delighted Van der Walt, who is a keen golfer and a member of the Randpark Club.

Though Federale is only a minority shareholder in Interleisure, he says "We usually like to have control of our subsidiaries, otherwise we like to have input in their management. In Interleisure, we share management

responsibility with Kersaf by agreement."

But Van der Walt insists his job isn't to run the operating companies. "I need to find the right people to run our companies, to ensure we have a balanced portfolio of investments and to allocate funds properly."

Van der Walt says services, pharmaceuticals and foods represent the stable elements in the Federale mix, as well as motor components, but expects short- to medium-term problems with the consumer durable sector. Federale sold its interest in the Morkels furniture chain, it is having a close look at its durable manufacturing arm, Tek, and is concerned about tractor company Fedmech.

But with Van der Walt's track record, he's probably got a good chance to make things work. ■

Golden Products heads for R100m

St. Mary's 11/4/90 By Charmaln Naidoo (183)

DIRECT selling organisation Golden Products expects to achieve R100-million turnover in the current year.

President Brian Murray says in commenting on the interim results that the company continued a strong growth pattern from last September to February this year.

"In the first six months, our sales topped R47-million. This meant a real growth of 31% on the previous year's figures for the same period.

"Continuing on this growth pattern, we predict that by the end of the year in September we will have reached R100-million in turnover."

Mr. Murray attributes strong growth to the distribution arm.

Golden Products distributes nutritional, household, personal and skin-care products

RTZ's record profits helped by acquisition

Business Day Reporter

OVERSEAS group RTZ produced record profits during 1989, which were at the top end of market estimates

RTZ is a metals producer and is also involved in energy, industrial minerals and exploration. It reported profits of slightly more than £1bn at the pre-tax level which was an advance of 26% on the previous year.

Stockbroker S G Warburg says in a report on the company that the major reason for the improvement in the results was last year's acquisition of BP Minerals, which accounted for a net gain of £142m after financing costs. The other major area of improvement was the contribution from Australian associate CRA, which rose 51% to £157m.

At the net level, which has traditionally been the main item to look for in RTZ, profits due to the numerous subsidiaries, associates, tax rates and currencies involved, rose 38% to £588m from £425m.

Although the results were higher than generally expected, the broker comments that there was little surprise after last year's acquisition of BP Minerals which contributed a net £142m to profits after the interest on the acquisition cost of £2.1m.

The tax rate for the year was 37.8%, but there were big differences between the first half and the final six month period. This is because the financing of the BP Minerals acquisition was tax deductible in

the second half

The acquisition of BP Minerals resulted in the interest bill increasing to £273m from £77m, while the proceeds from the rights issue and sale of RTZ Chemicals helped to boost interest received to £172m from £65m.

Aside from the positive contribution by BP Minerals, RTZ's performance was assisted by higher average copper, zinc, lead and tin prices. A strong result from Australian associate CRA and start-up of the new Neves Corvo copper mine in Portugal also helped.

Strength

But profits were reduced by lower average aluminium and precious metals prices, the depressed UK and North American housing markets, and low uranium prices.

The broker notes that the first quarter of the year has already brought some sharp movements in metals prices with falls in January reversed by strength in the last few weeks. Stocks of metal are low and as world industrial production growth continues, any supply disruption is having a positive impact.

But with the outlook for commodity prices mixed this year, it is expected that RTZ's profits will be on something of a "plateau" for the time being.



BL

Engen forecasts R220m profits

AK6u3
4/4/90

183

By DICK USHER,
Business Staff

ENERGY giant Engen, which comes on to the JSE at the end of April, expects bottom-line profits for the year to August of around R220 million on turnover of R5,3 billion.

Engen will enter the market through the Trek Beleggings listing and consists of Mobil, Sonap, Trek, the Genref refinery in Durban, a 30 per cent stake in Mossgas and participation rights in Soekor

For future growth it is looking to increased refining margins, improved efficiencies, rationalisation and aggressive investment and exports

THREE SECTORS

Engen will operate in three sectors — marketing of petrol, oil and related products through Mobil, Trek and Sonap, refining through Genref, formerly the Mobil refinery, and its stake in Mossgas, and, exploration through Soekor

Ahead of listing it has announced a R1,2 billion upgrade at Genref and a R110 million expansion, which will double capacity at its lubricating oil plant at Island View in Durban

With about 70 per cent of Engen's profits due to come from refining, and with capacity tightening, the first phase of the Genref expansion will enable it to take on Trek's refining by

1992 At this stage all the company's refining will be done at Genref

The second stage is aimed at refining for further demand and possible exports

Phase one will cost between R600 million and R800 million, and phase two between R500 million and R700 million

Capability will be upgraded to increase the yield a barrel and when all Engen's requirements are refined through Genref it is anticipated overheads could be trimmed by as much as 25 per cent

Other growth is expected at Mobil, which has put about 70 per cent of new investment into black service stations in anticipation of increased black earning power.

If Engen takes up its option to buy 30 per cent of Mossgas, which it manages, this will be financed through a rights issue, as will the second phase of the Genref expansion

Caltex seen as possible acquisition

CAPT TIPS 5/4/90

AUDREY D'ANGELO
Financial Editor

ENGEN — the energy giant formed when Gencor bought Mobil (SA) — is currently eyeing Caltex as a possible acquisition.

This was made clear when CE Rob Angel spoke to stockbrokers and analysts at a prelisting presentation at the Mount Nelson Hotel yesterday.

But he emphasised later. "We are not talking to Caltex, yet, but they are vulnerable — they have to be"

During the presentation, Angel said. "Engen's mission is one of real growth, both from our core business and new business. We shall be looking at possible acquisitions."

Acquiring another oil company would not be too much for Engen.

Later he pointed out that Caltex was in the same difficult situation he had been in while Mobil was owned by a parent company in the US

"They are caught by double taxation and they cannot bring in new technology or investment."

Answering a question on how a change of government would affect oil companies in SA, Angel said: "If the industry is deregulated we shall all be scrambling round for market share

"There might be a drop in earnings but it would only be in the short term.

"As soon as Caltex sees a drop in earnings they are not going to be staying here very long, I believe"

Discussing the future of Engen, Angel said the expansion of Genref's refining capacity by 50% — at a cost of between R600m and R800m in 1990 and between R500m and R700m in 1992 — would include preparations for lead-free petrol

This was already in use in Britain and continental Europe "and it will come in SA, I think by 1995".

Making preparations for this now would give Engen the edge on other oil companies in Southern Africa, which would start several years down

the line.

Angel said he knew Shell (SA) would like to invest in improvements to its refineries but it was handicapped in this by its partnership with BP

He said Engen was concerned with the environment and care would be taken to control pollution in emissions from its chimneys and in its waste water.

Pointing out that SA's situation was changing, he said that Engen expected to expand its markets beyond Southern Africa in the future.

Discussing its option to buy 30% of Moss gas, which it manages, Angel said the project was now "much further down the track than most people realise".

The onshore development was now 51,2% complete and the offshore development 75,2% complete.

Engen would take up its option to buy 30%, raising the money through a rights offer, only if the return to shareholders were worth while

He was confident this would be the case. Engen was also very hopeful about its participation rights in up to 20% of Soekor wells in "a vast area" off Cape Agulhas The Bredasdorp basin was "encouraging".

Pointing out that Mobil had targeted itself specifically at the black consumer market, Angel said spending in this sector was growing rapidly

Engen will be listed on the JSE at the end of April, by way of the listing of its subsidiary Trek.

The group consists of Mobil, Sonap, Trek, the Genref refinery in Durban, and its option of a 30% stake in Moss gas and participation rights in Soekor

The pro forma forecast for the 12 months to August, 1990 is of attributable income of R200m on a turnover including sales tax and levies of R5 282m.

Income before interest and tax is forecast to be R306m, with an interest bill of R52m and a tax bill of R54m

CAPL TWP 5/4/90

Engen has sights set on Caltex

ENGEN, the energy giant formed when Gencor acquired Mobil from its US parent company, is eyeing Caltex as a possible acquisition.

After hinting strongly at this yesterday, Engen chief executive Mr Rob Angel said: "We are not talking to Caltex, yet. But they are vulnerable —

they have to be.

He said US-owned Caltex was in the same position that Mobil had been in before it became a South African-owned company. It was subject to double taxation and unable to invest in new technology.

● Report — Page 13



AECI's Sander ... less bucks per bang

for explosives and initiating systems showed little growth, though he says sales revenues increased in a market that has become "highly competitive"

Nobody is saying so, but perhaps that should be interpreted as a price war. Given that the division's trading income rose by only R8m, and Kynoch Fertiliser has benefited from rationalisation, explosives clearly could not have had a good year. Emphasis is being placed on containing operating costs but it is evident that explosives no longer offer AECI the returns or the growth prospects of a few years ago. That, in turn, means the group has become more dependent on domestic consumer and industrial demand, and on foreign markets.

In the polymer derivatives division, static margins were compensated by robust turnover growth, and trading income was up 27%. Here, too, conditions deteriorated towards year-end, SA Nylon Spinners, for example, saw textile market activity weakening in the closing months. And, again, its strategy this year will be to maximise export sales.

Margins slipped in the trading division to 7% (8%), partly because of weaker trading results in subsidiary Chemical Services (see page 86), but AECI Paints (Pty) also suffered margin pressures owing to competition.

Though debt equity improved by year-end, financing costs jumped 45% to R109m owing to higher rates and higher borrowings. Included in the R109m charge is R12m of foreign exchange "differences" relating to long-term borrowings, these were mostly incurred in earlier years, so profits continue to be restrained by the forex exposures of the mid-Eighties.

Improved working capital management is shown in the mere R36m rise in net working capital to R1,1bn. This amount was 23% of turnover, three percentage points lower than the year-ago figure.

On present indications the group will be stretched to lift earnings in line with the

Volumes slacken

Activities: Chemicals, explosives and plastics manufacturer and trader

Control: Amic 40%, ICI PLC 38%

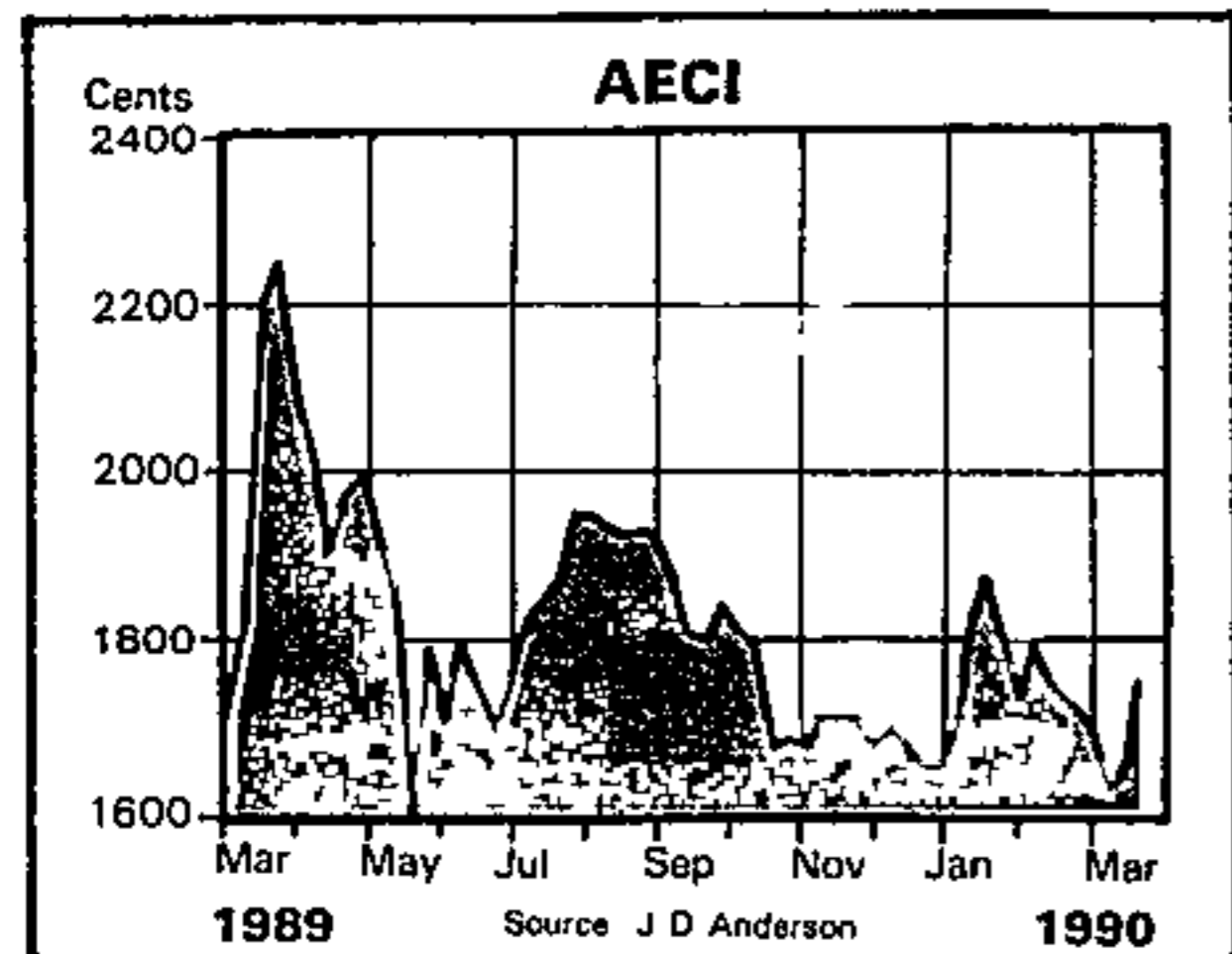
Chairman: G W H Relly, MD M A Sander

Capital structure: 154,7m ords, 3m 5,5% cum prefs. Market capitalisation R2,63bn

Share market: Price 1 700c. Yields 5,1% on dividend, 11,9% on earnings, PE ratio, 8,4, cover, 2,3. 12-month high, 2 100c, low, 1 500c. Trading volume last quarter, 2,1m shares

Year to Dec 31	'86	'87	'88	'89
ST debt (Rm)	105	178	289	337
LT debt (Rm)	378	347	336	334
Debt equity ratio	0,46	0,47	0,56	0,41
Shareholders' interest	0,47	0,36	0,42	0,44
Int & leasing cover	6,3	4,9	6,0	5,4
Return on cap (%)	16,2	12,5	16,5	19,2
Turnover (Rm)	2 819	3 276	4 083	4 757
Pre-int profit (Rm)	332	369	473	604
Pre-int margin (%)	11,8	11,3	11,9	12,7
Earnings (c)	113	138	165	203
Dividends (c)	60	66	75	87
Net worth (c)	582	685	768	904

Slacker volume offtake and weaker commodity prices are pointing to stodgier growth for AECI's earnings in its 1990 year. The trend became plain during the second half of last year and is unlikely to ease much in the current 12 months.



Some improvement in international markets may be seen, particularly if commodities demand from China returns to more normal levels, but in general, MD Mike Sander is not optimistic on prices. Domestic slowdown means the group is unlikely to attain the throughput needed in its plants to generate sizeable advances at trading level.

Though the group trading margin widened again last year, this was largely thanks to the exceptional performance in the chlor-alkali and plastics division, where the margin rose to 20% (14%) — in the other three divisions margins were either static or thinner (see table).

One reason why the chlor-alkali and plastics interests performed well was the return to normal operations and the debottlenecking of Coalplex after disruptions the previous year. With both Coalplex and the older plants at Sasolburg and Umbogintwini operating reliably, production of caustic soda and chlorine increased by 17%.

But the plastics operations broadly reflected the overall trend, with higher volumes exported, balanced by declining volumes at home and softening world markets. For this year Sander sees better local markets for polyvinyl chloride but continued pressure on margins. After uprating of the linear low density polyethylene plant to 100 000 t/year capacity, "substantial tonnages" could be exported this year.

Explosives, chemicals and agricultural products is the division where pressure on margins is most apparent. Last year, the margin slipped from 10% to 9%. This is down from 24% in 1986 — not a particularly exciting year overall — and presumably reflects steady weakening in the profitability of the explosives business as new competitors such as Sasol have fought for market share. Last year, Sander notes, the overall market

PROFIT MIX (RM)

Chlor-Alkali & Plastics		
Turnover	1 151	1 281
Net trading income	160	250
Explosives, Chemicals & Agric Prod		
Turnover	1 486	1 718
Net trading income	148	156
Polymer Derivatives		
Turnover	838	1 040
Net trading income	115	147
Other trading		
Turnover	608	718
Net trading income	50	51

inflation rate this year. And, given the policy to lift cover over time and continued high interest rates, the dividend will at best rise by a somewhat lesser percentage. These prospects are reflected in the share price, which is 20% below the 12-month high.

Andrew McNulty

Activities: Speciality chemicals manufacturer and trader

Control: AECI has 65%

183

Chairman: A B Niewoudt, MD P T Francois

Capital structure: 6,2m ords Market capitalisation R118m

Share market. Price: 1 900c Yields 5,3% on dividend, 16,1% on earnings, PE ratio, 6,2, cover, 3 12-month high, 2 800c, low, 1 800c Trading volume last quarter, 111 000 shares

Year to Dec 31	'86	'87	'88	'89
ST debt (Rm)	3,0	13,6	13,9	23,1
LT debt (Rm)	10,1	9,4	10,7	10,1
Debt equity ratio	0,27	0,20	0,28	0,27
Shareholders' interest	0,66	0,62	0,40	0,61
Int & leasing cover	5,7	14,7	8,7	5,4
Return on cap (%)	20,1	18,2	20,5	19,7
Turnover (Rm)	159	202	283	336
Pre-int profit (Rm)	18,4	25,2	34,3	36,9
Pre-int margin (%)	11,5	12,5	12,1	11
Earnings (c)	166	230	301	305
Dividends (c)	62,5	80	100	100
Net worth (c)	836	1 146	1 237	1 489

The six-year record seems to confirm this Strong growth in operating and attributable income was recorded in 1984-1986 when many companies floundered Growth continued until last year when operating income was only 7% higher than in 1988 Finance costs doubled but, on a slightly lower tax rate, attributable income was 1% ahead of the 1988 figure

The main operating problem was in subsidiary Steinhall, which suffered a downturn in demand from the mining industry for its guar products Steinhall has built a plant, to produce modified starches, which is expected to restore profitability and which accounted for most of Chemserve's unusually high R8m capex The group is skills, rather than, capital intensive

The main reason for higher borrowings was the withdrawal of favoured agent status and shortening of Chemserve's payment terms by US group Ansac, which supplies part of SA's soda ash

Chemserve will switch to supplies from Sua Pan when that project comes on stream in 1991 Financial director Lex van Vught says the margin on Sua Pan material will be lower than that from Ansac but, as Chemserve will be acting as a pure agent carrying no stock, it will pay no interest This will help the balance sheet but probably be neutral for the income statement

Gearing has risen since year-end, indirectly as a result of the R24m purchase of the 60% and 50% stakes of SA Paper Chemicals and Akulu Marchon, which Chemserve did

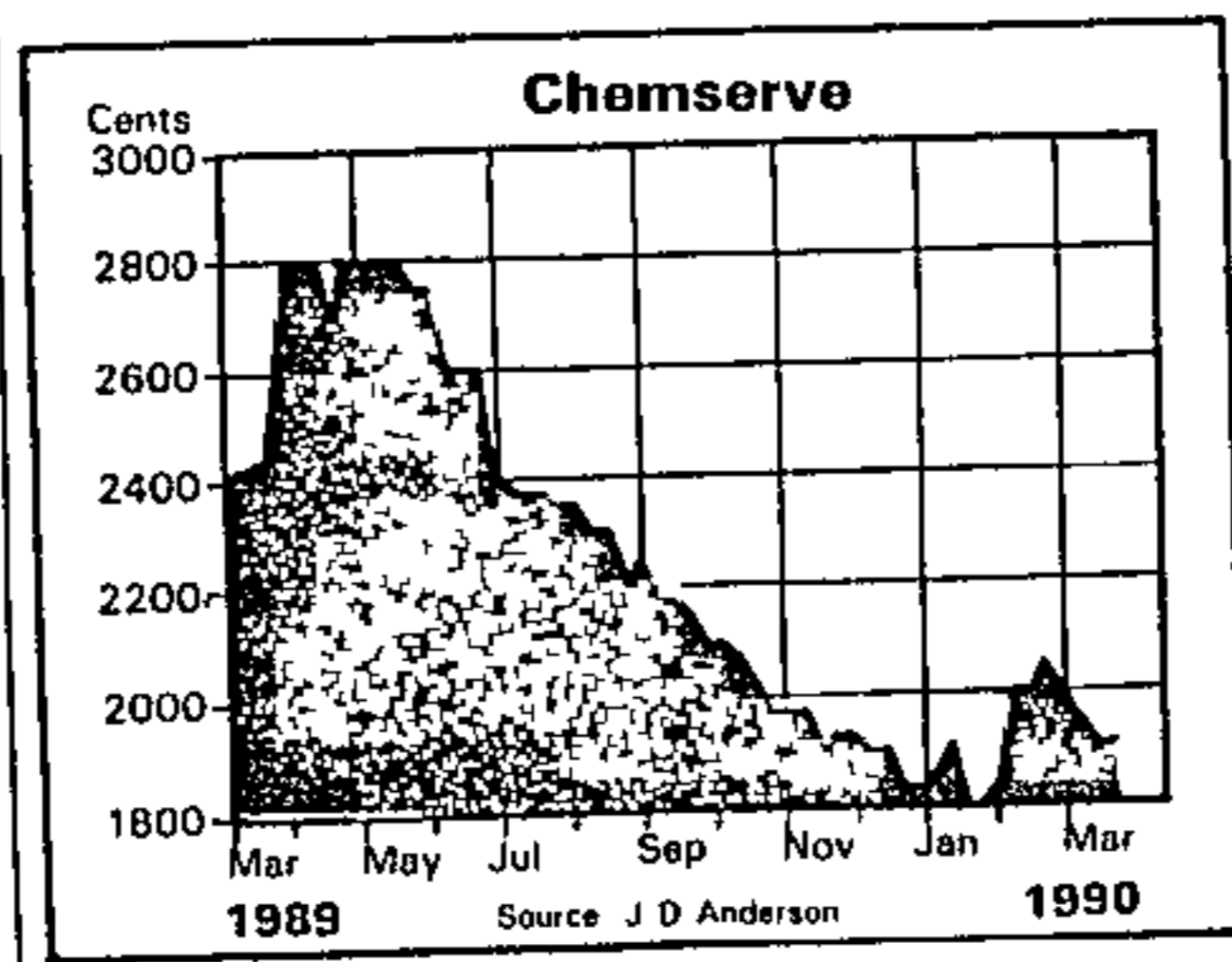
not own, from UK partner Albright & Wilson Gearing is expected to be about 0,70 at half-year but down to 0,50 at year-end Van Vught says the acquisitions, which have long been managed by Chemserve, are unlikely to contribute this year but additional earnings are expected from next year.

The drop in the pre-interest margin in 1988 and 1989 partly reflects the increase in lower-margin trading activities in chemical commodities Contributions to group income are not detailed but Van Vught says trading has grown to about a quarter of turnover. Chemserve wants to remain primarily a speciality chemicals manufacturer

Management forecasts real earnings growth, based on absence of a major drain on profit like that of Steinhall last year, and improved margins Van Vught says Steinhall is recovering from its loss last year Margins — but not sales — have been higher in the first few months this year

The share has declined steeply from its peak of R28 in May before the interims indicated problems The chemicals sector has weakened but, considering Chemserve's record, investors may have overreacted

Teigue Payne



Firm has not poisoned water, says official

By Jacqueline Myburgh

A company which imports toxic waste from Britain and the United States, Thor Chemicals, was not dumping mercury into the Umgeni River, the assistant director of water pollution control at the Natal Department of Water Affairs, Mr Lin Gravelet-Blondin, said yesterday.

Environmental pressure group Earthlife Africa alleged that Thor was poisoning "the drinking water for millions of people" in the Durban area.

However, Mr Gravelet-Blondin said the most recent tests revealed that the mercury levels in local streams which ran past Thor and into the Um-

geni, and in the river itself, were slightly above 1 microgram per litre of water.

The standards set by the World Health Organisation allow for 1 microgram of mercury per litre of drinking water.

"But the tests were done on raw river water, and in purification the water would be treated to comply with the standards," he said.

The very high levels of mercury measured in the river last year were correct, he said, but they had been taken near the factory site and were strictly localised.

Mr Gravelet-Blondin said Durban's drinking water would not be affected since it was supplied by Nagle Dam, which was upstream from Thor Chemicals.

Theft

Mr Stephen van der Vyver, the managing director of Thor, has denied that his company is poisoning drinking water.

● Last week, seven drums of mercury compounds were stolen from the Thor's premises. The contents were dumped inside and outside the premises. Thor cleaned up the waste.

"Samples are being taken of the soil and local water sources, and Umgeni Water is monitoring the mercury levels on a weekly basis," Mr van der Vyver said.

The matter had been reported to the police.

Something completely different

■ The dynamics of the new group are balanced across the energy spectrum

In most markets, energy shares remain out of fashion. The oil price languishes below US-\$20/barrel, Opec is no longer the force of a decade ago and industrial nations have learnt to consume energy sparingly.

Those, at least, are some of the perceptions that persuaded many portfolio managers to overlook oil shares during much of the Eighties. But more bullish signs are indicating better times for some players. A beneficiary would be Engen, the energy giant to be listed when Gencor moves its energy division into Trek on April 30.

Investors will watch the listing with interest. Engen will be a fully integrated energy group, with interests ranging from crude oil production and refining to a large retail distribution network. It will offer a solid investment alternative to Sasol.

Initially, Gencor and Genbel will hold most of the equity, leaving only a small slice for minorities (see chart). But the mining house will want to reduce its stake over time and the route may be through one or more major rights issues almost certain to be held over the next few years. Meanwhile the market will need to get accustomed to assessing an entirely new animal on the JSE. The dominant profit sources and the factors determining future growth have not played the same role for any other listed companies.

Sasol, which is bound to be compared with Engen, has three primary sources of profits. Synfuels are said to provide around 30%, though the percentage was much higher in the mid-Eighties, the remainder comes about equally from chemicals and refining. It derives refining income from the Natref refinery, owned jointly with Total.

Engen has six major operations. The marketing division holds 100% of Mobil, 100% of Trek and 85% of Sonap, the production arm has 100% of the Genref (formerly Mobil) refinery and 30% of Mossgas, and the exploration arm has participation agreements with Soekor. However, as much as 70% of



MD Angel ... growth soon consumes capacity

Engen's profits are from Genref. The refinery is embarking on a R600m-R800m expansion with a second phase costing R500m-R700m likely to start in 1992, so the refining profit is likely to become even more important — unless other projects go ahead.

The expansion is being justified on several counts. Firstly, profitability of refining has been boosted by a steeply rising refining margin (see graph). The margin is essentially the difference between the price of crude oil, the refiners' raw material, and prices of the fuels they produce.

Local refiners are linked to the international refining margin, which has risen from about US45c/barrel in January 1988 to about \$3.50/barrel, driven largely by a worsening shortage of refining capacity. Engen financial director John Roberts notes that capacity has "fallen materially" since the early Eighties. Some plants have closed, while tightening environmental restrictions have reduced effective yields at major refineries.

"Capacity is getting very tight but margins are not yet good enough to justify new greenfields investment," he says. "That applies particularly in the US, where the bulk of the capacity is."

Energy consumption in industrial nations has been lifted by about eight years of economic growth. Though SA's fuels production, capacity and consumption figures may not be published, the country's refining capacity is known to be near the ceiling and one or more expansions will be needed.

Despite SA's poor

economic performance over the past decade, urbanisation and rising black ownership of motor vehicles has resulted in relatively high rates of growth in petrol consumption. In the late Eighties volumes were rising by as much as 8%-10% annually, though the pace moderates in recession years, demographics suggest the trend will continue.

The better refining margin has boosted Genref's profits, cash flow and funding capability, and promises more stable earnings. Mobil's profit history from 1985 to 1989 was erratic, with turmoil in the oil market during the mid-Eighties depressing operating income from R322m in 1985 to a R35m loss in 1986. Thanks to the widening margin and consumption growth, income recovered from R141m in 1988 to R315m in 1989.

Management is projecting the margin will increase by one to five percentage points annually over the next five years. Cash flow is expected to remain vigorous enough to enable internal funding of the first expansion phase. However, growth is seen primarily in volumes rather than the margin.

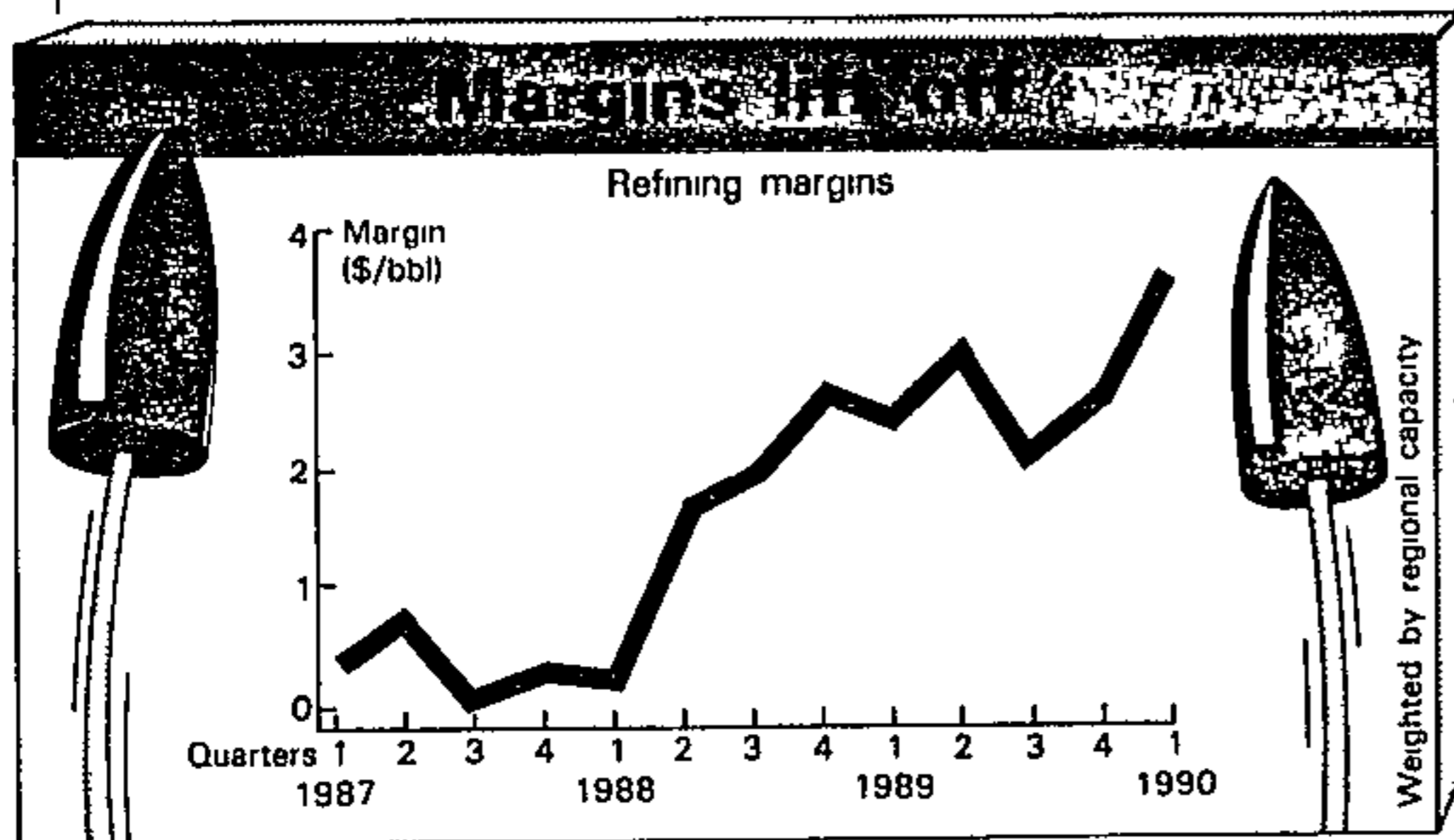
The group looks well placed to take advantage of SA's burgeoning consumption of fuels. Other local refiners all have one or more foreign shareholders, which generally are not keen to invest in SA. The only other refiner thought to be considering expansion is Natref.

Genref is apparently not the biggest of the refiners, so a 50% or even 100% increase in capacity need not have an unduly large impact on industry output. Trek will shift its refining arrangements to Genref once the present agreements with the Shell-BP refinery expire in 1992, and it is expected the resulting slack will be absorbed rapidly. Government is not contemplating further synfuel plants now, so crude oil refiners will have to expand. MD Rob Angel has no fears of surplus capacity. "SA's growth rates chew up refining capacity quickly," he says.

On a recent visit to the plant, management noted that there had been a series of investment programmes since Genref was established in 1954. Certain of these, particularly the 1974 expansion, had installed equipment that would enable a relatively inexpensive upgrading. "We think the cost effectiveness of funds spent on the Genref refinery will be better than on investments in any other refinery," says Engen chairman Bernard Smith.

Genref's capex programme includes upgrading to improve efficiency, investment in environmental controls ahead of introduction of unleaded petrol, and a broader range of higher-value products.

Mossgas, the other major element in Engen's production division, at present represents a management contract and a 30%



equity participation acquired for R30m, with the option to become the major shareholder — for about R1bn — if the project is deemed commercially viable

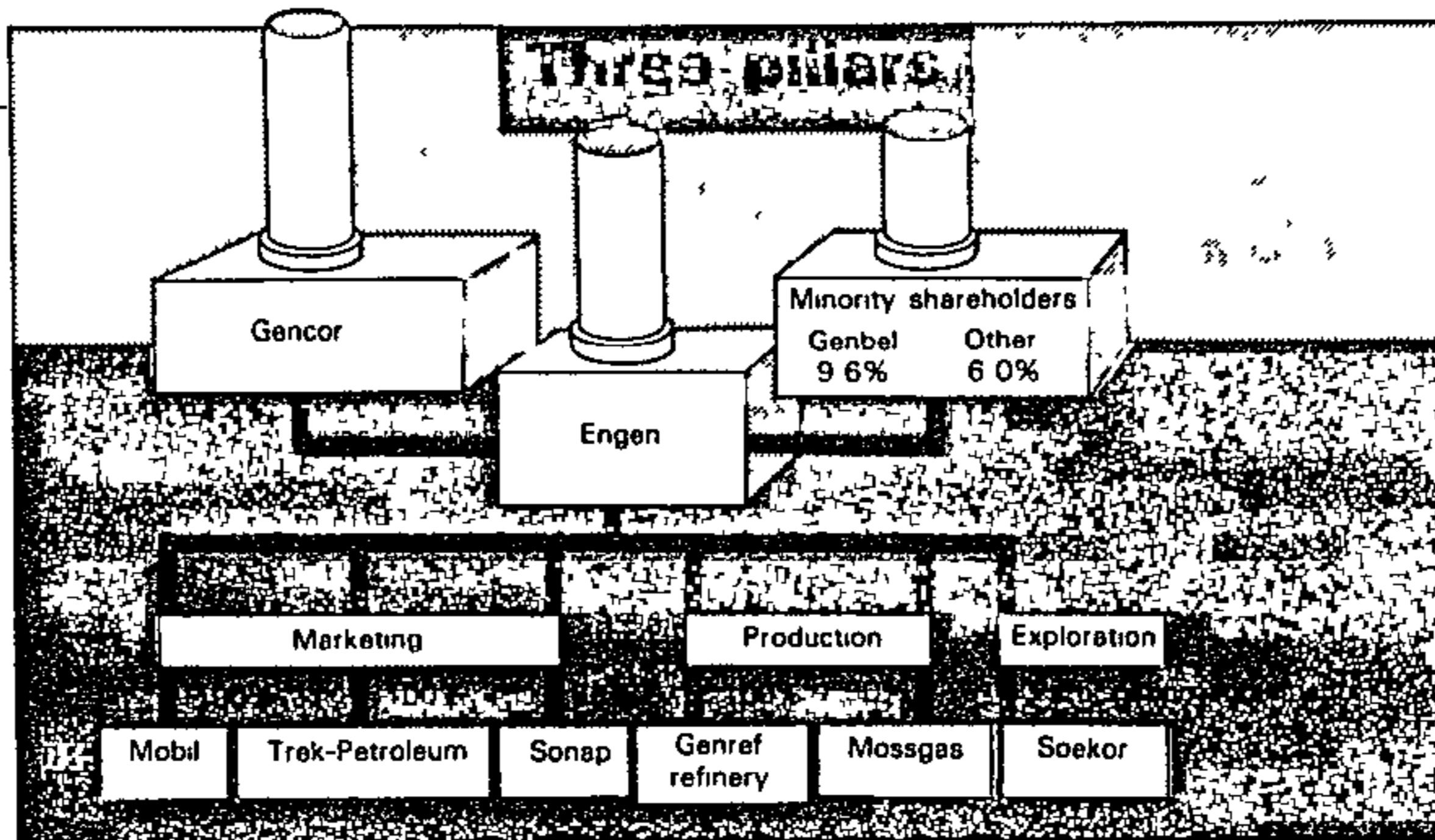
Spending is well advanced R5,8bn has been committed, the onshore work is 51,2% complete and the offshore work 75,2%. Whether the group takes up its equity option in Moss gas will depend essentially on oil prices

Management believes Moss gas shareholders will earn a real return at a crude oil price of \$23 a barrel, compared with the current North Sea Brent price of around \$18

Management is bullish on oil but the crude market is notoriously difficult to forecast. However, analyst Manny Pohl, of Davis Borkum Hare, believes the market has undergone a major change world oil consumption has risen annually since 1985 and, he says, current consumption is expected to exceed the 1979 all-time high of 64,5m BPD

Opec members, with an estimated 54% share of world oil exports, are said to be facing production limitations, output is shrinking in China and the US, exports from the Soviet Union appear to be declining and developments in eastern Europe could boost demand. "Longer-term fundamentals are extremely positive for a sustained improvement in the oil price," says Pohl. "Should events in eastern Europe become chaotic, we expect the oil market to be more volatile and a third oil shock is possible"

As Angel says, Moss gas adds spice to



the year to end-August 1990 shows attributable income of R200m, with operating profit of R306m and turnover of R5,3bn. The tax rate is expected to remain at or below the 21% rate for the next three to four years. Depreciation runs at R60m a year, underscoring the strong cash flow. Mobil is currently taking over the Trek distribution business; Angel estimates Engen will save

Engen's prospects. Should the project indeed turn commercially viable, that would provide Engen with a major new source of profits by the mid-Nineties. More nebulous is the value of the Soekor participation rights, but the prospecting results have included "potentially commercial" oil and gas flow rates

Meanwhile, Engen, like Gencor, has declared its mission is to achieve real growth. This, says Angel, is to be done by "accelerating the existing businesses, by aggressive investment and by acquiring new businesses"

Last week, Angel announced a R110m expansion of the marketing division's lube oil blend plant, to be completed by December 1991 and with capacity for market share growth to 2000. This is intended to improve competitiveness in terms of quality and delivery time. The group may invest in chemical production but Angel says there are no plans for major diversification into chemicals. Entry into niche markets, possibly in joint ventures, is a more likely route

Engen's pro forma income statement for

R20m a year as a result

Engen is forecast to increase Gencor's net worth by 111c a share or 8%, and lift its EPS by 16c or 14%. Genbel's net worth would be increased by 252c or 3%, and its EPS by 21c or 7%. Angel is projecting Engen EPS will rise by 20% from the 1990 level of 182c to 220c in 1991 and by 18% to 260c in 1992. Management is assuming profits will come from average market volume growth of 4%-6% a year, additional refinery throughput growth of 2%-3% a year, improvement in the refining margin, and efficiencies, new products and exports

Overall, it appears that in SA the profit scales have tipped in favour of refiners rather than synfuel plants. Increased dependence on refining may result in volatile profits should crude oil prices fluctuate sharply, with likely lags in the margin adjustment. But Engen should retain considerable financial flexibility and has potential to produce steady long-term growth, spurred by rapid urbanisation in SA.

Andrew McNulty

CALC T-4 P 6/4/90

Caltex plans expansion in SA

183

Financial Editor
FAR from being ripe for take-over by Engen, Caltex Oil (SA) is upgrading its Milnerton refinery and sees SA as a base for further expansion into the black consumer market in Southern Africa, says chairman Jock McKenzie

He was replying to suggestions by Engen CE Rob Angel, at a prelisting presentation in Cape Town on Wednesday, that Caltex might disinvest and was "vulnerable" to takeover

In a statement yester-

day McKenzie said Caltex had "no intention whatsoever of disinvesting from SA"

Angel had suggested that Caltex (SA), as a US-owned company, was subject to double taxation and could not invest in new technology

But McKenzie said his company was fully and adequately funded from its own resources

It had made substantial investment in its retail network in order to maintain its leading position in the petrol market. It was extensively

upgrading its Milnerton refinery

It had "not experienced any difficulties in obtaining the necessary technology for either its refinery upgrading, or in its ability to supply the local market with the most advanced petrol available"

McKenzie said Caltex's investment policy both internationally and locally was based on long-term analysis of economic potential. Caltex management believed that the market in Southern Africa had a

potentially bright future with good prospects for growth

He added that short-term economic uncertainties, and the inevitable fluctuations in earnings resulting from this, were not the determining factors in maintaining a presence in this particular market.

Caltex Oil's management and its US shareholders firmly believed that its continued presence in SA, ongoing business activities, corporate social responsibility programmes and

positive links between the US and SA made "a positive contribution to the future of SA and all its people"

The black consumer market in SA had already expanded considerably and he expected further growth

If political problems were solved and SA became a member of the OAU markets would open up in other parts of Africa and he was certain that Caltex (SA) would develop the capacity to expand into them

Caltex 'is in SA to stay'

B1097

9/4/90

CHARLOTTE MATHEWS

CALTEX had no intention of disinvesting from SA, chairman and MD Jock McKenzie said in a statement last week.

He was reacting to a remark by Engen MD Rob Angel suggesting Engen could regard Caltex as an acquisition target since being owned by a US parent put Caltex in the difficult position of paying double taxation, and being unable to bring in new investment.

McKenzie said "Caltex management believes that the market in southern Africa has a potentially bright future with good prospects for growth."

183 Technology

"We have made substantial investment in our retail network in order to maintain our leading position in the petrol market.

"We have not experienced any difficulties in obtaining the necessary technology for either our refinery upgrading or our ability to supply the local market with the most advanced petrol available," he said.

An Engen spokesman said on Thursday that the possibility of Engen making a major acquisition like Caltex at this stage was extremely limited.

The spokesman pointed out that there had been a number of developments at Engen in recent months and the company was soon to be listed on the JSE.

"Our personnel are fully committed to that listing."

Star 10/10/90 (22) (183)

Flemingo forms Jarocom

Flemingo group chairman Keith Fleming has announced the formation of Jarocom by combining two subsidiaries, Jarman Mining & Construction Supplies and Clover Compress Air Services.

Brian Jarman and Mervyn van Reenen have been appointed joint managing directors of Boksburg-based Jarocom, which will sell Airman mobile and stationary compressors as well as crawler drill rigs and allied equipment.

Jarocom is looking at an eight to 10 percent share of the R80 million a year compressor market

Oil prices slip on fear of glut

Star 11/4/90

(123)

LONDON — Fears of a new world oil glut have sent prices sliding and traders say further falls could be in prospect.

Prices are already at the lowest in eight months, driven down by \$5 per barrel (20 percent) as a result of excess Opec production since the start of this year.

"We could be facing another petroleum crisis," says Said al-Bilad, a Saudi Arabian newspaper.

Its warning of "evil consequences" and its call for better Opec production discipline were relayed by the official news agency of Saudi Arabia, Opec's biggest producer.

Much of the excess is being pumped by Opec states ignoring their output quotas in a scramble for revenue.

The same kind of oversupply sent world prices crashing from more than \$30 to less than \$10 a barrel in 1986.

But Western oil executives do not believe the current slide is the start of a replay of that crash because they expect a rebound in demand to mop up excess supply eventually.

The worldwide spot market average yesterday held at about \$16 even after sharp falls in recent days.

Industry officials say a rise in prices in January when the average hit \$21 was a fluke.

Extreme cold in North America caused a jump in demand for heating oil, they say.

A reaction had therefore been expected in the present April-June quarter, a usual weak spot between the northern winter and the summer holiday peak for petrol demand.

The failure of Opec to curb excess output by several of its 13 members has made weaker prices inevitable, analysts say.

"There are a lot of barrels that Opec producers could not sell on long-term contract, especially the heavy, high-sulphur Middle East crudes," says an industry executive.

This oil, particularly from Iran, is now reaching the free (spot) markets "and that is what is weighing prices down", he says.

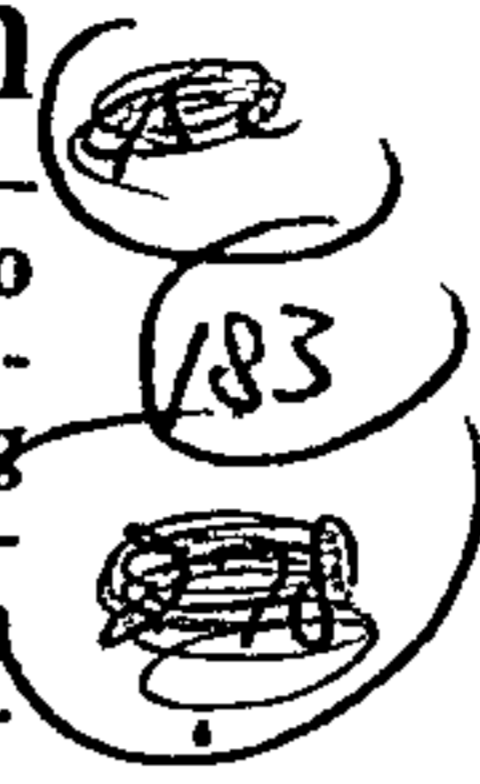
The source sees "a deluge of crude for about six weeks" followed by a firmer market as petroleum demand heralds a seasonal recovery.

So many estimates abound on how much oil Opec is producing that at recent talks in Vienna several senior ministers confessed to being bewildered — Sapa-Reuter.

Cops charge workers at Isando station

Coff.
Temp)
11/4/90

JOHANNESBURG. — Chemical workers who assembled at Isando station yesterday morning in preparation for a solidarity march ignored an order by police to disperse and were baton-charged several times, police said.



A police vehicle had its windscreen smashed in a stone-throwing incident, Major Reg Crewe said.

The union said its members had gathered at the station and were planning to march to Rolfes factory in support of workers on strike.

Permission to hold the march had been refused by the Boksburg magistrate. — Sapa

Trek looks at new Engen giant

DIRECTORS in Trek Beleggings have outlined the likely financial impact the formation of energy giant Engen will have on the group.

The report forecasts a boost to net asset value by 12,7% to 857,3c from 760,7c a share for the 1990 financial year. Based on 110-million shares in issue — compared to the 20,3-million prior to the transactions — earnings are expected to be 5,4% lower at 181,9c (192,9c) a share.

This translates into pro forma attributable profits for the 12 months ending August of R200m. The final dividend for the year is forecast at 55c a share.

Gearing has been limited to a maximum of 50%, interest cover to a minimum of five times, and dividend cover to a minimum of two times. (183)

Engen CE Rob Angel says that the future earnings potential of the en-

BRENT MELVILLE

BIDM 11/4/90
larged group — consisting of Mobil, Sonap, Trek, the Genref refinery, its 30% stake in Moss gas and participation rights in Soekor (adding to an annual turnover in the region of R5,3bn) — should be greatly enhanced by the merging of the companies.

Directors note that the group is well-placed to participate in the fast expanding SA liquid fuels and lubricants market and in other opportunities.

In addition the 30% participation in Moss gas poses limited risk, with Engen exposed to a maximum loss of R30m. As a hedge against the negative impact of sharply rising oil prices on margins, directors say the group is planning to involve itself in exploration and activities to acquire control of crude oil.

Prochem earnings trimmed by tough trading

Intensified competition and the slowdown have adversely affected Protea Chemicals (Prochem), but the company is confident that corrective counter-measures will improve performance in the second half of its financial year

Interim results for the six months to February show turnover increased eight percent to R191,5 million. But operating income was down 29 percent to

R8,8 million, while finance costs rose 39 percent to R5,2 million

Earnings per share were consequently 62 percent down on last year. An interim dividend of 1,5c (3,25c) has been declared

Executive chairman Mike Struwig says the expectation of lower earnings expressed in the 1989 annual report have proved correct

Stiff competition and lower

world commodity prices depressed selling prices and reduced margins, while higher borrowings and interest rates boosted finance costs

Gearing at 79,1 percent was slightly down on the year-end figure, however, and it is intended to reduce this further by August

"As soon as the slowdown in our markets became apparent, we implemented a severe cost-cutting and working capital reduction programme — Sapa

COMPANIES

Prochem earnings plummet in adverse trading climate

THE earnings of Protea Chemicals plummeted 62% in the six months to February after being adversely affected by intensified competition and the economic slow-down

Attributable profits before extraordinary items were R2m (R5,4m), equivalent to earnings of 4,3c (11,6c) a share

An interim dividend of 1,5c (3,25c) a share has been declared, down 54% and covered 2,9 (3,6) times

Executive chairman Mike Struwig says

ZILLA EFRAIM

the expectation of lower earnings expressed in the 1989 annual report has proved correct

Stiff competition and lower world commodity prices depressed selling prices and reduced margins, while higher borrowings and interest rates boosted finance costs

In spite of an 8% rise in turnover to R191,5m (R177,6), operating income fell

29% to R8,8m (R12,3m)

Finance costs rose 39% to R5,2m (R3,8m) with interest cover falling to 1,7 (3,3) times The current ratio declined to 1,11 (1,31).

Struwig says it is intended to reduce gearing, at 79,1% (80,8% at the 1989 year-end), further by August

He says as soon as the slow-down in markets became apparent, a severe cost-cutting and working capital reduction programme was implemented The positive

impact of this continuing exercise is already evident

He therefore expects earnings for the second half to be greater than those achieved in the first

But because the current economic climate is likely to continue through the second half and already difficult trading conditions may be exaggerated by labour instability, earnings for the full year will be lower than those of the previous year

w/ Mail 12/4 - 19/490

Thor chemicals shut

183

By EDDIE KOCH

THE South African government has shut down Thor Chemicals — the world's biggest toxic waste recycling plant — on the eve of an international campaign by Greenpeace against the dumping of industrial poisons in South Africa.

The decision by the Department of Water Affairs to suspend all production at the Thor plant in the Natal Midlands comes in the wake of claims by Greenpeace that the company is responsible for some of the worst abuses in the worldwide trade in industrial poison.

And the controversy surrounding Thor's plant has led to demands in the United States that shareholders in American Cyanamid, a multinational that sends vast amounts of deadly mercury waste to Thor, should disinvest if the company does not stop sending waste to South Africa.

Jim Vallette, Greenpeace's top campaigner against the toxic waste trade, says that 35 tons of highly toxic mercury waste from American Cyanamid, a multinational that has close links with Thor, has been shipped to South Africa for recycling between 1986 and 1989.

"American Cyanamid's practice of using South Africa as a cheap dump site demonstrates the severity of their corporate greed," said Vallette.

B/D on 18/4/90

Firm announces mercury waste modification probe amid protests

US CYANAMID, US sister company of British-owned Thor Chemicals in Natal, announced yesterday it was investigating modifications to the manufacturing process that would eliminate the use of mercury

SA Cyanamid released the information amid protest action in Natal and Johannesburg by the environmental group Earthlife Africa and Chemical Workers' Industrial Union (CWIU) members against the importation of toxic mercury waste to SA

A picket was held outside the offices of SA Cyanamid in Isando and a separate picket by about 150 CWIU workers was staged outside Thor Chemicals at Cato Ridge in Natal

Suspend

Thor Chemicals has been the target of attack by environmental groups, including Greenpeace International, who have claimed the company, which imports toxic waste from US Cyanamid and other overseas companies, was polluting Natal's drinking water

The SA Water Affairs Department instructed Thor Chemicals last week to suspend part of its operations that produced mercury effluents until a problem with the plant's disposal of waste was under control

The US Cyanamid statement said "Cyanamid is concerned about developments at Thor Chemicals including the partial shut down of the facility"

It said a company task force was

ADELE BALETA

examining mercury waste alternatives and was reinvestigating modifications to the manufacturing process to eliminate the use of mercury

"Cyanamid believes recovering and recycling chemicals is the most environmentally sound method of managing wastes generated by a manufacturing process," it said

Earthlife Africa spokesman Hendrik Coetzee said any move away from mercury toxic waste was to be commended

His organisation was not against the process of recycling waste but against the emission of toxic waste into the environment

Environmental groups were concerned about the cross-border transportation of toxic waste as there was a high risk factor involved

He said overseas companies such as US Cyanamid were taking advantage of SA's "poor environmental legislation" by exporting toxic waste to SA

He claimed Thor Chemicals had been implicated in the pollution of rivers in Natal. He said pollution levels in some cases were up to 750 times more powerful than the highest concentration found in Britain

But Thor Chemicals MD Stephen van der Vyver said testing by Thor and the water authorities showed no evidence of poisoning of drinking water

Van der Vyver said operations at the plant were partially suspended because heavy rains in the area meant there was

a danger that dams containing mercury could overflow

Our Maritzburg correspondent reports that about 150 protesters from Earthlife Africa and the CWIU, as well as a few residents of the nearby Mngeweni valley, gathered outside the gates of Thor Chemicals yesterday and marched, sang and waved banners

The event was filmed by overseas television camera crews and Greenpeace International

Van der Vyver spoke to reporters and protesters outside the factory gates after the demonstration

He said the company did not believe it was causing any danger to the environment

Scrutiny

Asked about alleged evidence of extremely high mercury levels in the Mngeweni stream below the plant, Van der Vyver said mercury had been found in sediment in one small area but none in drinking water

"We do not believe we are causing any danger to the environment," he said

Jim Vallette of Greenpeace said the Thor plant had come under increased scrutiny in recent months by environmental organisations, labour unions and SA government agencies

The organisation has called on the US government to prevent shipments of mercury waste to SA. It has also called on US Cyanamid immediately to end its toxic waste exports

Management at Total SA restructured

Business Day Reporter

TOTAL SA has announced a restructuring of its top management, which, according to MD Jean-Claude Goffinet, will gear it towards changing patterns in the market place requiring a redefinition of jobs and responsibilities

These changes include the privatisation of sections of Transnet, as well as the rapid development of mini-bus taxis. In addition the structure of the oil industry is also undergoing changes, Goffinet says — as evidenced by the formation of new energy company Engen

Changes in the community as a result of government's stated reform objectives will also have an impact on the business sector, Goffinet says

He adds government's intention to lower the lead content of petrol still further from the current 0,4gm/l and developments in the motor industry will also affect the activities of oil companies

183
19/04/90
"The new, leaner management structure of Total will ensure that it is well placed to take the fullest advantage of the opportunities to be presented in the market place"

Among the appointments are Gerhard Esterhuizen GM marketing, who takes over from Allen Rose-Innes, who becomes GM of the supply and production department, responsible for refining and coal activities

A new distribution division and a lubricants division has been created.

Chemical groups try to silence allegations about crop devastation

w/Man 20/4 - 26/4/90

By EDDIE KOCH

SEVENTEEN chemical companies, including some of the world's most powerful multinationals, are trying to suppress allegations that their herbicides are causing massive damage to South Africa's ecology

The companies are also trying to force a group of Natal farmers, who made the allegations, into a humiliating apology for taking court action to prove their claims

The move by the companies stems from a David and Goliath court action in which a group of Natal vegetable farmers this year failed to win a supreme court application to prohibit the manufacture and sale of all hormone herbicides in South Africa

The farmers prepared affidavits for the case based on documented evidence that the widespread use of hormone herbicides, which work on the same principles as the Agent Orange used to defoliate forests during the Vietnam War, have caused millions of rands of damage to their vegetable harvests and have devastated other vegetation in the Natal Midlands

The case — the biggest civil litigation in South African legal history — was rejected before the evidence was tested in court

The court ruled that litigation should have been directed against the users rather than the manufacturers of the herbicides. The farmers were ordered to pay costs estimated to be as high as R750 000

The companies say they will waive payment on condition the farmers forfeit their right to take legal action against any of the firms and refrain from any public campaigns aimed at highlighting the dangers of the products

The farmers say they are also being "blackmailed" into paying for advertisements in 17 newspapers and magazines apologising for the court action and denying that they possess

●To PAGE 2

Chemical firms seek to silence pollution claims

w/Man 20/4 - 26/4/90

scientific evidence of the environmental damage caused by their products

A draft of the advert, drawn up by the companies' attorneys and leaked to the *Weekly Mail* by local environmentalists from Earth Life Africa, says "The legal proceedings instituted by us have been withdrawn unreservedly on the basis that we acknowledge that hormone herbicide products are of vital necessity to the community in the eradication of various broad-leaf weeds if properly used in terms of their registrations .

"We further state that we do not possess any scientific evidence that any hormone herbicide product presently used in the Republic of South Africa constitutes a health hazard in normal use

"Furthermore, we apologise to the manufacturers and the distributors of these products for the unnecessary expense and utilisation of manpower to which they have been subjected "

The companies also want the farmers "forevermore" to refrain from legal proceedings against any one of the companies and to prohibit them from engaging in any campaign against manufacture or sale of the herbicides

The farmers have refused to accept the terms of the agreement "This is simply blackmail," their representative and Tala Valley farmer, Roger Evans, told the *Weekly Mail*

"We have collected hundreds of pages of scientific data about the damage these products have caused to vegetable crops and plants in Natal, which was never heard by the court. Now they are asking us to deny all this "

Attorney AC Couzyn, who is acting for the 17 companies, replied: "The reason for asking for the adverts is simply that we do not believe that the farmers had any scientific evidence " He refused to make any further comment

The unrestrained use of dangerous pesticides on South African farms, where virtually no health or safety regulations are enforced, makes this country a multi-million rand market for pesticide manufacturers

Documents prepared by Sandoz, one of the companies involved in the controversy, estimate that its sales division earns more than R500-million a year from distributing hormone herbicides in South Africa.

Hormone herbicides were invented in Britain during the 1940s as a weapon of war to decimate enemy crops. They were adapted to civilian use after World War II. They are used extensively on sugar, maize and forest estates around the world to kill broad-leaf weeds and work by caus-

ing deformities in the growth cells of broad-leaf plants.

Spraying with hormone herbicides does not damage maize and sugar, but these substances can drift on to vegetable farms where they deform crops and, in cases of extreme exposure, can kill entire harvests

The chemicals are absorbed into the atmosphere and deposited as rain or dew many kilometres from the source of the spraying, where they cause damage to indigenous tree and plant life

The *Weekly Mail* is in possession of a map from the Department of Agriculture which shows that at least 18 out of its 24 testing stations in Natal have found concentrations of various hormone herbicides in the rain

In 1988, results from the government testing station in the Tala Valley area of Natal — passed on to the *Weekly Mail* — showed herbicide levels in rain samples that were 1 000 times the amount needed to damage vegetable crops

Affidavits presented to the court state that in the last five years the percentage of first-grade tomatoes in yields has dropped from 70 percent to 15 percent a year. The average lettuce yield has dropped from 85 to 32 percent and that of cabbages from 80 to 45 percent

Evans told the *Weekly Mail* that the farmers are being asked to state that the herbicides pose no dangers to human health even though their case did not deal with the medical risks posed by ingesting the chemicals

But there is extensive evidence that the chemicals are linked to skin cancer, liver diseases, chest and nasal complaints and even birth defects. A recent search of medical journals about the effects of hormonal herbicides on human health produced more than 100 articles on the social and health effects of the chemicals.

The companies are Agrosolve, Applied Agricultural Products, BASF, Bayer South Africa, CH Chemicals, Ciba-Geigy, Evergrow Marketing, FBC Holdings, ICI Agrochemicals, Kynoch Crop Protection, Mayhaker, Sandoz, Sentrachem, Shell (SA), Staalchem Chemicals, Starke Ayres and Wonder Horticultural Products.

Shell head-office representative Colleen Channon-Bracher said last night "This is not the sort of thing that Shell would get involved in. It wishes to make it clear that insofar as it may be implicated, the company wishes to disassociate itself from any request for undertakings referring to future legal procedures or campaigns, adverts or apologies "

●From PAGE 1

Fine earnings run comes to an end

STEPHEN RICHTER

METAL Closures' excellent earnings growth record since 1985 came to an end last year. But directors are confident earnings will improve during the current financial year, as gross domestic product is expected to edge higher.

In its latest annual report, the directors blame a number of factors for the decline in 1989 earnings. They include the poor weather conditions during the first quarter, illegal work stoppages and the conversion by customers to the plastic Duet closure, where existing aluminium stocks were run down.

The closure division was adversely affected by the poor weather conditions which had a negative impact on sales to the carbonated beverage industry. Volume growth within this division was severely eroded by substantially increased costs, especially for raw materials and labour. *B Day 23/4/90*

The factory at Montague Gardens was again expanded and additional capacity installed for the manufacture of the Duet plastic closure for the carbonated soft drink industry.

Sales within the plastics and tubes division declined due primarily to lower crate sales to all sectors of the beverage

industry during the first half of the year. Non-beverage crate sales showed growth while furniture volumes were satisfactory.

A plastic tube facility was installed last year complementing the laminated and aluminium tubes being produced.

The contribution by packaging products such as metal and plastic closures to group net income before taxation and interest attributable to the various divisions declined to R15,4m during 1989, compared with R17,1m in the previous financial year. The contribution made by the manufacture of custom-moulded plastic wares brought in a further R657 000 (R2,2m) *(183)*

With government putting in place strict financial controls to protect the balance of payments as well as reduce the inflation rate, the directors feel the recent budget has created a more optimistic outlook. *(183)*

Subsequent to the year end, the group's UK based holding company, Metal Closures Group plc, was taken over by Wassall plc, resulting in a change in the ultimate control of the group.

Consul sells bag, sack division

CAPE TIMES 23/4/90
183

CONSOL Plastics' bags and sacks division has been sold to Johannesburg-based Worldwide Holdings (Pty) Limited for an undisclosed sum

Dave Spindler, MD of Consul Plastics, said that negotiations were concluded between Consul and Worldwide's chairman, Howell Hutchings, on April 18, 1990 to the satisfaction of both parties

The bags and sacks company, previously known as Paktex (Pty) Limited, will again be known by that name. Arrangements to make this change will begin immediately after April 23, 1990, the effective date of the sale

Discussions with the trade union SACTWU have been ongoing for many months

Hutchings becomes the new chairman of Paktex and Rod Allison its new MD effective today. Allison will take up office immediately — this being the only change envisaged to the existing team

Rod Allison is a graduate mechanical engineer who was previously MD of Highfield Bag, and technical director of its holding company, Blue Ribbon, in Zimbabwe. As such, he has 12 years' experience in weaving and yarn manufacture

Paktex is well known in its field as a leader and has pioneered many innovations in the woven sack business over the last 5 years

The latest in this long list is the Torijute replacement bag, which was accepted and approved by the maize board some time ago. It enjoyed a very successful commercial introduction to the market during the last maize season

Consul Plastics recently announced its intention to narrow down its field of activity and focus more closely on rigid plastics markets whilst retaining certain strategic interests in flexibles

The sale of Paktex therefore furthers this refocusing exercise and will make more senior management time available to attend to the development of Consul's major investments in new technology rigid packaging, including in-mould-labelled and security packaging, carbonated beverage packaging, speciality closures and high technology flexibles

Aurochs seals deal for Crest purchase

THE long-awaited outcome of negotiations between Noristan Holdings and Aurochs on one side and Citizens Holdings and Crest on the other culminated in today's announcement of Aurochs' R7,2m purchase of 100% of Crest Holdings

All four are in the PSI group

In terms of the transaction Crest shareholders will receive R46,50 in cash and nine Aurochs shares for every 100 Crest shares held. Aurochs shares will be listed and allotted at 650c a share

Once the transaction is completed Crest will be de-listed.

Noristan MD Hugo Snyckers said yesterday the acquisition was in line with policy of changing subsidiary Aurochs' focus from property to health care

Aurochs is selling its property subsidiaries to Hunts before the end of June, which will leave it with R12,5m after the purchase of Crest

"Crest is a leading distributor of

CHARLOTTE MATHEWS

medical equipment to state and private hospitals," Snyckers said

"It is our intention to further develop the Crest businesses together with the existing management of Crest"

He said finalisation of the transaction depended on the major licensor represented by Crest agreeing to the transaction and to the transfer of its licensing and distributorship agreements

Crest is 70,6% owned by its directors, 9,3% by the public and 20,1% by Citizens. Citizens in turn is 55% held by W & A. *WAM 24/4/90*

After the transaction Citizens will hold 124 270 shares in Aurochs and R4,8m in cash. If it does not identify a suitable investment opportunity before completion of the sale of its Crest holding, Citizens will become a cash shell and its listing will be suspended

Ban on hydroquinone surprises Twins

TANIA LEVY

MEDICAL professionals and consumer organisations have scored a victory in the skin lightener "war" with National Health and Population Development Minister Rina Venter's decision to ban the use of hydroquinone in cosmetics.

Venter announced in the Government Gazette her intention to remove hydroquinone from the scope of the Foodstuffs, Cosmetics and Disinfectants Act. This means products containing hydroquinone will have to be registered as a medicine and be subject to more stringent control.

Dermatological Society of SA president Mary Ann Sher yesterday welcomed the announcement as it was something organisations such as the Medical Association of SA and the Black Consumer Union had been trying to achieve for two years.

She said research had shown about 30% of black women in the PWV area had irrevocable skin damage from using pro-

ducts containing hydroquinone.

Twins Pharmaceuticals — which has about 75% of the R80m a year skin lightener industry — has been taken by surprise by the announcement as the ban on skin lighteners had originally been postponed to January 1 1991.

Twins marketing GM Maurits Rood said government could lose R28m a year in taxes from the skin lightener industry if the ban succeeded in stopping sales.

He said Twins would apply for some of their strong brand name skin lighteners to be registered as a medicine. Others would be marketed — without hydroquinone — as complexion creams.

He said the key question was the date when Venter's intention would be formalised.

PHOTOGRAPH BY ...

Skin creams face ban

By ASHA SINGH

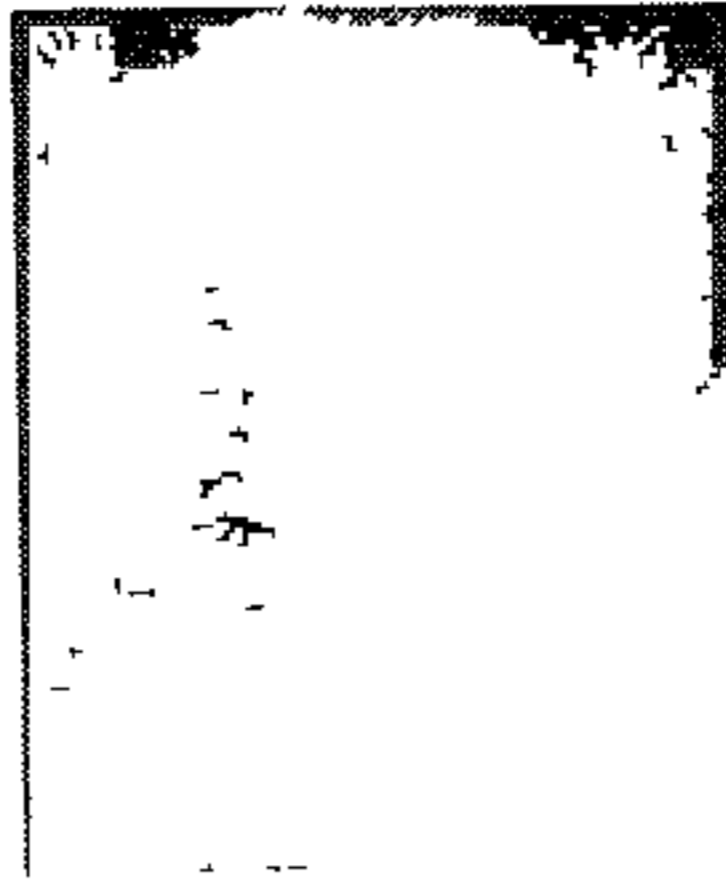
THE use of hydroquinone in cosmetics could be prohibited before the end of the year, according to a spokesman for the Department of National Health and Population Development

A regulation to ban the use of the chemical, described this week by the Minister National Health and Population Development, Dr Rina Venter as harmful to black skin has been instituted

She said the chemical would be prohibited in cosmetic preparations such as skin bleach, lightener and whitener.

Pressure from organisations including Southern African Black Taxi Association National Black Consumer Union Inkatha Women's Association the Dermatological Society of South Africa and the Medical Association of South Africa, had forced the Minister to ban hydroquinone to prevent ignorant people damaging their skin through constant use

Manufacturers have three months to hand in their comments on the



RINA VENTER

banning of hydroquinone to Venter

A final decision on the banning should be expected around August this year according to a Government spokesman

President of the National Black Consumer Union Mrs N Ramphomane said the union has tried "every legal channel" to have hydroquinone banned

"I only wish the ban could be implemented immediately to prevent other black women ruining their skins through the use of skin lotions which contain hydroquinone

Thrilled

"Having the lotions removed from the shelf would discourage a large percentage of women from buying the products, she said

Dr. Mary Ann Sher, president of the Dermatological Society of South Africa said she was thrilled by the news

"Venter has done the right thing in pushing for the ban. We have been trying for the last two years to have it instated, but so far we have lost every fight," she said

Sowetan 29/4/90

Adcock's
earnings
improve

Finance Staff

Barlow Rand's pharmaceutical subsidiary Adcock-Ingram has reported a 29 percent increase in earnings for the half-year to March.

Attributable income rose from R16,09 million to R20,69 million and earnings per share were up to 77c(60,28c). The interim dividend has been raised from 17,26c to 21,5c.

Turnover was up 31 percent at R283,8 million (R216 million) while operating profit rose by 34 percent to R40,8 million (R30,4 million).

CE Don Bodley said that all group companies had performed well. "We are paying particular attention to optimising cash flows through cost controls and asset management, as is evidenced by the R36,1 million cash generated," he said.

"The introduction of several new products also contributed to the improvement in turnover," he said.

Chairman Robbie Williams stated that the same level of growth in the second half cannot be expected but added that the increase in earnings should be reasonable.

Consumers union welcomes ban

183

HEALTH Minister Rina Venter was to be congratulated for banning hydroquinine in skin lighteners, the National Black Consumers Union said in a statement yesterday. *So wetem 25/4/70*

All skin lighteners containing the substance were to be removed immediately from shops and supermarkets, Dr Venter stated in the last Government Gazette.

"Hydroquinine has for years been eroding and damaging the lovely and tender faces of black females," said NBCU.

Hydroquinine has now been classified as a Schedule 3 drug and may only be acquired under strict prescription, but NBCU has nevertheless warned black female consumers against further use of creams containing this substance. - Sapa

Adcock-Ingram on the rise

ACHMED KARIEM

183

PHARMACEUTICAL group Adcock-Ingram has continued its steady growth path to produce a 29% improvement in attributable earnings in the six months to March

CE Don Bodley said all group companies — Adcock-Ingram Laboratories, Sabax, Saphar-Med and E J Adcock — were paying particular attention to optimising cashflow through disciplined cost control and asset management, as evidenced by the R36,1m generated

Earnings grew 28% to 77c (60c), and an interim dividend of 21,5c (17c) a share — representing a 26% increase — was declared *6/12am 25/4/90*

This was achieved on turnover which rose 31% to R283,8m (R216m) and operating income which increased by 34% to R40,8m (R30,3m)

"The introduction of several new products contributed to the turnover increase. Worthy of mention are new anti-ulcer agent losec (omeprazole) and rhinocort, a new generation topical steroid used for the treatment of chronic nasal congestion," Bodley said.

Midway capex totalling R18m influenced the gearing ratio which increased slightly to 23,7% from 18,8% at the September 1989 year-end, he said

E J Adcock, the group's pharmaceutical wholesaling and retailing division, opened its sixth wholesale depot in Germiston to provide increased distribution capacity

"Sustained investment in high-tech facilities enables us to maintain a leading edge in the cost-effective manufacture of quality products, increase capacity and enhance local self-sufficiency through import replacement," Bodley said

SA achieves nuclear fuel breakthrough

Staff Reporter

SOUTH AFRICA has scored a major breakthrough by manufacturing its own nuclear fuel

This was announced jointly yesterday by the Atomic Energy Corporation (AEC) and Eskom, which disclosed that the locally manufactured nuclear fuel was used to load one of Koeberg's two reactors

The fuel was manufactured at the AEC's plant at Valindaba, west of Pretoria

Describing the development as "a tremendous breakthrough", the joint statement said the technology required was "very advanced"

It incorporated not only the enrichment of the fuel but the manufacture of the elements, "built to extremely close tolerances using highly specialised alloys"

AEC spokesman Dr Waldo Stumpf said last night that this major advance in the nuclear field meant that South Africa was now independent of overseas supplies of nuclear fuel and that Koeberg could run independently

Furthermore, "a very large amount

of foreign exchange will be saved annually"

"An amount of about R50 million to R100 million — depending on the size of the order — will be saved per reactor a year," Dr Stumpf said from his Pretoria home

The fuel delivered to Koeberg now contained about 25 tons of uranium, which was equivalent to two-and-a-half-million tons of coal, 25 tons of uranium is enough fuel for one reactor for a year.

Dr Stumpf said the Council for Nuclear Safety had to license the fuel "so exactly the same quality standards were achieved as overseas fuel"

The next step was to "optimise our fuel supply to plants which supply us with fuel, to introduce more cost effectiveness into plants and to keep on supplying Koeberg with fuel as and when required"

"We are certainly also looking at other forms of technology for making fuel that will be more cost effective"

He said more nuclear plants would be built but the decision lay with Eskom

"We just supply the fuel They run the plants"

CMT
Timp
25/4/90

183

French company taken over

IMS Process Plant has acquired Aquazur, an SA subsidiary of one of the world's largest water treatment companies, the French company Degremont

EDWARD WEST
ment to the mining, steel, chemical, petro-chemical and food processing industries

IMS CE Allan Whittaker did not want to announce the purchase price of the acquisition yesterday, but said the move was an expansion of its process related services in water treatment activity

It had been involved on the fringe of water treatment activities for a number of years, but the addition of Aquazur, which would operate as a separate subsidiary, would bring a broader range to IMS activities, he said

IMS is a supplier of process technology and equip-

Strong contribution from Mobil . . .

Gencor lifts earnings, div

183 (237) (237) (237)
CMT Times 26/4/90

Own Correspondent

JOHANNESBURG — Gencor's Mobil has declared a maiden dividend, allowing a R106m turnaround in Gencor's energy division at the interim stage

The declaration has enabled newly created energy giant Engen, which houses Mobil, to contribute 13% of Gencor's attributable interim profits

The Mobil acquisition at a cash cost of R650m became effective July 1 1989. Analysts said its strong contribution at the Gencor level underpinned Gencor's skills in transacting profitable acquisitions

At the group level, Gencor increased earnings and dividends per share by 29% and 17% to 60,1c and 14c, respectively, for the interim six months to February 28

Executive chairman Derek Keys said "Results for the second six months are accordingly likely to be lower than the interim results

"Earnings per share should nevertheless be above those for last year"

Keys added that commodity prices had dropped throughout the interim period

Earnings increased 55% to R707m, diluted at the earnings level by Gencor's rights issue. Keys says the bulk of the cash raised through the rights issue is still at Gencor's disposal

Gencor is a major diversified group with interests in Genmin (14 gold mines, metals and minerals in Samancor, platinum in Impala and coal in Trans-Natal), forestry products (Sappi), industrial holding (Malbak), mining finance and investment (Genbel) and energy (Engen)

Genmin remained the major contributor to attributable profits (41%),

followed by Genbel (24%), Sappi (22%), Engen (13%) and Malbak (8%). Genbel's contribution was a striking 128% increase on the year before, while Engen's R91m contribution was via a maiden Mobil dividend

Samancor contributed R211m or 73% of Genmin's net R288m

Keys says depressed base metal prices will, however, have an adverse effect on earnings in the second half of the financial year

The increased earnings from metals and minerals includes a contribution from Alusaf for the first time

Platinum's contribution to Genmin was marginally up at R33m

Exploration expenditure under the Genmin umbrella was static at R53m

In the interim period, Gencor announced the new Weltevreden gold mine, and concluded a major platinum deal with Lonrho by acquiring a significant stake in Western Platinum

It also spent R345m in increasing its stake in heavyweight developing OFS gold mine Oryx, and created diversified energy giant Engen

Within months Genmin is expected to announce details of a R1bn rights issue for continued financing of Oryx

Keys says lower levels of demand are likely to have a negative effect on Sappi's and Malbak's earnings growth

However, analysts said the group was soundly poised in difficult markets

The balance sheet reflected R450m long-term loans against assets with a market value of R17,7bn

Gencor is trading at a substantial discount to net asset value per share, which rose 42% over the 12-month period to 1 462c



Immobilised ^{FIM} 27/4/90

The mighty Mobil machine ground to an inauspicious halt in the Johannesburg suburb of Forest Town this week after determined resistance from local residents put a spanner in its plans for a service station in the suburb

Anger turned to jubilation on Monday when ratepayers arrived at the proposed garage site only to be told that the petrol giant had backed down and withdrawn its application

A Townships Board hearing had been set down to consider an application from the fuel company under the controversial Removal of Restrictions Act. If the board had given Mobil the green light to develop, this would have overturned an earlier veto of the scheme by Johannesburg City Council.

However, the site for which the residents can claim victory is only one of two the fuel company (now part of Gencor) has chosen in Jan Smuts Avenue to have residential restrictions waived on so that it can put up service stations.

The Forest Town site is on the southbound side of the road close to the Bernberg Museum. The other, which Mobil is apparently still pursuing, is on the northbound side of the road in Parktown West.

It is understood the withdrawal of Mobil's application came in the face of nearly 250 letters objecting to the development.

Among the reasons given for the objection were:

- There are already 11 garage facilities on or close to a 10 km stretch of Jan Smuts Avenue north from Braamfontein,
- The adverse impact it would have on the character of residential Forest Town; and
- The detrimental impact on traffic flow

One battle already won, the neighbouring Parktown Association is also likely to take heart from Mobil's retreat ■

□ CERAMICS

90 pc of glazes used in SA are produced locally ⁽¹⁸³⁾

Glazes have been produced commercially in South Africa for the past 35 years and the local industry currently manufactures more than 90 percent of the country's needs.

Three main players - Blythe Colours, Ferro Industrial Products and Republic Enamels - currently dominate the local market. All three have overseas connections, enabling them to call on the latest technology being developed overseas. And they have fully equipped laboratories of their own for local research — an important factor as many of the local ceramic bodies are different, and the glazes have to be redesigned and adapted to local materials.

Ceramic glazes or glass coatings on a ceramic body are mainly corosilicate in composition (compared with window and bottle glass which is calcium sodium silicate glass).

The bulk of the glazes produced in South Africa are what is called pre-fritted. This means the raw materials are smelted into a glass in a furnace.

This frit is crushed into a slurry or powder and becomes the nucleus of the glaze.

This is applied to the ceramic piece by processes such as spraying or dipping, dried, and then the millions of small glass particles are fused together at a high temperature — more than 1 000 centigrade — to form a continuous glass or glaze coating.

Ferro Industrial Products group divisional manager Mr George Duncan says more than 75 percent, by volume, of the raw materials used in glaze manufacture are mined and value added in South Africa.

Mr Duncan says "Matching the glass coatings to the ceramic bodies is very important and forms a vital part of the service offered by the South African glaze manufacturers. Failure to do this properly could result in 'crazing' where delayed hairline cracks form, chipping or peeling between the glaze and the body."

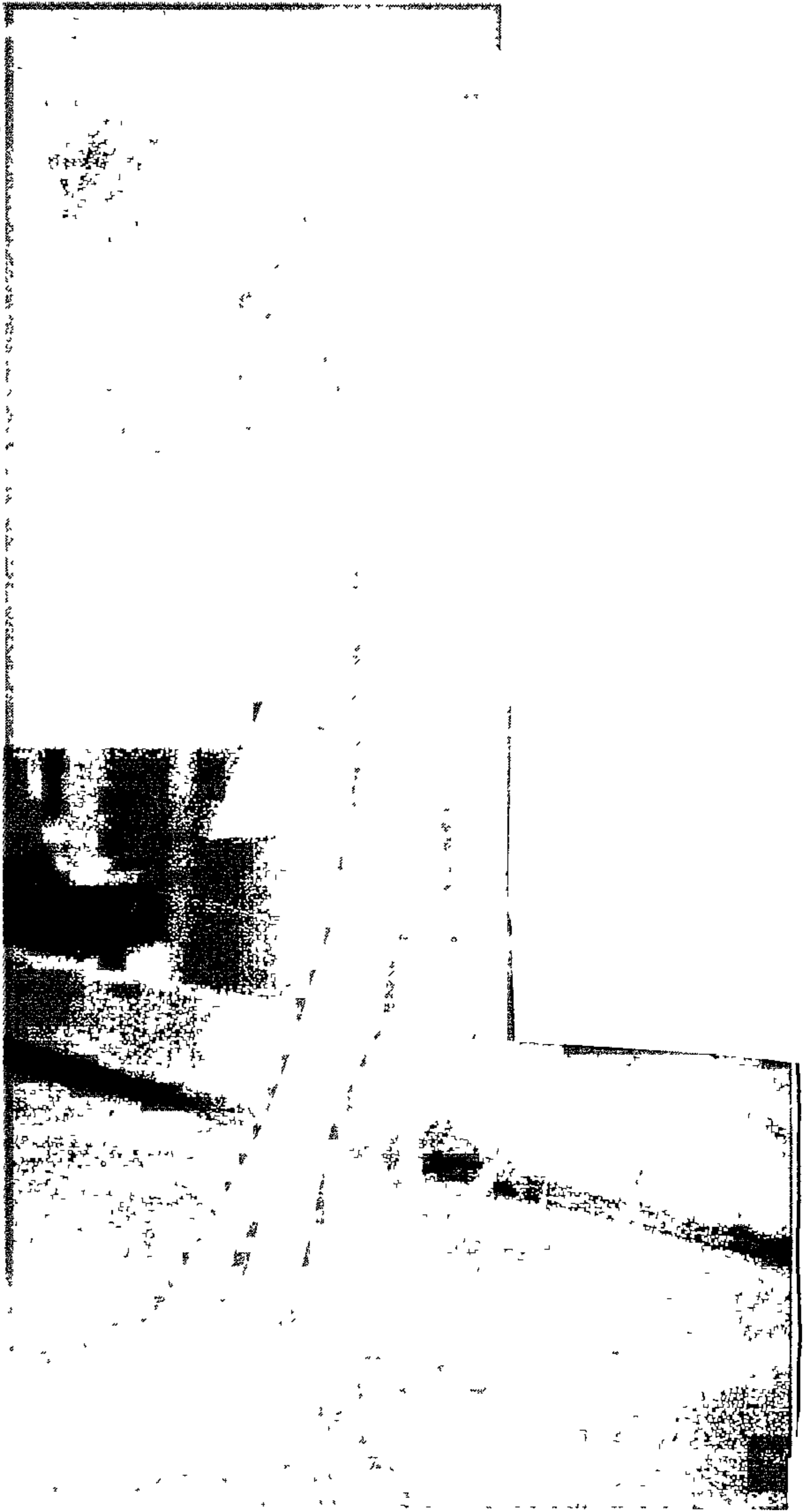
He says one of the most important technological advances made in recent years was the development of fast-fire technology in the manufacture of floor and wall tiles.

"Previously tiles required two firings of at least 1 000 centigrade. This meant two long firing cycles of at least 12 hours were required to produce the finished product.

"The new technology allows tiles to be produced in a single fire of one hour at peak temperatures of more than 1 100 centigrade.

"The development of a glaze suited to this technology made a significant contribution towards the success of this method," says Mr Duncan.

Users of glazes in South Africa include producers of crockery, sanitaryware — such as basins, baths and toilets — the tile industry (both floor and wall) and fancy ware such as flowerpots and ashtrays. Other glass coatings include porcelain enamels such as those used on cookware, hot water tanks and appliances.



One of the Ferro furnaces, producing molten glass before milling. Glazes have been produced in South Africa for the past 35 years. Three companies dominate the local market — they are Blythe Colours, Ferro Industrial Products and Republic Enamels.

□ CERAMICS



The Huguenot Royale fine china in the "Fantasia" pattern — a popular seller.

SA has most raw materials

While many of the raw materials needed by the ceramics industry are available locally there are problems with lack of support

Johnson Tiles managing director Mr Keith Dixon says most of the raw materials needed for tile manufacture are available locally. Some low weight items, such as stains and specialised glazes are imported.

While the local clays are not as good as Devon clays they are acceptable and the small size of the South African tile manufacturing sector works against the industry.

"We don't have the sophisticated clay suppliers who work with the overseas industries. The overseas suppliers ensure the clay is of a consistent standard and quality."

"We have to do this ourselves. Most of the time clay is simply dug out of the earth by a farmer and delivered to us by truck. We have to check the quality and blend different clays to ensure consistent quality," says Mr Dixon.

Cullinan Refractories chief executive Mr Ed Harbuz says the refractories industry uses acid and "basic"

Andalusite is a major raw material and it is readily available in South Africa where about 80 percent of the world's needs are produced.

This gives the local manufacturers an advantage and Mr Harbuz says the company exports between 10 and 20 percent of its production of items using this material in their manufacture.

"Most of the materials we require are available locally and the few which have to be imported are supplied without any problem," says Mr Harbuz.

Continental China Holdings group managing director Mr Bill Paverd says a large percentage of the raw materials used in the manufacture of ceramic tableware is available locally. The company has even developed its own sources of kaolin, feldspar and silica and it has its own transfer manufacturing plant. Ceramic colours and glazes are also obtained locally.

Mr Paverd says "About 30 percent of raw material requirements are imported. One example is plaster-of-paris as the specifications required cannot be met economically locally."

Tapping Botswana's soda ash

FIM 2714/90

183

In a climate of sanctions — much of it US inspired — it is perhaps poetic justice that the 300 000 t of soda ash, produced annually by Soda Ash Botswana, will virtually displace American exports to southern Africa.

Construction is already at the halfway mark and the new plant — a joint venture between SA businesses and the Botswana government — expects to produce its first bag of soda ash next January. It will take another two years to reach full production.

So peeved were the US suppliers at being squeezed out of the southern African market that they cut the credit terms of their local import agents Chemserve from 120 days to 30 when they heard the Botswana project was going ahead.

The relationship subsequently was restored, the US suppliers are consoled by the news that there will still be a limited export opportunity to SA. The Botswana venture has underestimated regional demand by some 50 000 t a year. So, until the plant is at full production and bottlenecks are removed to increase capacity, some imports will be required.

The plant is a co-operative venture among AECI, Anglo American, De Beers and the Botswana government. AECI holds 26,5% of the equity, Anglo and De Beers 12,75% each and the Botswana government the remaining 48%. That gives the familial corporate shareholders control.

The total cost of the project and related infrastructure is around R1,3bn, of which the corporate shareholders are contributing R920m and their government partners around R350m. The plant is located in one of the richest soda ash resources in the world, in the Sua Pan in the Magkadikgadi depression, about 180 km from Francistown.

Basil Beeming, MD of the Botswana-registered company, estimates that once the plant is in full production in 1994, annual turnover will be about R380m. He says

shareholders hope to see a real return of around 12% on their equity.

Given the scale of the soda ash import replacement project, local users are understandably nervous about maintaining a continuous supply. Beeming says Chemserve, which handles 60% of current soda ash imports, has been appointed as the company's marketers in SA. Soda Ash Botswana will take care of marketing in Zimbabwe, Zam-

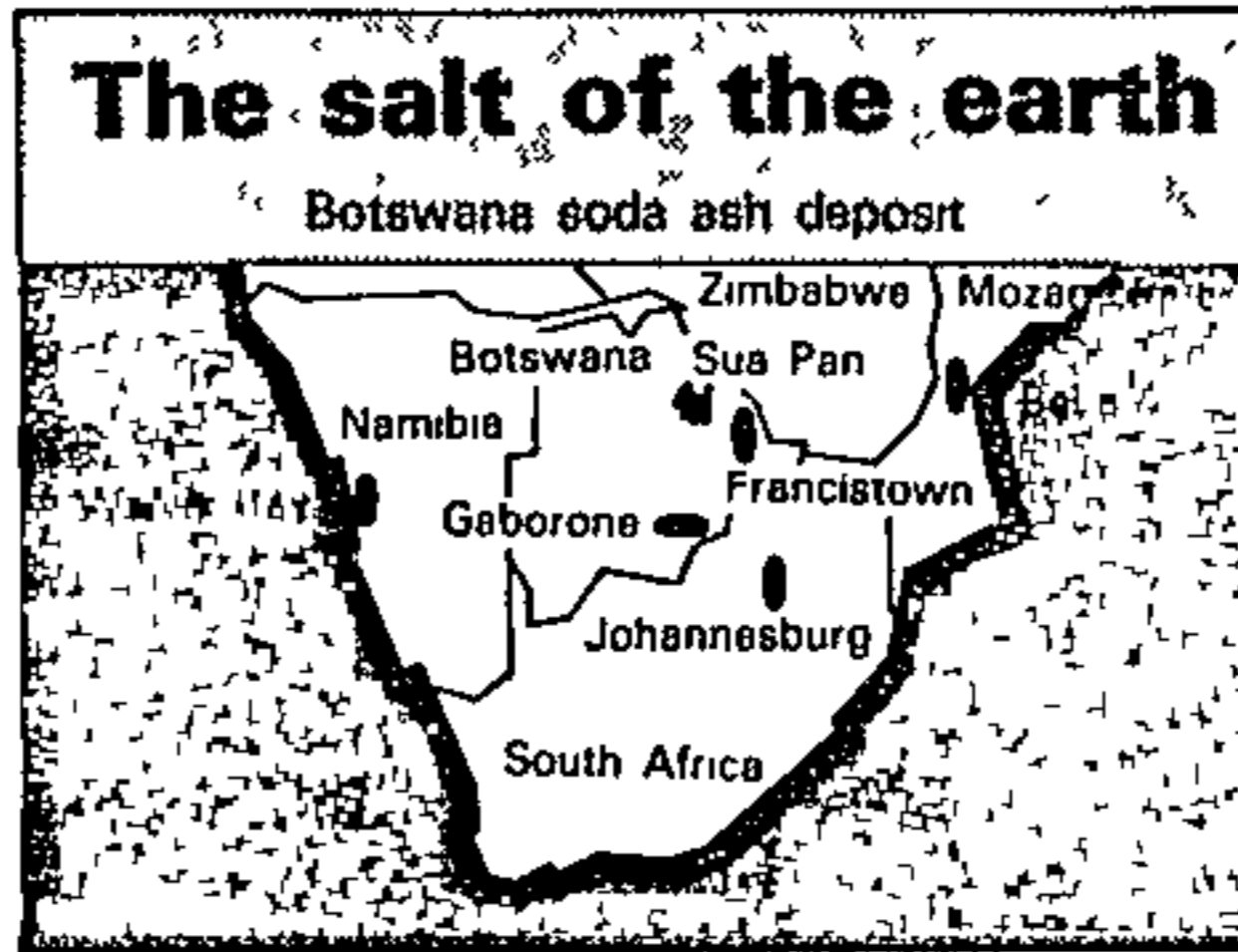
soda ash plants on stream shortly — each with a capacity of 600 000 t. So oversupply is expected to force world prices downwards, even though there is a tendency for users to substitute soda ash for more toxic chlorine and caustic soda in certain applications.

But aggrieved or not, consumers will have little option but to go along with Soda Ash Botswana's pricing plans. It's got the market pretty well sewn up. Both Chemserve and alternative importer ICL are in the AECI fold, so they're unlikely to upset any marketing arrangements.

US interests are not the only ones likely to be prejudiced by the new plant. Around 650 000 t of salt, both coarse industrial and fine table salt, will be produced annually as a by-product of soda ash production. Most salt in SA is supplied from the salt mines of the northern Cape and Walvis Bay. As the rail distance to the major markets of the PWV is roughly the same as from Botswana, pricing within SA is likely to be competitive. But in markets north of the Limpopo, which are closer to Botswana, it's going to be war. "There is no question that we are going to hurt the table salt industry," Beeming says.

While there are no immediate plans for the company to enter the export market, overseas sales do remain an option. Beeming says much depends on the prices prevailing when the plant has surplus capacity, as well as transport costs to the coast. Beira in Mozambique looks like the most feasible point of export and the Pacific Rim countries the most likely export clients.

Meanwhile, however, the priority is to satisfy the demands of the local market. To assuage customers' fears that they may run short of supply if the company is plagued by start-up problems, it intends building terminals with a storage capacity of 20 000 t apiece in Durban and the Transvaal. In addition, eventually some 200 000 t of soda ash will go into storage at the plant itself.



bia and Zaire.

The company is pitching prices at export parity levels and this pricing policy is not going to please consumers greatly. They were no doubt hoping, perhaps a little optimistically, that local manufacture might mean lower prices. At the prevailing US prices, there is a margin for the company to discount its soda ash. The marginal cost of production at the Botswana plant is believed to be around \$60 a ton. But Beeming argues that it needs all the revenue it can get. As it is, the plant is not likely to be profitable until at least 1993. And capital financing charges — some R600m has been borrowed on the capital markets — are considerable.

Moreover, he claims that international soda ash prices probably have peaked and should begin to retreat soon. One reason is that China will be bringing three synthetic

SAG 27/4/90 (183)

Porcelain's different applications

The word porcelain tends to conjure up images of a nicely laid-out dinner service awaiting the arrival of hungry guests, however, this is but one of the applications

Porcelain products such as insulators are used extensively in industry

The Cullinan Group's industrial and electrical porcelain products are manufactured by two firms, Cullinan Industrial Porcelain (CIP) and SAG Ceramics

CIP is believed to be both the largest and most technically advanced producer of electrical porcelain in the southern hemisphere

The two companies produce a large and differing range of both high and low voltage porcelain

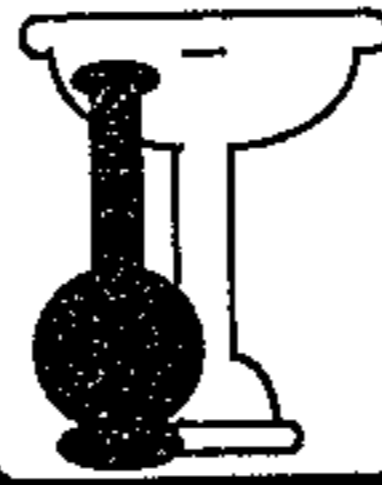
insulators and number Eskom as their major client for electrical ceramic products

SAG hit a predicted fall in demand for its high voltage items last year but a quick switch to low voltage products and other industrial items served to pull its performance up

CIP was also responding to changes in market demand and turned to the production of larger insulators for current and voltage transformers when demand for medium voltage reticulation insulators fell

For the future, SAG plans to exploit the growth in the kiln furniture industry, and CIP will move further into the development and production of hi-tech ceramic products

Star 27/4/90



Ceramics

183

A Star survey

Consumers are moving to softer shades of tiles

Tiles are very fashion sensitive products and the trend among consumers is for the soft and undefined

Johnson Tiles managing director Mr Keith Dixon says people are tending to move away from the traditional square wall tile and are showing a preference for oblong tiles such as the 20 mm x 150 mm.

"Pastel shades are popular and there is a move away from strong bold designs to the not so clearly defined patterns

"Floor tile fashion has also moved away from strong designs Seven to eight years ago, people wanted heavy symmetrical designs, now as with the wall tile, tastes have moved to the not so definite designs. White and off-white are popular as are variations on brown in mottled patterns," he says

Italtile executive chairman Mr Gianni Ravazzotti says "In the floor tile market the trend is towards larger tiles such as the 300 mm x 300 mm size Demand has also started for the 400 mm x 400 mm tiles

"Unglazed tiles such as the terracotta tiles are popular in South Africa Customers are moving away from the bold designs of the past they seem to want a more simple effect "

Mr Ravazzotti says the bathroom and the kitchen are becoming the focal points of the home and people are spending a lot of money making these areas of their homes attractive.

He says "Tiles are now competing head on with carpeting as a floor covering and they may even have overtaken them in terms of market share

"Tiles have a low maintenance cost as they don't have to be replaced so often They are hygienic and easy to clean — having a white carpet can give you a major cleaning headache, but white tiles just need a wipe

"Wet tiles can be slippery but there are specially developed non-slip tiles available And tiles are available in a wide range of colours."

Tableware market is worth R60-m

The total value of the ceramic tableware consumer market in South Africa is estimated at about R60 million

And holding the largest slice of the ceramic tableware cake is Continental China Holdings (CCH)

The company was established in South Africa in 1959 and at the time it relied on on expertise and know-how from its German part owner Rosenthal Porzellan

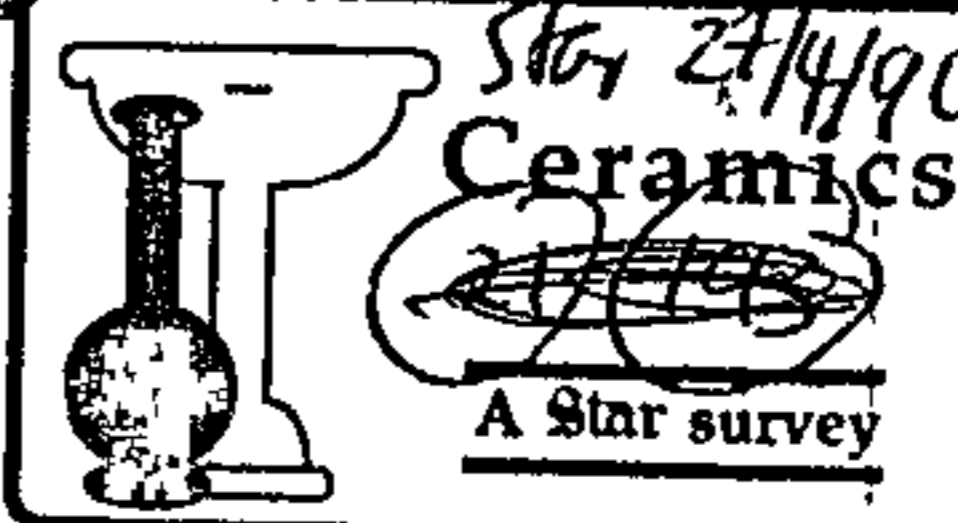
Today the company is wholly South African owned, though the links between the two companies are still strong and enable CCH to keep up with the latest overseas developments

The group has three plants at Rosslyn, Blackheath and Atlantis. It employs 1 600 people and produces about two million items each month

CCH manufactures three brands of tableware for the consumer market as well as three purpose-designed ranges for the catering industry. The group produces a large range of coffee mugs, and a giftware range

Group managing director Mr Bill Pavard says that as the group is the largest local tableware supplier in a market and must meet the needs of a number of different population groups, its product range is extremely wide

"Our design and modelling studios maintain constant product development programmes and the chief designers travel abroad at regular intervals to keep abreast of international design and colour trends," says Mr Pavard



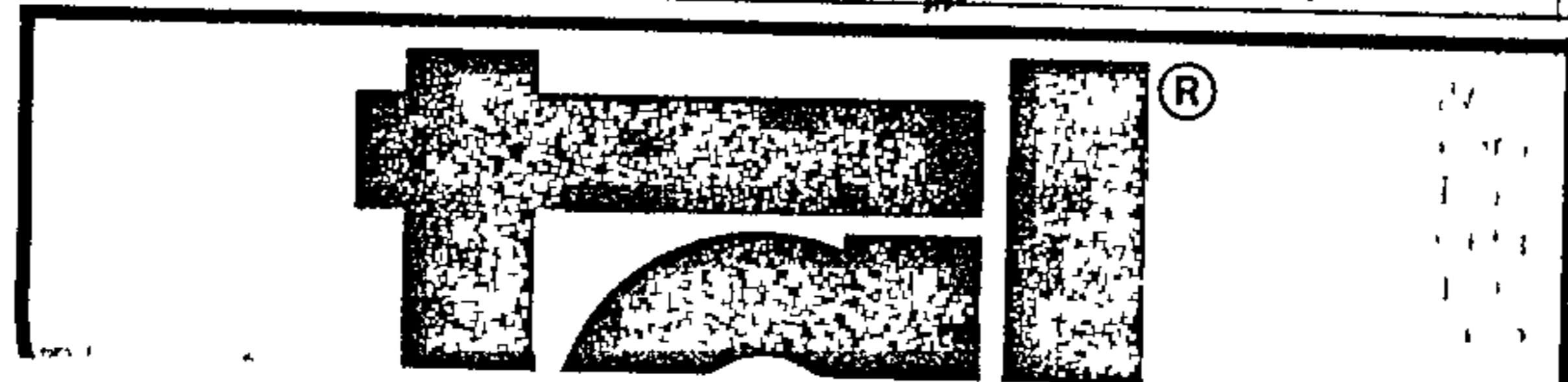
Brick-making is now a high-tech process

Brick-making has become a hi-tech art requiring enormous capital investment but, producing finished items in a fraction of the time needed in the past.

Clay is delivered to the factory from the quarry and reduced to granules about 1,5 to 2 mm in diameter. Water is added and the clay is pushed through an extruder. The semi-solid clay comes out in a long column which is sliced into brick-sized blocks called green brick.

In the past the green bricks would be dried in the sun for about three weeks and then fired in a clamp kiln. The clamp kiln is created by piling up a mountain of dried bricks and sealing the mountain using old bricks. The "mountain" is then set alight.

The firing takes between a week and two months depending on the size of the brick mountain. Using new technology the whole process can be reduced to less than four days.



Chemical companies deny 'bullying tactics'

Star 27/4/90

Staff Reporter

183

Chemical companies involved in the hormone herbicide dispute with vegetable farmers in Natal's Tala Valley have denied using "bullying tactics"

Mr Gerry Maritz, executive director of the Agricultural and Veterinary Chemical Association of SA, said yesterday the companies were simply seeking to prevent the further spread of scientifically unfounded accusations against their products

In 1988, the farmers launched an application for an interdict in the Natal Supreme Court preventing the manufacture and sale of hormone herbicides country-wide on the basis that they damaged vegetable crops in the Tala Valley, he added

This application was withdrawn after the chemical companies had filed comprehensive answering evidence, after which the farmers then elected to proceed by way of action, he said

Some of the chemical companies, in an attempt to test the legal basis for the farmers' claims, brought an exception to the action in which they asked the court to rule on whether the farmers had any legal basis for their complaints

'Loophole'

Early this year the Natal Supreme Court found that the farmers had no case and awarded costs against the farmers

The farmers did not re-instate their case and announced in recent press articles that their actions were dismissed through a "technical loophole", Mr Maritz said. Further, the farmers claimed that they were being "blackmailed" into withdrawing their opposition to the use of these products nationally

After the court judgment, the farmers proposed that the companies waive the legal costs, he said

The companies then proposed that the farmers issue a statement, declaring that the legal proceedings had been withdrawn by them, acknowledging that the products do not cause crop damage and they were not a health hazard, Mr Maritz said.

He pointed out that it was unfortunate that the farmers had not laid the dispute to rest, notwithstanding the findings of the court

Mr Maritz stressed that the agrochemical industry was highly responsible, guided by scientific facts and subjected to sophisticated legislation

Fuelling energy growth

W/LAR64
28/4/90

By TOM HOOD
Business Editor

ONLY one question was asked by Rob Angel when he was offered the chief executive job at Gencor's new energy company, Engen

"I asked if the the headquarters would be in Cape Town," he joked "I didn't ask about salary or conditions"

Assured he would stay in Mobil Court on the Foreshore and not move to the Golden City, he accepted

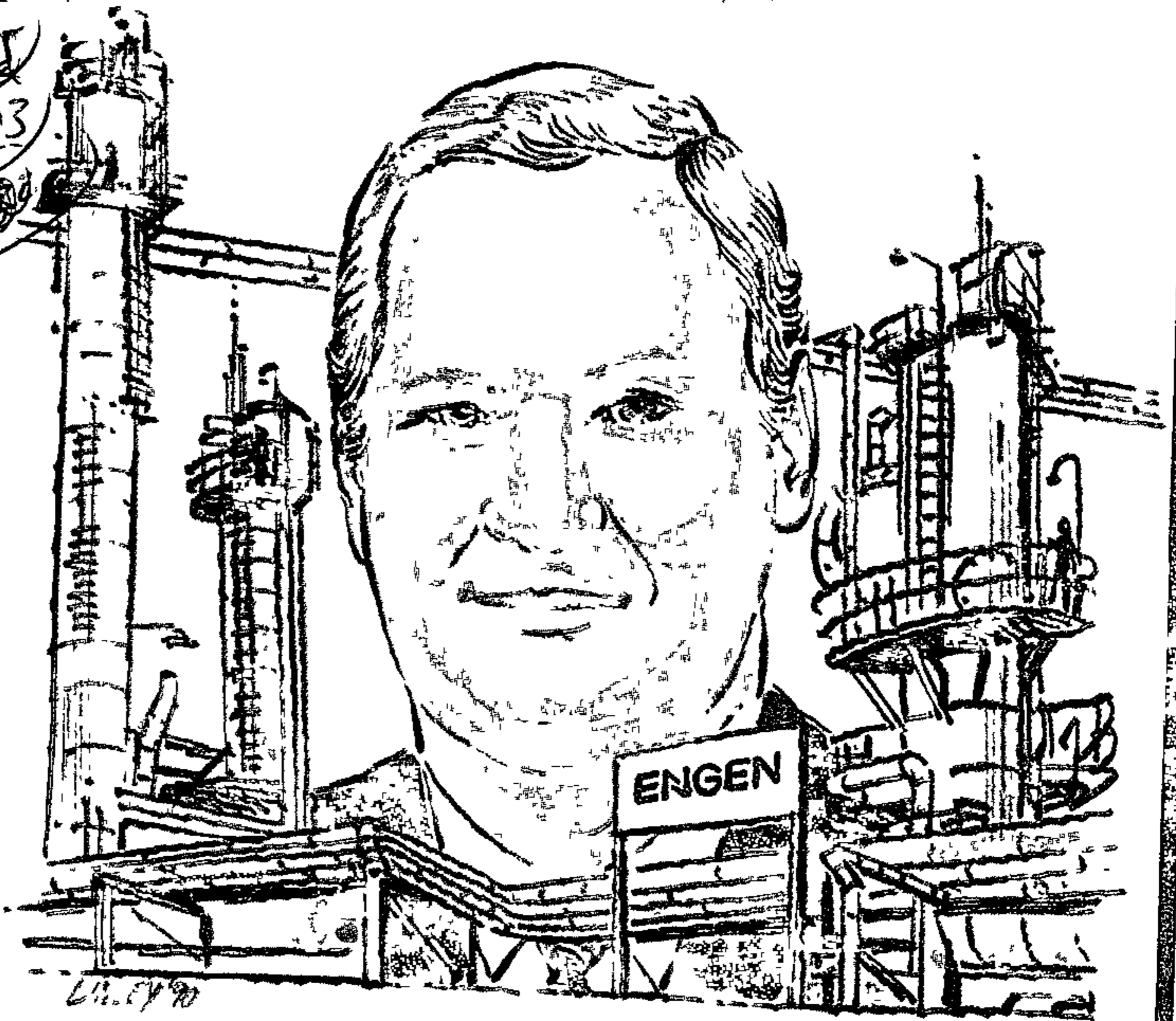
For Cape Town is "one of the great cities of the world — and I have lived in a lot of big cities," says the much-travelled Australian

After four years here as chief executive of Mobil, he equates the city to his native Adelaide, which to many Australians is the greatest place on earth

Maybe he is also influenced by a wife who comes from the Northern Cape

Living in the Cape forces him to spent a lot of time in the air But with computers and modern communications, an office could be almost anywhere, he reckons Some work he does from home with a laptop computer

Though a qualified chemical engineer and embroiled in the oil industry all his working life, he has operated in the areas of planning and general management in several countries



Rob Angel... planning for the future.

He sees his new role as in the area of project planning for the future rather than a hands-on engineer

"We have been given a wonderful core group plus the excitement of Moss gas and synfuels It will be my role to build on that base I won't be able to sit back and simply say 'great' and expect things

to happen
"Our mission is one of real growth which is consistent with Gencor's Our vision is to be the most successful integrated energy company in South Africa," he says
"We want to take the group more into exports and finding new sources of oil and gas We see ourselves going beyond

South Africa to other areas of Africa" Chemicals form a small part of Engen and he sees possibilities of expansion "We would like to be bigger in chemicals We produce a fair amount but we can expect to be more active in the chemical business down the track

(See page 3).

Fuelling growth

W/LAR64
28/4/90

fuel production, service station quotas, retail price maintenance and profit levels
In spite of the existing regulations, the industry is tremendously competitive and very efficient, he said For example, movements occurred in market share but they were not dramatic A successful advertising campaign could move market share

Engen had an advantage over all its foreign competitors in not having to remit dividends to overseas shareholders and instead could put money back in the business

"We feel we can make really big strategic investments right now," he says Two recent ones are the R1,2 billion upgrading of the Genref refinery in Durban and an immediate injection of R110 million in the lube oil blend plant in Durban

Moss gas, in which Gencor has a 30 percent stake, would need a second platform early next century Tests had also shown promising offshore gas near Bredasdorp

Engen, which is due to make its debut on the Johannesburg Stock Exchange on May 21, indicated this week that it is clearly delivering on some of its promises by contributing R91 million to Gencor's profits

(From page 1).
"We are not going to tangle with established chemical companies but perhaps find a niche"
International attitudes towards South Africa are changing, he believes — in fact those changes were part of his decision to stay in South Africa

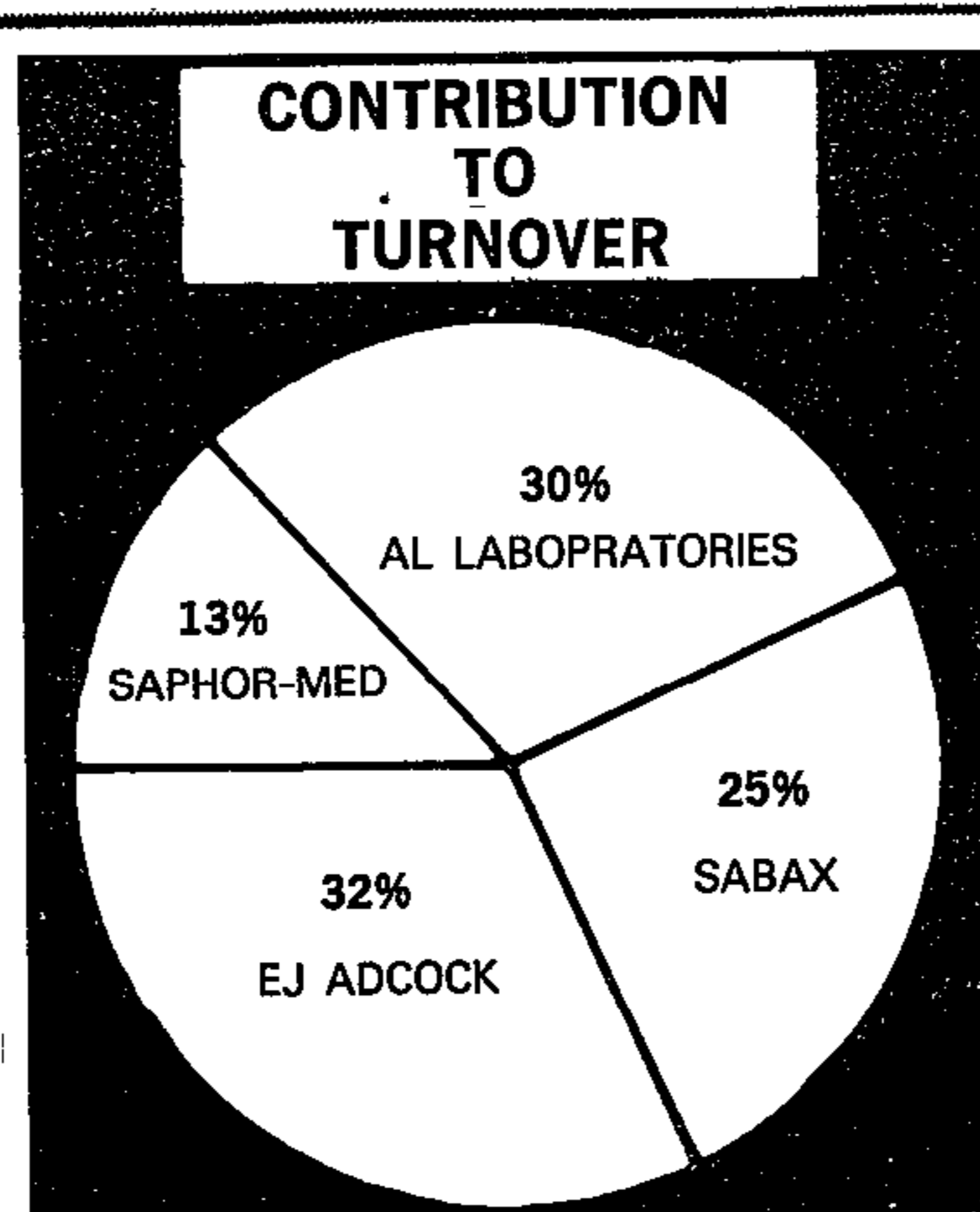
"We see Africa as our oyster The infrastructure here will enable Engen to spring from South Africa into other parts of sub-Saharan Africa
"The sophistication of South Africa's infrastructure is far more advanced than in some of our neighbours"

He sees the group's social responsibility programme as a major investment for the future Mobil alone spent more than R10 million a year, one of the highest budgets in the country, and is heavily geared towards the future

"Mobil was one of the first companies to house black executives in white areas — we had 10 living in white areas at one time"

He sees the bringing together of Gencor's energy interests as well timed — just as the government is examining de-regulation in the oil industry
There has been speculation that the government will examine areas such as the processing of crude, exports, syn-

By **KEITH BRIGHT**



Guest writer **KEITH BRIGHT** takes over this week's column while Julie Walker is on leave. He is head of research at stockbroker Frankel, Kruger Vinderine Inc

Adcock just what the doctor ordered

S/Tues 29/4/90 183

THE pharmaceutical sector continues to produce good results in the economic slowdown and Adcock Ingram was no exception at the interim stage.

The operating margin rose from 14,1% to 14,4%, achieved in the main by continued strict control over expenses. Taxed earnings — up 29% — would have been even better but for lower capex which lifted the tax rate by 2% to nearly 48%.

The company has four divisions

● SABAX makes medical-

grade plastic and produces ampoules, bottles, gloves, syringes. It sells them and the products they contain.

● Al Laboratories manufactures medical and household products, deodorants, hair-care products, analgesics, antibiotics etc.

● Saphar-Med sells analgesics, cough syrups and muscle relaxants.

● EJ Adcock is a wholesaler — and a retailer through the Family Circle franchise of more than 200 pharmacies.

Estimated contributions to turnover are shown in the pie chart above.

Cash generated was more than R36-million, an increase

of 74% over the same time last year.

Sales performance was enhanced by the introduction of two products — Losec, an anti-ulcer agent, and Rhinocort for the treatment of nasal congestion.

All divisions did well and the expanding Family Circle franchise is believed to be increasing its market share in addition to organic growth.

In spite of a note suggesting a slowing of earnings growth, the company is well positioned as it enters the high-sale winter months.

The share deserves its premium rating because of its low risk-return profile.

Bickering hindering rural health, conference told

Own Correspondent

Bickering between pharmacists and doctors is affecting the implementation of community health services in South Africa

Stamping grounds were being defended, said Dr Stephen Louw from the University of Cape Town during a panel discussion on the impact of utilised research findings on community health, held at the Human Sciences Research Council (HSRC) in Pretoria last week

In response to a question from the floor on whether the bickering was ethical he replied "one should use the resources on hand to help as many people as possible in a community".

'Egotistical' cancer

One delegate said he believed the implementation of medical research was strongly restrained by the egos involved

"This is an inherent cancer which has crept into health care

"It is a global phenomenon," replied Dr Derek Yach from the Medical Research Council

Another said one of the gravest problems of implementing community health in rural areas was that the contribution which could be made by qualified community health nurses was often overlooked

Dr Yach replied that the implementation of these services hinged on a multidisciplinary team approach

He said a paradox existed in community health research

The Department of National Health and Population Development was gradually shifting the health care emphasis to the poorer communities

Much of the research was handled by universities, which had a lot to lose in terms of laboratory facilities and equipment through budget cuts

Dr Louw said universities were already suffering from financial cut-backs imposed during the past two years and many posts were now vacant.

Another delegate said a balance between the training of "top people" and the rendering of community health services was essential

During another panel discussion on research and environmental conservation strategies Professor John Butler-Adam from the University of Durban-Westville said the Government had no fixed conservation policy. Neither did most conservation groups, which meant implementing research findings was extremely difficult

He said conflicts of interests occurred between conservationists, Government officials and developers using South African beaches. These differences were being investigated.

Interest, tax dent Afrox

Higher interest payments and an increased tax rate took some of the bloom off the profit increase of African Oxygen (Afrox) in the six months ended March. (183) 4/1/90

But its shareholders have not suffered as Afrox has increased its interim dividend by 25 percent to 50c a share

Turnover of Afrox, which is the country's major supply of industrial gases, rose strongly by 26 percent to R437,7 million. Trading profits rose even more, by 28 percent to R94,4 million. But a 163 percent jump in net interest payments to R15,8 million held down the increase in pre-taxed profits to 16 percent. And an 18 percent rise in tax payments resulted in the taxed profit rising only 14 percent to R40,4 million.

However, the day was saved to some extent by a proportionately smaller increase in the additional depreciation. This helped attributable profits to grow by 19 percent to R30,9 million, equal to 103c a share.

All divisions performed well in an economy that is slowing, said Mr Joubert, who expects profits and earnings for the second half of the year to be similar to those of the second six months of last year when earnings were 83c a share.

Bic's new aroma

The perfume market has for years been dominated at the volume end by larger US companies like Estee Lauder and Revlon and at the top end by upmarket French labels such as Cacharel and Yves Saint Laurent.

But last week a TV campaign started for two perfumes distributed by, of all companies, Bic. After his worldwide success with his cheap ballpoint pen, the disposable lighter and the disposable razor, Bic's reclusive chairman Baron Marcel Bich launched four new perfumes on the world market. Two of them are now selling in SA at around R15 each.

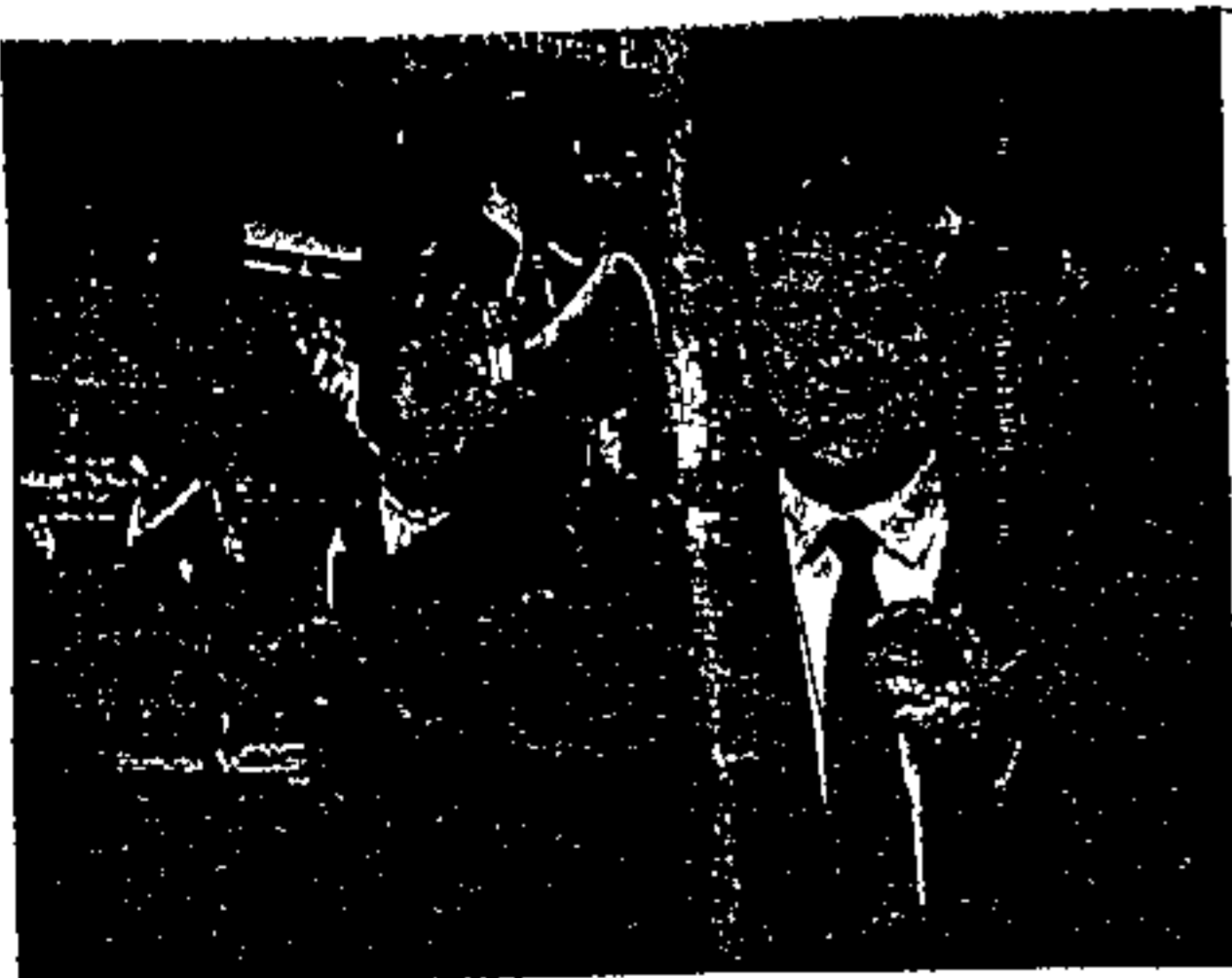
Bic's cigar-chewing local MD Benny Schreiber says the cheap and cheerful perfumes have had a mixed reception. They've done well in Italy, Austria and Ireland, fairly well in Germany and Australia but didn't take off in the US or the UK.

SA is the test market for a new merchandising approach. "Until now Bic products have been sold worldwide mainly on supermarket shelves. That's proved to be the wrong environment for the new product. We can't sell perfume like rice."

"We've decided to sell it through the more conventional channels for perfume — departmental stores and pharmacies. Our launch budget of R800 000 includes demonstrations in the major shopping centres. In other countries, the bulk of the budget has gone into TV advertising, but we've put more emphasis on magazines and sampling."

"We also decided to change the names. Sold under the unimaginative names Day and Night, we decided to call them Flirtation and Kiss to lend an element of mystery, excitement and promise." Schreiber is aiming to sell 350 000 units a year, which would give Bic a roughly 15% share of the perfume market.

Schreiber insists the product may be cheap, but it's not nasty. "The other Bic products are reliable and middle range. A Bic pen certainly isn't a Parker. However, Bic perfume is an excellent product. The essence is produced by Firmenich, provider for top brands such as Yves Saint Laurent, Cacharel and Lancome. It is natural and not synthesised as most low-priced perfumes



Bic's Schreiber ... cheap and cheerful?

are "

Every bottle has a fragrance concentration by volume of 15%, comparable to many up-market brands. Schreiber admits Bic per-

fume isn't going to feature on many upscale Christmas lists — up to 80% of perfumes sales are for gifts. He expects 90% of Bic purchases, on the other hand, to be for the user.

"We aren't taking the other perfumes head on. We want to expand the market to women who haven't been able to afford perfume." One specific target is the matriculant market. Bic is planning a special feature in the teenage *Blush* magazine to tie in with matric dances.

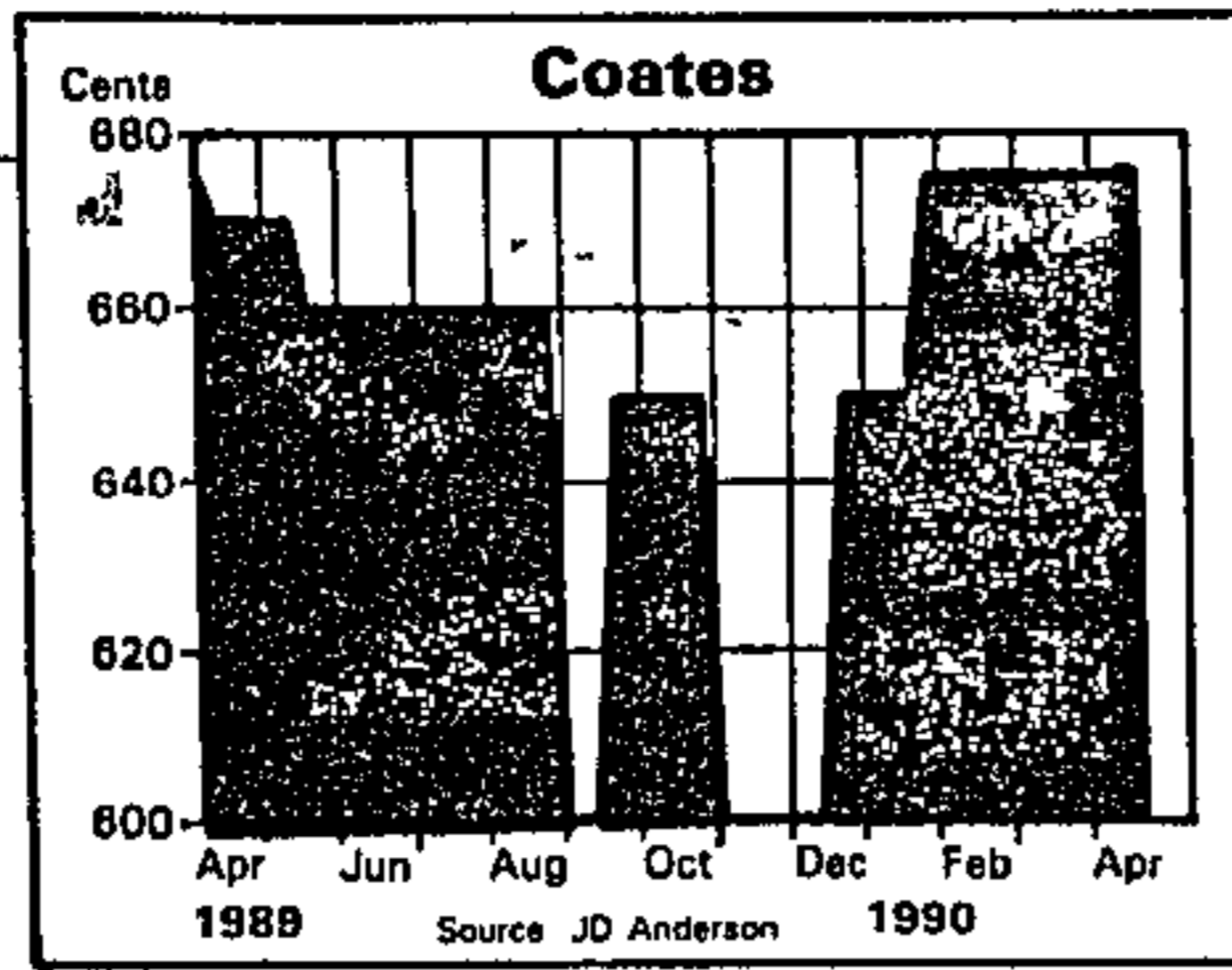
The company has held costs down by skimping on packaging costs. The perfume's box is a stark black, with the Bic logo, the name of the perfume and the essential "Made in France" on the side of the bottle. It also hopes to benefit from economies of scale. If it sells 350 000 units, that's ten times

what the upmarket French brands sell.

The Bic name could prove a handicap, because it has no association with the beauty business. But Schreiber says it's worldwide company policy to use the Bic brand name and no other.

McCann chairman and marketing expert Tim Bester says Bic could acquire a certain chic from inverted snobbery. "Bic as a brand name is very rational, practical and matter-of-fact — the exact opposite of the romantic image of the top perfume brands. It could take off as a fad."

He adds that the company's aim of selling R5m worth of perfume isn't unrealistic when it is considered that the local deodorant market is worth R200m. If the perfume is a success a third fragrance — Sport — will be launched at the end of the year. ■



Activities: Manufactures printing inks and chemicals, resins and sealing compounds.

Control: Orkem 68,4%. (183)

Chairman: W de la H Beck, MD: E F Williams

Capital structure: 3,4m ords Market capitalisation. R23m. FIM 4/5/90

Share market: Price. 675c. Yields: 7,3% on dividend, 25,3% on earnings; PE ratio, 3,9; cover, 2,5 12-month high, 700c; low, 600c.

Trading volume last quarter, 15 067 shares

Year to Dec 31	'86	'87	'88	'89
ST debt (Rm) .. .	0,45	0,44	3,19	1,49
LT debt (Rm) .. .	1,76	1,32	1,01	0,72
Debt equity ratio	0,09	n/a	0,19	0,09
Shareholders' interest	0,46	0,43	0,42	0,49
Int & leasing cover	22,9	84,1	58,4	11,7
Return on cap (%)	15,1	18,4	20,5	24,0
Turnover (Rm)	81,8	73,6	94,3	122,0
Pre-int profit (Rm) ..	4,8	7,3	10,1	12,1
Pre-int margin (%)	7,8	9,9	10,7	9,9
Earnings (c)	68,6	109,2	147,9	170,9
Dividends (c)	25 0	34,0	42,0	49,0
Net worth (c)	426,6	501,8	607,7	729,6

and higher raw material costs Financing remains conservative, with interest cover of 11,7 and debt equity of 0,09 The steep rise in stocks in the previous year was not repeated, year-end stocks fell 12%.

The resin division, which supplies the paint, leisure furniture and sanitaryware industries, recorded significant sales growth and improved market share. However, this growth was off a small base and is unlikely to be repeated in 1990.

The new subsidiary, Coates Chemie Compounds, which produces sealing compounds for the food and beverage markets experienced teething troubles Market trials took longer than planned because of the stringent requirements for these industries, improvement is expected.

Since the year-end Coates' holding company Coates Bros Plc was acquired by the

COATES FIM 4/5/90

Sticky going (183)

Chairman Bill Beck correctly forecast slower growth in 1989 and he expects a further slowdown this year. A new subsidiary established in January last year proved disappointing, though market share was retained in major markets.

Margins declined because of competitive pressures and inability to pass on higher raw material prices This and higher finance charges saw attributable income rise 16% on turnover growth of 29%. No improvement in margins is expected this year

Finance charges rose from R96 000 to R969 000 but total debt at year end was lower than in 1988 — debt rose significantly during the year because of seasonal factors

little more than the inflation rate In any event the share is tightly held and rarely trades Pam Baskind

lines Prospects for 1990 are unexciting Beck expects earnings and dividends to grow by

French company Orkem Intl In the medium-term, Coates will benefit through introduction of new products or products

FIM 4/5/90 (183)

Troubled PGSI gets hefty cash injection

The decision by Plate Glass and Shatterprufe Industries (PGSI) to refocus its European glass interests and concentrate on automotive glass operations should help to counter the dent in investor sentiment that will follow news of a 30 percent drop in earnings per share for financial 1990.

Key feature of the European glass deal (in which PGSI gets £100 million for its UK building glass arm), is that it will result in the virtual elimination of the debt in the group's over-gearred off-shore glass companies and so enhance future dividend flow to the SA parent. It also takes PGSI out of a market that seems set to be dominated by the world's large manufacturers after 1992.

Yesterday Plate Glass was suspended at R59. Based on the revised figure of 338c earnings for the 12 months to end-March 1990 this means that investors were putting it on a very expensive price/earnings rating of 17.4 times.

Although the UK glass deal looks a very attractive one for PGSI and the directors have stated that the 1990 dividend will be unchanged at 222c, it is difficult to see support for this sort of rating.

News of the 30 percent earnings drop will be a sharp jolt to shareholders who had been told as recently as last November that earnings for financial 1990 would be unchanged on financial '89.

According to joint chairman Ronne Lubner there were "material and unbudgeted losses in

Star 4/5/90

Diagonal Street

ANN CROTTY



the group's timber division worldwide."

These material factors included the need to make substantial management and structural changes (following the resignation of members of the executive team), the unexpectedly severe downturns in certain markets and, development costs in Australia.

Some analysts speculated that the difficulties in the timber division may have some impact on the Whitestone deal announced earlier this year. Mr Lubner says that that deal was still on but indicated that there may be some changes.

The glass deal, that was finalised early yesterday morning, will result in a major injection of capital and a refocussing of the glass division's activities.

Ahead of the deal the international glass division comprised two distinct legs — building glass (which is UK-based) and automotive glass.

The UK building glass subsidiary and its Solaglas name has been sold to French-based glass

manufacturer, St Gobain for £100 million (R435 million) and PGSI has bought St Gobain's automotive glass fixing networks in Germany (95 outlets) and France (50 outlets) for £16 million (R70 million). Currently loss-makers, Mr Lubner expects to turn them to profit by 1992.

Following the deal PGSI's Autoglass International Holdings will be the largest chain in France, Germany, Belgium, Holland and Italy. It is already the dominant player in the UK market with a network of 156 fitting shops.

As Mr Lubner states: "The value placed by St Gobain on Solaglas UK clearly illustrates that the original investment of £7.4 million in October 1982 has been vastly rewarding. PGSI has acquired £100 million and retained substantially more than half its UK business."

After repaying the debt and paying for the automotive acquisition the directors expect to be able to repatriate about R40 million — hence the decision to maintain the dividend.

Given the fairly dismal outlook on the timber front and the otherwise generally unexciting short-term prospects for the group, the deal will be a welcome prop for the share at a more realistic p/e rating.

Interest deflates Afrox's profits (183)

EDWARD WEST

AFRICAN Oxygen (Afrox) has shown a solid 28% increase in profit before interest on an increased turnover of 26% for the six months to March 1990.

All its divisions performed well.

Turnover increased to R437,7m (R346m) and profit before interest rose to R94,4m (R73,6m).

Net interest paid was substantially higher than the same period last year as a result of higher interest rates and an increase in borrowings, Afrox directors said in a statement.

The rise in interest to R15,8m (R6m) reflected Afrox's large capital expenditure programme. Afrox spent about R140m on capital expenditure in 1989.

Taxation was higher at R38,2m (R32,3m), reflecting

an increase in operating profits and a tax rate which increased from 47,7% to 48,6%. Attributable profits were 19% higher at R30,9m (R26m).

Afrox accounted for inflation by charging earnings with additional depreciation. For the first six months, earnings were charged with additional depreciation of R9,1m.

As a result, inflation adjusted earnings a share showed a real increase of 19% to 102,98c a share (86,73c).

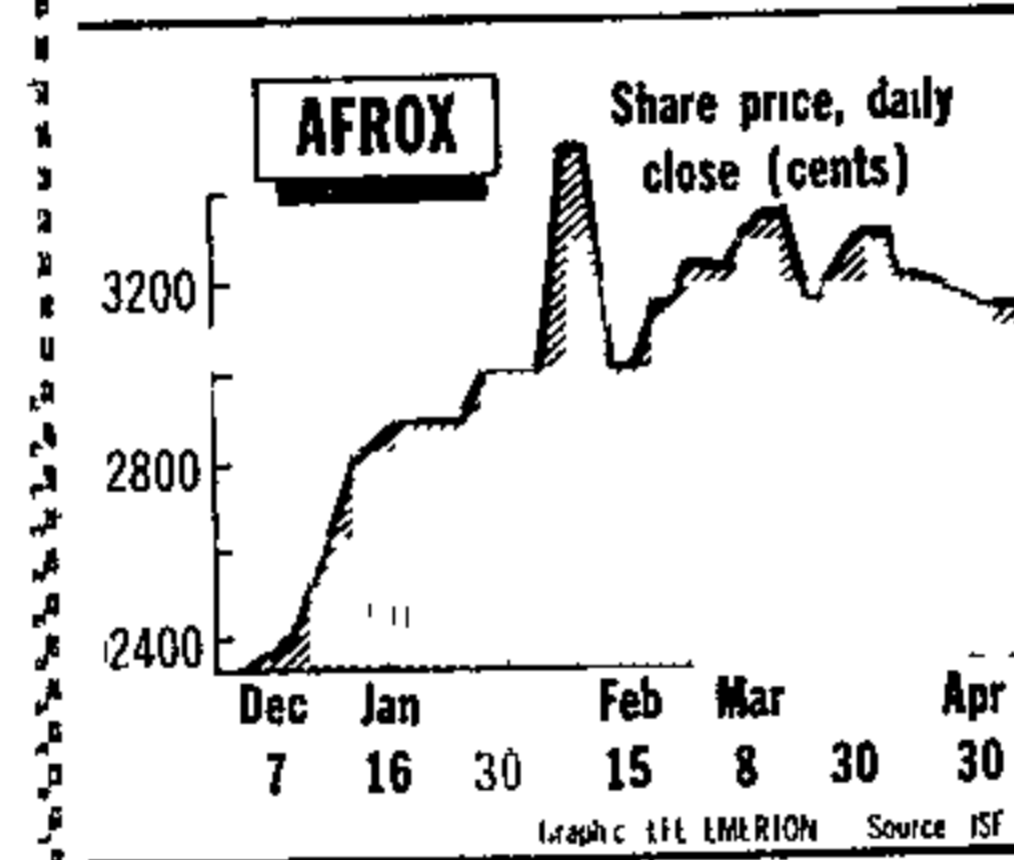
A dividend of 50c (40c) a share was declared and was covered 2,06 times by inflation adjusted earnings.

On an historical cost basis, earnings cover was 2,67 times.

Afrox chairman and MD

Peter Joubert said Afrox was still growing with most of its capital expenditure being spent on infrastructural equipment.

He forecast profits and earnings for the second half of the the year similar to those of a year ago.



Synfuels industry capex 'could soon reach R14,5bn'

ZILLA EFRAT

SA's chemical industry, which had the potential to become a major player on the international market, could spend R14,5bn in capex over the next five years, Sasol GM Jan Fourie said yesterday. *183*
10am 4/5/90

Speaking at the 1990 Capex Prospects Conference in Randburg, Fourie said timely adjustments made in government policy to exploit the local chemical industry's competitive advantages could fuel economic growth.

These advantages included a large dependence on local raw materials and lower raw material costs of important building blocks than the alternative, Naphtha, which was used elsewhere in the world.

The industry also benefited from comparatively lower electricity and labour costs, and extensive infrastructures already existed in and around major chemical complexes.

Essential

Among the industry's major competitive disadvantages were high transport costs to major export markets, higher inflation than experienced by overseas competitors, a small local market; sales tax and import surcharges on capital goods, a skills shortage and, unfavourable tax allowances on capex

Fourie said a dynamic and strong synfuels industry was essential for the chemicals industry to reach its maximum potential

He said the normal capex of the major chemical companies, if it continued at the 1988 and 1989 levels, would be R5bn over the next five years. In addition, about R2bn could be spent replacing and revamping old chemical plants during this period.

Get in quick with three of the best

BUY De Beers, Anglo and Richemont and do whatever you like with the rest

Myles reckons it's a bit pointless to clutter investors' minds with any more advice than that

He seems fairly certain that De Beers will reach the R100 level early next week although he was unable to explain why it was that the share took off this week

There have been no really significant developments since the announcement of the creation of De Beers Centenary so it is difficult to see why the price hesitated around R85 for so long. Now the whole world is piling in with every new day seeing another bullish brokers' reports from some part of the globe.

Some of the more imaginative investors are comparing De Beers' price/earnings rating of around 10 times with Richemont's 26 times. Although both are nice Mandela hedges, this notion seemed a bit over the top. Even Myles had trouble taking on board the point that the two companies are in the luxury goods market — a market that is all about selling image.

He's worried that some day the rich may decide that they don't want to pay quite so much for image — so he wouldn't be prepared to buy De Beers on a 26 P/E even if he could unstaple the thing.

But expectations of soon-to-be-announced good results from Richemont and revived rumours about a separate listing for Cartier are currently pushing Richemont to even higher levels.

After a brief suspension on Thursday, Plate Glass was back on yesterday and traded a few rands higher at R62.

Overseas deal

The overseas glass deal certainly does look like a good one for the group but hardly enough to support a p/e of over 17 times, particularly as the problems in the timber operations (reason why earnings will be down 30 percent in financial '90) are unlikely to be sorted out in the near future.

According to Myles, it appears that some of the countries that grow the trees want to see a bit more local processing and this increases the industry's risk profile. In addition there are some bad debt problems in Brazil — this will hardly come as a surprise to anyone who keeps in touch with the fortunes of the World Bank.

Anyway it puts a bit of a cloud over the Whitestone deal and that can't be too good for the share. But Myles points out that it is quite tightly held.

Star 5/5/90



No firm news yet about the Valard bid for Landlool. Myles thinks it looks like a good deal for all concerned and it seems to have attracted quite a lot of positive attention to Valard which is a reasonably low profile company that has been busy getting on with the job of making profits for its shareholders.

Reports are that the strategic study on Bankorp is just about finalised and the guys are now waiting for Piet Liebenberg to make the decision when he takes over on July 1.

At this stage it looks as though TrustBank and Santambank will be merged. This will obviously lead to considerable rationalisation of branch networks, computer facilities and so on.

Rationalisation

Senbank will also be brought into the fold. Rationalisation decisions here may be facilitated by the recent fall-off in staff numbers — apparently six guys have left the corporate finance department and the bank's economist Dr Du Pissanie has left to set up his own economic unit.

Myles says he was reliably informed that in terms of turnover (staff or business?) Senbank is still the major merchant bank in the country.

The Interboard share price seems to bear a sort of inverse relationship with news about the company. The price has gone up despite reports that plans to sell off, or merge, parts of the business have come to nought.

In addition, Sappi's new particle board division (very hi-tech by all accounts) is about to come on stream. All this extra capacity in the industry hardly seems bullish for Interboard. So why is the price going up?

Plans for an overseas investor to acquire Mynkar have apparently fallen through but no formal announcement as yet from the company.

News that Storeco (remember John Orr's in the old days) may see a change of control reminded Myles of the time — around 1982 — when Julian Askin and Hugo Bierman (the guys who recently acquired control of Duros) were rumoured to be keen to acquire John Orr's, apparently for an asset stripping exercise.

Leaner T&N should show improvement

Star 9/5/90

183

Stockbrokers have adopted a cautious attitude towards the industrial holding group Turner & Newall.

They say the economy is still going downhill while at the same time the financial strength of the group, particularly the level of gearing, has deteriorated markedly.

In the latest annual report, chairman CF Hope says that with continuing high levels of interest and inflation, 1990 promises to be another difficult year for the group.

However, a recovery has taken place in problem areas and the group and Asseng are poised to take advantage of increased capacity.

Important developments last year included the sale of 22,1 million Everite shares for R54 million and the acquisition of a 76 percent shareholding in Asseng, which operates in the motor and industrial sectors.

Mr Hope says the move away from building materials in favour of automotive components has completed the group's restructuring process.

T & N, including listed subsidiary Asseng, is in the business of developing, manufacturing, marketing and trading in various industries. These include chemicals and plastics, automotive components which are subject to wear and industrial products.

In the year to December 1989, group turnover climbed 67 percent from R234,7 million to R391,4 million. Operating profit rose 40 percent from R26,2 million to R36,8 million.

The rise in pre-tax profit was limited to 16 percent, from R20,4 million to R23,6 million, due to net finance charges nearly tripling from R5,8 million to R15,9 million.

A decline in the effective tax rate from 30,6 percent in 1988 to 20,9 percent pushed after-tax

Diagonal Street LYNNE PEACH

profit to R18,7 million, 32 percent higher than the previous year's R14,2 million.

However, a greater share to minorities and no profit contribution from associate companies (compared with R6,4 million in 1988), took its toll on the bottom-line.

Attributable income fell 21 percent from R20,3 million to R16 million. Earnings a share fell from 87,7c to 69,3c. The dividend for the year amounted to 31c — 30 percent lower than the previous year's payout of 44c.

Mr Hope says trading conditions were difficult for many group companies, particularly those involved in chemicals and plastics, friction materials and heat exchangers.

The latest balance sheet shows a sharp increase in total borrowings from R46,4 million a year ago to R95,6 million. This represents 88 percent of total shareholders' funds, compared with 46 percent at the end of 1988.

Net asset value rose nine percent from 433c to 471c a share.

T & N, priced at 400c, is trading on a price-earnings ratio of 5,8 and provides a dividend yield of 7,8 percent. Until the fundamentals improve and the share price enters a bull trend the share should be avoided, stockbrokers say.

COMMENT: T & N's share price has been in a downtrend for the past nine months after peaking at 960c. The price collapsed in the past two months from more than 600c to 400c. The share may correct upwards in the short term because there is good support at the current level and it is very oversold.

Safimed puts damper on Twins results

(183)

NEIL YORKE SMITH

HAMPERED by subsidiary Safimed, Twins Pharmaceuticals increased attributable earnings by just 14.3% to R37,6m for the year to March 31, the group announced yesterday.

Earnings growth came on the back of a 15.5% increase in turnover which reached R491,8m.

Excellent results achieved by most group divisions were significantly offset by the poor performance of subsidiary Safimed, financial director Bob Garnett said last night.

"Earnings growth of between 23% and 30% was seen in some areas. We are determined to get back on to our stated targets of earnings growth exceeding inflation by at least 5%."

Suffer

Twins announced in January it would acquire all Safimed shares not already owned by it. Twins is to assume management control and implement a restructuring programme

Twins was to concentrate on pharmaceuticals, consumer products, animal health and vision care, Garnett said

Twins was expected to suffer as a result of government legislation requiring the termination this year of the manufacture of skin lightening products.

But the October acquisition of certain businesses from Gillette put the consumer division in a good position to offset possible negative effects of the legislation, directors said

Twins announced yesterday it would acquire Milborrow and Co — an animal health care company — to be merged with Twins's Fisher Group. The acquisition is not expected to influence earnings this year

At the per share level Twins earned 41.3c and declared a dividend of 16c.

Twins shares trade at about 205c on the JSE, offering earnings and dividend yields of 20.1% and 7.8% respectively.

B/Daw 10/5/79

Premier boosted by rights issue

By Ann Crotty

The decisions to off-load the poultry division and undertake a rights issue have been well vindicated by Premier's 25 percent increase in pre-tax profit in the year to end—March

But initial response indicates that the JSE was disappointed with the 24 percent hike in earnings per share accompanied by a 20 percent increase in the dividend to 60c (50c) a share.

The share price closed lower yesterday which means that the price/earnings rating gap between Premier and Tiger widened even further.

This seems difficult to justify given that the group's activities, after some rationalisation, are now looking better placed for growth and, the balance sheet is looking strong ahead of a tough trading period

Key features behind the 24 percent hike in eps included improved food margins (helped considerably by the absence of the poultry division from the 1990 trading profit figures) and; the reduction in interest payments — interest bearing debt was significantly reduced by the proceeds from the rights issue and the sale of the poultry division

Group turnover for the year rose to R4,3 billion — a five percent increase on the actual R4,1 billion reported for financial '89. Stripping out poultry sales of R360 million from the '89 figures (and a few other items, to compare like with like) shows a 16 percent improvement in turnover.

Group trading profit was up 17 percent to R336,2 million (R286,7 million) reflecting a significant advance in margins to 7,7 percent from 6,9 percent

This improvement was mainly attributable to the improvement in the food division where margins were up from 5,4 percent to 6,3 percent.

Again, removal of the low margin poultry business was behind most of the increase in the overall food margin.

With poultry out of the group, margins in agribusiness and pet-food division rose from 1,8 percent to 3,5 percent.

Margins at the milling and baking division (which accounts for R1,5 billion of the food division's total R2,5 billion turnover) were virtually unchanged at 7,9 percent (7,8 percent)

It looks as though edible oils may slowly be coming right, but margins of 2,6 percent (up from 1,9 percent) are still way short of chief executive Peter Wrighton's long-term target of around 5,5 percent.

In line with the industry, margins in Premier's fishing business took a knock — down from 20 percent to 16 percent.

Apart from food, Premier's interests include pharmaceuticals and, education/entertainment — the latter via its 33 percent stake in CNA Gallo

Pharmaceuticals

Pharmaceutical margins were unchanged at 9,1 percent while education/entertainment lifted margins to 9,9 percent from 9,6 percent.

Group interest payments were just R76 million (R78,8 million), taxed profit was up 23 percent to R183,7 million (R149,5 million) After minorities and preference dividends, attributable earnings showed a 32 percent advance to R122,1 million (R92,3 million) An increase in shares in issue diluted this growth rate at the eps level

Management's decision to treat its 50 percent stake in Bonny Bird Farms (the result of the merger of its broiler activities with those of Bokomo and Sacca) as an investment and not as an associate is likely to provoke some discussion.

This classification means that Bonny Birds' R4 million loss will not have to be equity accounted (The R4 million loss is far short of the R40 million loss that has been rumoured in the market)

In addition Premier has no exposure to the estimated R5 million extraordinary losses that were related to the major rationalisation steps taken at Bonny Birds.

Only dividend income would appear on the Premier income statement. There was none from that source in financial '90

Mr Wrighton supports the ac



Chief executive
Peter Wrighton

counting treatment by pointing out that Premier has no obligation to provide finance to Bonny Birds and is not involved in its management. In addition, and more convincing, is the fact that Premier has a put option on its 50 percent stake. This can be exercised in 1994 at the value at which it is stated in Premier's loan account

According to Mr Wrighton the group has written down its former poultry assets to this same value

Certainly the group's more open approach to information disclosure will be welcomed by investors and, if not immediately, should lead to some rerating of the share. Particularly in view of the signs of improvement (albeit slow) in the crucial food division and in view of the group's much stronger balance sheet.

Looking across the group CNA Gallo is in good hands.

Some restructuring, aimed at getting improved synergies from the grouping of the various assets, is being undertaken at Premier's pharmaceutical arm in order to get more out of underperforming divisions

On the food front, margins in the milling and baking activities appear to be in line with the same type of activities at Tiger. Edible oils' margins are far too low but at least are moving in the right direction as are those at agribusiness and petfood.

Mr Wrighton would like to target real earnings growth in financial 1991 but admits that it will be tough.

Talking to SA

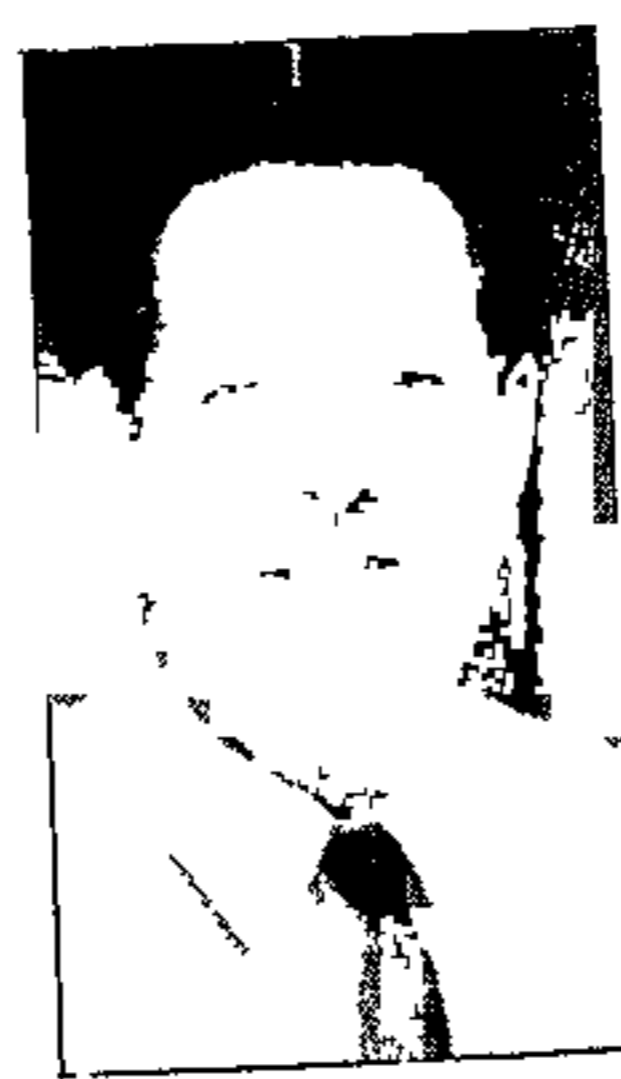
Most US companies have fled SA in recent years, but Monsanto, the giant chemical company, has stayed on. The company now feels vindicated by President F W de Klerk's reforms, but believes business should do a lot

more to make sure his reforms bear fruit. "I'm not convinced local business has got the message that we need to show we're ready to share the cake and must work at improving the cake through investment in education," says chairman of the company's Europe Africa division, Martin Kallen.

Kallen visited SA recently and held extensive discussions with government and business leaders.

"We spent 12% of our payroll on such causes under the Sullivan Code. I believe every business operating in SA should do the same and help create a much larger consumer base. The time has come for multinationals to contribute to the debate on political and economic fundamentals."

This commitment to change should be extended to affirmative action, he says. "It's



Kallen

easy to find excuses not to implement these programmes. There is a risk in over-promoting disadvantaged people. But there are practical reasons for doing so. Just 15% of new entrants into the labour market in the US will be white Caucasians, so we are learning to promote blacks, Hispanics and Asians to higher positions than

they have held before. Once they are there, they act as role models for their communities."

Kallen last visited SA 11 months ago. Since then, the ANC has raised the spectre of nationalisation and voiced its bitter opposition to privatisation. He's disappointed over that development, but he's encouraged by the new economic thinking at government level and the new generation of politicians who aren't hung up on the past.

"Overseas businesses will be very encouraged by the attempt to reduce the tax burden and to liberalise trade policy. Protection of industry is being questioned and that's entirely right."

The events in Europe, he says, have unhappily overshadowed those in SA. Even the talks with the ANC seem boring in comparison to German unification and the break-up of the Soviet Union. "It may not seem like it from where you're sitting, but SA is about priority No 17 in the world. Investment has moved away from Africa because it's a high risk. There is also growing concern about the impact of Aids on the continent."

"However, if things go well, SA could play a role in the rehabilitation of the region. Sub-Saharan Africa is a region with limited purchasing power where very few skills have yet been developed, so SA skills could play a crucial role."

St Louis-based Monsanto had a worldwide turnover of US\$8.7bn last year and is ranked No 55 on the US Fortune 500. In SA, the company has 140 employees and an an-

nual turnover of R200m. SA sales of Monsanto products, which include agricultural and industrial chemicals, pharmaceuticals and the artificial sweetener Canderel, are increasing by 20% a year. "There aren't many other places where that's happening. There's still a lot of upside to this economy," says Kallen.

The newest bottle on the shelf

Early this year, Klerck & White embarked on one of the toughest challenges facing an advertising agency — promoting the launch of not only a new product, but a new type of product

The product is the first pre-brushing rinse, Plax, first launched by the US pharmaceuticals giant Pfizer on the US market

There's nothing sexy about a product that helps to prevent plaque from building up on teeth and, though you use it to wash your mouth, Pfizer doesn't want Plax confused with run-of-the-mill mouthwashes

The solution? Klerck & White devised a no-nonsense campaign that relies largely on factual information to make its point. The campaign is similar to the one its affiliate, Saatchi & Saatchi, devised for Plax in the US, UK and other markets. Pfizer backed it with a budget of R1,7m for advertising and R1,4m for promotion. TV commercials were supported by samples sent to every dentist and 30c discount coupons in magazines

The blitz has worked. SA sales for the first year were budgeted at R8,4m but should exceed R10m. A major reason for the success is that the big ad budget ensured that all the major supermarket chains and pharmacies were obliged to stock the product

It turns out there are advantages to pushing a new product. "Plax has been readily accepted in the trade because entirely new products have no competition and so they can command higher margins," says John Christie, MD of the distributors, Cape Display. "Stores can make as much from one large bottle of Plax as they can from 18 tubes of toothpaste"

"If you want to bring a new brand of baked beans or shampoo to the market, the supermarkets will throw you out, but Plax was a proven success overseas. We even received 30 letters before the product was launched from people who wanted to buy a case and have it shipped specially from the US"

Pfizer launched Plax in 1986 and the

product has had a 200% annual growth in sales. Sales in the US are now worth \$300m a year and they reached £20m in the first year in the UK

Plax stands out from the conventional new product. Research International MD Caroline Harben says too many items are me-too products. They don't offer consumers substantial additional benefits, so they don't make an impression

Another essential for product launches is



Brushing, flossing, gargling ... plaxing?

the company's willingness to take a risk. With Plax, Pfizer's risk in SA was arguably limited because of the success of the product overseas. But Pfizer, which doesn't make any other oral hygiene products, took a risk when it bought the rights to the product from American dentist Allan Lazare. It had an instant promotional tack, however. Lazare's patients include several stars with those whiter-than-white teeth — Farrah Fawcett, Lindsay Wagner, Neil Sedaka and Robert de Niro.

Klerck & White's Rodney Leach says that because Plax is not a conventional mouthwash, it doesn't compete with Listerine or other breath fresheners. "In every country where Plax has been launched, it's expanded the oral hygiene market and hasn't taken business from existing suppliers"

Be that as it may, Warner-Lambert, which makes Listerine, treats Plax as competition. The company dropped its commercials featuring the cartoon dragon Clifford and replaced them with commercials claiming Listerine reduces plaque. The Cape Town office of J Walter Thompson handles the account.

As part of a worldwide war on Pfizer, Warner-Lambert insisted (successfully) that Pfizer should drop its claim that using Plax removed 300% more plaque than brushing without it. Toothpaste manufacturers, on the other hand, haven't been concerned. In the international advertising campaign a man is shown brushing his teeth after using Plax.

Indirectly, though, Listerine could benefit from the increased awareness of oral hygiene products. Listerine sales are now static at R3m a year

Plax also lined up endorsements from dentists and dental organisations. It is recommended by 56% of all American dentists. In SA, Pfizer approached the Dental Association of SA. Executive director Helmut Heydt says his association has examined the claims made for the product and concluded they are accurate.

Stephen Cranston

Dispensing row under the spotlight

Star 14/5/90 Own Correspondent (183)

BLOEMFONTEIN — The controversy between pharmacists and doctors over the dispensing of medicines was highlighted at the start of the 45th national conference of the Pharmaceutical Society of South Africa which got underway in Bloemfontein today.

In his presidential address the outgoing president, Willie Kock, said the pharmaceutical profession would have to take a serious look at itself and its future.

He said the question was not whether the profession had a role to play in the country's medical services but whether the Government was going to allow pharmacists to fulfil their roles.

Mr Kock said if no feasible solution could be reached inter-professionally over the dispensing of medicines, then legislation would have to be introduced to ensure that pharmacists were able to provide a total pharmaceutical service by introducing legal impediments against doctors where there was a pharmacist available.

Mr Kock said pharmacists should be allowed to substitute medicines under certain conditions, as was promised by the previous Minister of Health

Don't cry for AECl

The familiar verbiage found in most 1989 annual reports about the stagnant economy and government attempts to stabilise the political situation is also found in AECl's

But the significantly lower growth rate in the last six months made little dent in AECl's record results — with sales up 17 percent, export sales up 36 percent and trading income up 28 percent.

Remember, this was after the effective tax rate increased from 40,9 percent to 42,5 percent, finance cost rose 45 percent and after a provision of R15 million for costs incurred in the development for a coal-based plant to produce fuels and feedstocks.

Chairman Mr Gavin Relly is concerned about the detrimental effect that ad hoc changes in government policy is having on investment decisions in the private sector and on growth. He believes any benefits of a long term economic strategy are diminished when drastic changes to capex allowances are implemented without warning.

Erratic action simply heightens uncertainty and saps the ability of the private sector to fulfill its fundamental role of wealth creation at a rate sufficient for the country and its people to prosper, he says

But let's set the record straight. The six-year historical review reveals that AECl had no prosperity problems — 1984's sales of R2 billion, net trading income R235 million and bottom line of R112 million have virtually trebled in turbulent 1989!

Major shareholders

AECl's major shareholders, namely Anglo American (40 percent) and ICI (39 percent), are far from suffering Mr Relly says that a further improvement in earnings is expected for 1990.

All AECl's seven main operating companies — AECl Chlor-Alkali and Plastics, AECl Converters, AECl Explosives and Chemicals, AECl Paints, Chemical Services, Kynoch Fertiliser and SA Nylon Spinners — enjoyed a healthy year even if some subsidiaries reported a few aches and pains.

Capex was again high at R211 million (1988: R244 million) and included R38 million of equity investment in Soda Ash Botswana (Pty) Ltd AECl is the major shareholder in this R920 million Botswana-based development project at Sua Pan which will produce the first production of salt and soda ash in 1991.

Bottom Line

183

MICHAEL MENOF



ord Sales R4,76 billion (1988 R4,08 billion) included export sales of R453 million (1988 R333 million)

Net trading income was R604 million (1988 R473 million) after depreciation of fixed assets R153 million (1988: R157 million), provision for maintenance R18,1 million (1988: R7,5 million), research R37,6 million (1988: R30,3 million) and secretarial and admin fees of R7 million (1988: R4,5 million).

Financing costs were a significant R109 million (1988: R75 million)

After deducting R210 million tax (1988: R163 million, crediting higher investment income R37 million (1988: R28 million) and deducting unchanged income belonging to preference and outside shareholders of R8 million, the net income attributable to ordinary shareholders was R314 million (1988: R255 million)

Consider this represents 6,6 percent of sales compared to 6,25 percent in 1988 and after high interest and tax rates No mean performance

But why has the JSE market price declined from 1989's high of R22,50 to around R16,50 at present? One can argue it is still virtually double the net asset value of R8,47 per share at end December 1989. The answer is — I don't know but do the directors? — who now hold only 5 540 ordinary shares, well down on the 59 600 shares a year ago, a decline of 90 percent

In the balance sheet, total shareholders' interest increased to R1,35 billion (1988: R1,17 billion) at end December 1989. Working capital grew to R507 million (1988: R435 million) but includes significant stocks of R948 million (1988: R865 million).

Incidentally, AECl continues to devote a pittance of one percent of pretax profit a year for the social improvement of South Africans. Clearly, AECl has the profits to fund more social programmes and should take a leaf out of Donny Gordon's book — Liberty Life recently gave R100 million for black upliftment.

Employees of 26 800 in 1984 have grown to only 27 000 now due to rationalisation in the fertiliser division.

AECl is really a profit-making machine whose rising sales and bottom line trend must have fuelled inflation at a critical stage of the economy

Mr Relly really has no cause to complain that the government's ad hoc capex changes are harming his group's prosperity.

Total debt declined marginally to R623 million (1988 R673 million) with financing costs covered six times by trading income.

The consolidated trading results reached an all time rec-

Alliance forged in automotive plastics 183

Finance Staff

A new alliance in automotive plastics manufacture — destined to keep SA abreast of the latest technology — has been struck by PSM, Pilkington Shatterprufe's mouldings division, and Gallino of Italy

Gallino supplies Lamborghini, Lancia, Farina, Maserati, Alfa Romeo, Renault and Fiat.

The agreement comprises two parts the supply of equipment to enable PSM in Port Elizabeth to produce glass-reinforced moulded polyurethane and the ongoing transfer of technical knowhow to the

SA plant 15/5/90
PSM general manager Kevin Burger says the agreement is of special value because of Gallino's high profile in the European market.

"Gallino has been converting polyurethane for the European automotive industry since 1946

"The company has hands-on experience which will easily be passed on to us to ensure we use tried and tested procedures"

The deal follows the opening of R2 million moulding plant in Struendale, Port Elizabeth, earlier this year

Star 15/5/90

183

The Star Tu

NEWS

Doctors, chemists scolded

By Denise van der Merwe
BLOEMFONTEIN — Minister of Health and Population Development Rina Venter has warned pharmacists and doctors to get their houses in order

She said the alternative would be for the Government to intervene. This would be to the detriment of both professions

Opening the 45th National Conference of the Pharmaceutical Society of South Africa in Bloemfontein yesterday, she said there was a need for greater co-operation between doctors and chemists

In South Africa's complicated environment patients

could best be served by a multi-disciplinary approach

"This approach is already successfully employed in especially academic hospitals and has proved to be to the advantage of the pharmacist, the doctor and the patient"

Dispensing

Referring to the controversy surrounding the dispensing of medicines by doctors, Dr Venter said this problem was receiving the attention of the Department of National Health and Population Development

"We are looking at various

options to resolve this deadlock"

She said the problem of dispensing was one that would have to be solved by the two professions themselves

"To appoint an arbitrator or to have a public investigation could have severe repercussions for both professions and is, therefore, not a solution at this time

"There is no doubt that the chemist has a right to exist and this is not negotiable"

The Minister emphasised that the Pharmaceutical Society and the Medical Association of South Africa must once again negotiate over the issue of dispensing

If there was no real development within three months, the Government would be forced to intervene

Turning to the cost of rising expenditure for medical care and health services, the Minister said "What we do know about the immediate future is that the available funds for health care will not drastically increase and that a complete new approach towards health care is needed — an approach that is less complicated, more cost effective and at the same time meets the needs of the population"

Dr Venter said she would deal with this in detail in her budget vote in Parliament tomorrow

Private satellite dishes will be legal soon, says De Villiers

Own Correspondent

DURBAN — Privately owned satellite dishes will soon be legal in South Africa and their licensing was being considered, it was learnt yesterday

Minister of Mineral and Energy Affairs and Public Enterprises Dawie de Villiers announced that, following recommendations of the task group investigating the possibility of private satellite

dishes, licensing of dishes was being considered

Opening the fourth Telematics Conference at the Elangeni Hotel in Durban, yesterday, Dr de Villiers said users of such "receive-only" dishes might be licensed to receive national or international television programmes directly from satellite

In terms of the recommendations the

licence would not permit users to convey the signals beyond their own premises

These receptions would fall within the scope of the Radio Act of 1952 as well as the necessary radio regulations

The recommended licence fee would compare favourably with existing licence fees relating to the receiving of certain television programmes in South Africa, he said

Dispensing doctors a problem for pharmacists

183

Own Correspondent

15/5/90

BLOEMFONTEIN — A fight between pharmacists and doctors over the dispensing of medicines was not just about the economics of such practices but about the future existence of the pharmaceutical profession.

Addressing the 45th National Conference of the Pharmaceutical Society of South Africa here yesterday, the president of the South African Pharmaceutical Council, Professor A P G Goossens, said an increase in the numbers of doctors dispensing medicines could at best be prevented

"After that we must look at the possibility of a gradual reduction in the numbers of such practices. The problem will thus not be solved at once and the pharmaceutical profession must continue its tireless struggle to find alternative strategies to strengthen its own position in this regard"

Professor Goossens said it was a firm belief of the SA Pharmaceutical Council that the dispensing of medicines was the job of the pharmacist as he had been specifically trained to do just that

● See Page 5

183

Pharmacist-doctor 'deal' urged

By Denise van der Merwe
BLOEMFONTEIN — If pharmacists were to survive in the future, they would not only have to tackle the challenges ahead with vigour but would have to have the co-operation of the country's other medical professions

This was the message that emerged on the second day of the national conference of the Pharmaceutical Society of South Africa in Bloemfontein yesterday

Professor Opper Greeff of the Pretoria College of Pharmacy said if it was the inalienable right of the doctor to dispense medicines, then it was the inalienable right of the pharmacist to diagnose certain diseases

He urged that a deal be struck between the two professions
Industrial pharmacy consultant Val

Beaumont said the pharmaceutical profession was being eroded and threatened by several emerging practices. Not least of these was the dispensing doctor, Mrs Beaumont said

The head of the Pretoria College of Pharmacy, Professor Hugo Durrheim, said pharmacists should consider their roles in chronic disease management as an important opportunity in home health care

● The conference decided to accept the principle that all dispensers of medicines should be subject to the same standard of control

It also urged the relevant authorities to accept in principle that medical practitioners, dentists, veterinarians and other legally authorised people should dispense or supply medicines only in emergencies or where pharmaceutical services were not available

CAH- 71245 16/5/90

Company suspends driver for wearing PAC T-shirt

By DAVID YUTAR
Labour Reporter

A WORKER at a packaging company in Stikland has been suspended from work for wearing a Pan-Africanist Congress T-shirt

A spokesman for the South African Chemical Workers' Union in the Western Cape, Mr Peter Roman, said that Mr Chris Lewis, who is employed as a driver at a Cape Town packaging company, had been asked several times by management not to wear the T-shirt, but he had refused to do so.

Company director Mr Johan Venter confirmed that Mr Lewis had been suspended pending a disciplinary hearing.

"We have absolutely no problem with employees wearing

any such T-shirts on the premises," said Mr Venter, who likened the conduct to a member of the staff wearing an AWB shirt on duty

"But for a long time we have explained to this employee and his assistant that in the interests of customer relationships, we have to restrain the wearing of such apparel by staff representing the company in the presence of customers outside our premises.

"He pushed me beyond reasonable terms, so I suspended him with pay for the day and told him to go home and prepare for a disciplinary hearing," said Mr Venter, who described Mr Lewis as "a good driver who was highly rated by the company".

A disciplinary hearing was to be held today

SA Drug cuts margins to retain market share

CMT Tm 15 17/5/90
183

By AUDREY D'ANGELO
Financial Editor

STIFF competition and high interest rates forced SA Druggists to cut margins in the year to March 31, to retain market share

So although turnover rose by 19,9% to R948m, operating income was only 3,7% higher at R87,2m after financial lease payments of R10,5m (R8,6m).

Attributable income fell by 1,1% to R40,8m (R41m) and earnings at share level to 28,8c (29,1c)

In spite of this, dividends were maintained at 10c a share, covered 2,88 times by earnings

Pre-tax income was R74,6m (R78,7m) and the tax bill R33,7m (R37m).

Describing the drop in earnings as "a hiccup", MD Tony Karis said management was implementing strategies to return the group to its previous levels of growth

Pointing out that it had achieved compound growth of 24% over the past seven years, he said "The 1990 result

should be viewed against the good growth achieved in previous years"

Karis explained that conditions within the pharmaceutical industry had remained competitive "and pressure on margins increased dramatically in the latter part of the financial year"

Operating margins had been reduced by 1,4% to 9,2%

A rise in debt to finance expansion and sharply higher interest rates had pushed the interest bill up to R12,6m (R5,4m)

However, management regarded the finance ratio of 48,7% and gearing ratio of 27,6% as acceptable

Shareholders' interest in the group rose by 14% to R192m. Net asset value per share rose by 14,7% to R135,8m

"In spite of a 23% rise in total assets to R395m the balance sheet remains sound and the group is in a good position to build from this base in the 1991 financial year," said Karis

"Asset management is receiving continuous attention in order to reduce asset utilisation to lower levels"

Some bitter pills for SA Drug to swallow

The SA Druggist share price has been on the decline for most of calendar 1990. The market obviously had some inkling of what was to come in the financial 1990 results released this morning.

Earnings per share for the 12 months to end-March were down one percent to 28,8c (29,1c) and the dividend was unchanged at 10c a share.

That investors turned against SA Druggist back in December is something of a puzzle as the interim announcement gave no indication that there were problems facing the group on a number of fronts.

With an excellent seven-year track record, investors should have assumed SA Druggist would perform reasonably well in the tougher trading environment.

At the half-way stage turnover was up 25,5 percent, operating income rose 21,8 percent and EPS was 17 percent ahead. (The respective figures for the full year are 20 percent up, 3,7 percent up and 1,1 percent down).

The directors said (at the interim stage) that in the six months to September trading conditions had become more difficult, with pressure on margins.

But they were of the opinion that barring unforeseen circumstances, profit growth would be maintained for the full year.

Obviously, investors with foresight felt this was the nod to get out of the share.

The list of problems that emerged in the second half included difficulties with the Government's Comed tender system, which knocked Lennon's performance; increasing prices of Deutschmark-denominated raw materials because of the weakness of the rand; difficulties at the LPA division; problems with the customer base in the US, which knocked sales at the chemical division; and high interest rates.

SA Druggist can be relieved of the responsibility for the rand and, to some extent, for the massive hike in the interest bill (but not entirely, because previous strategic decisions resulted in a more than doubling of the

Diagonal
Street

ANN CROTTY



group's interest-bearing debt in financial 1990)

The difficulties with US customers was also out of SA Druggist's management control because they related to policies of the US Food and Drug Administration.

The change in the Government's tender procedure — from a provincial to a centrally based system — resulted in Lennon, the pharmaceutical manufacturing division, being unexpectedly swamped with low-margin government business and unable to provide sales for higher-margin private sector business.

This was reflected in a sharp rise in Lennon's turnover and a drop in its pre-tax profit.

In the current year, emphasis will be placed on private sector business.

Over at LPA, there were difficulties in bringing on stream new facilities.

Management's attempts to resolve them were costly and resulted in a R4 million drop in LPA's pre-tax profit to half of its financial '89 level.

The chemical division, which is currently developing a new customer base in the US, was only able to turn in a one percent increase in pre-tax profit.

The good news is that in a tough trading environment the wholesale pharmaceutical business showed good growth.

Following management changes and the introduction of new structures, the directors are looking to a good performance from this division in financial '91, despite tougher competition.

For the group overall, management and strategy changes in various divisions are expected to produce real growth in earnings.

If investors believe the problems have been resolved and are encouraged by the group's track record, the price slide may soon be at an end.

R5m project for Solchem

ZILLA EFRAT

DCM-listed printing ink manufacturer Solchem is undergoing an expansion and consolidation programme which will cost it R5m over the next few years

A new cost-effective varnish factory is planned for Cape Town, where Solchem — formed through the consolidation of three prominent SA ink manufacturers in 1987 — already has a factory serving the Cape

Consolidation of Solchem's three Transvaal factories is under way and a building to house its entire Transvaal operation is planned on recently ac-

quired property adjoining its Amalgam factory

This move will enhance Amalgam's paste ink factory, which has the largest capacity in the southern hemisphere, as well as improve efficiency through centralised administration, financial control and production.

In Natal, Solchem is building a R1m extension to its Prospecton factory.

In addition, Solchem has negotiated a technical and licensing agreement with Manders in the UK

SA Druggists hit by high interest and lower margins

183 BID-1 1715790

LOWER margins in an intensely competitive pharmaceutical market, and high interest rates, saw the attributable earnings of SA Druggists (SAD) fall 1,1% in the year to end-March

This, however, is off a high base as the pharmaceutical giant, part of the Federale Volksbeleggings group, has achieved compound annual growth of 24% over the past seven years

Earnings were 28,8c (29,1c) a share and an unchanged dividend of 10c a share has been declared

MD Tony Karis said hiccups were experienced in various divisions, but management was implementing remedial strategies

The fast growing chemical business's earnings rose only 1% after two US customers closed down as they did not comply with Federal Drug Administration regulations

The pharmaceutical division, formerly the star performer in the group, experienced higher costs in labour and imported raw materials. It faced an aggressive government tender sector market and lower prices in the private sector

Karis says Lennon, a major contributor to this division, produced lower earnings as it went for higher turnover at the cost of margins. However, its marketing efforts were restructured in the second half and Len-

ZILLA EFRAT

non is expected to return to former growth levels

Continental Ethicals produced outstanding results after successfully launching new ulcer treatments

The pharmaceutical division is now cutting back on its high volume, low margin tender business and developing its higher margin private sector business

The consumer division's earnings fell 22% after the launching of some new products did not meet expectations. However, the two companies in this division are being merged, with great synergistic benefits and a return to profit growth expected

Unsuccessful

On the distribution side, the wholesale operations, which have shown flat growth over the last three years, produced good results following a management restructure and in spite of tough trading conditions

But the LPA division saw its earnings fall R4m after an unsuccessful expansion of its Johannesburg facility into a hi-tech warehouse

Karis says SAD is well advanced in correcting the situation and with new management in place, reasonable profit growth is expected from this division off its low base

The Superweave textile company lost a month's production, as planned, in moving to its new factory, but still showed a small growth in earnings

Veterinary company Panvet experienced a 25% drop in earnings, being unable to match the record performance created the previous year by the acute local shortage of fish-meal

The strategy of retaining market share in spite of strong competition saw SAD's turnover grow 20% to R948m (R790,6m). Lower operating margins at 9,2% (10,6%) limited the growth in operating profits to 3,7% at R87,2m (R84,2m)

Net interest paid soared to R12,6m (R5,4m), resulting in a 5,3% fall in pre-tax profits to R74,6m (R78,7m). But a lower tax rate at 45,5% (47,1%) because of export incentives, led to a 1,9% growth in taxed earnings

After outside shareholders took a lower stake, attributable profits were down 1,1% at R40,6m (R41m)

Karis said gearing at 27,6% (13,5%) was acceptable and total assets grew 23% to R395m. Current assets rose to unacceptable levels, but asset management was receiving continuous attention

Karis is confident that while the interest bill will rise further to fund the growing asset base, and in spite of a tough environment, SAD will show credible results in the current year

Reeva wins - and loses R700 000

W/Ment 1815 - 24/5/90
183

REEVA FORMAN is R700 000 poorer after an Appeal Court judgment yesterday which brought to a close the epic five-year Forman vs Style magazine defamation tussle.

In a judgment handed down in Bloemfontein by Mr Chief Justice Corbett, the R2 125 000 awarded to Forman's two companies following the 1985 Style article were reduced substantially after the Appeal Court found that the trial judge had not taken into account the economic recession when calculating damages.

The damages were originally awarded by Mr Justice DJ Curlewis against Caxton, Style editor Marilyn Hattingh, writer Lin Sampson, CTP Web Printers, National News Distributors and CNA.

Comprised of R250 000 for loss of goodwill and R180 000 for loss of profit for Reeva Forman (Pty) Ltd, and R75 000 for loss of profit and goodwill for Reevan Forman Dynamics, it was believed to be the highest award in South African legal history.

Yesterday, the Appeal Court reduced the amount payable to the former company, but dismissed the appeal against the amount awarded to the other company.

1% of profits for the benefit of community

IN 1980, the AECI board decided to divert 1% of pre-tax profits to improving the quality of life of South Africans

Quality of Life (QoL) budget manager Sandy Vandeyar has been in charge of this fund for the last three-and-a-half years. This year he is investing R5,9m.

AECI has devised a detailed and sophisticated set of criteria for determining the use of these funds — one which clearly delineates points which elsewhere have become rather grey areas.

"We differentiate between what we do in the direct and short-term interests versus the long-term interests of the company. QoL spending is aimed strictly at the community outside AECI," Vandeyar says.

The R5,9m, therefore, is separate from the R2,5m

set aside to fund scholarships in fields that relate to AECI's short and long-term manning needs.

It does not cover employee benefits and excludes the annual donation to the Urban Foundation, which was R1m this year.

"Our overriding criterion, since we cannot eliminate all the ills of SA, is to use the funds in those areas where our employees reside."

Upgrading

More than 50% of the education funding is used for upgrading the education system — including facilities, teachers' skills and English in schools and colleges. Emphasis is also put on scientific and technical education.

QoL projects should

Be targeted at identified disadvantaged communities within AECI's recruit-

ment catchment areas,

Have permanent or long-term impact on SA society and should be aimed at removing the causes of social or educational problems as opposed to treating the symptoms,

Preferably be initiated by AECI and should enjoy the linkage and support of the relevant company or centre,

Adopt a "hand-in-hand" as opposed to a "hand-out" approach. Hence liaison, consultation and extensive investigation with the users and recipients of resources is necessary. Community legitimacy is the central issue,

Not support an institution which promotes apartheid in any form or does not open its doors to all race groups at all levels. Projects should aim at narrowing the apartheid divide,

Take cognisance of relevant social, political and economic issues in the wider society,

Be aimed at developing skills and transferring knowledge to empower communities and institutions to become self-sufficient,

Not be initiated or funded merely to serve the business interest of any independently operating AECI company,

Relevant

Not absolve the state from its responsibilities,

Contain a self-evaluation component in order to test whether it is relevant and acceptable to the community and whether it achieves its objectives,

Guarantee security of tenure where land and buildings are involved,



SANDY VANDEYAR

Be efficiently and effectively managed. This entails, inter alia, producing evidence of tight budgetary control, financial and progress reports, ensuring the future funding of the project, showing it is responding to a critical area of community need, showing it is significant and innovative, involving a multiplier effect, building on and using available community resources and showing a willingness or potential for holistic and co-operative approach.

**Worker dismissed
for PAC
T-shirt**

Staff Reporter

A DELIVERY driver who insisted on wearing a Pan-Africanist Congress T-shirt has been fired by a Stikland packaging company

Manager of the packaging company Mr Ger Naude said last night that the company's main reason for dismissing Mr Chris Lewis was because of "insubordination to a company director, Mr Johan Venter

"And the second reason is the wearing of the PAC T-shirt outside the premises. We asked him several times not to wear the T-shirt," said Mr Naude

A spokesman for the SA Chemical Workers' Union in the Western Cape, Mr Peter Roman, said the union strongly condemned the "unfair" dismissal

PAC T-shirt man fired for insubordination

By EDWARD MOLOINYANE
and DAVID YUTAR
Staff Reporters

PENINSULA . Packaging driver Mr Chris Lewis, suspended for wearing a Pan Africanist Congress T-shirt, has been dismissed, according to a South African Chemical Workers' Union official, Mr Peter Roman

Mr Lewis was suspended on Tuesday after the management allegedly ordered him several times to stop wearing the T-shirt

Mr Roman said Mr Lewis was dismissed at a disciplinary hearing yesterday when he was found "guilty of refusal to obey a reasonable and lawful instruction not to wear political apparel outside the company's premises while doing deliveries to clients during working hours"

The hearing found that the worker had been "insubordinate and disrespectful" towards the director of a company to which he had delivered goods by threatening him with assault

The dismissal letter added "We remind you of your right to appeal against these findings should you wish to do so, failing which we will assume that you do not want to pursue the matter"

Mr Roman said not only the union, but also the PAC, of which Mr Lewis was a member, condemned this "bla-

tant intimidation in strongest term"

He said 20 company workers, also PAC members, demonstrated outside the company's Stikland premises in protest after the finding

The union would take further steps

Approached for comment, Peninsular Packaging director Mr Johan Venter said the issue "went far beyond the mere wearing of a T-shirt" Mr Lewis was dismissed for "gross insubordination and threatening conduct"

"It is not correct that the company is dismissing an employee merely for wearing a PAC T-shirt.

"The employee concerned has been charged and found guilty of refusal to obey a legal and lawful instruction, verbal abuse and several threats of physical assault on company management and gross insubordination"

He said that twice Mr Lewis had to be restrained from assaulting him and the factory manager

Mr Lewis had also refused to leave the company premises when asked

METAL CLOSURES *F/M 18/5/90*

Losing fizz *(183)*

Activities: Manufactures metal and plastic closures and moulded plastic products

Control: Wassall Plc 76,9%

Chairman: A K Steyn, MD D Crisp

Capital structure: 2,6m ords Market capitalisation R54,6m

Share market: Price 2 100c Yields 6,7% on dividend, 13,8% on earnings, PE ratio, 7,2, cover, 2,1 12-month high, 2 100c, low, 1 750c Trading volume last quarter, 5 667 shares

Year to Dec 31	'86	'87	'88	'89
ST debt (Rm)	—	—	3,60	9,08
LT debt (Rm)	0,49	0,49	0,49	0,49
Debt equity ratio	n/a	n/a	0,10	0,19
Shareholders' interest	0,68	0,60	0,60	0,60
Int & leasing cover	n/a	n/a	43,4	10,2
Return on cap (%)	21,6	23,4	27,5	20,2
Turnover (Rm)	73,0	97,9	123,4	133,3
Pre-int profit (Rm)	10,1	14,1	19,4	16,1
Pre-int margin (%)	13,8	14,4	15,7	12,1
Earnings (c)	210,0	272,7	367,0	289,9
Dividends (c)	86,0	99,0	122,0	140,0
Net worth (c)	1 218	1 391	1 636	1 852

Metal Closures' growth phase of the past five years appears to be ending. There was no real growth in turnover in 1989, earnings fell and the dividend was maintained only by a cut in the cover.

Growth in the past two years was boosted by introduction of the Duet plastic closure. With the conversion from aluminium to the Duet virtually completed, Metal Closures needs new product development to re-establish its previous growth performance. The ending of a large injection moulding contract, labour disruptions and falling demand from the beverage sector in the first part of the year further limited turnover growth.

A slide in margins and higher finance charges saw attributable earnings fall 21%. Margins were hurt by higher unit costs as production activity fell and by price resistance as competition increased.

Higher short-term debt boosted finance charges and resulted in a deterioration of the debt equity ratio, interest and debt cover, but the group remains very conservatively financed. With earnings down to 289,9c (367c) cover was reduced to 2,1 (3,0) to

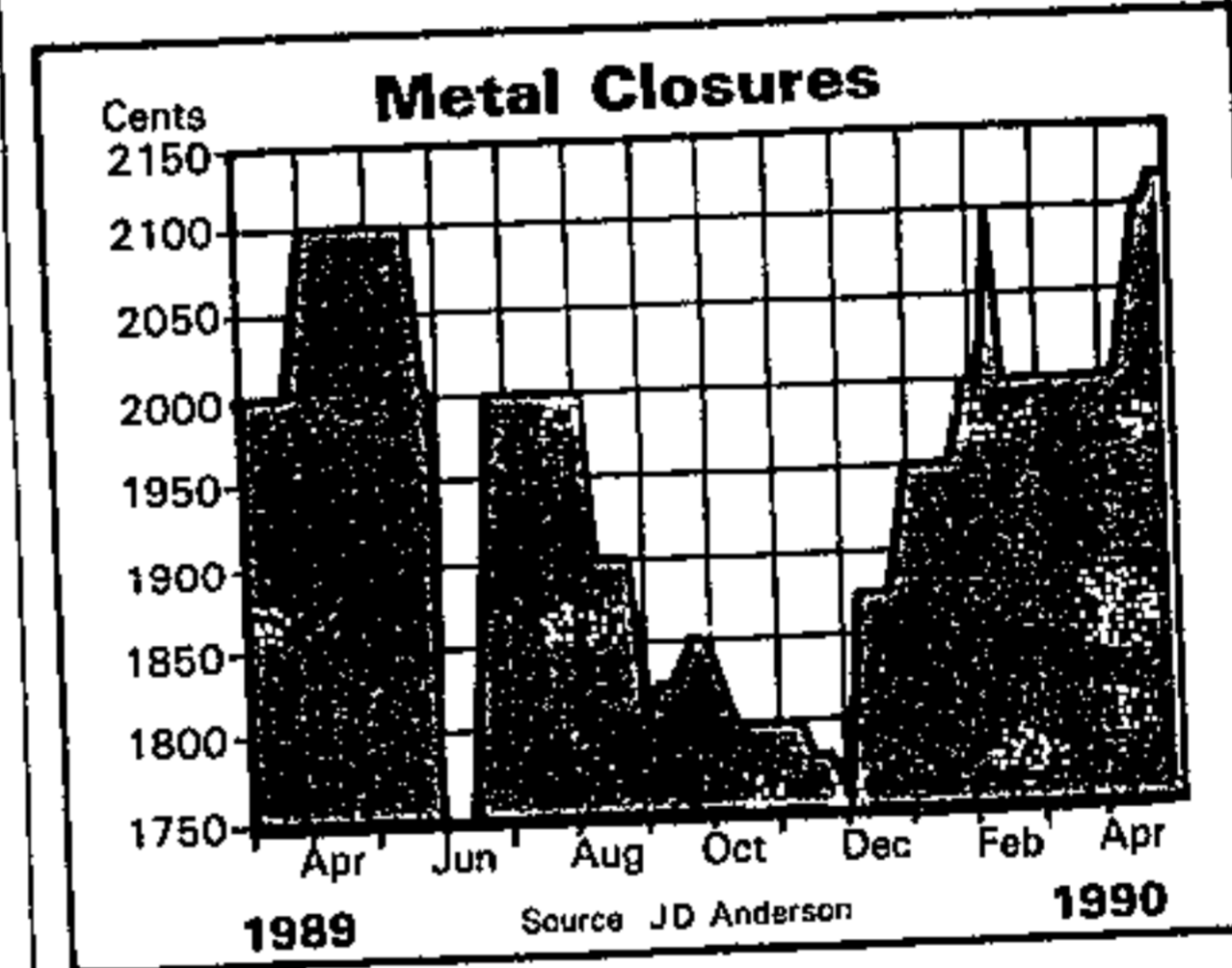
FINANCIAL MAIL MAY 18 1990

F/M 18/5/90

maintain the dividend *(183)*

The change in control in early 1989 may indicate a change in course. The holding company, Metal Closures Group Plc, was taken over by Wassall Plc. Wassall said at the time there was no intention of selling the SA interests but some operational changes could be made.

Though the group expects higher profits in 1990, it is difficult to understand from the



fundamentals why the share is at a 12-month high. This could be on speculation of a buy-out or other structural changes. Last week's cautionary notice helped encourage market talk along these lines.

Pam Baskind

'Many firms criticise PAC shirt wearers'

IT WAS becoming commonplace for workers who wore Pan Africanist Congress T-shirts to be reprimanded by their companies, said the internal foreign secretary of the PAC, Mrs Patricia de Lille, in reaction to the firing of a Stikland packaging company driver.

"Many companies adopt this attitude," she said. "We find that at these companies there are workers wearing ANC sweaters but only workers who wear PAC T-shirts are reprimanded. The PAC strongly condemns the action taken by the packaging company," said Mrs De Lille.

The PAC would "exhaust company procedures first" before taking legal action, she said.

Mr Chris Lewis was dismissed this week, following a company disciplinary hearing.

He said: "When management informed me of the dismissal, I appealed immediately. If the appeal does not work, then further steps will be taken. The matter will be taken to the Industrial Court."

Mr Lewis has also laid a charge of assault against company director Mr Johan Venter, who allegedly attacked and "verbally abused" him on Tuesday.

Trek makes way for Engen on JSE

CMT 1995 21/5/90

183

Own Correspondent

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

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

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

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

According to the transmuted listing statement published today, deregulation and greater urbanisation within SA will ensure market growth for liquid fuels exceeds the average growth rate of

SA's first integrated energy group

the economy, which will have a positive impact on Engen's future prospects.

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

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

A stockbroker argued Engen

provided "super" profit potential.

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

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

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

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

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

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

PAC to act
on firing ^{CAPE TOWN} _{21/5/90}
of worker
over T-shirt

 (183) 
Staff Reporter

THE Pan Africanist Congress, Western Cape, last night strongly condemned the recent dismissal of a worker for wearing a PAC T-shirt, saying it would "not tolerate intimidatory tactics" from any quarter.

Mr Barney Desai, Western Cape co-ordinator of the PAC, said a resolution to register protest at the dismissal of the packaging-company worker had been taken at a meeting yesterday.

The PAC also noted "that apparently workers wearing T shirts of the African National Congress have not been similarly disciplined".

Royal ups
earnings
by 37%

183
21/5/90
Financial Staff

ROYAL Corporation, the food and pharmaceutical oriented company, outpaced its forecasted earnings of 18c a share, in its revised JSE-listing statement, with a 37% hike in earnings a share to 18,5c for the year to February

A dividend of 8c a share was declared

The directors say the acquisition of Beach-Nut, the company's star performer, as well as several other purchases altered the financial structure of the firm making a comparison of previous the year's meaningless

Group Chairman Vivian Imerman said 85% of the Royal group's business flows from food and pharmaceuticals

COMPANIES

Paper and board holding up despite threat from plastics

183
Bloom 22/5/90

ZILLA EFRAT

PAPER and board packaging materials are holding their own in key product sectors, although they are increasingly threatened by plastics

A Business and Marketing Intelligence (BMI) report on SA paper and board packaging says the industry's focus is on improving the quality of local products so they compete more effectively with imports and rival packaging materials like plastics.

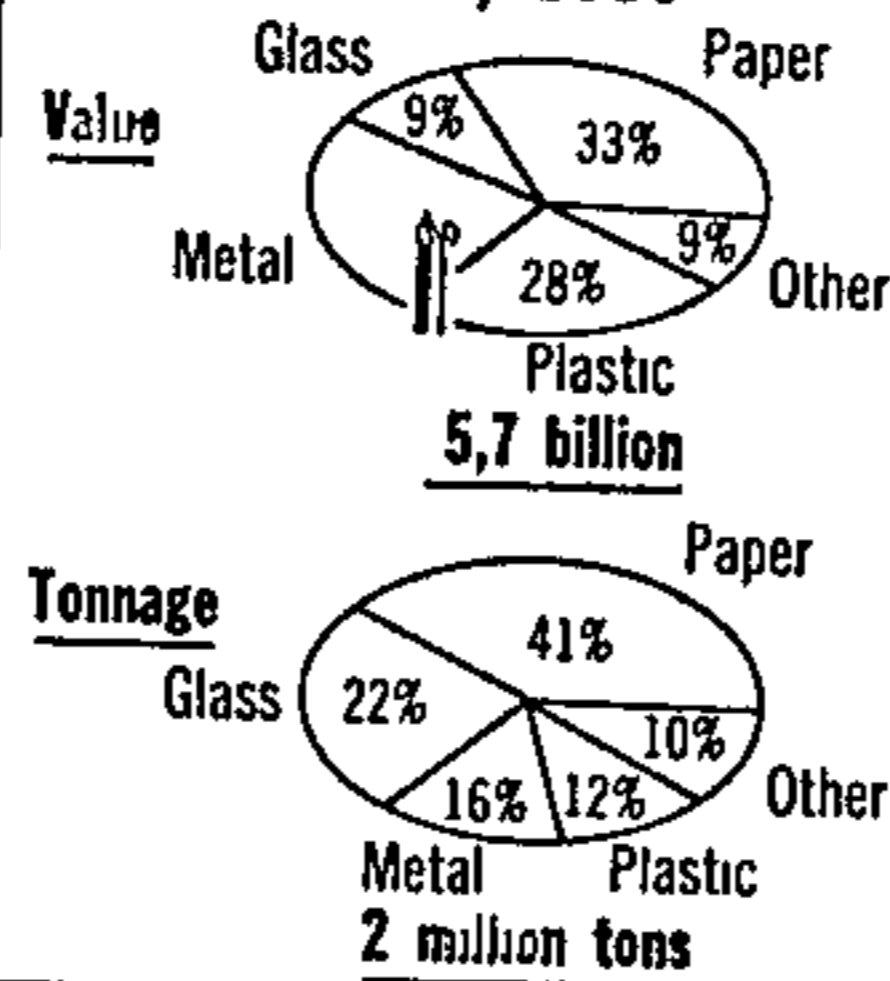
An area of growth for the industry is expected to come from automotive parts — a market forecast to show an average 10% growth by volume over the medium term

This is because SA's changing vehicle ownership profile is boosting sales of replacement parts and the increasing age of vehicles on SA's roads — spurred by sharply rising new vehicle prices — is resulting in more repairs and maintenance

BMI says carton board remains the choice of automotive parts manufacturers and distributors

A return to corrugated packaging used in paints, lacquers and varnishes is under consideration as shrink-

Consumption of packaging material in SA, 1989



Graphic: FIONA KRISCH Source: BMI

wrapped tins are easily damaged

In addition, BMI says hazardous goods regulations could compel a return to corrugated cartons as secondary packaging

However, foods still dominate the end-user market for paper and board packaging. Two-thirds of all corrugated materials and more than half of cartonboard by tonnage go into food packaging

BMI says good growth is forecast for corrugated materials in chicken consumption because of the growing health awareness and the expectation that maize prices will continue to rise at well below the inflation rate

The chicken industry has found plastic crates too expensive, too difficult, time consuming and costly to retrieve

BMI says moulded pulp continues to outdistance its polystyrene rival in egg packaging. Most consumers prefer the moulded pulp boxes because broken eggs are absorbed into the immediate area and seepage is visible without having to open the box

However, in other areas paper and board products are losing ground to plastic products

A steady fall is predicted in the food industry's use of paper wrapping, notably tissue wrap for apples. Another adverse trend is the swing in some sectors to bulk packaging and transportation

Paper sacks are still used in non-food applications, but their use by chemical and rock products industries is expected to decline over the next few years

SA lacks equipment to its boost exports

A SERIES of projects costing R6bn is being proposed by members of the chemical industry as a way of boosting SA exports

Sentrachem MD Johan van der Walt says the export opportunities are concentrated in the petrochemical sector

However, SA does not have a world-scale "cracker" There is one small unit, but it is limited in its scope and the range of basic chemical building blocks it can produce

Van der Walt says a cracker takes the basic material naphtha and breaks it down into seven basic chemicals These are the building blocks from which the chemical industry worldwide produces a range of products including plastics, rubber, polystyrene and polyester

Sasol provides two of the seven, namely, ethylene and propylene The other five have to be imported at a cost of R300m-R400m each year

In addition, as these

chemicals are not available locally there is a tendency not to manufacture products using them

"If we want SA to compete on the world markets we must invest in a world-scale cracker

"Such a cracker would need to be able to manufacture 350 000-400 000 tons of ethylene a year The other six chemicals would be produced in direct ratio to the ethylene," says Van der Walt

The cost would be high In 1990 rand terms, the cost of a cracker this size will be R2,5bn-R3bn However, Van der Walt says this is about half the investment required

"It will be necessary to convert the cracker's output to useful products It will be necessary to provide the downstream plants another R2,5bn-R3bn

"Not all of the investment will be needed at once The plants to convert the ethylene, for example, to polyethylene will have to be built, but the plant to convert this still further can be delayed as polyethylene can be exported

"The main thrust of the investment in the cracker will have to be towards exports We estimate about 60% of the downstream output will have to be exported to justify the cracker"

If the project goes ahead he says the venture will involve all the major players in the SA chemical industry The involvement of an overseas partner is also essential to secure both feedstock and a market

Substantial

"The project will require substantial government input in the form of a long-term strategy to allow planning and investment based on a determined programme," says Van der Walt

Two committees have been formed One to investigate availability of suitably priced feedstock and the other to examine how best to stimulate downstream producers

Van der Walt expects a final decision in the next 6-12 months, but even then the cracker will not be

completed before 1995-1996

He says the relationship between the cracker venture and the refinery industry is important as it will supply the cracker with a large percentage of the feedstock

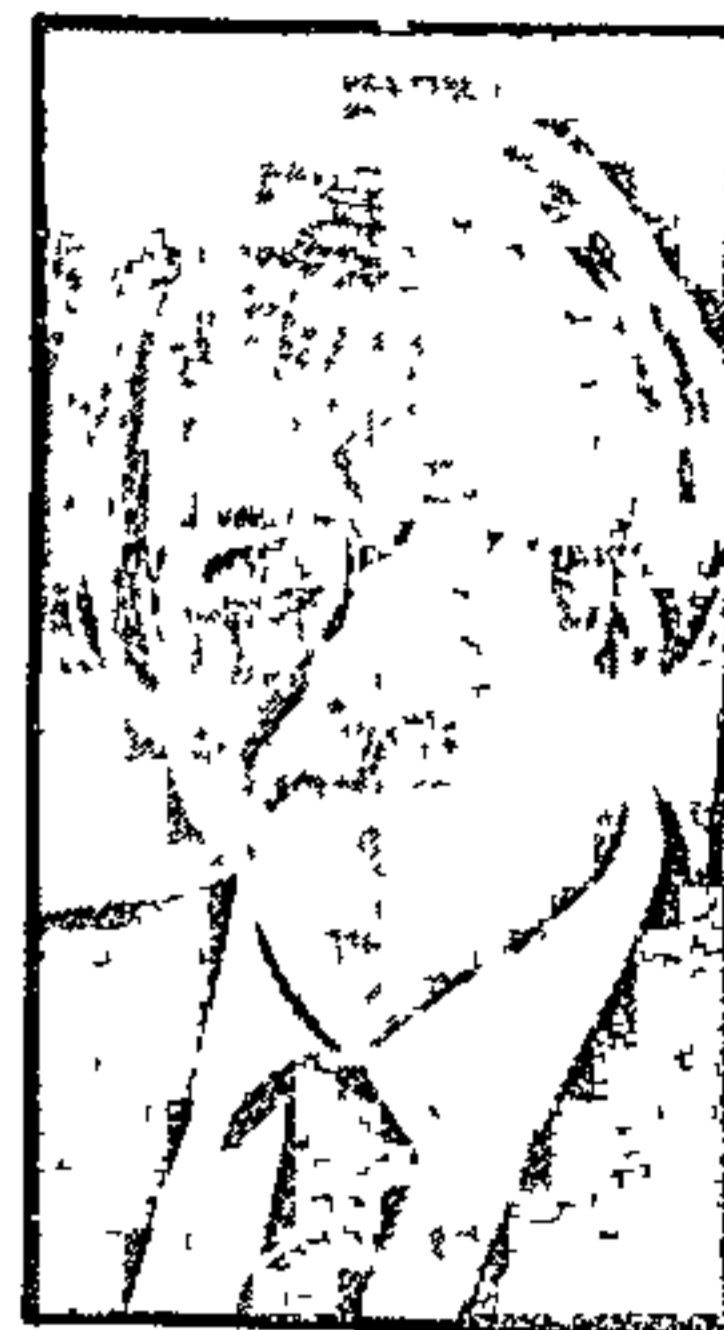
However, the proposed cracker is not without its critics

Sasol executive director André du Toit says "The project would be based on imported feedstock and offer SA no competitive advantage

"The government can take the same route as Taiwan and subsidise the cracker product to the downstream producers, but as a purely commercial enterprise the return on investment would be poor if it was dependent on exports to sell the bulk of its production

"SA will be paying the same as the rest of the world for feedstock and still have to pay transport costs

"The capital expenditure is high for a project which does not offer a competitive advantage



ANDRE DU TOIT

"Also, the local market is small and will not absorb much of the production If you have to export 80% of production you are at a severe disadvantage on the world markets"

He says there is a better way of increasing ethylene for export

"Ethylene can be produced by Mossgas This will give us another 150 000 tons of ethylene each year The plant would cost significantly less and the lower feedstock cost will give SA a competitive advantage as it would be based on local raw materials

"At present, Mossgas produces fuel which has a lower value than ethylene," says Du Toit.

New development is a money spinner

A NEW South African development can earn foreign currency from exports and save significant amounts of foreign exchange

Locally developed Sentex is a synthetic lubricant for use in the textile industry

The yarn lubricant was developed by the Senfluid division of Karbochem in conjunction with local industry. It provides an alternative for expensive synthetic imports and locally made mineral-based lubricants.

Products manager Casper Pretorius says the three selling points of Sentex are its stain-free qualities, local production and cost effectiveness

"With these benefits we can aim at gaining a major share of the local yarn lubricant market, worth an estimated R3m annually," says Pretorius

The company is exploring export potential in the hope it will follow other Senfluid products creating considerable interest in Europe

Sentex is substantially diluted before it is applied to textile raw materials, thus reducing fly-waste and static — both of which cause problems for textile manufacturers

Pretorius says there are many opportunities opening up within the textile industry, including carpet-weaving and the lubrication of various machines.

The company is also investigating possible applications in other industries

Promise in specialities

AN AREA for development in the chemical industry, apart from bulk chemicals for export, is the creation and manufacture of speciality chemicals

These are chemicals where the client is buying specific solutions designed to meet particular needs

AECI MD Mike Sander says "These are not necessarily high-technology but they require a lot of co-ordination with the customer to produce

"The chemicals are expensive, so the client is happy if you come up with a technical solution to his problem that is also cost effective

"A lot of technology is needed to develop the application, but not so much in manufacture

"This area is well established in SA but there is

room for development," says Sander

In the mining industry, SA is at the leading edge of technical development and this creates an opportunity to market speciality chemicals for this industry worldwide

"While the industry is mature, the chemical producers must explore new avenues, such as explosives which can reduce mining costs"

He says speciality chemicals must be developed to provide solutions to unique South African problems

"This is the main area for technical development in the chemical industry In agriculture alone, there is tremendous potential for an SA solution, with SA technology, to SA problems

"For example, in SA, polyethylene makes up only 1%-2% of materials used to

conserve water In Israel, 75% is used Here is an opportunity for the local plastics manufacturers

"The solutions cannot be imported as they are not suited to SA's circumstances," says Sander

There is no real opportunity for SA companies in the manufacture of "effect" chemicals, such as drugs, he says

These products have a high research and development cost However, the chemicals have unique properties and returns are high if they work But the technology is well guarded and the majority of these chemicals are imported

Plants to produce them are often highly dangerous and the chemicals are difficult and expensive to handle Also, there are huge barriers to anyone entering this sector

Blom 25/5/90

The future lies in off-shore dealing

183

THE bulk chemical industry in SA is well established, but given the small local market, growth is dependent on exports

AECI MD Mike Sander says "The industry must look off-shore and this includes our customers. We don't want to export bulk chemicals as such

"The solution lies in our customers, the downstream producers, adding value to our chemicals before exporting them and we want them to acquire a strong export orientation

"On the other hand, the chemical producers must have the same orientation and play a proper role to ensure the downstream producers are competitive"

He says the petrochemical industry is well established in SA but is under-developed

For example, he says "SA had a competitive advantage in exporting electrical cable, but there were problems, such as the cost of copper and many of the producers being owned by international companies



MIKE SANDER

which did not want local industries competing on world markets

"Since both these problems have been solved, exports of electrical cable have taken-off

"The SA motor industry's local content was based on mass Heavy, low-value items do not offer export opportunities

"However, the industry

is now moving to local content based on value and will develop low-weight high-value items, many suited for export," says Sander

However, while saying the drive to increase exports is dependent on downstream producers he is aware of the need for the primary producers to cooperate

"We have to provide our customers with materials at prices which will enable them to compete

"For example, AECI makes PVC available in large quantities for exports. We provide it at prices similar to those an overseas competitor pays. But at the heart of such an arrangement must be the relationship between the primary producer and the downstream manufacturer

"The burdens and benefits must be carried by both

"If we invest in a R500m plant to produce for export we must be sure the investment will succeed. Thus, the relationship between the producer and the

downstream manufacturer must be stronger than simply one buying chemicals from the other. "As producers, we must see the market through our customers' eyes and understand the problems they face," says Sander

The industry wants commitment from the downstream producers before it will make the huge investments needed to supply them

Sander says such commitment is not a form of cross-shareholdings as this will be seen as unfair to those who do not have the equity involvement

"We are more interested in whether the company has invested in the nuts and bolts, such as management and distribution structures for exports. We also look for manufacturing capacity committed to export production," says Sander

Exports for the majors in SA is about 10% of capacity, a fraction of the world market and SA's exports in this area could triple without making a noticeable impact on these markets

SA unlikely to follow the overseas route

MANY of the major overseas chemical companies are vertically integrated, giving them a substantial advantage.

However, SA's industry is unlikely to follow this route

Sasol executive director André du Toit says vertical integration gives overseas industries advantages on the world markets for finished products

They are able to look at the profit and carry operations which are not money spinners in themselves but are required to produce the high-value items at the end of the chain

However, Du Toit says: "Sasol is the commodity producer and we supply companies such as AECI and Sentrachem.

"They in turn supply the downstream producers. "If Sasol decided to move downstream it would be competing with its own customers

"Where there is no interest in taking advantage of a gap we will step in if we believe we have a competitive advantage"

He says the company is investigating a number of projects. Sasol I is shutting down its fuel production and expanding its production of specialised hard waxes used in products such as printing inks, textiles and packaging. It also produces medium waxes for use in candles.

Sasol is already a world leader in the production of hard waxes, holding about 30% of the market. It exports about R100m and this could double after the conversion.

However, Du Toit says the project is awaiting final board approval.

History of growth and diversification

THE South African Coal, Oil and Gas Corporation (later to become Sasol) was formed in 1950

The company was established as an ordinary profit-motivated concern with capital provided by government through the Industrial Development Corporation.

The original plant was built at Sasolburg and used German and US-based technology

Modified

However, extensive local oil-from-coal research led to the development of more economical technology and the plant was later modified

In 1972, Sasol acquired the rights to the Sasol Synthol Process

The company established itself during the '60s as an important supplier of raw material for the chemical industry, producing butadi-

ene and styrene for synthetic rubber, ammonia for fertilisers and ethylene for, among others, the plastics industry

Sasol formed Gascor in 1964 and this company supplies Sasol fuel gas to about 700 firms in the southern Transvaal.

Sasol started refining imported crude oil in 1967 and created National Petroleum Refiners of SA in 1969

During 1979, Sasol Limited was established as the holding company of the Sasol Group and the company was quoted on the Johannesburg Stock Exchange.

The company expanded still further with the completion of Sasol III in May 1982

In 1983 the company entered the fertiliser market and started manufacturing explosives in 1986

The CSIR is geared to looking at exports

THE CSIR is active in several niches in the chemical industry — areas considered to offer potential return in either import substitution or export opportunities

CSIR manager at the division of material science and technology Gerrit van der Klashorst says the institution's effort is divided into a number of different areas

The division of energy technology concentrates on developing catalytic processes and catalysts (183)
Water technology is working on water, waste and sewage treatment b10uu 2515790

The forest science and technology division concentrates on developing processes using local materials for the paper and pulp industry.

The textile division develops processes for the local industry and the food division is developing and implementing chemical technologies for food and beverages

Van der Klashorst says environmental aspects are becoming important to the chemical industry and the creation of environment-friendly processes are critical for further growth

"We must prevent pollution and the CSIR has established a fast reaction team to evaluate and assist when spillages occur," he says

Klashorst says the CSIR is developing the next generation of materials which will be used in the products of the future.

SABS mark to save the environment

THE government recently announced it was considering the introduction of a South African Bureau of Standards (SABS) mark for environment-friendly products.

The move is a major step forward says Senfluid GM Philip Ridgwell.

The independent seal of approval will be welcomed throughout the industry.

"There is international confusion as to what constitutes bio-degradability and environment friendliness.

"The possibility of the SABS co-ordinating a technical definition would place SA at the forefront of environmental awareness," says Ridgwell.

Senfluid manufactures a range of environmentally compatible greases and fluids. It has been successful in exporting both its product and its technology to Europe.

Ridgwell says the worldwide confusion is causing complacency.

"Without clear-cut standards, companies are unwilling to spend time and money on improving their



PHILIP RIDGWELL

6/Day 2, 15/90
products," he says.

Senfluid is part of the Sentrachem group, and the company has adopted a two-prong approach to its environmental awareness programme.

It has used in-house technology to allow the use of water rather than a mineral oil as a lubricant base.

And its concept of speciality lubrication focuses on the selective and precise use of the correct lubricant. This reduces the volumes used and any impact on the environment.

New Sasol plant to save R200m a year

SASOL's new R500m polypropylene plant started production this year.

It will save SA about R200m a year in foreign exchange.

The plant is Sasol's biggest venture since the construction of Sasol III in 1979.

It has a capacity of 120 000 tons a year and 70%-80% will be exported.

Sasol executive director André du Toit says: "Building a plant when the majority of the production will be exported is justified because of the competitive cost of the propylene. We will make a slight profit on exports and more on local sales

"As the local market grows, so the plant will become more profitable, and we are putting a lot of effort into encouraging downstream producers.

"Negotiations are taking place with local manufacturers over production for export. We will be offering a significantly lower price where the end product is intended for export.

"Some manufacturers have capacity lying idle which could be devoted to export production. "Others will have to invest in additional plant to

take advantage of the competitive edge SA has in polypropylene."

The feedstock for the new plant will come from Sasol II, where it is presently being converted to lower-value fuel, but fuel output will not be affected as Sasol II is performing substantially above the design level.

Polypropylene has a wide range of applications. Once the Secunda plant is operational, downstream producers will have a choice of materials

Range

The polypropylene range includes homopolymer — used for fibre and tape applications for carpets, staple fibre for padding, roping and disposable nappies.

The plant will also produce "block" or impact polypropylene, which has a mix of properties, including resistance at low temperatures. One application for this is casings for batteries and variations are used for garden furniture and luggage.

The third form which Sasol will produce is "random co-polymer" which has found increasing application overseas in the medical field.

B10ay 29/9/90

~~183~~ 183

Sasol ready to plug gaps

SASOL has decided its earnings growth lies in the petro-chemical industry and is positioning itself to take advantage of gaps in the market

About 20% of the company's production is high value co-products associated with the production of synfuel

However, only about half of these co-products are being channeled into the petro-chemical industry

But many of these products cannot be exported in

the basic form and there is either no downstream converter or insufficient capacity to cope with the remainder

Advantage

Sasol executive director André du Toit says "It would be better to take all the co-product production and put it into the petro-chemical industry. If it is all absorbed locally and value added before export there will be substantial advantages for SA

"This country has a significant competitive advantage in this area and we will make more profits"

The SA market for ethylene is about 250 000 tons and Sasol has a capacity of 350 000 tons. Another 20 000-30 000 tons are converted to polyethylene for export by AECI and Sentrachem, with the balance being converted back to fuel

"By converting to fuel we are taking a high-value product worth R1 300-R1 400 a ton and converting it to a lower value product

worth about R750 a ton. "There is not enough downstream capacity to convert all the ethylene"

He says Sasol is doing all it can to encourage exports and offers ethylene at a substantial discount when used to produce products for export

The producers sell all the polyethylene they can manufacture

The world production of polyethylene is about 20-million tons, so the market is able to absorb everything SA can produce



The Sasol I plant at Sasolburg

Product switch to chase high level of profits

BIDM 2515790
HIGH value added chemicals are making the largest contribution to Sasol's earnings growth and this explains why the company is revamping Sasol I

The new-look Sasol I will phase out its synfuel production and produce chemicals

GM Dave Day says diseconomies of scale, inflation and the ageing equipment at Sasol I, which was commissioned in 1955, make synfuel production less profitable than at Sasol II and III

Sasol I will continue to produce industrial gases and will be revamped to manufacture high value added chemicals.

While the plant's synfuel production will be phased out it will not affect fuel supplies as the other two facilities are producing substantially more synfuel than their original design level.

Synfuel is expected to continue as the company's main product and co-products from Sasol II and III will go to Sasol I for further development

Revamped *183*

Day says the plant has been moving in the direction of chemical production for some time.

"The original ethylene plant has been revamped and is using feedstock from Sasol II and III. A blending plant has been established for customised solvents and Sasol I's standard purification plant has been upgraded to produce high purity phenols

"The design of new technology for Sasol I's special wax and chemical production is being considered. If design is duplicated and modernised, the new processes could go on stream in months

"However, there are advantages to going for new technology. This is attractive, but it will take longer to apply," says Day

Moth-balled plant will be recommissioned to purify the industrial alcohol n-Propanol which is an important building block for chemical and pharmaceutical applications

About 50% of Sasol I's expected output will be exported and SA's reliance on certain imports will be cut

Service for easier information

B 10 cm 25/1/90
A SPECIALISED Chemical Information Service has been established by the CSIR to provide chemical engineers and chemists with industry information

Chemical information exists in abundance, but it is often difficult and time consuming to wade through in order to find the information needed

To make life easier, the service is being run by chemists with many years of experience in chemical information searching

Sophisticated printed and computerised re-

sources are used to find the information on the client's behalf

Information is a vital factor in making decisions, learning about the state-of-the-art technologies and applications and in solving problems, says the CSIR

Reference


The service is run by the CSIR's division of information services which houses SA primary collection of chemical reference works and journals — an investment of many millions of rands

It also has access to hundreds of international databases providing information on chemical processes and plants

In addition, the service is closely linked with the CSIR's chemists and chemical engineers working in the fields of adhesives, materials, timber, textiles, food processing, fine chemicals manufacture and analytical services

For companies wanting to keep a wary eye on the competition, the service also provides patent infor-

mation

(183) 
Clients are able to select the information package which suits their needs. Options available include handling short queries, compilation of reading lists covering specific subjects, subscription to a regular updating service, tracing copies of documents, translating text into foreign languages, membership of the CSIR library and a consultancy service in information management

The service is open to any company or person

Handwritten signature

BID No 2575790

Essential

to cut

down on wastage

A SUSTAINED waste minimisation programme is essential if the chemical industry is to conserve precious raw materials.

Head of the Pollution Research Group and associate professor at the department of chemical engineering at the University of Natal Durban Chris Buckley says: "We believe industry in SA needs to handle waste more efficiently, not only because of the environmental implications, but also due to the fact proper waste minimisation can save millions of rands."

Savings

To this end he has set up Buckley And associates

Through in-house water and effluent management surveys and effectively implemented waste minimisation audits enormous savings can be made.

Buckley has spent 14 years with the Pollution Research Group — funded by the Water Research Commission as well as the chemical and recycling industries — and has built up extensive experience of pollution control in SA

"Many companies have recognised that if they are to remain competitive they must take a fresh look at ways to minimise the waste arising from their production processes and supporting activities

"This is becoming a permanent feature of their business strategy," says Buckley

21 STILL A VICTORY 183

The Reeva Forman-Caxton saga has finally been settled after the Appeal Court reduced the damages payable by Caxton to the former Dior model by R700 000. Forman was initially granted R2,125m in 1988 by Mr Justice Curlewis in the Rand Supreme Court; the judge found that Reeva Forman (Pty) and Reeva Success Dynamics (Pty) were libelled by an article which appeared in *Style* magazine in 1985. **AIM 2575790**

Appealing against the Curlewis judgment were: Caxton, *Style* editor Marilyn Hattingh; the writer of the article, Lin Sampson; CTP Web Printers (Pty); National News Distributors; and the Central News Agency.

The initial award was made up of: R250 000 for loss of goodwill; R1,8bn for loss of profit for Reeva Forman (Pty); and R75 000 for loss of goodwill and profit for Reeva Success Dynamics (Pty). The Appeal Court reduced the amount payable to Reeva Forman (Pty), but dismissed the appeal against the amount awarded to the other company. The reduced amount is still a record damages award.

Chief Justice Corbett, in concurrence with Appeal Court Judges Hoexter and Grosskopf and Acting Appeal Court Judges Friedman and Nienaber, also found that the appellants were entitled to the costs of the appeal, save those of the appellants and Reeva Forman (Pty) for the second day of the appeal. These costs are to be borne by the appellants.

Looking at a plastic future

The winds of change are beginning to blow more strongly against SA's costly, coal-based synfuels programmes. But, ironically, just when the eventual lifting of the oil embargo is becoming a talking point in the liquid fuels industry, major new coal-based petrochemical initiatives are still being considered.

The debate may rage between coal and oil as the future feedstock for fuel and chemicals, but a fundamental shift in focus is taking place in the multibillion rand liquid fuels industry — away from synfuels and towards beneficiation for the petrochemical industry.

The stage is thus being set for a battle between synfuel giants Sasol and Mossgas, SA's large chemical companies, the big oil groups and new entrants such as government's Industrial Development Corp, for the major slice of the profitable local petrochemical industry.

Past strategic and political considerations — including the oil embargo — led government to protect and subsidise Sasol and to reach the point where it can no longer extricate itself from Mossgas. Sasol's current direct subsidy amounts to about 8c/l. Mossgas is also costing the taxpayer millions. This has distorted the development of a lucrative local petrochemical industry — until now.

Government recently announced that it is to investigate the possible deregulation of the liquid fuels industry — including the procurement of oil, cross-subsidisation, monopolistic practices, competition and other issues. Its decision not to commission any additional synfuel plants underlines the change in official thinking.

Meanwhile, a possible settlement with the ANC and an end to the oil embargo has led to a re-examination of investment in the liquid fuel and petrochemical industries.

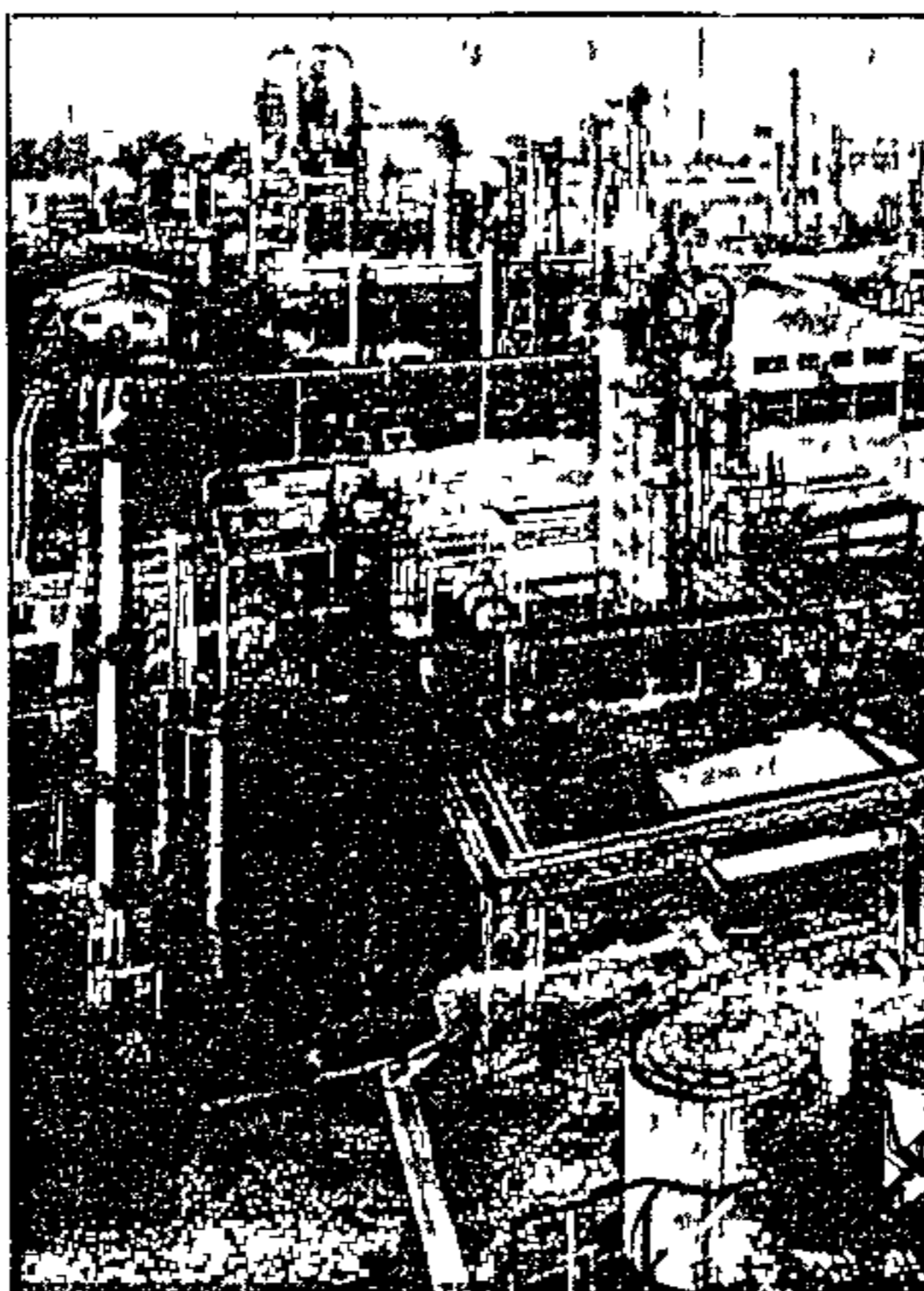
Sentrachem and AECI are said to be looking at building a R4bn-R5bn naphtha cracker, capable of producing about 335 000 t of ethylene annually. At this stage it is believed to be only a vague possibility; the project is so vast that an "SA Inc" approach may have to be adopted should it reach the stage of serious consideration.

Foreign capital could be another requirement for the successful completion of a local naphtha cracker. But, by producing the seven chemical building blocks for downstream beneficiation into plastics and related products, the cracker could form the basis of a major expansion of the local petrochemical industry.

Another consequence of government's shift from synfuel operations is Engen's plan to investigate a R1,5bn doubling of the capa-

city of its Durban Genref refinery. A decision should be reached by the end of the year, says technical director Theo van der Pas. He adds Engen also is looking at the feasibility of downstream beneficiation into plastics.

Meanwhile, as the private sector reconsiders its options and looks at new, oil-deriva-



Take the 'syn' out of synfuels, the signs indicate

lative projects, the IDC is investigating the possibility of launching a massive R3bn-R5bn coal-based petrochemical plant on the Waterberg coalfields near Ellisras. The plant would use an estimated 2 Mt coal a year.

"The high volatility of the Waterberg coal could make it acceptable for an economic petrochemical plant, providing annual output of 300 000 t-400 000 t of benzene, toluene and xylene — essential building blocks for the manufacture of plastics such as styrene and solvents such as ammonia," says IDC GM Ted Droste.

But, he admits, it's early days and the first studies won't be completed until early next year. "It could take at least three to four years before we reach a final decision."

Droste reckons SA should use raw materials such as its rich coal resources as feedstock for petrochemical production — depending on the acquisition or development of the right technologies, as well as the economic viability of the projects "without government subsidisation."

Droste has doubts about a naphtha cracker. He says it might be difficult to find an overseas market for the ethylene and propy-

lene produced by a cracker.

"And viability would depend on world oil prices."

He points out that a benefit of the corporation's coal-based plant is that its products would be in easily marketed liquid form, while the cracker's ethylene and propylene would be in gas form and would need further refining.

Meanwhile, coal-based Sasol is looking at 20 projects with a total value of more than R3bn. They could provide a turnover of R1,8bn at current values. This does not include its recently commissioned R500m polypropylene plant.

Mossgas is still sticking to synfuel as its basic commodity, though GM operations John Theo admits petrochemical beneficiation is being looked into.

Sasol MD Paul Kruger remains bullish on the future of the existing Sasol synfuel plants, maintaining that oil prices should reach US\$23 a barrel by the mid-Nineties. At that price level, Sasol would be profitable without State support. Sasol is SA's major petrochemical producer and sales of its ethylene, propylene, phenols, ketones, alcohols, waxes and now polypropylene, in the local and export markets, exceed R1bn a year.

But it is the State-subsidised synfuel giant's very size and built-in advantage in the local market that is now forcing Sentrachem and AECI to look at alternative feedstock sources.

If government goes ahead with its deregulatory moves, a more even playing field for these groups, relative to the synfuel giants and the oil majors, will be created, giving the industry a substantial boost.

Arnold van Huyssteen

BUSINESS CHARTER

FIM 25/5/90

Stating the obvious

The SA Chamber of Business's "charter of economic, social and business rights," published last week, is unfortunately entirely predictable. It reiterates support for democracy and a free enterprise economy — and is most notable for its omissions.

For a start, there is no indication where the chamber will stand on the delicate (for it) issue of free trade vs protectionism — a dilemma for it from the moment a merger of Assocom and the Federated Chamber of Industries (FCI) was mooted.

Even when the charter tackles non-business issues, there are some unresolved questions. On the language issue, the charter says: "A person belonging to an ethnic, reli-



Federale's Van der Walt ... portfolio changes planned

FIM 25/5/90

(183)

MD Peet van der Walt is forecasting an improvement for this year. He bases this view on plans to rationalise and strengthen the portfolio and on better results expected from the food and pharmaceutical companies. Of the "ailing companies" he says there will be actions and announcements during the course of this year.

component companies. Last year's jump in borrowings, which resulted from overstocking in certain divisions, pushed up the group's gearing to 65% — less than two years since the large rights issue in mid-1988. Van der Walt says the intention is to reduce gearing to below 50%, though it is unclear whether that will be achieved in the current year. There are no plans for a refunding.

In view of the economic climate, interim figures in the 1991 year will be down on the year-ago level, but some growth in EPS is expected for the full year. *Andrew McNulty*

FVB SLUMPS

Year to Mar 31	1989	1990
Turnover (Rbn)	3,39	3,83
Trading profit (Rm)	321,0	291,0
Pre-interest profit (Rm)	347,0	333,0
Attributable (Rm)	129,5	95,3
Earnings (c)	86,9	56,6
Dividends (c)	21	21

FEDERALE VOLKS FIM 25/5/90

Debt soars (183)

When the troubled Federale Volksbeleggings announced management changes earlier this year it appeared that some hefty rationalisation moves could lie ahead. Results for the year to end-March reinforce that view.

Trading margins have buckled, leading to a 9% drop in trading income despite a 13% increase in turnover. More importantly, the interest-bearing debt rose by R190m to R573,6m and finance charges absorbed nearly 40% of operating profit.

That left the attributable earnings down by 26% and, with the bottom line dilution after the 1988 rights issue still continuing, EPS collapsed by no less than 35%.

As far as the trading performance is concerned, the hardest hit sectors were the consumer and agricultural equipment businesses. The attributable profit contribution from motor components and agricultural equipment fell by 28% to R14,5m. The domestic consumer goods slithered from a R23,5m profit to a R2m loss. Services were 14% higher at R29,9m, pharmaceuticals were 1% down at R27,7m and food was only 4% up at R35,4m.

"We envisage a combination of shrinking some operations, mergers and disposals," he says.

The rationalisation will also be aimed at reducing the sensitivity of the group's profits to agriculture and consumer spending. The divisions concerned are now seen as playing too large a role in the portfolio. The effect, he says, will be a narrower focus for Federale, which will concentrate on food, services, pharmaceuticals and core motor

AECI committed to phasing out CFCs

Biday 25/5/90

183

CHLOROFLUOROCARBONS (CFCs) appear to be damaging the earth's vital ozone layer, sparking off a worldwide effort to find chemical substitutes for CFCs

In SA, the largest CFC manufacturer is AECI and the company is committed to phasing out CFCs

In an important interim step the company is spending R18,7m on a plant to manufacture the less dangerous HCFC22

The plant is expected to come on stream at AECI's Sasolburg factory by mid-1991

Less impact

HCFC is not restricted by the Montreal Protocol as it has significantly less impact on the environment than CFC11 and CFC12, the products currently being manufactured at the factory

AECI says HCFC is a viable alternative to the CFCs used in refrigeration and air conditioning systems

The company says progress is also being made in finding substitutes for the aerosol industry, which consumes about 45% of the CFCs in SA

The use of CFCs in aerosols is expected to have ceased in SA by the end of the year

CFCs have held a vital

place in modern society. They are used in the production of plastic foams used as insulation in the refrigeration industry and for cooling underground areas such as SA's mines

CFCs are used in air conditioning and as solvents to clean computer components and circuits as well as TVs, sound equipment and other electronic equipment

The chemicals are non-toxic and non-inflammable, which are two reasons why the aerosol industry found them so attractive as propellants

During September 1987 over 50 countries met in Montreal and agreed to the Montreal Protocol. This agreement laid down the phasing out of CFCs. The production and use of CFCs was to be cut by 50% over 10 years

However, CFCs are not the only concern over the environment and AECI MD Mike Sander says the ozone layer depletion has distracted everyone from the gradual destruction of the planet itself

"For man to have a long-term and successful future on earth he must learn to control and manage his activities in such a way he will not cause any highly damaging permanent effects on the environment

"Regrettably, restoring

the environment to its former glory is no more than a pipe dream. While the birth rate in many countries is declining, the world's population will still increase by one billion every 12 years until the middle of the 21st century.

"Industry will have to expand to cope with the growing population and that will create even more pressures. All we can do is create centres within those burgeoning populations which will preserve some of our irreplaceable heritage

Potential

"The chemical industry has much potential for environmental damage but, provided we manage our affairs responsibly, it can provide many of the solutions needed to cope with the effects of population growth," says Sander

Most industrialists are aware of the need to improve their environmental performance and are already tackling the problems.

"While industry is often reluctant to disclose the efforts it is making to preserve the environment, it is spending a great deal of money on conservation and environmental work," says Sander

183

Growth rate stays in a state of flux

THE relative value of chemical production in comparison to all manufacturing has grown from 12,6% in 1973 to 21% in 1986.

CSIR technometric services' Colin Cook says the industry has experienced remarkable growth rates during certain periods.

"From 1930 to 1940 the growth rate was about 12% a year. This increased to 18% during the following decade. During the '70s the industry achieved a remarkable 20% grow a year in real terms."

He says the industry experienced its first decline during the early '80s when growth shrunk to only 3% a year in real terms.

Cook says the SA industry is dominated by three companies - AECI, Sasol and Sasolchem. Between the three, they accounted for R9bn in turnover in 1988 or close to

40% of the whole chemical process industry.

Several foreign owned companies including Hoechst, SA Cyanamid, Shell Chemicals, Eli Lilly, Bayer, ICI and Roche also play an important part in the SA industry.

Dependent

Says Cook "In spite of the high growth achieved during certain periods, which was supported by the government's policy of quantitative import controls, SA's economy is still dependent on chemical imports, particularly pharmaceuticals."

"The value of imports is over three times the value of chemicals exported (in 1987 R4,4bn in imports compared to R1,35bn in exports).

"Since 1983 many chemicals have been freed from the quantitative import controls. Tariff protection is

still in place but the door has opened to increased imports."

In the case of many chemicals there is often only one supplier as the SA market is too small to support more producers.

He says until 1983 competition in the explosives industry was virtually ruled out because of a supply agreement between the Chamber of Mines and AECI which effectively closed off 90% of the market.

This situation changed after a ruling by the Comptroller General.

"The extensive mining operations in SA give rise to high local explosives demand - 350 000 tons in 1982. AECI is, as a result, the world's largest explosives producer and SA is entirely self-sufficient."

"The fertilizer producers have been reduced to three - AECI, Sasol and Omma.

"The removal of restrictive trade practices increased competition and prices dropped by as much as 40% during the first half of 1987."

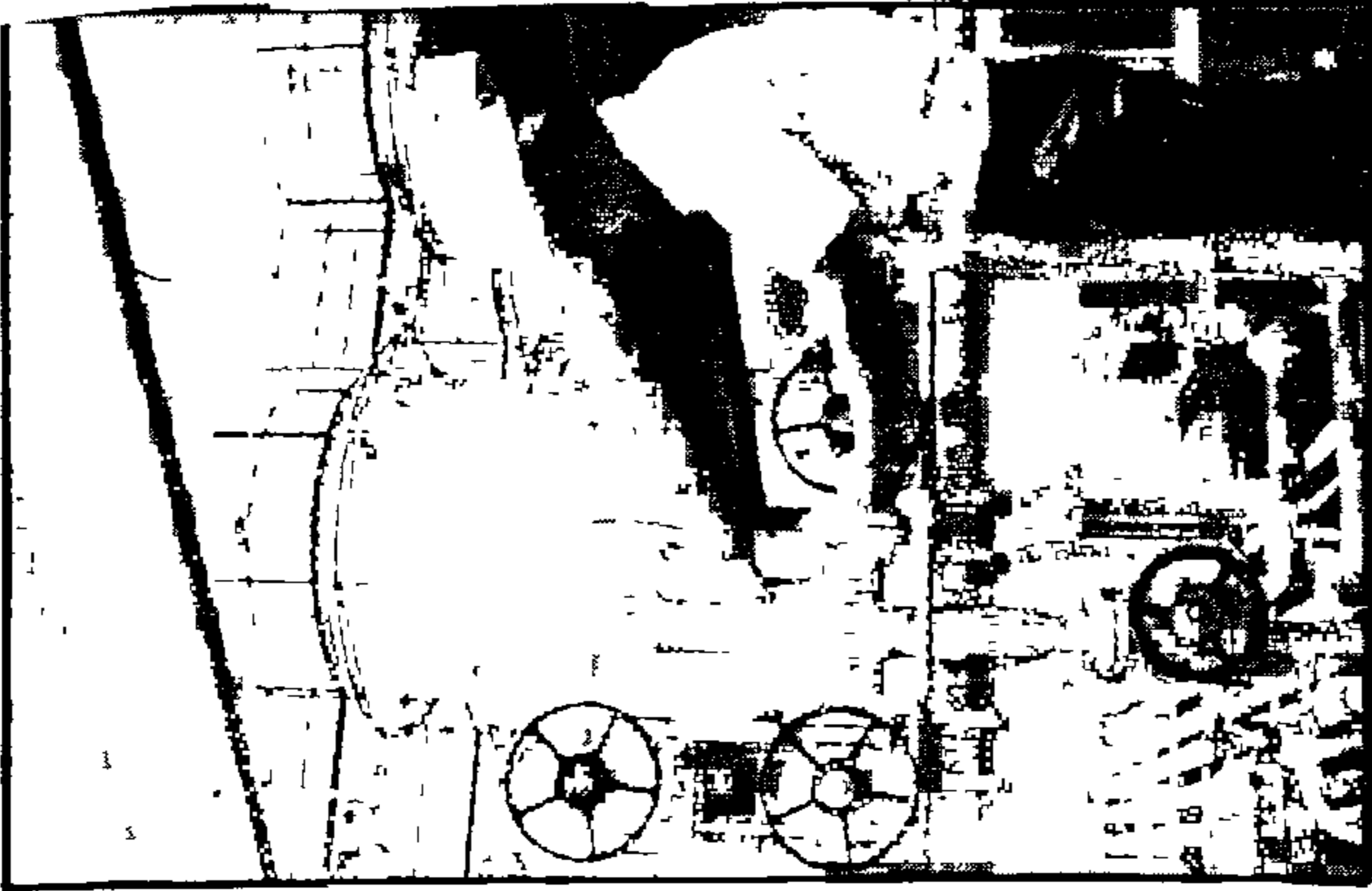
"The lowest level of self-sufficiency in the SA chemical industry is found in pharmaceuticals. About 15% of the active ingredients are produced locally."

Animal

"Animal health products and chemicals used for crop protection also have a high imported content."

"SA is likely to continue importing chemicals as in many cases the raw materials are not available locally or the domestic market is too small to justify SA manufacture."

"The removal of import controls opens up the possibility of importing the intermediate materials and producing the final product in SA," says Cook.



Sasolchem's blending plant in Sasolburg allows for a wide range of solvent blends to be formulated for specific applications.

Technical skills in short supply

THE chemical industry in SA employs 100 000 people, or 6%-7% of the manufacturing sector

CSIR technometric services's Colin Cook has just completed a soon-to-be-published report on the SA chemical industry

He says "The industry is not labour intensive but requires highly specialised skills, such as technicians, chemists and chemical engineers, all of whom are in

short supply in SA"

The American Chemical Society had a membership of 137 000, or 60 per 100 000 of population. This compares to about 5 per 100 000 in SA

Sentrachem MD Johan van der Walt says "SA has a valuable human resource in terms of its labour force. However, it is largely unskilled

"The greatest challenge facing SA is overcoming

the education backlog and billions of rand will be needed to upgrade it

"It is not simply a case of making people literate, but producing the technical skills needed. The number of white matriculants is dropping and there is a need to generate management and technical skills

"We have lost 30 years and a couple of generations, and the cost of correcting the situation is going to be

about R20bn-R30bn

"This is a fantastic opportunity to privatise education and go out to investors locally and abroad"

He says the manager to worker ratio in the First World is 1:10 compared to 1:60 in SA and this figure will be 1:75 by the turn of the century

"This is an untenable situation. It is not possible to manage any modern economy on this basis."

Long-term planning rests on a sound government policy

A LONG-term government policy is vital if the chemical industry is to plan and invest in future growth

Policy has tended to revolve around providing protection, but this is disappearing

CSIR technometric services's Colin Cook says "Much of SA's domestic industry is not viable without protection. In addition, a large portion is based on coal, and this more capital intensive route has been encouraged by government since the establishment of Sasol in 1950

"Explosives is one area where the domestic industry has the necessary economies of scale to be competitive internationally

"In recent years, quantitative import controls have been abandoned in favour of tariff protection. However, the disadvantage of this system is the delay in adapting to situations of international oversupply and

dumping

"Protection of the chemical industry is common in developing countries and even advanced economies such as the US have import quotas

"SA is a member of GATT and should comply with its provisions, which do not allow import control. But some observers suggest SA should adopt some of the subtle techniques other countries use to get around some of these provisions"

Definite

Whichever route government takes, the message from the industry is clear — it wants a definite long-term policy on which it can base its plans for the future

Sentrachem MD Johan van der Walt says the industry requires political stability, free access to the world markets, an inflation rate well below 10%, long-term export incentives, long-term decentralisation

benefits, tax allowances to encourage investment and the retention of the Firrand to encourage foreign investment

Says Van der Walt "This is a series of measures aimed at promoting exports"

AECI MD Mike Sander says the fact SA has not been a strong exporting country is due to the country's strategy being geared towards import substitution, not exports

"Industry needs a long-term policy from government. A problem in the past has been the idea of coming up with a single strategy to suit all industries. This doesn't work as each has different needs. Policies should be tailored to suit a particular industry

"We need a clear policy so we know the rule book won't keep changing. Government can also share in the investment risk by providing tax allowances for investment

"Decisions such as the one taken last December do not help. The government used to allow investment in manufacturing equipment to be written off on the basis of 50% in the first year, 30% in the second and 20% in the third. It changed this to 20% a year over five years

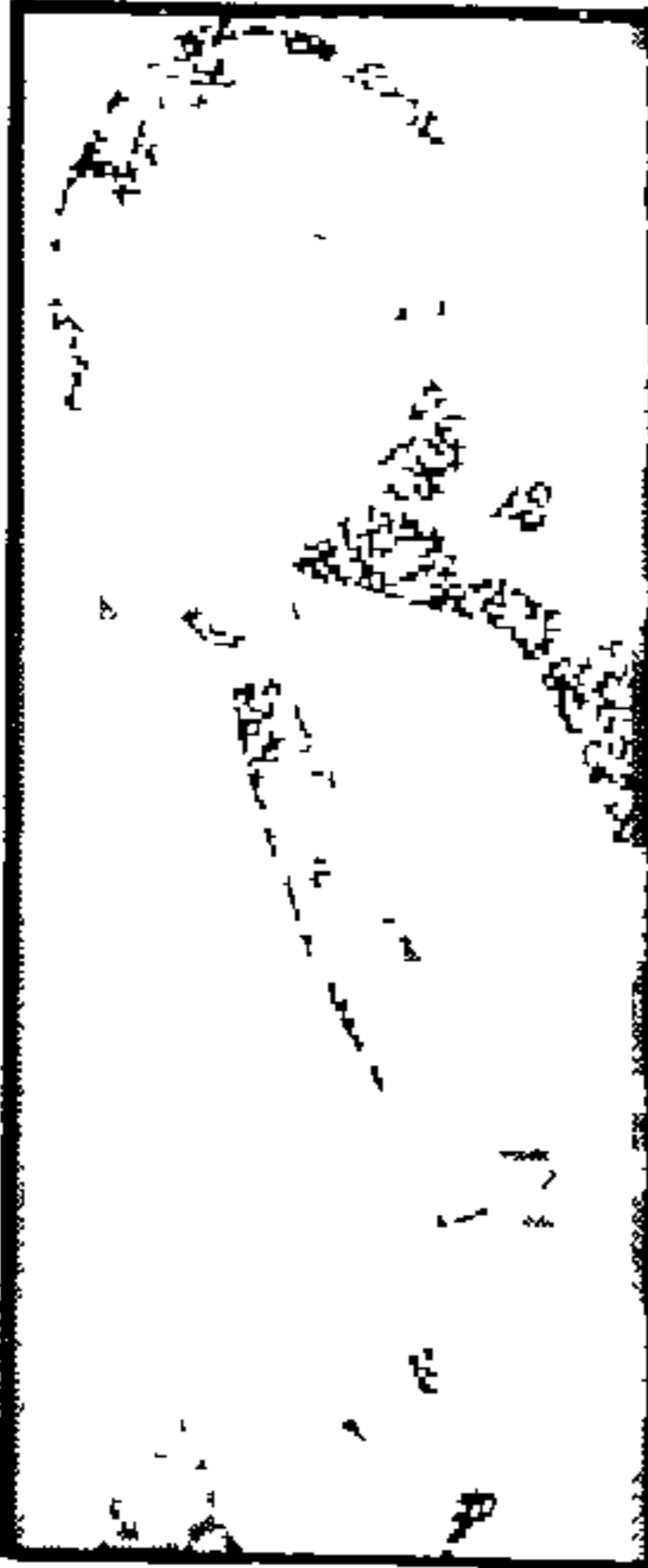
Compares

"This compares with the situation in the UK, where a system was introduced which allowed 100% of the investment to be written off in the first year

This provided industry with a much needed shot in the arm. The UK government then changed to a 25% write-off each year on a reducing balance. However, at the same time it dropped the level of corporate tax to 35%, which gave back more to industry than it took," says Sander

He is against direct government investment in industry but says it has a role to play in the establishment of infant industries

(183)



JOHAN VAN DER WALT

Growth is slow but steady

INCLUDING imports, the SA chemical industry is worth about R20bn and growth is steady but unexciting

Sentrachem MD Johan van der Walt says the industry is experiencing real growth of about 5% though many sectors, such as plastics, are vulnerable to the fluctuations in the economy as they are oriented towards the consumer market.

He says a major factor behind the industry's growth is the competitive replacement of materials

"Rubber has a close association with the motor industry and is following the same stagnant path. In applications such as water purification, metallurgy and paper growth is

steady, if low. (183)

"In food applications, growth is tending to follow the population figures and producing steady growth."

He says investment in plant aimed at catering for local demand is steady. Existing capacity can be expanded to keep pace with the market.

Excitement

Exports offer the possibility for more excitement where SA has a competitive edge.

AECI MD Mike Sander says the local industry, compared to the rest of the world, is at a watershed in its development.

"Assuming the recent political developments continue the industry will

have to change course from that it has followed for the past 20 years.

"The industry has been focused inwardly on concepts such as import substitution. The time has come to look outwards if it is to expand.

"The SA market is small and can be serviced by one or two plants. Economies of scale are important for competition and the purchase of raw materials.

"The chemical industry in SA is enjoying modest growth and its plants are reasonably modern.

"But SA will have to wait a long time before it is ready for another plant if growth is based solely on the local market," says Sander.

Karbochem to end isoprene production

SENTRACHEM subsidiary Karbochem is phasing out production of Afprene polyisoprene rubber at its Newcastle plant, but will continue to produce other important synthetic elastomers at its Newcastle and Sasolburg plants.

In March, Sentrachem announced it was mothballing the loss-making isoprene operation at Newcastle at a cost of R120m *8/0cm 28/5/90*

This was because the sharp decline in world natural rubber prices meant isoprene rubber was no longer a competitive substitute

Karbochem's elastomers project manager John Lithgow says isoprene production is being phased out over several months to give customers time to establish alternative sources of supply or re-establish natural rubber supplies.

However, Karbochem will continue producing three types of synthetic rubber which are suitable for a wide range

ZILLA EFRAIT *diff*

of general and specific applications in many industries

These are Afpol, an emulsion styrene butadiene rubber; Afsol, a solution styrene butadiene rubber; and Afdene, a solution butadiene dry rubber.

In addition, Lithgow says Karbochem has approached the Department of Trade and Industry to remove the surcharge on imported natural rubber because it stopped producing isoprene rubber

Distributor *183*

"We sincerely hope that the removal of this duty will be swiftly implemented," he says.

Karbochem will also be investigating the possibility of acting as a distributor for some imported grades of synthetic rubber with a view to future local manufacture if volumes warrant it

Strike over fund spreads

Multinational Reckitt and Colman yesterday became the fourth company to be hit by a strike over demands that it join the Chemical Industries National Provident Fund.

In the climax to a three-year dispute, about 300 workers had downed tools at the firm's Elandsfontein plant, said the Chemical Workers Industrial Union.

It said the company had reneged on an earlier agreement to join the fund, which was initiated by the union and is controlled jointly by management and worker representatives.

Management comment could not be obtained.

A strike linked to the fund is in progress at Ciba-Geigy. Other strikes on the issue have erupted at Rolfes and SA Cyanamid. — Labour Reporter.

180A

182

183

Star
29/5/90

Hopes are high for new dispensing dispensation

See 30/5/90 (183)

By Carina le Grange

The Pharmaceutical Society of South Africa hopes the difficulties between pharmacists and doctors over doctors dispensing medicine will be resolved once and for all under the direction of Health Minister Dr Rina Venter.

The society's executive director, Boet der Merwe, said yesterday it was hoped that the three-month time-limit given by Dr Venter for chemists and doctors "to put their houses in order" would finally yield results, and that legislation would be the outcome of talks between the society and the Medical Association of South Africa (Masa).

"He found it a hopeful sign that Dr Venter's approach to health care was leaning heavily on primary health care.

Her ultimatum for the two professions to sort out the problem between themselves would expire on August 15. Failing an agreement between them, the

Government would step in to resolve the issue

At an informal meeting with the media yesterday, Mr van der Merwe said the problem pharmacists had with dispensing doctors could be put right — if delineated by legislation.

Specific delineation of the tasks of doctors and those of pharmacists was necessary, without preventing doctors from dispensing medicine in exceptional cases.

Trained

"There's a shortage of doctors — why waste even more of their time to dispense medicine when pharmacists are available who are specifically and professionally trained to handle this task?" Mr van der merwe asked

Consultations between Masa and the Pharmaceutical Society had begun and another meeting was planned for next week

Own Correspondent

JOHANNESBURG — Sentrachem and Farm-ag are to merge their agricultural chemicals businesses into a new company, Sanachem, with annual sales of R300m a year

In addition, Sentrachem, which today announces a 7% rise in attributable earnings for the year to March, is investigating the prospects of building a local R6bn naphtha cracker plant.

Sentrachem CE Johan van der Walt says strategic objectives of Sanachem include further import replacement through local manufacture of crop protection products, and the expansion of export sales

In the first phase of the merger, the agricultural chemical production, formulation and wholesale distribution operation of Sentrachem's Agrihold and of Farm-ag will be merged into Sanachem, which

Farmag, Sentrachem to merge

Cont. Tintj 30/5/90

183

will be jointly owned by Sentrachem and Farm-ag.

In the second phase, after five years, Agrihold will buy the Farm-ag interests in Sanachem

Van der Walt says to complement Sanachem's production, formulation and wholesaling activities, Agrihold will also acquire Farm-ag's Staalchem agricultural chemical retailing division

The merger will be effective from March 1 1990 and clearance from the Competition Board is expected shortly.

The investigation into the feasibility of building the R6bn naphtha cracker is being jointly undertaken by Sentrachem and AECI

The technical feasibility and technology of the project have already been examined, and its commercial viability is currently being looked at. No decisions have yet been made

An important factor is the outcome of the long-term strategy government is currently formulating to develop the local chemical industry

The project aims to bring in international partners. Already discussions have been held with parties from Taiwan and an Italian delegation is expected shortly

The cracker would produce the basic feedstocks required for the SA chemical industry to become far more competitive on the world market.

Conditions tough for Sentrachem

BIDM 30/5/90 (183)

CHEMICAL giant Sentrachem's attributable earnings grew 7% in the year to March in the face of tough trading conditions which severely curbed growth.

Its second interim report, as the group has changed its year-end to August, reflects the downturn in the SA economy and softer international markets for rubber and plastics.

Earnings are 86,8c (81,1c) a share and a second interim dividend of 15c has been declared, bringing the total for the year to 27,5c (25c) a share.

CE Johan van der Walt says a slowdown in demand and lower prices contained growth in a number of areas, and the situation was aggravated by strikes in the motor and tyre industries, major markets for some of Sentrachem's products.

He says plastic producer Safripol, hit by the international prices fall, was caught with high stock levels on imported products.

However, these are now out of the system. The commissioning of additional capacity for Safripol between August and October will improve Sentrachem's growth prospects in 1991.

Mega Plastics experienced problems with moulds for export orders, but the situation is expected to be back to normal by September.

While NCP — which recently acquired Sappi's Chlor Alkali business — and Specialty performed well, Agrihold was affected by drought conditions.

Van der Walt says the closure of Karbochem's Newcastle polyisoprene rubber plant is being implemented at a total expected cost of R120m, which has been provided for as an extraordinary item.

ZILLA EFRAT

Exports remained unchanged at 8% of turnover because of the softening of international chemical prices. An improvement is not expected in the current year.

However, Sanachem, the result of the merger of Sentrachem's and Farm-ag's agricultural chemicals operations, has good export growth potential.

Difficult trading conditions in three out of six divisions are reflected in the 2% growth in turnover to R2,08bn (R2,04bn). Operating profit rose marginally to R254,2m (R253,2m).

Higher interest rates and the redemption of R100m preference shares resulted in the 23% rise in net financing charges to R80m (R64,9m). This led to a 7% fall in pre-tax profits to R174,2m (R188,3m).

Stake

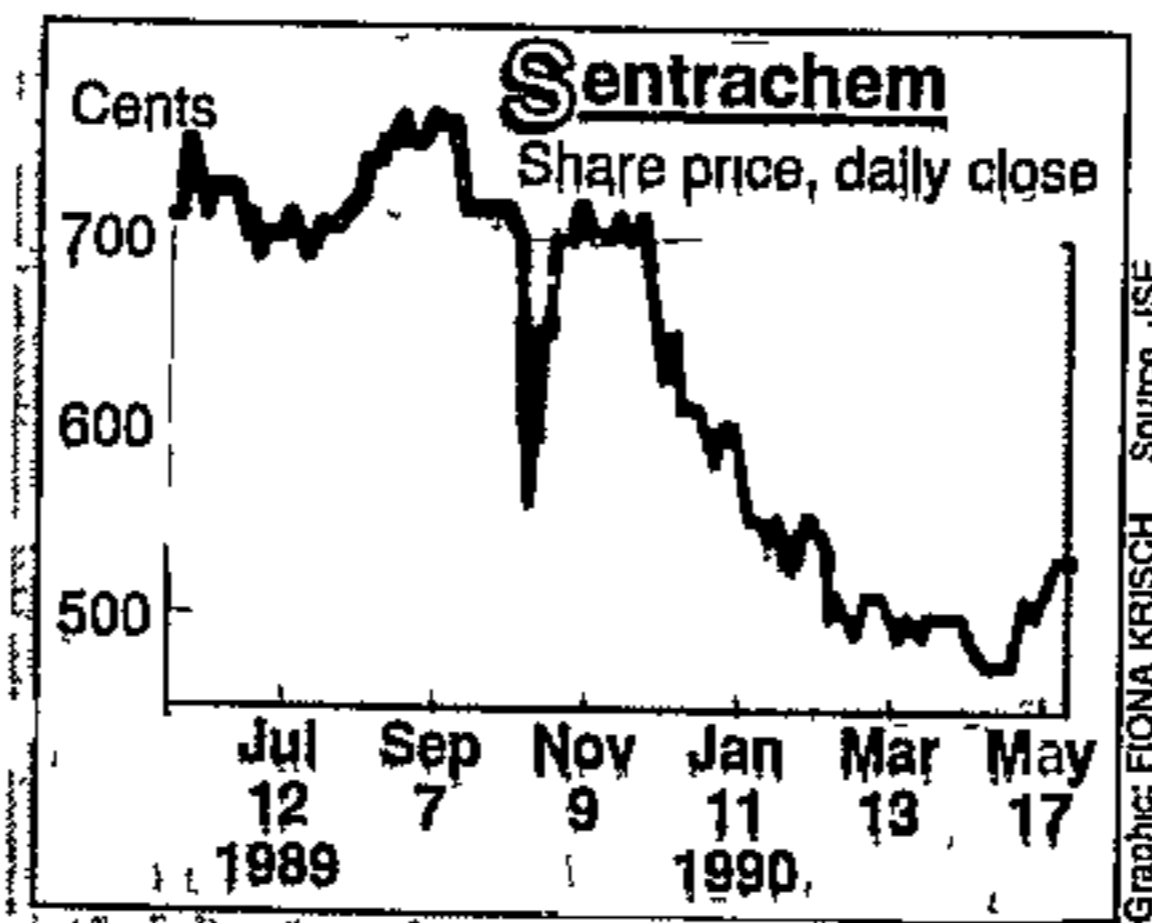
On a slight rise in the tax rate, taxed profits were down 9% to R104,6m (R111,8m).

Outside shareholders took a lower stake at R5,8m (R13,7m) and attributable income from associated companies amounted to R1,5m (R1,5m) after Plastomark turned in better results than expected.

As a result, Sentrachem turned in attributable profits of R100,3m (R93,7m).

Its current ratio was unchanged at 1,4 1 and despite retained income reduction, the ratio of debt to equity to fixed capital improved marginally to 0,5 1 (0,51 1).

Van der Walt says the economic decline coupled with high interest rates, inflation and potential labour unrest will continue to hamper Sentrachem's performance in 1990 and at least a part of 1991.



Sentrachem and Farm-ag to merge

BIDAM ZILLA EFRAT 3015790

SENTRACHEM and Farm-ag are to merge their agricultural chemicals businesses into a new company, Sanachem, with annual sales of R300m a year

In addition, Sentrachem, which today announces a 7% rise in attributable earnings for the year to March, is investigating the prospects of investing R6bn in a high technology naphta cracker plant, which would chemically produce feedstocks

Sentrachem CE Johan van der Walt says strategic objectives of Sanachem include further import replacement through local manufacture of crop protection products, and the expansion of export sales

In the first phase of the merger, the agricultural chemical production, formulation and wholesale distribution of Sentrachem's Agrihold and of Farm-ag will be merged into Sanachem, to be jointly owned by Sentrachem and Farm-ag (183)

In the second phase, after five years, Agrihold will buy the Farm-ag interests in Sanachem. To complement Sanachem's production, formulation and wholesaling activities, Agrihold will also acquire Farm-ag's Staalchem agricultural chemical retailing division

The merger will be effective from March 1 1990 and clearance from the Competition Board is expected shortly.

The investigation into the feasibility of building the R6bn plant is being undertaken by Sentrachem and AECL.

The technical feasibility of the project has already been examined and its commercial viability is being studied. No decisions have yet been made.

● See Page 9

Sacked city workers get their jobs back

By DAVID YUTAR
Labour Reporter

THREE workers at the Chemrite plant in Epping who were dismissed by the company have been reinstated by an arbitration conducted by the Independent Mediation Service of South Africa (Imssa)

The employees, Mr D Galant, Mr C Swam and Mr S May, who are members of the South African Chemical Workers Union (Sacwu), were summarily dismissed by the company on January 25 on the grounds of "refusal to continue with normal duties as instructed".

Their dismissal arose from an incident on January 22 when workers refused to take part in an exercise requiring all of them to have their photographs taken for what the company termed "internal" and "promotional" purposes.

The company at all times maintained that participation in the exercise was "purely voluntary"

There was an exchange of heated words between the company's operations technical manager and two of the employees concerned who then

left the premises. The third employee also walked off the premises, although it appears he did so as a result of a possible misunderstanding with the plant foreman.

Summary dismissal notices were mailed to the employees on January 25.

The reason given for the dismissals was "refusal to continue with normal duties" and failure to attend and walking out of a disciplinary hearing

The arbitrator, Professor Hugh Corder, professor of public law at the University of Cape Town, concluded that the dismissal of Messrs Swam, Galant and May "was substantively unfair".

While the employees were "by no means blameless, though to different degrees ... management reacted extremely in the circumstances".

The men were reinstated as from the date of their dismissal, two of them on condition that for a three-month period from the date of the award, they should not refuse to carry out their normal duties as instructed. All three were reinstated with full pay

1988