MANUFACTURING -

FOOD

1991

FM 4/1/91 (186)

ICS F/M 4/1/91

IN THE COLD (186)

To cope with pressurised margins, ICS is lessening its dependence on commodity products and focusing more on branded, value-added items It plans to build on established brands and create new ones. The change in focus comes after a year of surpluses in the dairy, meat and poultry industries which caused prices to plummet and squeezed margins.

The pre-interest margin buckled to 1,9% from 3,3%, as operating profit dropped 85% to just R6,5m. Things would have been worse had it not been for reserves released on disposal of a foreign subsidiary in Zimbabwe, and a 39% lower tax bill because of tax-free income and profit share of associated companies The outcome was a 35% decline in attributable profit

ICS's Williams .. *oversupply will continue*

Chairman Robbie Williams believes the current oversupply of dairy and meat products is likely to exist for some time, and this will continue to depress margins. Group MD Nick Dennis says that a "certain amount of restructuring is taking place" — a spokesman for the company would not go into details — and "underperforming assets have been targeted"

In many cases unprofitable lines have been discontinued and new, higher-margin ranges such as yoghurt and fruit juices introduced. This is, however, expected to take some time to implement, with results coming through only towards the end of the 1991 year.

Associates Sea Harvest, Fedics and Chandling performed well, contributing R26m to group profits — a 9,5% increase on the previous year.

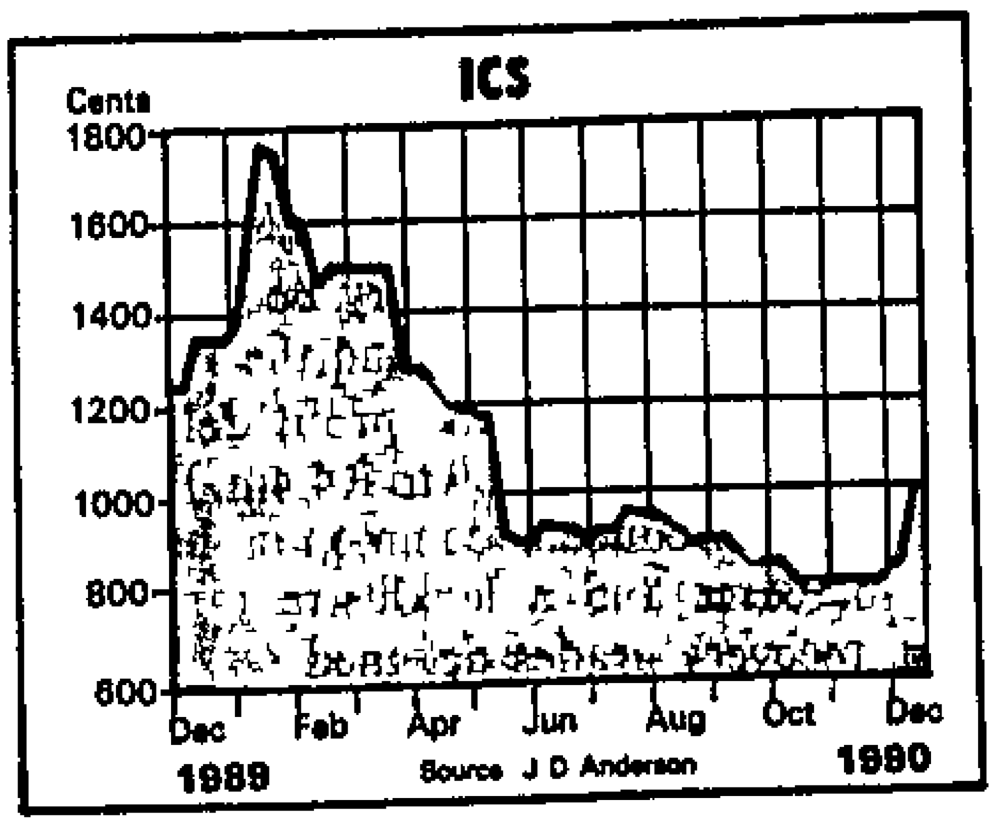
The group has managed to hold gearing to an acceptable 0,29, marginally up on the previous year's 0,25. Interest-bearing debt rose 20% to R135,4m.

The ICS share price has tumbled from its January high of R18, when things started going wrong. It has recovered from 775c in October, and now trades around R10. It is rated fairly well in the food sector on a p.e of 10,4 and yield of 3,2% — but does not look cheap.

Heather Formby

Activities: *Manufactures and processes chilled and frozen foods.*
Control: *C G Smith Foods and ultimately Barlow Rand.*
Chairman: *R A Williams; Group MD N Dennis.*
Capital structure: *38m ords. Market capitalisation: R333m.*
Share market: *Price 875c Yields: 3,6% on dividend, 11% on earnings; p·e ratio, 9,1, cover, 3. 12-month high, 1 825c; low, 775c Trading volume last quarter, 225 000 shares*

Year to Sep 30	'87	'88	'89	'90
ST debt (Rm)	29,9	18,9	42,7	50,6
LT debt (Rm)	70,5	69,8	70,2	84,8
Debt equity ratio	0,28	0,19	0,25	0,29
Shareholders' interest	0,49	0,49	0,48	0,47
Int & leasing cover	3,9	3,8	4,3	2,1
Return on cap (%)	6,1	8,0	8,0	4,9
Turnover (Rm)	1 405	1 649	1 877	2 068
Pre-int profit (Rm)	37,2	49,1	61,5	40,2
Pre-int margin (%)	2,6	2,9	3,3	1,9
Earnings (c)	121,1	140,9	147,4	96,2
Dividends (c)	34	40	48	32
Net worth (c)	1 069	1 004	950	1 007



Gant's votes for Duros buy-out deal

Cape Times 8/1/90

186

By PIETER COETZEE
Financial Editor

SHAREHOLDERS of Gant's yesterday voted in favour of a proposal by Duros Group to buy out minorities for R60 in cash or R4,50 in cash and seven Duros shares for every 100 Gant's shares held

At a meeting in Cape Town which was attended by about 50 shareholders and lasted for more than three hours, shareholders holding 768 166 shares — or 5,7% of the shares entitled to a vote — cast their vote against the proposal while shareholders holding 3,3m shares abstained

The proposal must now be ratified by the Cape Supreme Court on January 16

This procedure is normally a formality but Issy Goldberg, chairman of the Shareholders' Association of SA and authorised to speak on behalf of 7m shares, disputed the validity of notice given of the meeting He said there is no clarity in the term "clear days" as opposed to "working days" in respect of the required 21-days notice

He also said the relevant documents lacked full disclosure Recent press reports contained valuable updated information on the financial position of the company as well as future prospects that do not appear in the documents, he pointed out

Goldberg submitted that it was not the function of the court on sanction day to adjudicate on the merits or demerits of the price offered for the shares It was, however, the court's function to ensure that the scheme documents were accurate in all respects, in particular that of full disclosure

The scheme of arrangement — whereby Duros will acquire the shares of minority shareholders in TGH in exchange for 33 Duros shares and 300c in cash for every 100 TGH shares held — was also approved by shareholders with 14,2% of the shareholders voting against the proposal

Duros's acquisition of minority shares of Norths and Entercore for 17 Duros shares and 117c in cash or R111,67 in cash, and 34 Duros shares and 233c in cash or R223,33 in cash respectively was approved unanimously by shareholders

From the answers given by Askin it appeared that Gant's was in more serious trouble as far as its prospects were concerned than was revealed in the documents Askin also said that certain of the remaining trading operations in Gant's could be closed or sold off if they proved to be unprofitable

He said he was not prepared to pump millions of rands into an operation which cannot produce earnings for the group

Askin also revealed that he had offers from four interested parties who wanted to take over Gant's but that the highest offer was 48c a share He was not prepared to sell at that price but confirmed that he would be happy to entertain a purchaser for Gant's at a more realistic price

Royal looking at further acquisition in chemical field

By Ann Crotty (186) Star 9/1/91

Royal, which announced in December that it had acquired SA Preserving Company (Sapco) from Del Monte Foods International, issued a cautionary today that it is involved in negotiations with another company

The company, described as "a significant manufacturer in the speciality chemical industry" is believed to be Ferro, which is American owned

According to the cautionary, the acquisition of Sapco and the chemical company will "necessitate the restructuring of the Royal group, including the separate listings of Royal's food and chemical interests"

Royal would get a lot of support from the local institutions, which would be keen to get a stake in a group this size with quality investments

The Sapco acquisition is expected to cost in the region of R100 million and is apparently to be paid through a mixture of commercial rands and financial rands.

Ferro, which is based in the Midrand, would, it is believed, cost Royal in the region of R35 million.

On the basis of Royal's previous acquisition strategy it is likely that the executives of its chemical subsidiary, Lovasz, are familiar with Ferro's operations

That the two deals were announced so close together seems to be more of a coincidence than an indication that the Royal team have suddenly gone acquisition-mad

Analysts believe that the executive teams at Royal's two subsidiaries RBN and Lovasz have been looking at both acquisitions separately for some time

B/Day 9/1/91

Rainbow deal expected soon

MARCIA KLEIN (186)

RAINBOW Chicken was expected to announce the acquisition of Premier's broiler interests housed in Bonny Bird, industry sources said yesterday.

Rainbow financial director Chris Wells would not comment on the speculation, but said an announcement could be expected next week.

Sources yesterday estimated that Bonny Bird, which is 50% held by Premier, would be worth about R375m (including debt)

Any such acquisition could result in Rainbow having a significant influence on the price of chicken, sources said

Rainbow, which is SA's biggest chicken producer, produces 2,45-million chickens out of the total of about 7-million chickens produced weekly in SA.

Bonny Bird — the second biggest producer — produces 1,30-million chickens a week, according to Rainbow figures

Rainbow has about a 35% market share of the SA chicken industry, while Bonny Bird has about 18,6% — which would leave Rainbow with more than 50% of the sector if the deal were to be finalised

Rainbow's Bonny Bird buy could stick in crop

S/Times 13/1/91

186

By IAN SMITH

RAINBOW CHICKEN's acquisition of its biggest rival in the broiler market, Bonny Bird, is likely to take some digesting.

The terms of the deal — expected soon — are likely to show that Rainbow has had to pay over the odds for the Bonny Bird operation, which is 50% held by Premier.

Analysts calculate that Bonny Bird would be worth between R350-million and R400-million, but the effective price is expected to be higher

Development

Rainbow has already said it expects no income from interest in the year to June 30 because of development expenditure, which implies that a big acquisition will mean higher borrowings at a time of costly money

The group spends about R120-million a year on normal upgrading and expansion It plans to spend R237-million in the next three years on three feed plants

Another R90-million is being spent to increase broiler production at Rustenburg It will bring budgeted capital expenditure in the current year to R161-million

Analysts were told recently that the group expected the debt-equity ratio to rise to about 28% this year, falling thereafter to about 20% in 1994, when borrowings were expected to peak at R213-million

The attraction of Bonny Bird, even at a high price, is its 18,6% share of the broiler market When that is added to Rainbow's 35%, the enlarged group will have well over half of the SA market and much more clout in pricing talks

Chicken production has gone through a time of explosive growth, Rainbow, Bonny Bird, Festive, Early Bird and many of the smaller producers lifting output.

Overhang

Prices over the Christmas — they are usually higher than in the rest of the year — disappointed because of large stocks overhanging the market.

Chicken consumption increased by about 4,5% last year, down from 6,6% in the previous year

Adding to producers' problems is that fact that bird mortality has increased because of disease

Bonny Bird, formed from the merger of Premier's Farm Fare with the broiler operations of Bokomo and Sacca, has gone through a difficult time In the year to last March, after heavy retrenchments and rationalisation, it produced a profit of R7-million from turnover of R397-million

But interest on debt and extraordinary items took the bottom-line loss to more than R20-million

Rainbow's decision to move into feed production comes from a desire to reduce input costs and avoid reliance on Tiger Oats' Meadow Feeds, the group's main supplier

Feed costs account for 55% of total costs and 85% of live-bird production

The first feed mill, being built at Rustenburg, will come into production in June 1992 Other mills will be built at Hammarsdale and Worcester

Short

In the year to June Rainbow's turnover jumped by 14,6% to R635,3-million, but a sharp increase in interest earned and a reduction in tax meant that attributable profit rose by 27,6%, from R67,3-million to R86-million

More shares in issue meant that earnings increased by 16,7% to 31,3c, slightly short of the prospectus forecast of 32,3c

Epol included on Rainbow's shopping list

MARCIA KLEIN (186)

RAINBOW Chicken has not only acquired Premier Group's interests in its Bonny Bird broiler operations, it has also purchased a 50% stake in Premier's Epol Animal Feeds

Rainbow and Premier will participate in Rainbow's R237m feed mill expansion, an announcement today says.

Rainbow is to acquire Premier's 50% interest in Bonny Bird Farms, Bokomo and Sacca. Premier was left with a 50% holding in Bonny Bird in 1989 when it merged its broiler activities with those of Bokomo and Sacca B/Day 14/1/91

The acquisition, for an undisclosed amount, would mean Rainbow would have "a significant influence on the price of chicken", analysts said at the weekend.

The combined market share of Rainbow (about 35%) and Bonny Bird (about 18,6%) would leave Rainbow with more than 50% of the chicken industry.

Analysts estimated Bonny Bird would be worth about R375m, including debt However the acquisition price was expected to exceed this amount

It has also been agreed in principle that Rainbow will acquire 50% of the shareholders' interest and management control in Premier's Epol Animal Feeds

Premier will continue to hold the remaining 50% in Epol "and will participate in Rainbow's feed mill expansion to the same extent", the announcement says.

The acquisitions are subject to the conclusion of formal agreements, certain other conditions and the approvals of the boards of Rainbow and Premier

Today's announcement follows cautionary announcements issued by Rainbow on December 17 and Janary 3 that negotiations were in progress

Sources said the acquisition would have to be funded through a rights issue, and Rainbow might use the opportunity to take up more of the Methven family's share if they did not follow their rights — Methven Holdings has a big holding in Rainbow.

Rainbow, SA's biggest chicken producer,

☐ To Page 2

Foreign interest boosts the finrand

B/Day 14/1/91.

ANDREW GILL

FURTHER signs of resurgent foreign investor interest in SA emerged last week as the financial rand climbed to its highest level since just after President F W de Klerk's February 2 speech last year.

It closed on Friday at R3,33 to the dollar, a discount of 22,3% to the commercial rand, which finished at R2,5877.

This compares with a financial rand at R3,88 and commercial rand at R2,56 on October 1, when the discount was 34%.

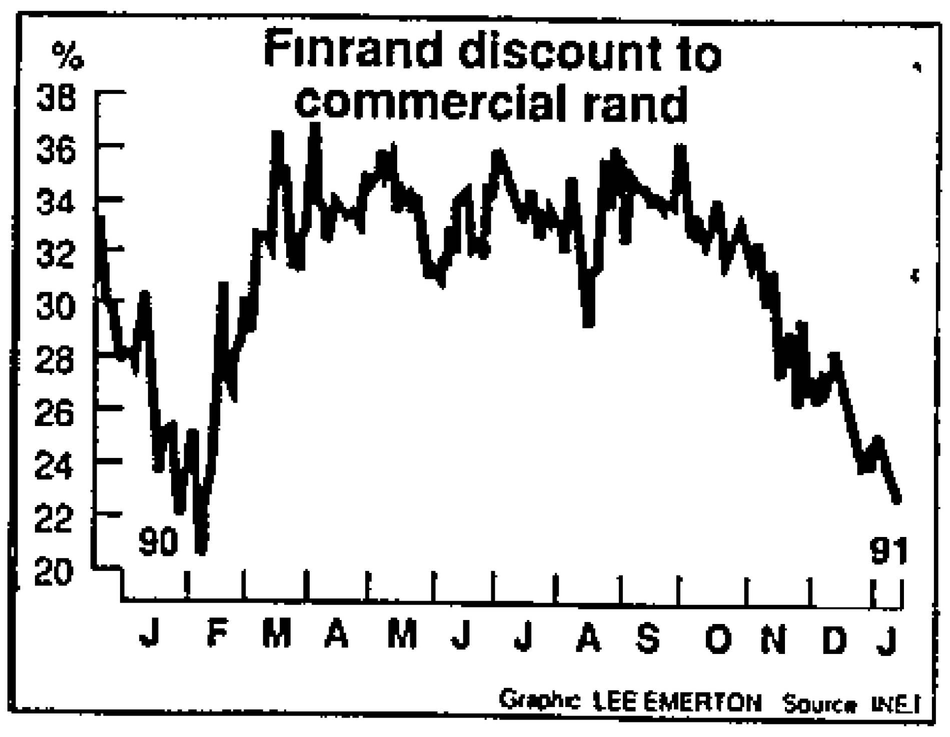
As a barometer of foreign sentiment towards SA, the finrand has fared well, despite continued investor apprehension over unrest in the country.

A Finance Department spokesman said last week from Zurich that there was no lack of interest from foreign banks, financiers and industrialists. Violence, and not apartheid, had become the major hindrance to investment.

The Lesotho Highlands Water Project had been a major attraction with companies "falling over themselves" to take part in the venture

Italy, one of SA's major trading partners, was particularly interested after taking heart from the successful Fiat Uno campaign, he said A group of 12 to 15 bankers from the Italian Bankers Association would be visiting SA towards the end of January.

Standard Bank treasury assistant GM



forex Willie Potgieter said overseas demand had surfaced late last week and the discount would probably narrow further

Investments were probably going into gold shares, as investors took a view on the gold price while the Gulf crisis threatened to develop into all-out war, he said

Another factor could be that money had been coming in on the short side of the money market, but he believed gilts were unlikely to have attracted major interest

The narrowing of the discount was in line with Finance Minister Barend du Plessis' wish to see the gap close

Also encouraging was that when the discount fell below 25% at the beginning of the week, it did not rebound, as was its normal reaction Instead it continued appreciating The rand weakening in the face of a stronger safe-haven dollar had also contributed to the shrinking discount

R6,2m Allied deal bewilders analysts

GILLIAN HAYNE

A BOOKOVER deal worth R6,2m in Allied shares on Friday provided a dramatic end to a week of intense speculation on the future of merger negotiations between UBS, Allied, Volkskas and Sage Financial Services (SFS). B/Day 14/1/91

The deal involved 2,9-million shares at 215c a share and left analysts — divided in their reaction to the rumours — bewildered over who did the deal and why

Earlier in the week the merger talks took a new turn with Southern Life named as the company behind a counter-bid for Allied It was reported Southern was prepared to bid 225c or so for 30% of Allied

Allied closed on Friday at 210c, 13,5% up on a week's volume of 4,5-million shares, UBS closed at 790c on a week's volume of 292 465, Sage closed at 735c and Volkskas, "a surprise mover", moved up 9,7% to R17 on a small volume of 13 794

Southern Life's entry into negotiations followed rumours that the negotiations were faltering Those nvolved in talks are keeping mum, but analysts believe it is too early to write off the negotiations

Rainbow

B/Day 14/1/91. (186)

☐ From Page 1

produces 2,45-million chickens a week About 7-million chickens are produced in SA weekly

Bonny Bird, which is the second biggest, produces about 1,3-million

Rainbow MD John Geoghegan said recently that by the year 2000, 13,6-million broilers would have to be produced a week, which meant Rainbow would have to double its capacity

Geoghegan said price volatility — which had a negative effect on margins — was worrying, so the company had turned to feed meal which was 85% of live bird production costs and 50% of total costs

At the time, he had said Rainbow's three new feed mills would be financed through borrowings

Additional equity would not be raised

The feed mills would cost R237m over the next three years, while the existing supply agreements with Tiger's Meadow Feeds would end in May 1993

Geoghegan had expected borrowings to peak at R213m in 1994, and gearing was expected to rise initially to 28%, and to come down to 20% in 1994

Rainbow buys 50% stake in Premier's Epol

CAPE TIMES 14/1/91

186/2002

Own Correspondent

JOHANNESBURG. — Rainbow Chicken has not only acquired Premier Group's interests in its Bonny Bird broiler operations, it has also purchased a 50% stake in Premier's Epol Animal Feeds

Rainbow and Premier will participate in Rainbow's R237m feed mill expansion, an announcement today says.

Rainbow is to acquire Premier's 50% interest in Bonny Bird Farms, Bokomo and Sacca for an undisclosed amount. Premier was left with a 50% holding in Bonny Bird when it merged its broiler activities with those of Bokomo and Sacca

The combined market share of Rainbow (about 35%) and Bonny Bird (about 18,6%) would leave Rainbow with over 50% of the chicken industry

Analysts estimated Bonny Bird would be worth about R375m, including debt. However the acquisition price was expected to exceed this amount.

It has also been agreed in principle that Rainbow will acquire 50% of the shareholders' interest and management control in Premier's Epol Animal Feeds

Sources said the acquisition would have to be funded through a rights issue, and Rainbow might use the opportunity to take up more of the Methven family's share if they did not follow their rights — Methven Holdings has a big holding in Rainbow

Fedfood in R5,5-m takeover of Mango Man

Star 15/1/91

186

By Jabulani Sikhakhane

Fedfood, through subsidiary Patoma Foods, has strengthened its sub-tropical fruit business with a R5,5 million takeover of Mango Man

The deal, announced yesterday, is set to make Fedfood SA,s largest processor and marketer of sub-tropical fruit products

The Mango Man factory was built in 1982 by the Venda Development Corporation and has been operated by Jensen Enterprises since 1985

Fedfood made its first move into the fruit business when it acquired Patoma Foods, which processes, exports and markets sub-tropical fruits and vegetables, in a R9 million deal last year

Patoma has about 35 percent of the atchar market and 65 percent of the canned citrus segment market

The total market in which Patoma operates is estimated at R550 million

Fedfood managing director, Jan C du Toit said yesterday the takeover of Mango Man would make Patoma SA's single largest processor and marketer of sub-tropical fruit products

These include atchar, fruit canning and drying facilities, juices and concentrates from mangos, pineapples, bananas, guavas, litchies and pawpaws

Mr du Toit said the Mango Man acquisition opened more significant and interesting dimensions for international trade

Patoma exports a large portion of its canned sub-tropical fruit production

He added that Patoma and Mango Man should benefit from their proximity to sub-tropical fruit-producing areas

Experience at Fedfood's Table Top had shown over the years that the proximity of processing plants to production areas was a key strategic element in guaranteeing market leadership, he said

186

Royal takes over Ferro for R38 m

By BLAISE HOPKINSON, Business Staff

FERRO Industrial Products has been taken over by the Royal Corporation for about R38 million

This follows the cautionary announcement last week that the takeover of an undisclosed company was about to take place.

In December the group announced it had taken over the SA Preserving Company (Sapco) from Del Monte Foods International for R113 million. Ferro was bought from its US-based parent.

The aquisitions present the group with funding requirements of about R162 million, plus R11,9 million needed to recapitalise the existing chemical business of Helpro Lovasz, bringing the total amount required to R173,9 million.

Funding

The funding is to be by means of a combination of share issues of placement shares in Royfood and Roychem at issue prices of 335c and 260c respectively, by rights issues in Royfood and Roychem and through debt funding in Royfood

The restructuring and the rights issues involved, which have been underwritten by a major financial institution, will see Royal holding 65 percent of Royfood and 58 percent of Roychem

Royfood will have 97,4 million shares in issue Given the issue price of 330c a share, this attributes a total value to that company of R321,4 million.

Mixed reaction to Rainbow deal

MARCIA KLEIN 186

MARKET reactions to Rainbow Chicken's announcements of agreements with the Premier Group have been mixed. BDay 16/1/91

Rainbow is to aquire Premier's 50% interest in Bonny Bird Farms, Bokomo and Sacca and 50% of the shareholders' interest and management control in Premier's Epol animal feed division

Rainbow and Premier would also both participate in Rainbow's R237m feed mill expansion.

Some felt the deal was a positive move for Rainbow, others felt Premier stood to gain more

Ed Hern Rudolph analyst Sid Vianello said the acquisition of Epol animal feeds would see Rainbow "suddenly becoming a participant in the already overtraded industry".

Rainbow would become an animal feed producer "for which it does not have the expertise".

Vianello said while Rainbow could control the volume of poultry output and partially control its price, it could not control the price of red meat, "which is a major player in determining the poultry price".

"However, Premier has produced a masterstroke deal which was quite brilliant," he said It had got rid of at least R100m off the balance sheet and "a dog of an animal feed business".

The deal would see Premier put at least R120m in the bank from the sale of Bonny Bird plus possibly some cash from the Epol side of the deal

Mathison & Hollidge analyst Aloma Jonker said the deal should be mutually beneficial to both parties

Choice rationalisation bid wins little benefit

B 10 aug 17/1/91 . ROBERT WICKS (186)

CHOICE Holdings, the DCM-listed investment holding company engaged through its subsidiary in the meat processing and distribution industry, had not fully realised the benefits of its attempted diversification programme, chairman John Limberopoulos said in the latest annual report.

Choice incurred a loss of R1,6m for the 1990 financial year with no dividend being declared. High interest rates and a general decline in economic activity affected the results.

Limberopoulos said it had been thought that with the implementation of certain rationalisation schemes and the acquisition of a 50% interest in Mogale Mmabatho Butcheries, losses would be curtailed.

However, he said, it was anticipated that Choice would sustain a loss this year.

The company disposed of its investment in Klipspruit Butcheries, Marlboro Meats and Mimeat Properties for a sum of R150 000 and now has only one, wholly-owned subsidiary, Caterchoice.

In mid-1990 Choice, which changed its name from Mighty Meat in 1989, acquired a 50% interest in Mogale Mmabatho Butcheries for R372 000.

Imported factory meat 'a concern'

B/Day 17/1/91

MARIETTE DU PLESSIS 17/1/91

MEAT producers were concerned about the impact the availability of 2 700 tons of imported factory meat would have on market access and prices in the short term, Red Meat Producers' Organisation (RPO) chairman Jan Lombard said in a statement this week.

However, Lombard said local meat canning factories would not have stayed operational if the cheaper meat had not been imported. The meat has not yet been made available to the canning factories (186)

The tonnage imported represented only about 0,5% of the expected availability of beef for 1991, he said.

Meat canning factories, which had purchased about 45% of their requirements on the local market during the past three months, played a price-supporting role in the case of lower grades, Lombard said.

He requested the board to supply the imported meat only to the canning factories concerned.

The Meat Board subsequently said the meat would only be allocated if proof was given of actual needs that could not be met on the local market.

FM 18/1/91 fishing (186)

OCEANA fishing (186)

CATCHES SHRINK

FM 18/1/91

Activities: *Processes pelagic and rock lobster. Produces canned and frozen fish, fish meal, fish oil and abalone. Provides commercial cold storage facilities and trades in fish products.*
Control: *Tiger Oats 70,4%; ultimate holding company is Barlow Rand*
Chairman: *W A Lewis; MD· D F Behrens*
Capital structure: *9,3m ords. Market capitalisation: R105m.*
Share market: *Price: 1 125c. Yields: 8% on dividend, 13% on earnings; p:e ratio, 7,7; cover, 1,6. 12-month high, 2 350c; low, 925c. Trading volume last quarter, 29 480 shares*

Year to Sep 30	'87	'88	'89	'90
ST debt (Rm)	6,6	12,1	0,8	0,1
LT debt (Rm)	0,8	0,7	0,6	0,5
Debt equity ratio	n/a	n/a	n/a	n/a
Shareholders' interest	0,52	0,52	0,51	0,63
Int & leasing cover	n/a	n/a	n/a	n/a
Return on cap (%)	25	36	28	18
Turnover (Rm)	174	227	275	308
Pre-int profit (Rm)	32,3	48,5	44,0	25,2
Pre-int margin (%)	16,2	17,0	12,6	7,7
Earnings (c)	207	250	261	146
Dividends (c)	105	150*	160	90
Net worth (c)	654	730	809	813

* Excludes special dividend of 75c

Investment in fishing companies is not for the faint-hearted, nor for pensioners who depend on a steady income flow. Oceana is a good example of why this is so

In March 1989 the share price stood at R30. It is now down by nearly two-thirds and will have to appreciate by 166% to get back to the high Investors clearly dumped the shares because of expectations of a large fall in EPS during the 1990 financial year. Earnings certainly did fall, as did the size of the overall catch

Essentially, earnings were materially lower than the previous year's because of reduced landings of anchovy in SA and a poor rock lobster season in Namibia While the industry's landings of pelagic fish were a third down on the previous year, Oceana landed its full quota of pilchards and produced a 200% increase in the number of cartons, to record the highest level of output ever. That enabled the industry to re-enter the export market

But the authorities reduced the anchovy total allowable catch to an all-time low of 150 000 t and, though Oceana processed its full quota, the processing plants failed to work at breakeven levels, and operating losses resulted.

On the non-quota side, Oceana accounted for 39% of total redeye landings, but this was not enough to produce reasonable profit. Even catches of tuna were 34% less than the previous season, while landings of squid declined by 56%

Oceana chairman Walter Lewis says Blue Continent group, a wholly owned subsidiary of Oceana involved in cold storage, shipping and international trading and marketing of fish products, "recorded satisfactory operational and financial performance in challenging economic circumstances."

Lewis refers in the annual report to the disposal of the group's Namibian interests for R13,7m cash and the acquisition of abalone business Tuna Marine for a similar amount. What he does not say is that the sale of the Namibian interests was almost forced because of the unpredictable and disproportionate quota cuts by local authorities, as well as the compulsory sale two years ago of part of the company's lobster business.

Though turnover rose by 11%, net operating income plunged from R34,7m in 1989 to R23,8m. To make matters worse, dividend income from associated companies declined from R9,3m to R1,4m (largely because of the poor lobster catches) and net interest income also dived So pretax profit dropped by 43% and taxed profit was halved.

The balance sheet shows no material debt and a cash balance of R10,4m. Lewis says that "lobster and other fishing operations are budgeted to show improved operational and financial performance in the year ahead," and adds that EPS is likely to exceed those of 1990

From a financial standpoint the group is well placed to show a useful increase in EPS if fishing improves Whether it will is anyone's guess but commercial director Saul Pick says there is no reason to change Lewis's forecast.

The share is best left to speculators.

Gerald Hirshon

FM 18/1/91 (186)

RAINBOW/PREMIER (186)

CARVING KNIVES OUT

FM 18/1/91

Since its JSE listing in mid-1989, Rainbow has been expanding aggressively, largely through investment in new broiler plant, undeterred by an already overtraded market.

The group's formidable cash flow has been deployed to fund the expansion, though the balance sheet has remained lean The deal struck in principle with Premier promises a much bigger expansion for Rainbow with full benefits probably not seen for some time Premier stands to show far more rapid gains

Essentially, Rainbow has agreed to acquire the entire shareholders' interests in Bonny Bird Farms, held by Premier, Bokomo (Co-op) and Sacca. It also acquires 50% of the shareholders' interests in Premier's Epol Animal Feed division, as well as management control Premier retains 50% and will participate to the same extent in Rainbow's feed mill expansion

For Premier the deal would be a another step towards rationalising its interests in the sector In 1989 the group moved out of the egg-laying industry and merged its broiler operations with those of co-operatives Bokomo and Sacca to form Bonny Bird

Immediate results were unspectacular. Bonny Bird made a R4,7m operating loss last year after rationalisation, a R66m capex programme and hefty interest charges But, as Premier has a put option on its entire holding in Bonny Bird, and has no responsibility for managing or financing the company, it treats the 50% holding in Bonny Bird as an investment

Premier CE Peter Wrighton notes in his 1990 review that the "timing for the disposal of these (chicken) assets proved most propitious in the light of problems in the broiler industry " The group's animal feeds business is another problem area — the operating margin was only 1,9% in the 1989 year though it improved last year to 3,5%.

Market talk puts the acquisition price for Bonny Bird at about R375m — which sounds a lot to pay for assets producing such puny returns Analysts reckon Premier will receive at least R120m cash if this price is correct. Ed Hern analyst Sydney Vianello considers the deal "brilliant" from Premier's standpoint. At a single stroke it sheds two underperforming assets for cash.

More market share

Attractions for Rainbow — which is evidently determined to strengthen its position as market leader — include an increase in its share of the broiler market to more than 50%, as well as the opportunity to expand into the feeds business. What remains to be seen, and can be assessed only once details are available, is the cost

Vianello reckons there is not much synergy for Rainbow in acquiring Epol, while a Bonny Bird takeover could mean a move away from founder Stan Methven's philosophy of high turnover and low costs. A positive aspect is that Rainbow will acquire a partner in its own feeds business.

The Bonny Bird and Epol assets carry significant gearing, which Rainbow will doubtless take into account in funding the deal. With R237m committed to expand its own feed mills in co-operation with Premier, possibly R375m for Bonny Bird and the 50% share in Epol, Rainbow could be committed to spending as much as R500m over the next three years If so, a rights issue may well be planned And, if the Methven family should decline to take up their rights, the result could be a larger stake for Rembrandt/HLH

Though Rainbow could end up with more than half the broiler market, the Competition Board is not worried. Board chairman Pierre Brooks says several factors influenced this view

The board takes a broad view of Rainbow's market Red meat, fish and broilers are considered to be substitutes; of this total market, broilers have only a 24% share and the enlarged Rainbow would have 12% As there are many small players, others can enter the market From the consumers' standpoint, the supermarkets, which sell about 60% of all broilers, will ensure competition at retail level

The board approves of the "deconglomeration" that would occur, as well as the fact that Premier will be able to deploy funds currently tied up in Bonny Bird and Epol more effectively elsewhere

A detailed announcement is expected by mid-February Premier's rating should continue to benefit from the more realistic attitude being taken towards its portfolio

Gerhard Slabber

KANHYM (186) meat

PRICE SQUEEZE

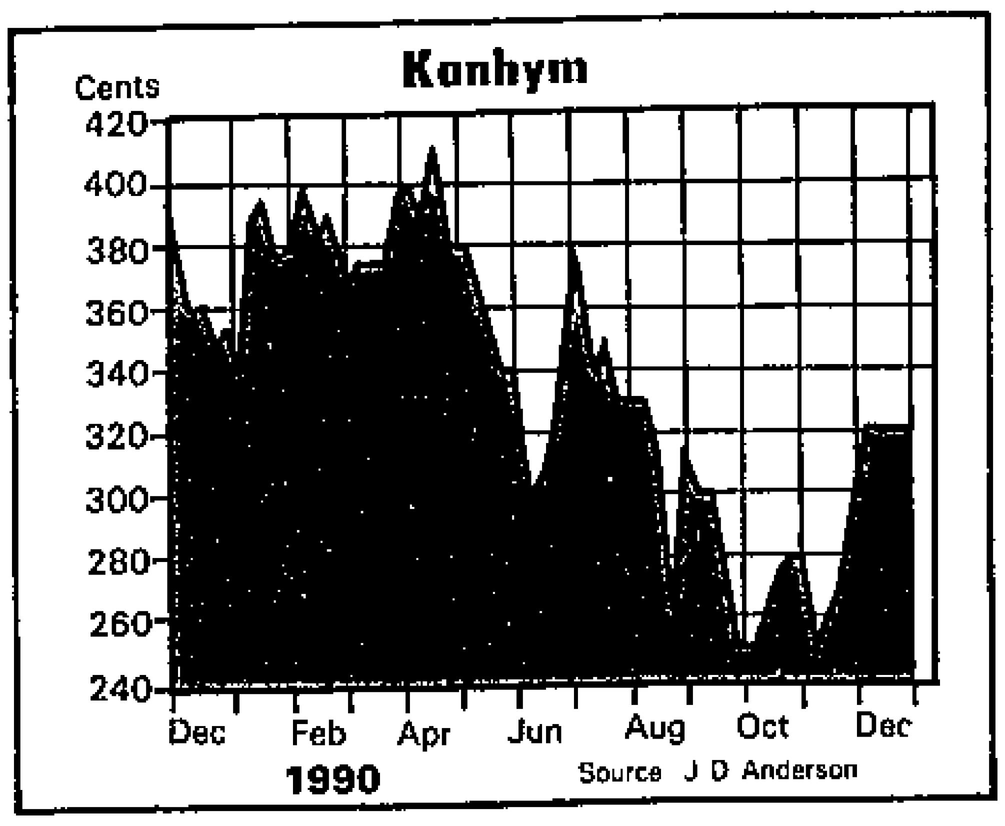
FM 18/1/91

Activities: *Integrated meat producer and retailer with interests in livestock auctioneering and leather*
Control: *Malbak 85%*
Executive chairman: *D J Jacobs*
Capital structure: *55m ords Market capitalisation R176m*
Share market: *Price 320c. Yields 6,25% on dividend, 17,1% on earnings, p.e ratio, 5,9, cover, 2,7 12-month high, 410c, low, 245c Trading volume last quarter, 140 000 shares*

Year to Aug 31	'87	'88	'89	'90
ST debt (Rm)	69,6	47,1	20,0	42,4
LT debt (Rm)	30,6	20,5	12,1	12,1
Debt equity ratio	0,44	0,49	0,19	0,31
Shareholders' interest	0,52	0,49	0,57	0,60
Int & leasing cover	2,31	2,69	3,21	3,21
Return on cap (%)	4,8	11,7	15,9	14,8
Turnover (Rm)	431	801	862	979
Pre-int profit (Rm)	15,7	32,2	46,1	43,6
Pre-int margin (%)	3,7	4,0	5,4	4,5
Earnings (c)	21,0	20 5	60,6	54,6
Dividends (c)	—	5	20	20
Net worth (c)	168	184	299	323

In the (probably unlikely) event that the recent recovery in red meat prices is sustained this year, there will be a useful boost to Kanhym's bottom line after the poor results in 1990 However, executive chairman Dirk Jacobs says he expects no improvement in red meat prices or in consumer spending

Last year's unexpected collapse in red meat prices, coming on top of the deteriorating consumer market, cost Kanhym some R8m in earnings The 50c/kg price drop cut realisation per head of cattle by R100 and the Kanhym Estate feedlots sold 40 000 head in the final quarter Added to this was a



R4m drop in income at Karoo-Ochse and Kanhym Fresh Meat

Overall, earnings from the group's commodity division — which include Karoo-Ochse, Kanhym Estate, Fresh Meat and Checkor Butcheries — fell by a third

However, a positive aspect of the lower market prices was that the purchase price of weaners fell sharply in the last quarter of 1990 and that should benefit margins during 1991.

The slide in the commodity businesses was cushioned by the value-added division — Enterprise, Hanni, Mielie-Kip and Herti — which lifted earnings by 26% Enterprise had to cope with an oversupply of chicken in the market and the unstable conditions in the townships. Jacobs is confident Kanhym will benefit in the long run from a tendency among black consumers to use prepared meat as a luxury convenience food

With the recovery in the red meat market, super A beef was selling last week at above 630c/kg in Johannesburg and above 640c/kg in Pretoria Six months ago the price was about 523c/kg These increases are probably due to seasonal factors, though, and may ease soon

Companies in the value-added division, which now contributes about two thirds of group operating income, depend largely on local consumer spending, which seems unlikely to improve in the near-term An exception is the leather producer, Hanni & Sons, which enjoyed buoyant trading conditions last year, owing to its position as leading SA supplier of leather car upholstery in domestic

Kanhym's Jacobs *wants to reduce debt*

and export markets But Hanni will be affected by a slowdown in world economies

Essentially, Kanhym needs to see a sustained recovery in red meat prices as well as in the leather business The pre-tax performance should be enhanced this year by lower interest charges as well as reduced borrowings Jacobs plans to reduce debt further during the year One possibility would be to reduce stock, but much of the stock consists of cattle and a cutback could mean losing control over beef supplies, a partnership in red meat could be a solution

At 320c, the share trades on an earning multiple of only 3,8 times, far below the 13,6 average for the food sector which is dominated by the likes of Tiger and Premier. The group has yet to establish a consistent record after the lean years of 1983-1985 and is being rated accordingly *Gerhard Slabber*

FM 18/1/91 (186)

TIGER OATS (186)

STILL BUYING FM 18/1/91

Activities: *Diversified food group with interests in food, fishing and pharmaceuticals*
Control: *C G Smith Foods 53%.*
Chairman: *R A Williams, MD C Wolpert*
Capital structure: *139m ords Market capitalisation R4 172m*
Share market: *Price 3 000c Yields 2,1% on dividend, 6,1% on earnings, p e ratio, 16,3, cover, 2,9 12-month high, 3 050c, low, 1 900c Trading volume last quarter, 363 000 shares*

Year to Sep 30	'87	'88	'89	'90
ST debt (Rm)	223	386	366	479
LT debt (Rm)	58	104	98	128
Debt equity ratio	n/a	0,30	0,42	0,46
Shareholders' interest	0,48	0,42	0,43	0,43
Int & leasing cover	17,4	n/a	9,83	7,64
Return on cap (%)	14,1	14,1	17,4	16,3
Turnover (Rbn)	3,54	4,39	5,74	6,78
Pre-int profit (Rm)	254	327	452	504
Pre-int margin (%)	6,5	7,5	7,58	7,31
Earnings (c)	98,1	126,6	158	184
Dividends (c)	33,7	43,5	54,5	63
Net worth (c)	567	594	690	802

FM 18/1/91 (186)

Tiger's Williams . *expects improved earnings*

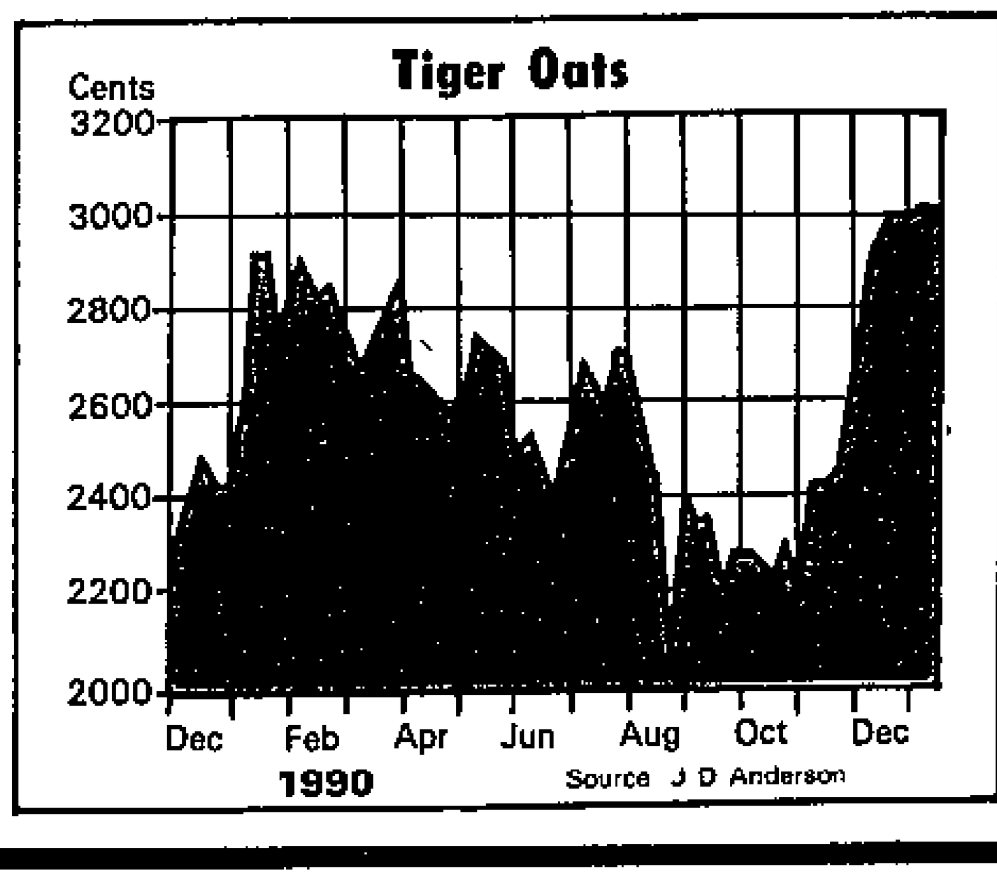
Tiger Oats continues to expand its food manufacturing activities — R125m was invested last year in expanding existing operations and a further R106m spent on acquisitions, including a 50% stake in Beacon Sweets & Chocolates. These investments were funded largely from trading cash flow

Despite unsatisfactory results in the broiler, chicken and egg operations, capex continues to be spent on these areas, as management believes that "food consumption patterns will continue to stimulate growth over the long term "

Other areas of investment include the remodelling of the bakeries, technological upgrading in Langeberg, the erection of a new maize and wheat mill and a new bakery Extensions are under way at Tastic Rice and the sophisticated glucose plant at Universal Industries at Durban is now fully on stream

The group has continued to generate enough cash to fund its expansion and maintain gearing at conservative levels Net borrowings at year-end stood at just over 40% of shareholders' funds, with interest and leasing cover still at a comfortable level Management considers the funding structure appropriate for a business where the financial risk is seen as relatively low

There were several areas where last year's performance disappointed, as well as the broiler and bakery divisions, these included the pineapple divisions of Langeberg and the pelagic fishing operations of Oceana But, overall, most of the core activities held up



FM 18/1/91 (186)

In the food and agricultural division, margins fell from the year-ago 7,9% to 6,2% and in the trading and distribution division there was a fall from 3,9% to 3,6% Fishing arm Oceana's margins buckled from 12,4% to 7,8%, owing to disappointing pelagic fishing and a lower anchovy quota

Tiger, nonetheless, produced real growth in sales, which rose by 18% The diversification into the high-margin pharmaceutical business again bolstered the bottom line

Tight asset management resulted in working capital rising in line with turnover. Inventory levels rose by 13,2% and the increase in debtors was 10,3% after adjustment for acquisitions; similarly, creditors increased by only 7% This year, the trading environment will remain difficult and the group will need to place even greater emphasis on asset management

Executive chairman Robbie Williams forecasts a "satisfactory" earnings improvement, helped by the Beacon acquisition and stronger results from Langeberg

In recent weeks the share has climbed to 3 000c from 2 275c at year-end Tiger has an excellent long-term record and remains the best rated share in the food sector

Gerhard Slabber

Price fall to sour sugar exports

S Times 20/1/91

186

By DON ROBERTSON

THE TWO-YEAR mini-boom for sugar is fast coming to an end

World sugar prices have fallen from a 1990 peak of more than $350 a ton to below $200 SA exports, which make up about 37% of total sales, will be hit.

Aggravating the problem is an expected minimal growth in domestic demand and a rand which is projected to remain fairly stable against the dollar for the rest of the year and reduce export earnings

In spite of poor prospects, the industry plans to go ahead with its expansion programme which will include additional cane-growing areas in Natal and the Eastern Transvaal and building a sugar mill and refinery near Komatiepoort at a cost of R300-million

Rain

Although long-term predictions are difficult to make, lower income from the sugar crop could affect companies such as CG Smith and Tongaat-Hulett

Both companies earn between 17% and 20% of their revenue from sugar

Glyn Taylor, chairman of the SA Sugar Association (SASA), says the outlook for the season starting in April is not good

Although most of the canefields have received reasonable rains, more is needed Industry sources believe that in best climatic conditions the crop could be about 2-million tons, compared with about 2,15-million in the past two seasons

They say lower production will be experienced mostly by farmers producing B pool cane which is largely destined for export This could cut export earnings by as much as R75-million at current prices

World sugar prices have dropped in spite of poor crops which are expected to yield about 112-million tons in the international season to September Demand is forecast at 110-million tons, leaving an overhang of 35-million tons from previous years

China is not expected to be a major consumer this year, because of its shortage of foreign currency

The SA industry is, however, flexible and able to adjust to changed circumstances. In the past two good years SASA was able to cut its commercial loans — raised to see it through previous difficult times — from R327-million to R87-million

Industry experts believe that at the end of the current SA season in March, about 750 000 tons of sugar will be available for export compared with 800 000 in the past two years

Mr Taylor says SA is not facing a "wipe-out, we have faced these problems before"

Tenders

He says expansion will continue in Natal It has also started in the Onderberg-KaNgwane area of the Eastern Transvaal where the mill will be built

CG Smith and Transvaal Sugar Corporation have tendered for the right to build the mill and refinery, but the go-ahead is expected only March It will take about two years to build the mill, by which time it is expected that prices will have improved

Mr Taylor believes prices will be more stable in the 1990s

A fruity deal

186

S Times 20/1/91

By DON ROBERTSON

FEDFOOD has strengthened its hold on the sub-tropical fruit-processing industry with the purchase of Mango Man for R5,5-million.

Fedfood, through its subsidiaries, is now the largest player in this industry, which has tremendous export potential

The company becomes the largest processor and marketer of sub-tropical fruit products, such as atchar, fruit canning and drying as well as juices and concentrates from mangos, pineapples, bananas, tomatoes, guavas, litchies and pawpaws

Cash

The purchase was negotiated through Patoma Foods in which Fedfoods acquired an 83% interest last November for R9-million Of this, R6-million was cash.

Managing director Jan du Toit says Fedfood has been in regular contact with importers of sub-tropical fruit and the latest acquisition, although small, offers potential for international trade

Mango Man had little marketing experience, but this will now be provided by Fedfood

Patoma has a special interest in stregthening its tomato-based products One European airline uses only Patoma tomato juice for its passengers

Mr Du Toit says "Its growing range of products positions the company to serve increasingly the various market segments, including the highly sophisticated consumer and export ones in Europe, America and the Middle East"

Competition Board will not probe chicken deal

SPV 23/1/91 (186)

By Des Parker

The Competition Board has decided not to investigate Rainbow Chicken's outright acquisition of Bonny Bird, a move which it is believed will give the Natal-based farm business more than 50 percent of the broiler market.

A spokesman for the board said Rainbow and Premier Group, which controls Bonny Bird, had approached it for a ruling.

"With the information at its disposal, the board decided not to probe the transaction in terms of the Maintenance and Promotion of Competition Act," he said

Stock market watchdog Robin McGregor, chairman of McGregor's On Line Information, said recently he was "incensed" that the Rainbow deal had not raised any objection

"In no other industrialised country can a producer hold more than 25 percent of a market unless that share is achieved by organic growth," he said.

Rainbow managing director John Geoghegan could not be reached to amplify on the terms of the deal announced this month, in which his company obtained 100 percent of Bonny Bird, as well as 50 percent of the shareholders' interests in the Epol animal feed division of Premier Food.

Referring to suggestions that the new grouping could mean higher chicken prices, Stephne Alberts of the Consumer Council in Durban said the more competitive pricing of red meat in the past year should help to keep a check on protein prices.

"Consumers have seen with the milk price war the benefits of withholding their custom when prices move out of their reach and I believe they exercise the same discretion with meat prices"

New pecking order in broiler market

Star 24/11/91 (186)

Diagonal Street

ANN CROTTY

Rainbow's tie-up with Premier represents a major realignment of the key players in both the chicken and feed mill markets.

Before last week's deal the broiler market was dominated by Rainbow with 35 percent, Bonny Bird (which was 50 percent-held by Premier) with 18,6 percent and Tiger's County Fair with 8,6 percent.

The only other significant operator was ICS' Festive with nine percent.

The animal feed market is currently dominated by Tiger subsidiary Meadow and Premier subsidiary Epol.

Late last year Rainbow announced plans to spend R237 million over the next three years on three feed plants. But right now (ahead of the implentation of the Epol deal) it only features in the feed mill market as a consumer.

For thirty years — on a three-year renewable basis — Rainbow has had a contract with Meadow for the supply of meal for its broilers.

This contract is believed to have accounted for 50 percent of Meadow's output. Meadow's output is estimated to have accounted for around 30 percent of the total animal feeds market.

With the benefit of hindsight it seems obvious, given that feed meal accounts for a hefty portion of the value of a chicken, that it could only be a matter of time before Rainbow established its own feed mill.

In his financial '90 annual review, Rainbow MD John Geoghegan said: "Rainbow has positioned itself in the chicken industry as a high-volume, low-cost producer and consequently control of feed costs, which represent 85 percent of total live bird production costs, is of considerable importance.

"Rainbow can influence the volume of usage of feed through improved feed conversion efficiency but at present has limited control over the cost per ton of feed consumed as all feed is purchased from the Tiger Oats subsidiary Meadow Feeds."

It is likely that the Rainbow team was concerned about being dependent for supplies on a player (Tiger) that was also a competitor in the broiler market.

The more so as Tiger had indicated its intention of increasing its broiler activities.

One reason for not having regarded the Rainbow move into feed as inevitable was the nature of the contract it had with Meadow.

Whatever the pricing, the contract was regarded as highly favourable to Rainbow in terms of cash flow. Analysts have frequently referred to the fact that the final consumer of Rainbow's chickens had usually cooked and eaten the thing before Rainbow had to pay Meadow for its feed supplies.

Whatever the benefits or otherwise for both parties, it seems the relationship had been under strain for some time, particulary in the Transvaal.

Industry sources say that last May Rainbow gave notice of its intention to build its own feed mill in the Transvaal. Consequently its Transvaal contract with Meadow will expire in June 1992.

Meadow responded by attempting to renegotiate more favourable contracts with Rainbow in Natal and the Cape. This didn't happen and these contracts are due to expire in June 1993.

This means that Rainbow has 2-3 years to get its own feed mills into operation so that it can be self-sufficient. Meadow has the same amount of time to find other consumers for its feed.

If Tiger does increase its broiler operation, this would take up part of the "surplus" Meadow output. Meadow may also look to develop its non-broiler markets.

The cash flow benefits that Rainbow loses by dropping out of the Meadow contracts will to some extent be compensated by the fact that Premier/Epol will be sharing the R237 million cost of the new mills.

Oceana's abalone investment a winner

LESLEY LAMBERT

CAPE TOWN — The Oceana Fishing Group's new investment in exportable abalone is paying off and should offset losses from the Namibian interests which were sold last year, executive chairman Walter Lewis said at the annual meeting yesterday.

The Hermanus-based abalone operation — acquired from Tuna Marine with the proceeds of the sale of the Namibian interests — had already caught 52% of its quota, Lewis said. The season ends in June.

But, while he stood by the forecast he made last year that overall fishing prospects would be marginally better this year, it was likely that poor conditions would continue to dog the industry for another year.

Last year, reduced landings of anchovy in SA and rock lobster in Namibia and SA contributed substantially to a 42% decline in the group's attributable earnings

While the pilchard resource appeared to be stable, possibly even growing, Oceana remained concerned about the state of anchovy, the quota of which had not risen. A poor catch would affect performance.

He said the lobster resource appeared to be staying in the deeper waters and the company had developed special deep-water catching techniques as a result. (186)

Oceana underwent dramatic diversification last year to offset disappointing fishing conditions and provide a base for future growth and profitability.

Apart from hiving off the Namibian operations and buying into the abalone industry, the group invested in other more profitable operations, including commercial cold storage and property development.

BDay 25/11/97

C G SMITH FM 1/2/91 (186)

A TIGER IN THE TANK

Activities: *Investment holding company with substantial interests in food, packaging, carpets, textiles and pharmaceuticals*
Control: *Barlow Rand 60%*
Chairman: *W A M Clewlow*
Capital structure: *46,9m ords. Market capitalisation R3,5bn*
Share market: *Price R74,75 Yields 2,1% on dividend, 10,1% on earnings, p e ratio, 10, cover, 4,8 12-month high, R91, low, R62 Trading volume last quarter, 222 000 shares*

Year to Sep	'87	'88	'89	'90
ST debt (Rm)	394	586	662	867
LT debt (Rm)	350	497	525	588
Debt equity ratio	0,16	0,31	0,36	0,39
Shareholders' interest	0,50	0,44	0,44	0,45
Int & leasing cover	6,8	9,4	8,28	6,42
Return on cap (%)	15,8	17,3	17,6	16,0
Turnover (Rbn)	8,52	10,05	12,42	14,16
Pre-int profit (Rm)	696	942	1 141	1 180
Pre-int margin (%)	7,4	8,6	8,91	8,09
Earnings (c)	390	613	746	751
Dividends (c)	163	212,5	158	158
Net worth (c)	2 552	2 822	3 289	3 727

Food, fishing and pharmaceutical interests increased their contribution to attributable earnings to 57,5%, while that of the packaging division, Nampak, and the carpet and textile arm, Romatex, fell sharply.

Annual reports of the key listed subsidiaries have already been discussed in the *FM*

Group income was again buttressed by Tiger Oats *(FM* January 18), one of the JSE's most consistent performers Food interests broadly maintained their position, while the Adcock Ingram pharmaceutical operation *(FM* January 4) boosted the operating margin Though management was disappointed with ICS *(FM* January 4) and Oceana *(FM* January 18), the latter still has the highest operating margin in the group.

C G Smith Sugar had its sixth consecutive year of profit growth in real terms, thanks largely to good export revenues The world sugar price remained high most of the year, but the division now looks headed for a setback The sugar price has plummeted from last year's high of more than US$350/t fob to less than $200/t *(FM* January 18) The industry's prospects have turned gloomy, though the market is volatile.

Management is confident that, overall, food and pharmaceuticals are running well and should produce better earnings this year

PROFIT SOURCES

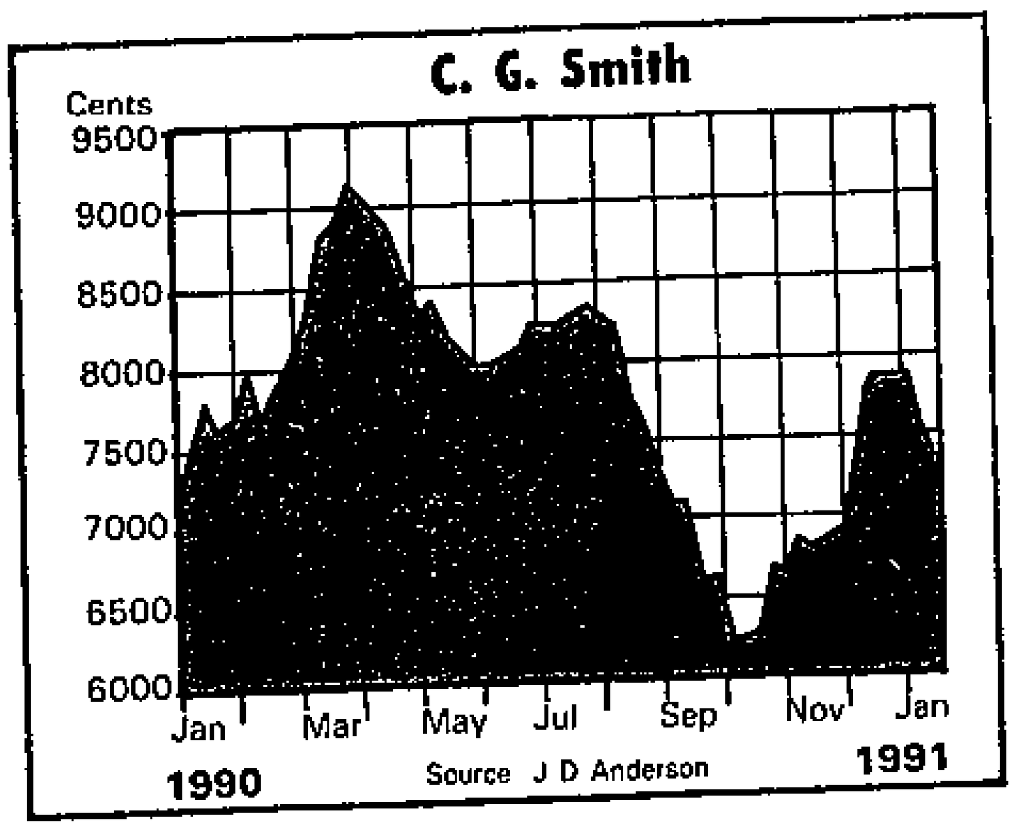
Attributable profit

	1989 Rm	1989 %	1990 Rm	1990 %
C G Smith Foods	180,8	51,7	202,7	57,5
Nampak	137,6	39,3	126,7	36,0
Romatex	30,8	8,8	22,4	6,4
Other	0,6	0,6	0,2	0,6

Things were not so buoyant at Nampak *(FM* December 21), where turnover volume fell 1% Difficult trading conditions locally and on the export side are blamed, exacerbated by production and labour problems But not all divisions performed poorly Improved results were achieved by those servicing the beverage industry Sales of tissue and paper showed some growth — that of tissue could be due to rapid urbanisation

Despite a generally difficult year, the balance sheet remains unstrained and the group is well positioned to pursue its capital programme Short-term debt was the only item that changed significantly — it rose by 31% — but interest and leasing cover remains comfortable

The share price has climbed from below R65 in October to nearly R80, giving an earnings multiple of 10, a demanding rating that's higher than is accorded most industrial holding companies *Gerhard Slabber*



W/C ARG 4S 2/2/91

Langeberg profits cropped

186

By BLAISE HOPKINSON, Business Staff

A SHARP rise in expenses and declining volumes contributed to a 45 percent drop in profits for Bellville-based canners Langeberg in the year to September.

Margins were slightly improved and turnover increased 11 percent to R559,6 million. Profits were R18,4 million.

Contributing to the downturn in the former co-op's fortunes was the poor pineapple crop and a decline in the local market brought on by the recession in the local economy

Commenting on the results Langeberg managing director, Mr Ray Brown, said prospects for the current year's pineapple crop were good while improvements in the domestic market — which accounts for 60 percent of turnover — are forecast.

"We are expecting to do well. Prospects for exports are looking good and the world market for pineapples has improved, which should eliminate last year's loss in that sector," Mr Brown said.

Three bad years in the pineapple business have cost Langeberg in excess of R20 million

Exports were the significant contributor to bottom-line profits.

Langeberg is 55 percent owned by food giant Tiger which obtained management control of the co-op in 1988 after a cash injection of R80 million

A significant post-balance sheet event was the closing late last year of the company's loss-making dehydration plant at Hartswater in the Nortern Cape — a move estimated to be costing R3,6 million The plant lost about R10 million in its decade of operation.

As the country's largest canner, Langeberg commands some 70 percent of the canned fruit and vegetable market and Mr Brown is intent on "making it work for us"

Plans include the discontinuation of non-profitable lines and greater operating efficiency.

Langeberg, as with other South African exporters, has suffered through sanctions and trade boycotts but has successfully shifted its overseas market focus from West to East

Mr Brown said he regretted rival canner Gants' decision to close its deciduous fruit canning operation last year

In Langeberg's annual report chairman Mr Boet van Wyk said canned foods were sensitive to the business cycle which led to a decline in volume sales

"Although margins improved somewhat over 1989, the improvement was nullified by the decline in volume and the sharp rise in expenses which occurred."

He noted that in spite of the decline in overall volume sales and profitability, own brand sales to the consumer market increased while better asset management led to a gratifying improvement in cash flow.

Decisive action has been taken to improve the focus, asset management and profitability of the local division and this included rationalising selling and marketing operations, product range and production units.

Final product quality was also improved.

He expected the recession to persist throughout the greater part, if not all of the 1991 financial year

"Consequently we are not expecting to increase local volume turnover above the level of the last two years," Mr van Wyk said.

Crown Food earnings lose a little bite

186

BDay 5/2/91

MARCIA KLEIN

FOOD-listed Crown Food Holdings, which supplies ingredients and equipment to the meat and catering industry, has reported a slight decrease in earnings for the six months to December 1990.

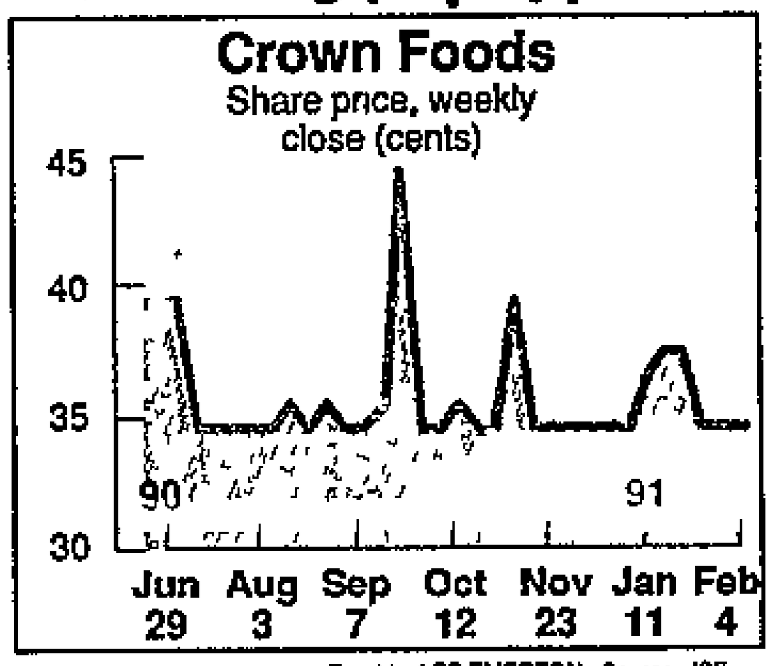
An improvement in the food processing division and difficult trading conditions in the catering equipment division saw interim earnings for the six months to December 1990 down slightly to 3,8c a share from 3,9c a share for the interim period to December 1989.

However, directors of the Murray & Roberts subsidiary said the company should produce "marginally better" results in financial 1991 than in 1990.

Crown reported a 3,3% decline in net profit to R1,30m (R1,35m), while the interim dividend of 1,5c a share was maintained.

The company increased its turnover by 13,7% to R63,16m (R55,54m), and operating profit was up by 10,5% to R4,31m (R3,90m).

Directors said difficult trading conditions in the catering equipment division were due to the state of the economy and "a resultant deferment of capital expenditure by customers", and continuing high interest rates were affecting distributable income.



Graphic: LEE EMERTON Source: JSE

The reduction of current assets — currently R60,35m — to reduce the interest bill was "a priority" as the interest bill increased by 54,3% to R1,85m.

In the six months to December 1989, turnover dropped by 2,4%, operating profit by 29% and attributable profit by 31%.

At the time directors said steps had been taken to reduce expenses within the Crown Mills division. These included the closure of two depots and the rationalisation of certain operations.

Crown's share closed yesterday at a year's low of 35c, after reaching a high of 60c in February 1990.

Kanhym anticipating satisfactory results

186

Finance Staff Star 6/2/91

Kanhym executive chairman Dirk Jacobs says the food group's interim results for the period ending February will show a significant improvement over those for the second half of the previous financial year but will not match its exceptional performance in the first half of that year

Speaking at the groups's annual meeting yesterday, Mr Jacobs said the expected improvement over the second six-month period could be attributable to the effectiveness of continuing efforts to enhance the group's cost structure, asset management and cash flow

"As I anticipated in the annual report, we shall not equal our 1990 first-half results Comparisons with that period are a bit onerous, however, as attributable earnings then shot up by 45 percent, propelled by an economy which at that stage was only beginning to show signs of the downturn which has since accelerated so severely", Mr Jacobs said

Mr Jacobs said Kanhym's value-added sector was maintaining its position as the major contributor to earnings in spite of severely depressed consumer demand. In its commodity sector, beef and cattle prices were still at lower levels than in the comparable period last year, while the late start to the rainy season had reduced the availability of marketable cattle

"In spite of the acquisition of Mielie-Kip and Herti for some R12 million, Kanhym has succeeded in keeping its financing costs for these six months at the previous year's level, and we shall have reduced our debt burden substantially by the end of February"

Kanhym results 'satisfactory'

MARCIA KLEIN

FOOD group Kanhym's interim results to end-February would not match those posted in the first half of financial 1990, but would show a significant improvement over those of the second half, executive chairman Dirk Jacobs said at the group's AGM yesterday. (186)

He said comparisons with the interim results of 1990 were "a bit onerous" as attributable earnings had shot up by 45% to R20,2m by February 1990, "propelled by an economy which at that stage was only beginning to show signs of the downturn".

However, results should be better than those posted for the second half of financial 1990, when the group reported a 5% drop in attributable earnings to R30m.

Jacobs said the improvement would be due to "the effectiveness of continuing efforts to enhance the group's cost structure, asset management and cash flow.

"Considering the current state of the economy and the high base we established in the first half of last year, I think the results we anticipate for the six months to February are satisfactory," he said.

Jacobs said the value-added sector was maintaining its position as the major contributor to earnings despite severely depressed consumer demand.

In the year to end-August, Kanhym's value-added operations propped up group earnings after its commodity divisions were hard hit by the collapse in the red meat price. S/Day 6/2/91

Beef and cattle prices were still at lower levels than in the same period last year, while the late rainy season had reduced the availability of marketable cattle, he said.

Kanhym had succeeded in keeping financing costs for these six months at last year's level (R5,9m at the February 1990 interim stage) despite the R12m acquisition of Mielie-Kip and Herti.

Jacobs said that by the end of February, the group's debt burden would be substantially reduced compared with last year's interim stage — interest-bearing debt was R94,2m in February 1990 — and the benefits of this reduction as well as the improvement of the balance sheet should be evident at the end of financial 1991.

More airlines to operate in SA – Durr

Star 7/2/91

CAPE TOWN — Two more international carriers — Austrian Airways and Hong Kong's Cathay Pacific Airlines — are to start services to South Africa this year as the country's diplomatic, trade and tourist relations with the world improve

The latest boost, announced last night by Minister of Trade and Industry and Tourism, Kent Durr, comes amid indications that South Africa attracted "well over" one million tourists last year, half from Africa

This "magic figure", Mr Durr said, would create a new basis for growth in tourism.

Gearing up

SAA is gearing itself for major expansions in expectation of the lifting of sanctions — which will see the airline flying to Australia and the US again

An SAA spokesman yesterday said the airline was buying 11 new aircraft following indications by the Australian government that direct flights by SAA to Australia could resume soon

The Star's Foreign Service in Perth reports that SAA's regional manager for the south-west Pacific, Trevor Henry, predicts flights will resume "within weeks" — Political Correspondent, Pretoria Correspondent

Aussie govt to ease visa restrictions

Star 7/2/91

Star Foreign Service

MELBOURNE — The Australian government plans to relax tough and time-consuming visa restrictions on South Africans visiting Australia

For more than five years South Africans wanting visitor or business visas have had to have their applications processed through the Australian High Commission in London

This was because of an Australian ban on consular facilities at its embassy in Pretoria as part of sanctions against apartheid

The ban meant inconvenience and delays of up to six months in getting visas approved

The Australian Foreign Minister, Senator Gareth Evans, said the first sanction to be eased would be in the areas of people-to-people relations

Sports

LONDON — International moves to break down sanctions against South Africa gained momentum yesterday when the Commonwealth Secretariat confirmed that a special meeting of the nine-member Foreign Ministers Committee on South Africa would take place in London next week.

British Prime Minister John Major and, for the first time, his Australian counterpart, Bob Hawke, are putting pressure on the Commonwealth to ease sanctions and boycotts, particu- larly Afri Kler scra apar

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Firm explains cooking oil spill on dam

Star 7/2/91 186

By Jacqueline Myburgh

Mechanical failure and a thunderstorm were responsible for the cooking oil spill at an Edenvale Dam on Friday, Epic Oil managing director Trevor Wilkinson said yesterday

At least three birds have died and fish are endangered as a result of the 75 000-litre sunflower seed oil spillage.

Mr Wilkinson said there was a total work stayaway at Epic that day, and the staff handling the oil when the accident occurred were voluntary workers

The spill took place while oil was being pumped from a tanker into a storage tank. A pump system failed and oil was siphoned back on to the siding

"Before the staff could react, there was a storm which washed the spilled oil into the stormwater drainage system"

Epic staff, in conjunction with the Edenvale Municipality, Department of Water Affairs and an expert on oil spillages, Greg Parton, have recovered most of the 15-ton spillage A scientific adviser to Epic said there were no signs of dead fish

Yesterday, 35 drums of oil which had been siphoned out of the dam stood on the banks

Resident Peter Coates said he took a walk around the dam every morning, but now the smell had become unbearable.

He also remarked upon the disappearance of a family of Egyptian geese from the dam.

● Edenvale town clerk Pieter Jacobs said he was satisfied with the cleaning-up operations, and believed the spill would not have any long-term effects

Heal rubb

I&J unfreezes its earnings growth

MARCIA KLEIN

FISHING and frozen foods producer Irvin & Johnson (I & J) resumed earnings growth in the six months to end-December after its 12-year profit growth was halted by setbacks in the year to end-June 1990

Substantially lower margins — caused by weak markets, competition and higher fuel costs — were offset by a reduced interest bill and a lower tax rate

The Anglovaal company, which suffered a 12% decline in attributable earnings to R58m in the 1990 financial year, posted an 8% increase in attributable earnings to R28,9m (R26,9m)

Earnings a share showed a 7% growth to 101,2c (94,9c) Turnover increased by 14% to R692,3m (R607,7m), but operating profit grew by only 1% to R44,5m (R44,2m)

Directors said "progressively deteriorating conditions prevailed throughout the period" and margins came under pressure

A 16% drop in the interest bill to R3,2m brought pre-tax profit up by 2% to R45,2m (R44,1m), and a lower tax rate saw profit after tax increase by 7% to R28,9m (R26,9m) BDay 11/2/91

Directors said while domestic chicken and seafood sales were affected by declining red meat prices, exports were enhanced by "firm international seafood markets" Vegetable harvests improved, but prepared food volumes were lower than last year.

Directors expected recessionary conditions to persist throughout the second half.

(186)

COMPANIES

What a Plesure as performance reverses

Bday 13/2/91

MARCIA KLEIN

JUST six months after a disappointing June 1990 year-end saw earnings halved, Anglovaal subsidiary Pleasure Foods (Plesure) has turned in a 48% increase in attributable earnings to R2,6m (R1,8m) and a 50% hike in earnings to 5,7c (3,8c) a share

The fast foods concern's MD Mike Silberbauer was confident that the group, whose major franchised fast food outlets include Wimpy, Juicy Lucy, Milky Lane, Pizza Hut and Golden Egg, would achieve "satisfactory earnings growth" in the current year

(186)

Turnover increased by only 8% to R48,8m, as the R45,3m posted at the December 1989 interim stage included the results of BJ's Pantry — which was sold last year — and former subsidiary Mr Fruit Juice, which is now accounted for as an associated company

Profit before tax and interest was 10% up at R3,3m (R3,1m), and lower borrowings, which substantially reduced the interest bill to R236 000 (R537 000), saw pre-tax profit 24% up at R3,1m (R2,5m) A 32% reduction in taxation brought profit after tax up by 45% to R2,6m (R1,8m)

Silberbauer said the group's flagship Wimpy had performed well and both franchise and group-owned outlets recorded good volume growth

Pizza Hut returned to profitability following the loss recorded at the June 1990 year-end due to management problems, and the Golden Egg and Milky Lane divisions also recorded improved profits

However, employee strike action at Juicy Lucy affected its profits

FM 15|2|91 (186)

ROYAL (186)

JAM ON IT

FM 15|2|91

To describe Royal's purchase of fruit canner SA Preserving Co (Sapco) as money for jam is stretching the point, but the terms of the acquisition do look favourable

Royal is to pay divesting US conglomerate Del Monte Foods International R113m for a company with tangible assets of more than R100m, trademarks valued at R35,9m and earnings last year of R18,4m

Nearly all its turnover is generated by exports of canned fruit to Del Monte in the UK and Europe Provided international prices remain steady, favourable exchange rates are likely to ensure the operating margin remains well above 20% Export incentives, which have kept the tax rate at no more than 26% for the past five years, are likely to continue

Less positive is that the sales and operating profit of Sapco have shown little or no real growth in recent years A big adjustment in the tax rate was mainly responsible for last year's 37% climb in earnings Similarly, operating income at chemical manufacturer Ferro, which Royal is also buying from a divesting US conglomerate for R38m, has not improved in the past two years.

The performance of Sapco and Ferro will have a great effect on Royal's food and chemical interests, Royfood and Roychem, being listed separately on March 14 (*Fox* January 18) Royal's management expects the former US subsidiaries each to contribute at least half the earnings of Royfood and Roychem in the year to February 1992.

Royfood also comprises the businesses of Sapco's former sister company Royal Beech-Nut, acquired from RJR Nabisco in 1989, while chemical and pharmaceutical group Roychem includes Royal's Holpro-Lovasz operations

Group financial director Jacques Fragis says the US parents of Sapco and Ferro paid little attention in recent years to improving the profit of the two companies. Sapco was used as a production facility for Del Monte's European operation, he says, while Ferro attempted to reduce the effects of double tax by investing heavily in plant and research and development Fragis reckons little, if any, capital investment is needed in either company and he expects both Sapco and Ferro to improve earnings by about 25% in the next financial year

Sapco and Ferro have secured 25-year trade and technology agreements with their former parents Sapco will continue to supply Del Monte and will open new markets in Europe and North America as well as introduce its products in SA

Sapco intends improving the efficiency of its production operations — which were only used during the five-month deciduous fruit season — by canning other produce such as pineapples, asparagus and vegetables The decline of Gants creates opportunities. Ferro plans to introduce several chemical products its former parent withheld from the local market

Old Mutual is underwriting the placing of Royfood and Roychem shares with institutional shareholders in Royal and its Royhold parent, as well as a rights issue to minorities in Royal and Royhold The shares are likely to be tightly held, with controlling shareholder Royal and institutions expected to take up 97% of Royfood and 96% of Roychem

Most analysts expect management to achieve the 31,2c and 34,5c EPS forecast for Royfood and Roychem in the February 1992 year However, some express concern at the high issue prices of the shares

At an issue price of 335c Royfood would have a market capitalisation of R326,4m and, on pro forma earnings for the year to February, a p e of 13,4 This compares with Cadswep's 21,5, Tiger Oats' 15,2 and Pre-

FM 15|2|91 (186)

mier's 12,2 — all groups with much longer track records NAV at end-February is given as 197c, or 126c excluding trademarks

With a pro forma p e of 9,6, Roychem — capitalised at R125m — appears expensive at 260c NAV at the February year-end is 195c, of which 53c comprises trademarks In the chemical and oil sector, Engen stands on a p e of 14,9, Sasol 9,5 and AECI 7

Royal and Royhold shareholders can accept what looks an expensive rights offer in the two new listings, or wait to see if the shares can be bought more cheaply later Support from Mutual and other institutions is likely to affect trading, at least in the short term Investors hoping for a lower price could be disappointed *Simon Cashmore*

B/Day 15/2/91

Royal to list subsidiaries next month

MARCIA KLEIN 186

ROYAL Food (Royfood) and Royal Chemicals (Roychem) are to be listed on the JSE on March 14.

Royfood and Roychem are the two newly formed subsidiaries of food and pharmaceutical group Royal Corporation (Royal) and its holding company, Royal Holdings.

Royal and Royhold's shares have risen steadily to close yesterday at their high of 335c. The share has risen over 17,5% over the past week.

There has been speculation in the market that Royal is looking at another acquisition.

The prelisting statement published today said the rights offers in the new companies would also "place Royal in a favourable position to expand its present business through acquisitions as and when the opportunities arise".

The statement said that directors proposed the change of the group's year-end from February to August.

Directors said the February year-end was not suitable as it lay in the middle of a peak production and operating period, and that February was not representative of the average financial position of the group.

CGS Foods cautiously optimistic

Diagonal Street

S|ev 18/2/91 186

LYNNE PEACH

CG Smith Foods' profit growth of 12 percent in the latest financial year has slowed down from more than 22 percent a year in preceding years and will probably not pick up markedly this year.

In the annual report, chairman RA Williams says the group performed well in the circumstances and that he expects a reasonable improvement in earnings in the current year

Group companies include CG Smith Sugar, ICS, Tiger Oats, Adcock Ingram, Logos Pharmaceuticals and Oceana Fishing

In the latest financial year, pharaceuticals contributed 49 percent to attributable profit and fishing 35 percent.

Foods accounted for nine percent and sugar and related activities for the remaining seven percent.

Mr Williams says that while the pharmaceutical companies, CG Smith Sugar, and Tiger Foods performed well, the results from ICS and Oceana Fishing were disappointing

In the year to September, group turnover grew 16 percent from R8,6 billion to R9,9 billion.

The rise in operating profit was a more subdued seven percent from R629,2 million to R670,3 million

After a 29 percent rise in interest expense from R115,3 million to R148,4 million and a marginal decline in income from investments to R72,0 million, pretax profit rose less than onepercent from R590,3 million to R593,9 million.

A decline in the effective tax rate from 35,4 percent to 32,9 percent resulted in taxed profit rising five percent from R381,2 million to R398,3 million.

After taking into account the share of retained profits of associate companies and outside shareholders' interest, attributable profit was R249,0 million

This is 12 percent higher than the previous year's R221,9 million

Earnings per share grew from 235,1c to 263,6c and the dividend payout rose from 78c a share to 87c.

The balance sheet discloses a rise in gearing from 37,4 percent a year ago to 41,4 percent.

Net asset value stands at R13,62 a share, 14 percent higher than R11,94 at the end of September 1989

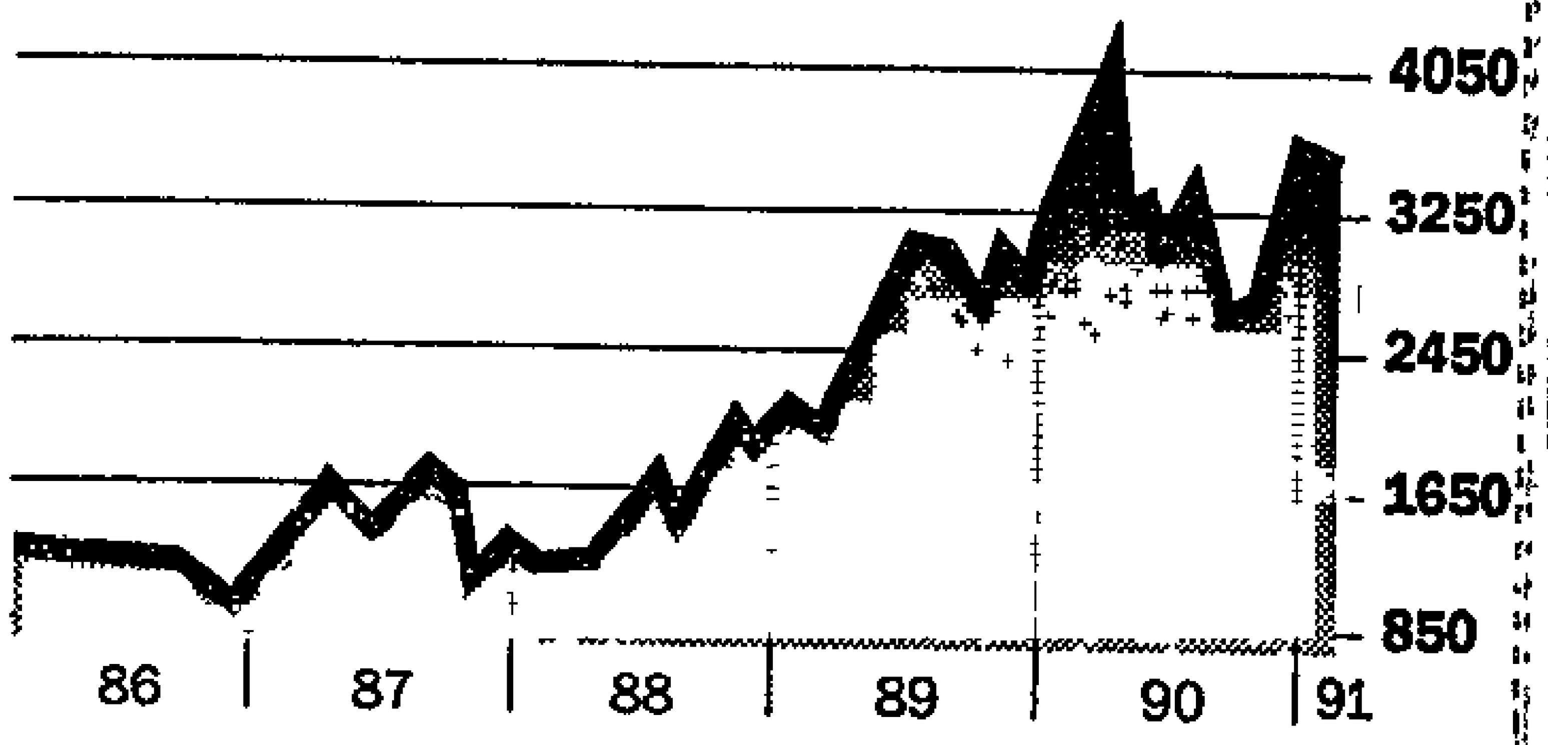
Mr Williams says the cash flow of R250 million (after taking into account requirements for continuing operations and comfortable gearing ratio) gives the group ample resources to fund expansion

CG Smith Foods, priced at R35,35, is trading on a P/E ratio of 13,4 and provides a dividend yield of 2,5 percent

The high rating reflects the blue-chip status of the share.

COMMENT The share performed particularly well between late 1987 and the first quarter of 1990 when it reached R40,50 It then fell to R26,50 before recovering to its current level of R35,25

The outlook will only turn unfavourable if the price retreats below R32.



CG Smith Foods price movement

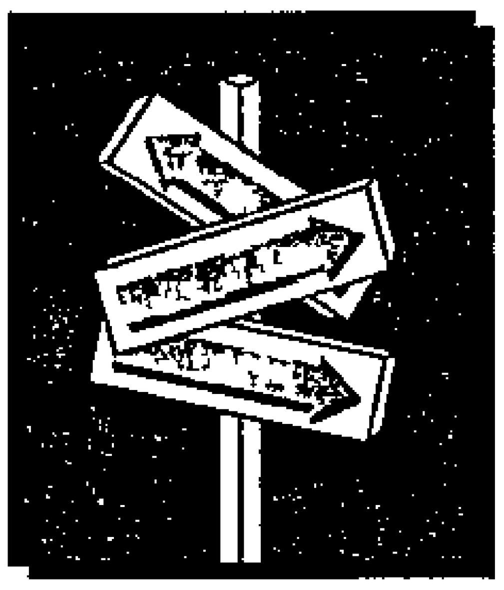
PICKARD GROUP

FM 22|2|91

COMING OUT OF THE SCRUM

186

A CHANCE FOR A FRESH START, BUT THE LONG-TERM PLAN IS UNCLEAR



Jan "Bull" Pickard has long believed that the best way of building up his wealth was to use other people's money — or borrowings For many years that approach worked but eventually high interest rates, in alliance with questionable financial and operational management in a recession, produced a crisis

By the late Eighties the group was groaning under an untenable debt burden and the trading operations were making losses The lack of liquidity raised doubts about whether Pickard's business empire could survive There was more ignominy when Cape Investment Bank (CIB) ran into trouble, kiboshing plans cherished by Pickard and his son, Jan Pickard Jnr, CIB's chairman, for expansion into the financial services sector

A turning point came when creditor banks drew the line. Management has been forced to tackle the problems, largely by selling assets to release liquidity

Today the group is smaller and leaner Instead of the sprawling group controlling six listed companies a decade ago, it now comprises three listings, of which the only operating company is the white and brown goods company, Picapli.

But the debt burden has only been eased It has yet to be cut to comfortable levels Pickard has much to do if the market is to be convinced that profitability and risk management is back on a sound footing.

It may well be premature to write off this large and energetic man, who has demonstrated his resourcefulness often, but Pickard, 63, no longer in good health, faces a real dilemma: whether to hold on to his business interests and ensure they are effectively managed, or to sell them for a reasonable price

He may also be pondering whether a business dynasty is worth the risk.

Pickard has not been loath to mix sentiment and business Nor is he the sort of self-made man who maintains a single-minded attitude to business

While pursuing his business career, he has immersed himself in rugby (he once reportedly said "What's the difference between rugby and the ballet? They are both culture"), his family and politics. He spent five years on the President's Council, of which he was a founder member

A former Springbok rugby captain in New Zealand, and for years the Western Province captain, Pickard has been president of the Western Province Rugby Union since 1986. He also heads the SA Rugby Board's finance committee Soon after becoming union president in 1985 he launched ambitious but successful plans to modernise Newlands rugby ground by selling company boxes at R50 000 apiece

Though he is well connected (he married Ingrid, daughter of former Finance Minister and State President-elect Eben Donges), Pickard made it on his own He has been in business for 40 years Aside from wealth salted away over the years, the market value of his stake in the pyramid company, Picbel, exceeds R10m

Wine and the liquor trade, where he pioneered self-service outlets, was where he laid the foundations for expansion His career started in 1950 when he joined Rene Santhagens (now Gilbey's) with a Stellenbosch University BSc (viticulture) In 1964 he bought the listed wholesale and retail liquor concern, P J Joubert, which led to the formation of Oude Meester with Rembrandt

But the liquor trade was not enough to satisfy this restless man A long list of investments followed printing through Trio-Rand (now SA Litho), fruit canning through Brink Broers and H Jones & Co (sold to Langeberg in 1980), car sales through Grosvenor Motors, meat wholesaling through Asokor and Karoo (sold to Kanhym), wine farming (Bellingham, Culemborg), liquor retailing and hotels (Uniewyn and Picotel), central city property, clothing and luggage manufacture (Picprop), sports goods retailing (Logans); appliance manufacture and wholesaling (Picapli), air transport (Comair) and recently, banking (CIB)

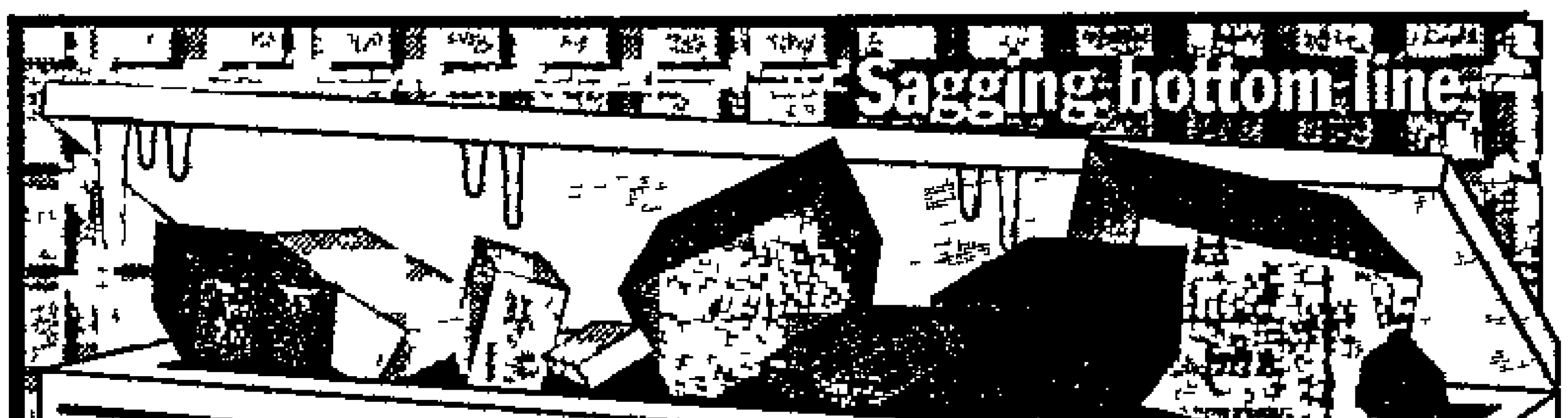
Unhappily, profit performance has not kept pace with this mercurial investment activity The only real measure of the overall performance is in the earnings record of Picbel **(see table)** In 1985 EPS tumbled to only 7c Last year, when prime averaged about 21%, the group plunged into the red

Pickard claims to have started the Enterprise brand of meats His first foray into the meat market was gained by buying control of Karoo Meat This meant obtaining proxies from thousands of shareholders, many of whom were farmers, from all over the country in opposition to the powerful Vleissentraal Pickard won by just 200 votes. After that he bought Asokor

He has done some good deals, such as the one with Gencor, when he sold Picfoods to Kanhym Picfoods then comprised the meat marketing activities of Asokor, whose subsidiaries included Karoo Vleisbeurs, Franke and Co, Victory Wholesale meat suppliers and Slabbert Verster & Malherbe. When Gencor disclosed its interest in the meat group, Pickard says he called for a put option at a fixed price that would rise each year with the prime rate He exercised the option two years later, when the option price was twice that of the shares. He has yet to stop patting himself on the back for that

Another success was the acquisition of the Bellingham wine farm In 1970, Pickard says, he took an option on the farm for R700 000 He exercised the option at that price in 1980 and paid for it in 1981 Since then the farm has been part of Uniewyn Uniewyn symbolised Pickard's roots as a winemaker and its interests — which included the hotel and liquor store arm, Picotel — doubtless gave Pickard a certain cachet in the circles he moves in But it was primarily sentiment that caused him to hold on to Uniewyn, whose earnings record was never satisfactory

Though Uniewyn was not overgeared, by last year its sale could no longer be avert-



	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Picbel (Previously Robertson Distillers)											
Earnings per share (c)	72	144	73	39	96	7	118	197	205	155	(186)
Dividends per share (c)	8	16	20	20	20	20	25	32	40	50	15
Pichold (Picfood until 1985)											
Earnings per share (c)	56	82	88	55	65	121	115	235	235	171	(222)
Dividends per share (c)	18	20	22	22	60	100	90	60	69	69	-
Picapli (Piccan until 1981)											
Earnings per share (c)	3,1	23,5	31,9	38,1	68,1	(17,5)	20,2	46,5	51,2	22,2	(52)
Dividends per share (c)		8	10	11	11	-	-	4	15	7,5	-
Picprop											
Earnings per share (c)	3,4	5 7	7,6	9	9,1	5,1	13,3	10,1	17,1	25,6	17,1
Dividends per share (c)	-	2,5	3	3,5	3,5	3,5	4	4,5	10	12	70
Uniewyn											
Earnings per share (c)	28	33,3	1,6	(12,3)	(19)	(8 9)	7,3	13,1	13,9	13,9	(15,7)
Dividends per share (c)	7	9	-	-	-	-	-	-	5	5	-

Continued →

CG Smith a long-term prospect

Star 25/2/91.

Diagonal Street

LYNNE PEACH 186

Giant industrial group CG Smith is managing to keep its head above the troubled economic waters and is set to further improve earnings in the current year

In the annual report, chairman Robbie Williams says that investments, rationalisation and the acquistions of recent years, combined with a strong balance sheet, should ensure that the group achieves further growth this year

CG Smith is an investment management company which, through its subsidiaries, has substantial interests in food, sugar and related activities, fishing, packaging, paper, carpets, textile and pharmaceutical industries

The group holds 81 percent of CG Smith Foods, 60 percent of Romatex and 64 percent of Nampak.

In financial 1990, CG Smith Foods contributed a major 58 percent to group attributable profit

Nampak accounted for 36 percent, Romatex for six percent and other activities contributed less than one percent

In the year to September, group turnover climbed 14 percent from R12,4 billion to R14,2 billion, while operating profit increased less than four percent to R1,1 billion.

After-interest expense rose 26 percent from R180,6 million to R227,2 million and investment income was marginally lower at R86,2 million

Pre-tax profit showed a decrease of one percent to R1 billion.

An increase in the effective tax rate from 35,1 percent to 36 percent resulted in taxed profit declining two percent from R655,8 million to R640,4 million

After taking into account the share of retained profits of associate companies and profit attributable to outside shareholders, attributable profit amounted to R352,4 million.

This was marginally higher than the previous year's profit of R349,8 million

Earnings per share increased from 746,1c to 751,0c

The dividend for the year amounted to 263c a share, compared with a payout of 260c in financial 1989

The balance sheet discloses a rise in gearing from 35,8 percent a year ago to 38,8 percent

Net asset value has appreciated 15 percent from R32,80 a share to R37,62

CG Smith, priced at R82, is trading on a P/E ratio of 10,9 and provides a dividend yield of 3,2 percent

The share continues to have sound long-term prospects and it is probably a good time to start accumulating the share for future benefit

COMMENT CG Smith's share price moved up from R30 at the beginning of 1988 to peak at R91 in the first half of 1990

The price then retreated to R61 before recovering to its current level of R82

The uptrend remains intact and will only be threatened if the price falls below R75

Tickey-stock Royal takes a place in the guinea seats

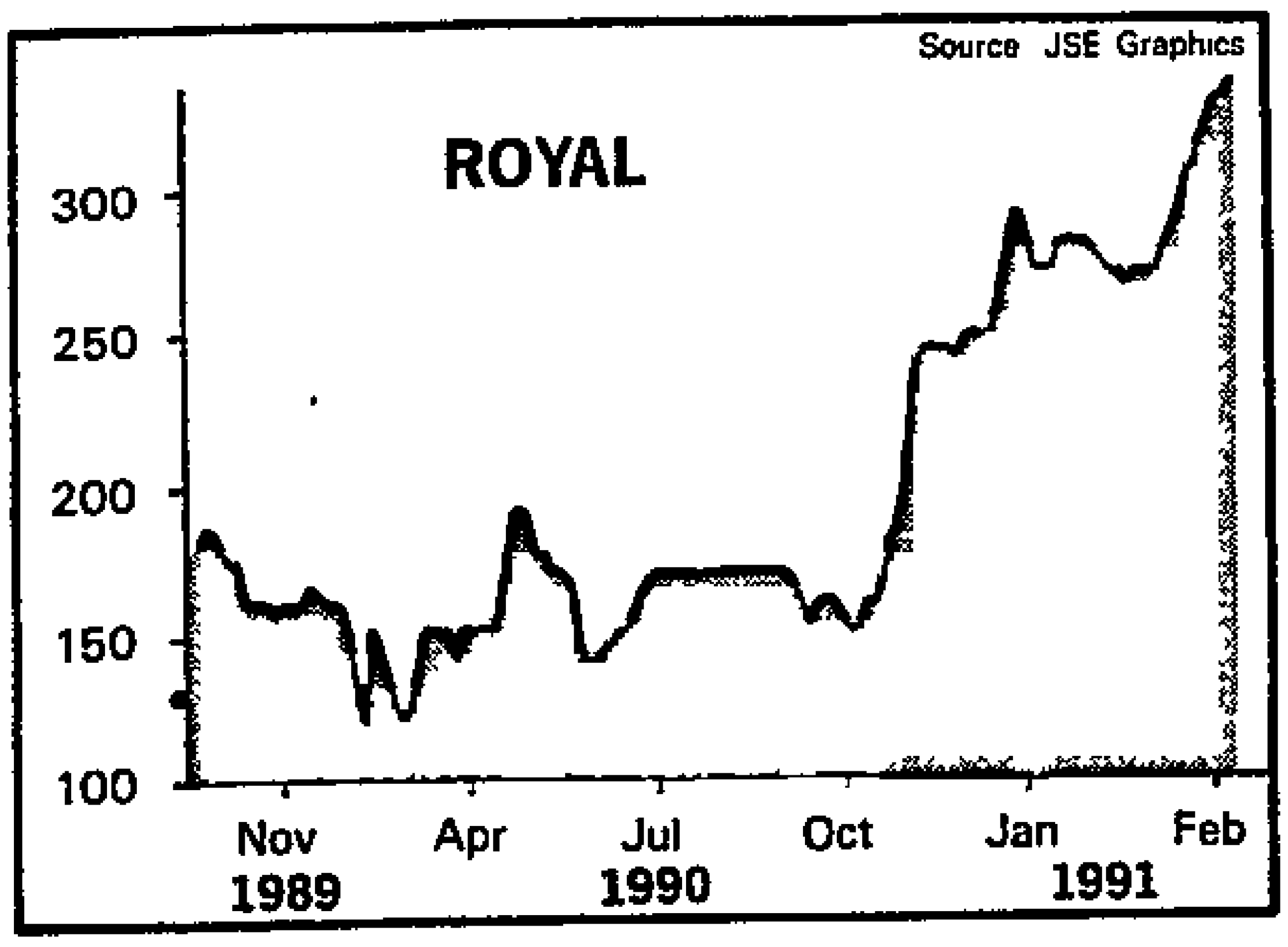
S Times 3/3/91. (186)

UNSUNG Royal Corporation has one of the lowest profiles yet highest success rates of any public company.

The 1987 listing under the Lovasz name has sprung into an institutionally backed light-blue chip

On value for money Royal group shares have the potential to grow at a faster rate than the bigger boys

Vice-chairman Sam Imerman bought a chemicals broking business out of a deceased estate 17 years ago His son Vivian — who now holds the reins — joined him straight from school a year later and soon saw that broking for commissions was not the best way to direct the business



Acting as principal, the Lovasz group grew

"I went from factory to factory, buying and selling," says Vivian Imerman "You learn a lot about companies through standing at the back door"

Again, the business reached too limited a size for Mr Imerman, prompting a 1987 listing

Did he foresee then that the group would come to own Holpro, Royal Beech Nut, Lovasz Chemicals, Sapco and Ferro within three years?

"I was ambitious," he replies, deadpan "We looked for things with good gross margins"

He slips in casually that 55% of the group's profit comes from exports. The tickey stock is taking on guinea status

Royal Beech Nut (RBN) was hotly sought by SA's larger food companies, but secured by Mr Imerman because he had done a significant amount of spadework preparing the ground for the deal The seller preferred to sell to him

RBN was part of American food giant RJR Nabisco, which recently changed hands for $30-billion — much of it justified by its brands and its fantastic distribution systems The one established in SA will stand Royal in great stead

Royal already supplies 8 000 outlets with its existing range Any acquisitions will simply blend in A large warehouse is being built at Chloorkop, near Kempton Park, to make the distribution yet more efficient

The biggest acquisitions have been from disinvestments Mr Imerman says there is plenty of scope for improvement Bans on the investment of new capital in SA companies led to lack of interest and demotivation on the part of management

Now, the same managers operating under new shareholders have proved their worth to Mr Imerman Human capital in the form of managing director Doug Johnston and financial director Jacques Fragis bears witness They came with RBN and now help to run the group

Stand-alone management is the first of Royal's list of criteria to be met by companies it considers buying

Also on the list are branded products, good financial systems and controls, high barriers to entry by other parties and access to technological advances Following these rules Royal has not taken a wrong step

Ultimate endorsement comes through sizeable shareholder Old Mutual's agreement to underwrite the rights issues of shares in Royfood and Roychem It is not often the insurer undertakes to do that

The listed structure will change Pyramid Royhold will continue to own 52% of Royal, which will reduce its 100% shareholdings in the food and chemical divisions to 65% of Royfood and 58% of Roychem

Holders of 100 Royhold or Royal can subscribe for 50 Royfood at 335c and 30 Roychem at 260c, the proceeds to pay for the acquisitions The rights offer closes on March 15 Royfood nil-paid letters are currently 15c and Roychem's 5c

Shareholders should not hesitate to take up the rights The RBN acquisitions have been thoroughly digested and potential unlocked With it came a soft pre-emptive right to buy Sapco, which Royal exercised last year

Sapco's market leader Del Monte stands to boom from better exports, especially after the demise of competitor Gants Its expansion was precluded while under foreign ownership because of investment bans and double taxation

VIVIAN IMERMAN: Knowledge gained at the back door

But Del Monte is no lemon — merely to maintain production the previous shareholders had to undertake major expenditure, from which Royal now benefits.

"The phones have started ringing again from countries we have not heard from in years, looking to do business," says Mr Imerman

Ferro Industrial Products makes special chemicals, and is Royal's door to their manufacture

On the whole, the Royal group looks princely Plenty of revenue derives from exports, and 80% of food sales in SA is in the growing black market. Recession does not overly hurt

Both Royhold and Royal shares are about 300c, almost treble the price a year ago Yet the group is being better rated rather than outgrowing its strength At this price, I like it

Small retailers seen as wild card in the price of bread

(186)

MARCIA KLEIN

BREAD wholesalers have expressed concern over mark-ups by small supermarkets and corner cafes after the removal of government's bread subsidy and price control on bread last week.

They fear that smaller retailers in areas with little competition might substantially increase their prices, thereby reducing the demand for bread.

Fedfood senior GM Johan Brand said the group was concerned that there were no regulations as far as general trade was concerned. B/Day 4/3/91

Following government's moves, the wholesale price for bread would generally go up from 116c to 118c for white bread and from 101c to 105c for brown bread.

However, Fedfood had found that some retailers were selling brown bread for 130c a loaf and white bread for 140c a loaf since the removal of the subsidy.

If there was consumer resistance to such increases, there would be a dramatic drop in sales which would affect the wholesaler's volumes, as the wholesalers' levels of profitability were volume and not price driven, Brand said.

However, consumer resistance might force retailers to drop prices.

Although the major supermarkets had dropped their prices, Brand said this could only be a temporary measure.

When government agreed that the bread mass could be decreased, it was thought the price could remain at its existing level. However, factors such as the increase in the fuel price made this impossible, and wholesalers increased their price to recover for the loss of subsidy and to adjust for price escalations, he said.

Premier Food Industries MD Willem de Kok said that to minimise the price impact on the consumer, the reduction in the weight of a bread loaf from 850g to 800g would give the same number of slices and a better quality loaf.

However, the unknown factor was the retailers, who were previously restricted to a margin of 4c a loaf. Now that this had fallen away, they would be entitled to take whatever mark-up they wished, he said.

De Kok said the wholesale price for brown bread would be increased by 6c a loaf, which was lower than the 7,9c subsidy which was removed, and while Premier's profit margins had not been increased, there were interim cost increases for fuel and wages.

Tiger Oats public affairs manager Patrick McLaughlin said the removal of the subsidy would result in increased competition due to overcapacity in the industry, particularly in major metropolitan areas.

"Tiger welcomed the return to a free market system," he said.

Rainbow offer to raise R244m for acquisitions

(186)

B Day 8/3/91

MARCIA KLEIN

MAJOR chicken producer Rainbow Chicken (Rainbow) is to raise R244m in a rights offer to fund its acquisitions of broiler operation Bonny Bird Farms and 50% of Epol.

Rainbow yesterday released its results for the six months to December, in which funding of expansions, cost increases and production problems contributed to an 11% decrease in earnings to 12,9c (14,5c) a share.

The R244m to be raised will fund the R224m acquisition of 100% of Bonny Bird Farms (payable over three years) from the Premier Group, Bokomo and Sacca as well as the R20m acquisition of 50% of Premier's Epol Animal Feeds division, including management control.

The rights offer will be underwritten by Hunt Leuchars & Hepburn (H L & H), which holds 25% of Rainbow.

Premier will retain a 50% interest in Epol and "the construction or purchase of feed mills in the future will form part of a joint venture between the two companies"

The Bonny Bird acquisition increases Rainbow's market share from 35% to over 50% of the broiler industry, which places it in a position to influence the control of prices.

Rainbow MD John Geoghegan said Rainbow would have a "major influence on both the quality and efficient production of feed, which comprises 85% of live bird costs".

He said the acquisition was "of prime significance to Rainbow as a long-term investment", in terms of increased market share, regional presence in the western Cape and synergistic benefits.

Premier chairman Peter Wrighton said Premier's underperforming assets have been turned to good account.

In the six months to December, Rainbow increased its turnover by 16,8% to R354,5m (R303,6m). However operating profit was only marginally up at R30,8m (R30,7m).

Benefits

Geoghegan said margins had not been maintained at the operating profit level as lower demand and increased competition had led to cost increases, which were absorbed by the company. Also, production problems were experienced by the whole industry in the first quarter of the period under review.

Interest and other income was reduced from R19,3m to R4,7m as cash resources funded the R90m Rustenburg expansion programme.

This resulted in pre-tax profit falling by 29% from R50,0m to R35,5m. However, benefits from tax incentives on Rainbow's large capital expenditure programme saw tax come down from R10,2m to R12 000.Profit after tax decreased by 11% to R35,46m (R39,86)

An 11% decrease in attributable profit to R35,42m (R39,83m)was due to the reduction in income and "to the inclusion during 1989 of R9,9m in respect of the surrender value of an insurance policy", Geoghegan said

An interim dividend of 4,3c (4,8c) covered three times, will be paid.

He said the results were satisfactory given the economic climate.

"For Rainbow to have emerged from the difficulties of the past six months with a creditable operating profit at levels marginally above the prior period, at a time when the rest of the chicken industry experienced severe losses is an indication of the resilience of the company and the ability of its management team."

Rainbow announced it would change its year-end to March 31 "in line with its major shareholders". While Rainbow's major shareholder is S C Methven Holdings, the announcement could refer to Rembrandt company H L & H.

In terms of the changed year-end, the next reporting period would cover the nine months to end-March 1991.

Geoghegan said benefits from the expansion at the Rustenburg plant would contribute to earnings growth, and that "short term trading conditions were expected to remain unfavourable but medium- to long-term prospects for the group were positive".

Rainbow pays R224-m to pluck Bonny Bird

Star 5/3/91

(186)

By Ann Crotty

Rainbow is to pay R224 million for the entire shareholders' interests in Bonny Bird Farms in which the Premier group has a 50 percent share. Payment, which will be staggered from end-June '91 to end-March '94, will be funded by a rights issue.

In addition Rainbow is paying R20 million for 50 percent of Premier subsidiary, Epol Animal Feeds. This amount will be paid at end-March '91

Although payment is staggered the Bonny Bird deal seems set to dilute Rainbow's earnings, in the initial stages at least. Bonny Bird has been a loss-making operation for some time and given the present weak state of the broiler market, there seems little hope in the near-term for any change in this situation. Bonny Bird will be bringing debt of around R100 million to Rainbow

Over time, with the application of Rainbow's management team and assuming some benefits of Rainbow having control of over 50 percent of the broiler market, there will be some earnings contributions from Bonny Bird.

Rainbow's first payment for Bonny Bird is R80 million and is due at end-June — just three months after the R20 million payment for Epol. This means that the market will be looking at a rights issue of at least R100 million within the next few months.

Going for the full R244 million immediately would result in much too great an earnings dilution — and it would be unnecessary as some of the funds would not be needed for up to three years

Ed Hern Rudolph analyst, Syd Vianello suggested that Rainbow might go for an initial R100 million rights issue with options attached relating to subsequent issues for R150 million.

In total, assuming an issue price of about 300c, some 80 million new Rainbow shares will have to be issued. This means that Rainbow's current share base of 275 million will be lifted by 30 percent and in turn means that if the Bonny Bird and Animal Feed acquisitions are not to result in a dilution they will have to increase Rainbow's earnings by at least 30 percent.

For the six months to end-December Rainbow has announced a drop in earnings — from 14,5c to 12,9c a share — and a slight reduction in dividend to 4,3c (4,8c) a share.

Turnover was up 16,8 percent to R354,5 million (R303,6 million) but operating profit was virtually unchanged at R30,79 million (R30,71 million) reflecting the tight squeeze on margins caused by the excess capacity in the industry.

Interest and other income was down by R14,6 million to R4,68 million due to the funding of the Rustenburg expansion programme. In addition, last year saw the inclusion of R9,9 million in respect of the surrender value of an insurance policy

Because of its hefty capex programme the group paid little tax. Attributable earnings were R35,4 million (R39,8 million).

At this stage, ahead of the full details,anaylsts regard the deal as being much more beneficial for Premier which has shed a non-performing, heavily geared asset at an apparently hefty profit over book value — although one analyst estimated Bonny Bird's market value at as much as R500 million

Cadswep maintains its fizz of the past five years

B/Day 6/3/91. (186)

MARCIA KLEIN

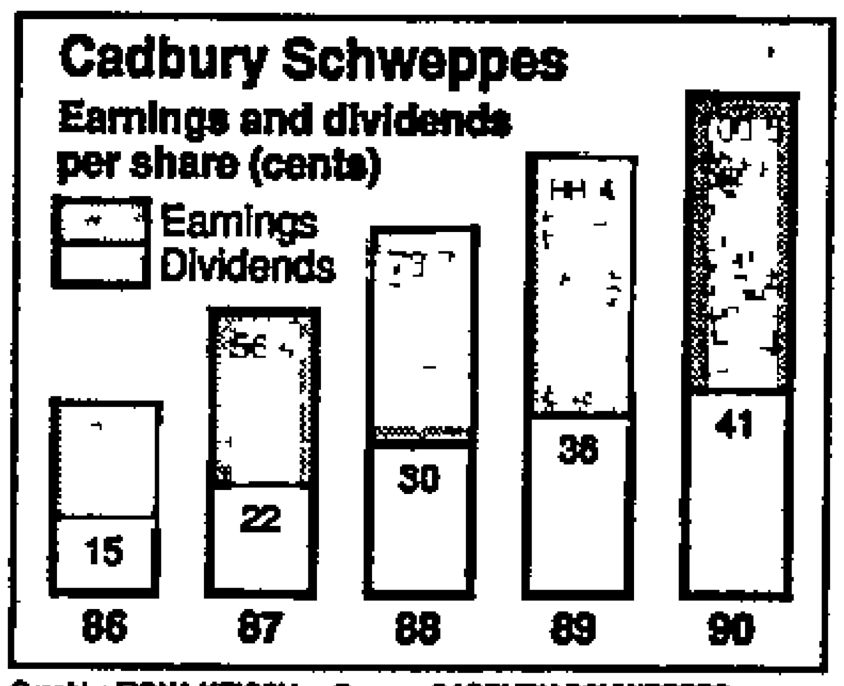
CADBURY Schweppes (Cadswep), which has shown consistent growth over the past five years, has posted a 14,3% increase in attributable earnings to R35,1m (R30,7m) in the year to December 1990.

The manufacturer and distributor of soft drinks, confectionery, foods and cocoa beverages has reported an annual 32,5% compound earnings growth and a 26,2% compound dividend growth since 1985.

Turnover for financial 1990 rose by 22,2% to R537,7m (R440,2m), which was "satisfactory, considering the deterioration in the economy, which saw a lower consumer demand and changes in spending patterns", MD Peter Bester said yesterday.

In an interview, he said while the squashes and cordials market grew strongly and the carbonated soft drink market continued to show steady growth, volumes declined in the confectionery market.

The company had a broad product and consumer base. This helped to even out earnings.



Graphic: FIONA KRISCH Source: CADBURY SCHWEPPES

Operating profit increased by 12,3% to R47,1m (R41,9m), which reflected lower margins in the confectionery business because of lower volumes, and the effect of action taken to strengthen the organisation, Bester said.

Higher average borrowings from Cadswep's expansion and developments towards the end of 1989 saw financing costs almost double to R10,2m (R5,5m), which brought pre-tax profit up only 1,3% to R36,9m (R36,4m).

Although borrowings increased, both gearing — at 38% (37%) — and financing costs cover were within the group's targets, Bester said.

High financing costs were offset by lower tax of R10,7m (R13,1m) resulting largely from investment allowances. This and a 29,2% increase in earnings from associated companies saw taxed profit up 16,8% to R36,3m (R31,1m).

The dividend for the year was 13,9% higher at 41c (36c) a share.

Earnings were 13,7% higher at 100,5c (88,4c) a share on a weighted average.

In terms of Cadswep's divisions, Bromor Foods performed strongly with a substantial growth in operating profit. Cadbury increased its volumes while the market declined, and Chapelat-Humphries recovered towards year-end from a disruption caused by its reorganisation in mid-year.

In financial 1990 Cadswep had increased market share in all the markets in which it operated, Bester said.

Interest bill sharply higher at Cadswep

(186) Star 6/3/91

By Jabulani Sikhakhane

Depressed margins in the confectionery business due to lower volumes, actions taken to strengthen the organisation and a sharp increase in financing costs took their toll on Cadbury Schweppes (Cadswep) perfomance for the 12 months ended-December.

Earnings per share rose 13,7 percent to 100,5c (88,4c) This is slightly below analyst expectations of a 15 percent improvement in earnings — following the 19,9 percent in financial 1989.

A final dividend of 31,5c has been declared making a total of 41c (36c) for the year.

Directors say the confectionery market volumes declined, while the re-organisation of Chapelat-Humpries impacted negatively on sales although they recovered towards year-end

As a result growth at the operating profit level was only 12,3 percent to R47,098 million (R41,943 million), despite a 22,2 percent rise in turnover to R537,725 million from R440,184 million. Margins fell from 9,5 percent to 8,75 percent.

Acquisitions made in financial 1989, including 82,5 percent of Chapelat-Humpries and 49 percent of the Springer Schokoladenfabrik saw short-term interest bearing debt shooting up 172 percent to R35,085 million (R12,890 million)

With the higher interest rates, the interest bill rose a hefty 85 percent to R10,190 million from R5,517 million.

But the higher financing costs were offset by lower tax rate due to investment allowances and increased contribution from associate companies.

After a tax charge of R10,657 million (R13,132 million) and a 29,2 percent growth in earnings from associated companies to R10,068 million from R7,793 million, after tax profits were up 16,8 percent to R36,319 million.

Profit growth

Attributable earnings after outside shareholders interests in subsidiaries, rose 14,3 percent to R35,095 million.

Directors expect the sugar confectionery business to show significant profit growth in financial 1991, enabling Cadswep to exercise its option to acquire the remaining 17,5 percent of Chapelat within the next 12 months.

In their forecast, directors do not expect any significant improvement in trading conditions until the last quarter of the year. The tax rate is not expected to be as favourable. Despite this, they expect to achieve real earnings growth for the year.

BREAD INDUSTRY 186 FM 8|3|91

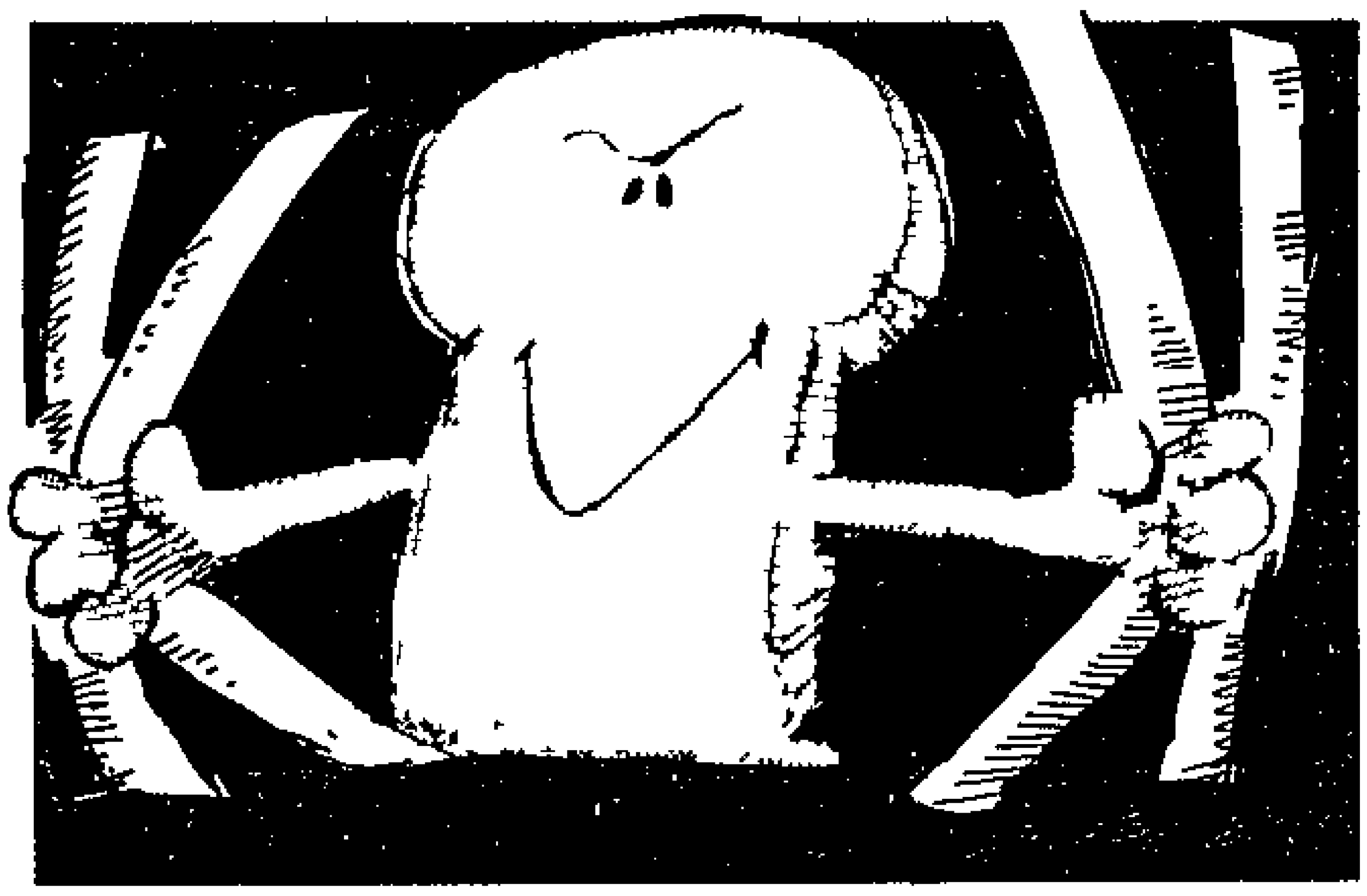
A REPRIEVE FOR THE CARTEL

After years of talk, government finally abolished the bread subsidy last week, as well as the restrictive bakery registration rules In theory, the baking industry is now open to competition, bread prices have been deregulated, and retailers can add any margin they like.

But government is under attack for not completing the job — the Competition Board has allowed the baking cartel to continue its market sharing agreements until the end of the year

Board chairman Pierre Brooks says the board granted the baking industry time to phase out its arrangements because the existing structures developed, with government's blessing, over a 50-year period

"This industry is dominated by a few large institutions of which six, representing about 85% of the local market for standard bread, form part of the agreement," Brooks says "The sector is dominated by Premier Milling, Fedbake, Bokomo and three others, which are vertically integrated by being involved in flour milling "



The pact between these big groups prohibits bread sales above agreed-upon quotas and outside allocated zones If these rules are broken, penalties must be paid But these arrangements obviously worked against competitive pricing principles.

And, by allowing an extension of this arrangement, government has opened itself up to sharp criticism

"Why, if it was aware for years of its own policy decision to abolish the subsidy and deregulate the industry as of March 1, did government not simultaneously abolish the quota system?" asks Shoprite MD Wellwood Basson.

"By extending these arrangements, bread prices might form a new platform and it could be difficult to drive them down again in the future," he adds.

Basson's group now sells 800 g brown bread at 98c a loaf, which is less than 1c less than the official price of R1,05 for a 850 g loaf determined by government on November 1 He says that if his own baking capacity was bigger, he could hold prices down. But because his group is forced to use outside bakers, he is subject to prices set by the industry

Pick 'n Pay CE Raymond Ackerman is more confident. "We now receive a large number of discounting offers from various bakeries and should be able to keep bread prices within reasonable limits " Pick 'n Pay priced the new, smaller brown bread loaf at 99c, a slight increase over the old price, but has been undercut by 1c by Shoprite.

"We welcomed the deregulation of the industry and hoped it would lead to tougher competition between bakeries to the benefit of consumers," Basson says "Instead we now have increases in bread prices that could probably have been prevented if the bakeries used the deregulation to fill their spare capacity, which resulted from past zoning allocations But, while the zones are being scrapped, the quota system is retained, which still prevents real competition."

Consumer groups are not happy with government's timid approach. "The board seems to listen to big business and not to the consumer," says Housewives' League president Lyn Morris.

She adds that while the league is against food subsidies or other subsidies, government has failed to replace the bread subsidies with other forms of assistance — even though it planned for years to abolish the subsidies She favours assistance targeted at the poor by instituting feeding schemes for groups such as schoolchildren and pregnant women For the unemployed, economic growth should be the objective — not handouts that are easily abused The league opposes food stamps because of the enormous bureaucracy they tend to create

Nevertheless, there is little doubt that competition in the baking industry should create a better deal for consumers — notwithstanding the abolition of the subsidy For one thing, the quality of bread should improve dramatically as the domination of the standard government loaf dwindles and bakers begin to compete more on the basis of taste, size, variety and packaging.

"Bread produced in SA is of a consistently high quality," says Patrick McLaughlin, a Tiger spokesman, "but what will happen now is that the industry will become more market orientated and respond by producing exactly what the public wants " ■

FM 8/3/91 (186)

RAINBOW (186)

SPREADING OUT

FM 8/3/91

Bonny Bird's R244m price tag for Rainbow Chickens is well below market expectations of around R375m in mid-January when the deal was announced and is less than half the broiler farmer's asset replacement value. The price looks even better considering the staggered payment over the next three years, as well as the rate of 6% below prime which is payable on the outstanding balance.

Question is, why was Premier willing to let Bonny Bird go at this price? Essentially, Bonny Bird has been a drain on Premier's cash and profit. The deal will bring R80m cash on June 30, followed by payments of R54m on March 31 in the following two years and a final R36m tranche on March 31 1994. Premier reckons the current 15% interest charge is better than no income at all out of Bonny Bird.

The deal is another step towards rationalising Premier's interests in the sector. In 1989, the group moved out of the egg-laying industry and merged its Farm Fare broiler operations with those of co-operatives Bokomo and Sacca.

The two co-operatives jointly owned a small, but profitable company, Bonny Bird Farms, which has been formed between Panmure Chickens, Southern Cape Poultry and Lemoenkloof Chickens, mainly operating in the Cape. Premier's Farm Fare was then a large and unprofitable operation.

Farm Fare gained management expertise, especially from the Bokomo side of the partnership. But immediate results remained unimpressive. The new Bonny Bird made a R4,7m operating loss last year after rationalisation and a R72m capex programme and hefty interest charges.

LESS MEAT

Six months to	Dec 31 '89	Jun 30 '90	Dec 31 '90
Turnover (Rm)	303,6	331,7	354,5
Operating prof (Rm)	30,7	33,5	30,8
Attrib profit (Rm)	39,8	46,2	35,4
Earnings (c)	14,5	16,8	12,9
Dividend (c)	4,8	5,9	4,3

The latest acquisition should bring some marketing benefits to Rainbow. The group will get additional exposure to chain stores and an opportunity to build brand names, like Farmer Brown. But for Rainbow, the main attraction is in the opportunity to lift its share of the broiler market to more than 50% and to acquire assets at a very attractive price. The Bonny Bird assets were updated and modernised over the past two years and will enable Rainbow to "double production with very little capex."

It also has the opportunity to expand into the feeds business with the R20m acquisition of the Epol Animal Feed division from Premier. Premier retains 50% of Epol and will participate to the same extent in Rainbow's feed mill expansion.

Rainbow intends to raise the full R244m by way of a rights issue before the initial payment on June 30. Cash will be used to reduce the considerable debt in Bonny Bird. Financial director Chris Wells maintains Rainbow's gearing will not exceed 30% over the next four years, mainly because of strong cash flow and the rights issue. He does expect a dilution of earnings this year, but thereafter sees only "upside potential."

For the interim to end-December Rainbow has reported a decline in earnings. Turnover rose by 16,8%, but operating profit remained virtually unchanged. The narrowing of margins was caused by excess capacity in the industry and, to a lesser extent, higher mortality owing to Gunborow's disease.

The share price rose from 210c in August last year to 350c and stands on a 10,5 p.e ratio compared with the food sector's 14,3 average. The deal should benefit Premier during this year, while Rainbow will benefit over the longer term.

Gerhard Slabber

Kosher service keeps atomic energy body shining in the dark

ST Times 10/3/91 (186)

By CURT VON KEYSERLINGK

THE Atomic Energy Corporation's food irradiation facility has been saved from closure by a contract to irradiate all kosher food supplied to Jews serving in the SA Defence Force

Irradiation is a food preservation technique that has raised controversy in some quarters and restrictions on its use have contributed to underutilisation of the AEC's irradiation facility

This put its future at risk as the AEC is pruning unprofitable operations as part of its commercialisation drive

AEC and SADF officials will not specify the value of the contract but confirm that it involves processing kosher food supplied to the approximately 300 Jewish members of the armed forces

Efficiency

The project, which is still in the experimental stage, was initiated for cost-saving and efficiency reasons Previously the Defence Force ran separate kosher kitchens in about nine of its canteens around the country and in the operational area

This was expensive and caused complications if Jewish servicemen had to be deployed to remote parts where there were no kosher kitchens

For example, there is no kosher kitchen for the Jewish vet who may be needed at an army horse-breeding centre in the Karoo or for the Jewish doctor or accountant stationed near the border

With the new arrangement all kosher food is cooked under the supervision of the Beth Din, at a newly-completed kitchen on the premises of the AEC next to the irradiation facility Each serving is packed into laminated pouches and frozen at -20°C

The pouches are then exposed to radiation emitted by radioactive cobalt-60 This treatment kills bacteria, insects and parasites, that make food go off and enables it to be kept at room temperature for years without any deterioration in quality or taste

The pouches are despatched to army centres where kosher meals are required The meals are prepared by simply immersing the pouches in boiling water for a few minutes to heat the food

The food is packed in double pouches so that the outer pouch can be removed after its immersion in the water to comply with kosher requirements on the use of cooking utensils

Irradiation treatment does not render food radioactive and there is no evidence that it is dangerous to eat irradiated food There is also no known way of detecting whether food has been irradiated

The project has the full approval of the Beth Din which favours the idea of preparing kosher food under proper supervision at one central site The Beth Din also favours the use of irradiation over the alternative of heat sterilisation, which was offered by the Defence Force as an alternative method of food preservation

The project is also approved by the Department of Health

Tasty

Irradiated food is regarded as more tasty than food preserved by other methods Among the kosher food items prepared for the SADF are steak, bobootie, sausage, strogonoff and a variety of vegetables

The AEC has for years supplied irradiated meal pouches for the SADF special services and as survival packs for aircrew

It also sells to campers and hikers and supplied much of the food used by yatchsman John Martin for his round-the-world race

It is hoping to sell irradiated food to other institutions such as hospitals

DIAGONAL STREET

By JULIE WALKER

Selling Royal rights gives you a discount

S/Times 10/3/91

FOLLOWING my article last week on the Royal group of companies, a reader has raised a valid point regarding the pricing of the rights in the offers of Royfood and Roychem

She says that investors will get better value for money if they buy either Royhold or Royal shares, rather than follow their rights in Royfood and Roychem

After the rights offer, Royal will own 65% of Royfood and 58% of Roychem There will be 97-million Royfood shares in issue and 48,2-million Roychem The two stakes added together are worth R285-million, equivalent to 420c for every Royal or Royhold share

Royal's current market price is 315c and Royhold's 310c In other words, by buying Royal or Royhold rather than following the rights to individual components, investors will be getting the same investments at a discount

So sell the letters — the offers are both underwritten by Old Mutual — and apply the proceeds to shares in Royal

Roychem letters are trading at a cent — down from 10c — and Royfood's are at a high of 15c

One of the objectives of the separate rights issues is to unlock the underlying value of the group by making its components more identifiable

(186)

When the market has accorded values to Roychem and Royfood, the share prices of Royal and Royhold should adjust to reflect them

Acquisition talk fuels Fedfood's share price

Star 12/3/91

(186)

By Jabulani Sikhakhane

Food group, Fedfood's share price has risen 58,8 percent from 850c at the beginning of January to the current R13,50 helped by rumours of a "significant" acquisition by the group

At the beginning of January Fedfood was trading at 850c, rating the shares on a p/e of 4,8 times and a dividend yield of 5,8 percent. At the current price, the rating has improved to a p/e of 7,3 and a dividend yield of 3,8

Fedfood has confirmed it is looking at an acquisition but it is not expected to have much impact on earnings for the current financial year Managing director, Jan du Toit was not available for comment last night.

One analyst notes that the rerating of Fedfood could be related to the bullish sentiment on the market, particularly the good demand for stocks in the food sector which has outperformed the industrial market.

He adds that Fedfood had been poorly rated and is now coming up in line with the rest of the sector This upward rerating of Fedfood comes despite the fact that the group is not expected to show above-inflation growth in earnings for the current financial year

Food producing companies are generally not expected to produce above-inflation growth. The producer price index for food last year grew at a slower rate than the consumer price index (CPI) for food.

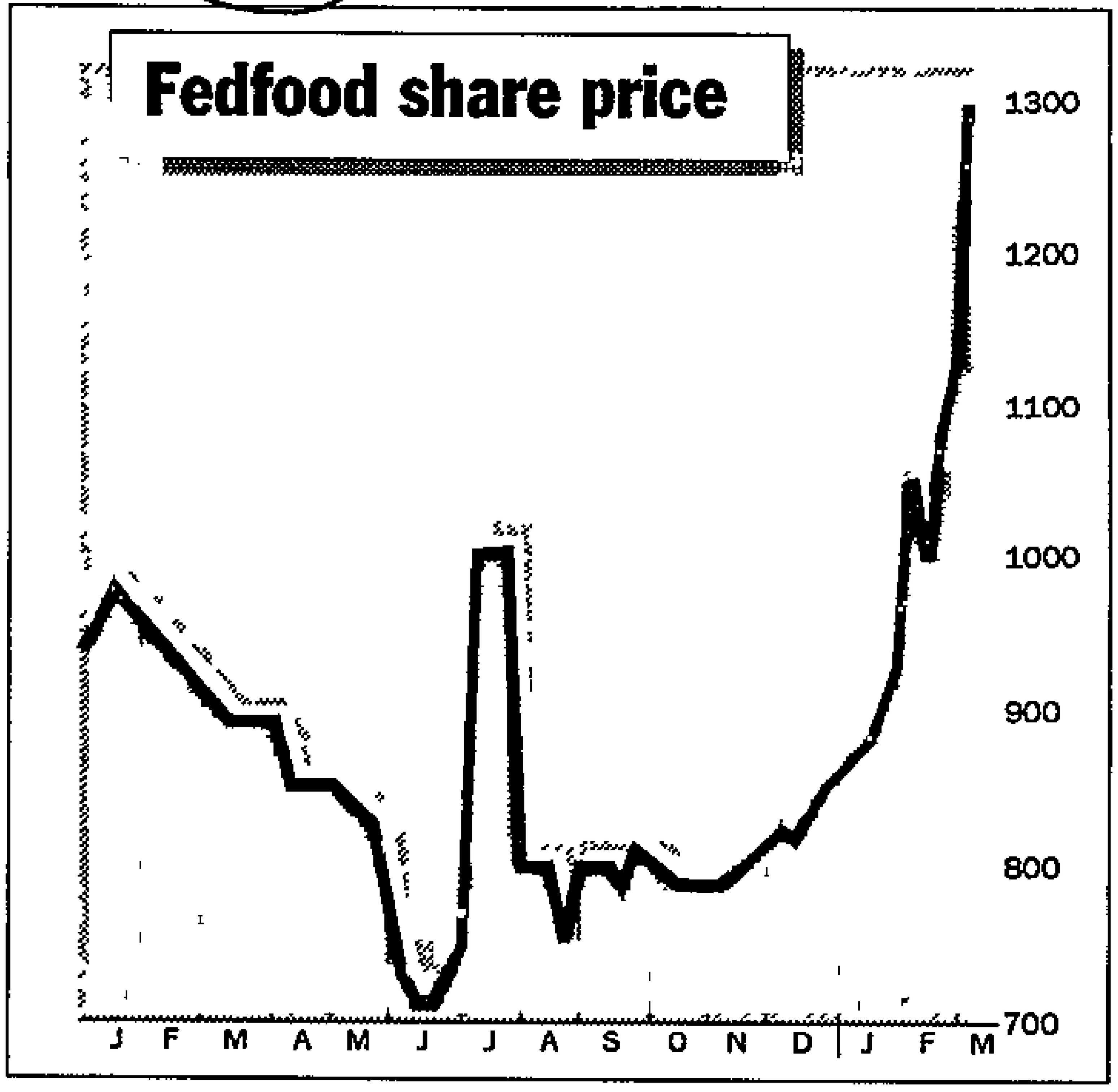
Taking growth of around eight percent in the PPI for food last year and adding population growth of about two percent, it would mean that growth of around 11 percent could be expected for food producing companies this year.

Even allowing for operational efficiencies and other special situations, it will be hard for pure food-producing companies to show above inflation growth, says the analyst

Other food-producing companies like Premier and Tiger Oats (which are more diversified than Fedfood) are expected to show better growth.

During the current financial year, Fedfood rationalised its fishing interests and made acquisitions in the sub-tropical fruit processing business.

Last October the group sold its holding in Namib Visserye Beperk which held a Namibian fishing interest. Management said at



the time that this deal was expected to add about eight percent or 7c to Fedfood's net asset value and also bring down gearing to below 40 percent from about 45 percent at interim stage.

The higher gearing impacted negatively on Fedfood's bottomline for the six months ending September 1990 Despite an 18 percent growth in operating income, a higher interest bill trimmed growth in earnings to 11 percent.

On the acquisition front, Fedfood acquired 83 percent of Patoma Foods in a R9 million deal Patoma processes, markets and exports sub-tropical fruits and vegetables. Early this year, Fedfood acquired Mango Man for R5,5 million.

The group also purchased 70 percent of Sea Plant Products, a perlemoen export business, for R14,25 million

COMPANIES

Fedvolks tackles its problem areas

BEVERLY HUCKLESBY

DELISTED industrial giant Federale Volksbeleggings (Fedvolks), a subsidiary of Sankorp, is busy with a restructuring of its faltering divisions.

(186)

The Federale group includes food giant Fedfood, pharmaceutical group SA Druggists and a range of diverse businesses including Avis, Ster-Kinekor, Price Forbes, Teljoy, Firestone, Gabriel, Exide, Fedics, Simba and Tabletop.

No details could be obtained from management about the restructuring. The announcement this week that senior GM Theo Bohlmann had been appointed executive director of the services division, which includes Fedics, Avis and Interleisure, was described as "strategic".

Details are expected when Fedfood reports its year to end-March results.

The name of the motor-component and agricultural equipment division's executive director candidate is still shrouded in secrecy Group MD Peet van der Walt said the person chosen still had to accept

Fedvolks was delisted last year when minorities accepted Sankorp's offer of 460c a share in a R305m scheme to increase its 65% interest in Fedvolks

The move behind the delisting was to hive off two of the company's problem areas — Fedmech and Tek — which had contributed to Federale's 35% drop in earnings for the year to end-March 1990

The share price of poorly-rated Fedfood increased 1,7% to a new high of 14,25c yesterday from 8,50c in January. A JSE spokesman said volume was trading at an "astronomical rate".

Market analysts believe the rise could be related to an acquisition, the negotiations for which are believed to be at an advanced stage

A Fedfood spokesman yesterday said in the next two weeks an announcement of a major acquisition could be forthcoming

UTICO FM 18/3/91 (186)

HUNGRY FOR MONEY

A burgeoning appetite for funds to satisfy capital expenditure and working capital requirements continues to force up borrowings at this tobacco and snack food manufacturer.

Utico, UK-controlled holding company of United Tobacco and Willards Foods, lifted interest-bearing debt by nearly 40%, to R15,5m, in 1990 With no cash reserves since the 1989 interim, interest charges climbed steeply to R2,7m

Main reason for the increase is the installation of new plant and equipment, costing R8m, at Utico's Industria cigarette factory and Willards' Rosslyn snack food facility Debt will climb again this year as the group intends building a second snack food facility, in the western Cape

(186) FM 15/3/91 (186)

Activities: *Manufactures and markets cigarettes, tobacco, snack food and fruit drinks*
Control: *BAT Industries Plc 63,6%*
Chairman: *F N Haslett, MD D B Edmunds*
Capital structure: *6,1m ords Market capitalisation R200m*
Share market: *Price 3 300c Yields 6,2% on dividend, 11,2% on earnings, p e ratio, 9,0, cover, 1,8 12-month high, 3 300c, low, 1 725c Trading volume last quarter, 11 000 shares*

Year to Dec 31	'87	'88	'89	'90
ST debt (Rm)	1 3	1,3	6,5	7,7
LT debt (Rm)	1,7	0,8	4,7	7,9
Debt equity ratio	0,04	0,03	0,12	0 15
Shareholders interest	0 48	0 49	0 48	0 46
Int & leasing cover	26,6	165,4	23,2	16 7
Return on cap (%)	18,4	18,6	19,4	20 3
Turnover (Rm)	269	311	361	440
Pre-int profit (Rm)	27	32	38	46
Pre-int margin (%)	10,0	10,2	10 4	10,4
Earnings (c)	218	260	307	368
Dividends (c)	87	110	153	205
Net worth (c)	1 236	1 386	1 540	1 703

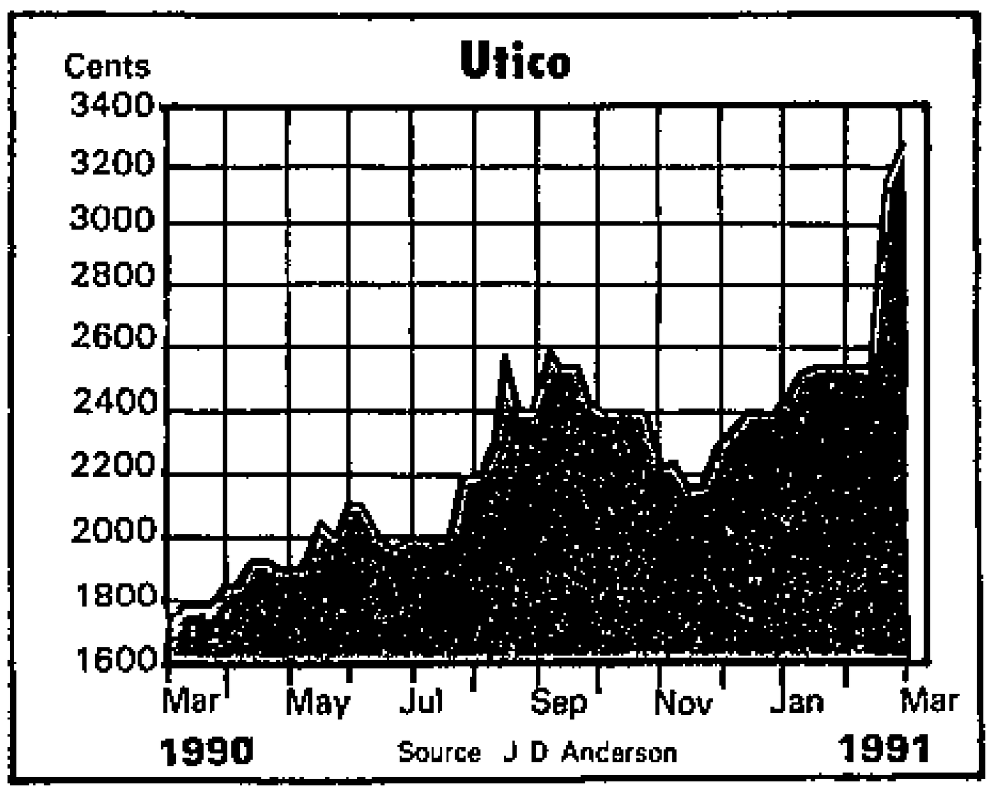
MD Bruce Edmunds won't say what this expansion will cost or its effect on the balance sheet, except that gearing will remain "comfortable " Year-end debt.equity was a modest 15%, up from 12%, and interest cover was a healthy 16,7, so there is plenty of room to increase gearing Return on equity and capital both edged up above 20%

Despite recession, high interest rates and mounting transport costs, Utico fared well last year Attributable earnings rose 19,7% to R22,4m on turnover up 22% to R440,5m A further reduction in dividend cover — it has dropped steadily since 1986 — helped push dividends up 34% to 205c a share Welcome news no doubt for Utico's UK parent, BAT Industries

Edmunds says he'll be disappointed if earnings growth this year doesn't outpace inflation Most group products are aimed at the lower end of the consumer market, where spending appears to be growing despite the lacklustre economy Operating margins have stuck at around 10% for the last four years

Utico's reticence to reveal sales or earnings contributions of its tobacco, snack food and fruit juice operations makes it difficult to assess prospects

The two mainstay businesses, United Tobacco and Willards Foods, should benefit from production improvements brought about by last year's upgrade in plant and equipment The new snack food facility is expected to relieve congestion at Willards'



Rosslyn factory, cut transport costs to the western Cape and possibly open the way for new products However, competition is likely to remain fierce and increased capacity is no guarantee of growth in sales

The fruit juice division, which at present contributes little to earnings, is looking to bolster significantly the export business it started a couple of years ago While it may take some time for this to make a noticeable impression on the bottom line, exports could ease the tax bill Last year, Revenue took nearly 48% of Utico's pre-tax earnings

After a leap of more than 700c in the past month, the share is now at a high of R33, giving a historic p e of 9,0 and dividend yield of 6,2% The group is well managed and likely to produce real earnings growth but at this price the share appears expensive

Gerhard Slabber

Kanhym results reflect poor meat prices and cutbacks

(186)

B|Day 26/3/91.

MARCIA KLEIN

FOOD group Kanhym's 13% decrease in attributable earnings to R17,5m (R20m) in the six months to end-February reflects the group's cutting back on commodity activities, a stagnant red meat price and a decline in tannery income

Earnings a share decreased similarly to 31,9c (36,7c) but executive chairman Dirk Jacobs said yesterday that the decline would have been about 2% if income from discontinued mining operations from the previous year's results was excluded

Stagnant

He said comparisons with the first half of 1990 should be seen in the context of an exceptional performance in that period, when earnings increased by 45%

A 4% increase in turnover to R496,2m (R477,0m) was a result of Kanhym cutting back on its commodity activities Feedlot numbers were reduced from 50 000 last year to 30 000 in expectation of meat prices remaining stagnant or continuing at a low level for the next 18 months This would have a positive effect on finance charges in the second half, Jacobs said, and with feedlots at this level, Kanhym would be totally self-sufficient in its feed requirements

Another reason for the 4% increase was the tannery activities housed in Hanni — the hide price had decreased over the year from R4/kg to R2.10/kg, and the European market had plunged due to the mild winter

Operating income was down by 2% to R23,5m (R24m) The group's value-added operations — Enterprise, Hanni, Herti and Mielie-Kip — maintained their R12,6m contribution to operating income despite depressed consumer demand

However, the commodity operations' contribution to operating income dropped by 5% to R10,9m (R11,5m) Kanhym Estate, Kanhym Fresh Meat and the agency and auctioneering business Karoo-Ochse were affected by the continued weakness in the beef and cattle prices

Borrowings were down substantially despite R15m being spent on the Herti and Mielie-Kip acquisitions, R11m on dividend payments and R10m on capex.

Interest-bearing debt was down by R34,2m to R60m, and gearing at 31% was significantly lower than the 52% reported at the February 1990 interim stage

Jacobs said phased stock reduction of feedlot cattle accounted for R20m which would be reflected in reduced finance charges in the second half — charges for the first half were contained at R6m

The 10c a share interim dividend was maintained due to a "strong cashflow, financial management and asset control"

The recovery from results for the second half of financial 1990 was indicative "of the extent to which Kanhym had succeeded in freeing itself from its subjection to the tyranny of the red meat price cycle".

Measures

Jacobs expected the second half to be as difficult as the first, with little hope for improvement in beef and cattle prices The demand for value-added products seemed to have stabilised at a lower base and margins would remain under pressure in a competitive market Group operations were likely to maintain market share in value terms, but at lower volume.

However, measures taken to hedge Kanhym against the red meat cycle, a beneficial effect of reduced feedlots on the finance charges and "management's ability to maintain costs and be frugal with working capital" should see results for the second half being significantly better than those of financial 1990

FM 29/3/91 (186)

LESS BEEF

Six months to	Feb 28 '90	Aug 31 '90	Feb 28 '91
Turnover (Rm)	477	502	496
Operating prof (Rm)	23,9	17,4	23,5
Attrib profit (Rm)	20,2	9,8	17,5
Earnings (c)	36,7	17,9	31,9
Dividend (c)	10	10	10

KANHYM (186) FM 29/3/91

DEFENSIVE STRATEGY

Kanhym, a supplier of branded meat products and fresh meat, has for several years been moving towards adding value to its products, and thus reducing its dependence on commodities That strategy has again helped the group to offset the effects of a stagnant red meat market.

Executive chairman Dirk Jacobs says that after growing steadily since about 1984, the red meat market plateaued and started falling during the latter half of calendar 1990. He expects it will remain depressed for at least the next 18 months.

Kanhym's diversification has left the group linked more closely to the economy than to the red meat market. In the six months to end-February, attributable earnings fell by 13%, but management remains optimistic that growth will be achieved for the full year

It's hoped that the value-added side of the operations will help to generate profit growth for the group while the red meat market remains slack. Jacobs declines to quantify the growth forecast for the 1991 year but says the second-half figures should be much improved as a result of lower finance charges, with red meat prices remaining roughly stable

The group operating margin narrowed from the year-ago 5,03% to 4,74%. Turnover rose by only 4% and operating profit declined by 2%. However, Jacobs points out that it is difficult to compare results of the two periods.

The decline in attributable earnings would have been only 2% had the income from the discontinued coal mining operations been excluded from the previous year's interim result

Also, a comparison with last year's first half should be seen in the context of the group's exceptional performance during that period Attributable earnings rose by 45% at a time when the recession had barely started.

Jacobs ascribes the slowdown in turnover growth largely to the 40% reduction in the number of cattle in the group's feedlots. In addition, the price of cattle on the hoof dropped from R722 a year ago to an average R683 from September to February Reducing the feedlot numbers by 20 000 is expected to result in Kanhym's supplies of cattle to the market falling by 60 000, as the feedlots operate on a four-month cycle. This should help to stabilise red meat prices at the current levels

Kanhym's abattoirs are not expected to suffer from the cutbacks at the group's feedlots. Other feedlot operators have been contracted to supply the abattoirs and the tanner, Hanni, will have its normal supply of hides Jacobs is particularly pleased with Hanni's improved performance, achieved even though hide prices almost halved to R2,10/kg

The other value-added operations — Enterprise Foods, Herti and Mielie-Kip — contributed strongly to operating income, despite depressed consumer demand. Jacobs says Enterprise held on to its share of the prepared foods market while continuing to obtain a premium price for its products "One banks profit not market share," he notes.

The balance sheet remains unstrained Gearing has been reduced to 32% from 52% a year ago and is expected to fall further by year-end.

The share price fluctuated between 250c and 320c over the past seven months. At the current 275c, the dividend yield is 7,3%, well above the sector average of 2,7%, so the market appears to have reservations about the group's prospects. *Gerhard Slabber*

WB Holds picks a bumper fruit crop

S I Times 31/3/91

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By JULIE WALKER

FOOD company WB Holdings took the biscuit this week with a 25% rise in earnings.

The former Cape fishing company saw the writing on the wall on fishing quotas long before Namibian independence

It has sold all its interests in Namibia, last to go being the investment in Namibian Fishing Industries Now under Norwegian ownership, Namfish will pay no dividend for several years

WB Holdings is now a fruit and timber grower Bumper export prices for fruit in the year to December helped the group to earn 45c a share compared with its forecast of 35c at the interim

Hail damage has lessened the expected 1991 crop from the original orchards But the acquisition of neighbouring farms will ensure a larger crop The relaxation of sanctions could help the company even more

Chairman Robert Silverman expects good results The share price is 275c, close to the peak

Eroded

Industrial holding company Malbak raised fully diluted earnings by 5% to 55,6c a share from the same percentage rise in sales to R4,2-billion

Higher tax eroded some of the increased earnings, but the subsidiaries generally did well The directors hope there will be a modest increase in earnings for the year

This is an improved outlook — at a presentation last year, chairman Grant Thomas foresaw a slight downturn

In the 12 months to December Crulife adopted a more conservative method of accounting premium income Premiums have been deannualised and are now accounted when they become payable

Crulife is now part of the Anglovaal group and its yearend has been changed to June

Momentum disclosed a taxed surplus of R8-million — 14% higher than in the six months to December 1989 Earnings a share of 11,4c were 12% up, as was the 6,75c dividend

The directors say rationalisation between Momentum and Lifegro has been completed

MacPhail raised turnover by 38% to R211-million in 1990, and earnings a share were 22% up at 50,5c The W&A subsidiary reports pressure on margins on general economic factors and a cut in metallurgical-sector demand. But the directors expect a further increase in earnings in 1991

Carats

Engen pushed turnover, earnings and dividends more than a fifth higher in the six months to February Cost inflation rose slightly faster than selling prices in spite of the benefit of including the Trek product system in Mobil's network

The Persian Gulf crisis generated inventory or windfall profits, of which R120-million before tax has been excluded because they could go into reverse

Management is confident that the rate of profit growth will be maintained in the second half-year

A handful of companies reporting this week achieved higher earnings Only Abercom incurred an absolute loss — R4-million, but much lower than the previous interim shortfall

The recession made its mark across the economy Malbak food and meat company Kanhym's earnings fell by 13% to 31,9c a share in the six months to February

Office furniture group Math Ash's earnings fell almost 70% in the six months to December to 8,2c a share on an easing in turnover to R63-million

Chairman Winky Ringo expects the group to "continue to perform satisfactorily in

WINKY RINGO. New market

the period ahead" It has opened Officemart to compete in a market sector previously not touched

Clothing manufacturer Traclo's interim profits shed 74% to a fraction of a cent a share

Tiger Wheels skidded Turnover was up 21% to R30,6-million in the six months to December, but profit fell 83% to R500 000

TPN's interim earnings were 42% below last time at 2,5c a share

Putco ran into trouble The bus operator lost R13,6-million in the six months to December 1990 on lower revenue Three divisions were closed and the closure of two more postponed pending negotiations with the authorities

Putco sold a surplus property at an extraordinary profit of R4,2-million Putprop — whose major tenant is Putco — raised earnings by 54% to 2c a share The directors expect an increase in rental income during the second-half year and are promoting the mini-storage facility recently completed at Wembley, Johannesburg

Marine diamond explorer Benguela Concessions produced 14 594 carats in the six months to December They fetched a net R3,8-million

Continuing exploration costs led to a bottom-line loss of 0,9c a share

Benguela bought Dawn Diamonds for shares Dawn holds title to a mining lease over neighbouring sea concessions

Kudu Granite incurred a R758 000 loss at the December interim because of depressed prices for Rustenburg material and poor production performance from the Belfast quarries

But major customers have accepted a large price increase for Rustenburg granite from March and foreign buyers are looking for more material

Kudu's directors expect to restore profitability in the next six months

Dogs

Tollgate — formerly Duros — lost almost R35-million in the year to December New management says it inherited a group with high borrowings, lack of direction and accelerating losses in some divisions

The group's profitable divisions' earnings were eclipsed by the dogs, which have been sold Tollgate is negotiating an acquisition in the United Kingdom

Of the 14 companies reporting preliminary results this week, half made more than in the previous period, but only two grew at a faster rate than inflation

Two incurred losses, two earned less than before and the rest were not comparable

But five interim results of the 29 reported were in the red A dozen raised earnings, and a trio outpaced inflation

ROBERT SILVERMAN From fishing to farm riches

ANIES

Royal acquires Fedfood's biscuit, cereal interests

BD 3/4/91 . MARCIA KLEIN (186)

FOOD and chemical group Royal Corporation has "returned to familiar territory" with another acquisition

Royal subsidiary Royal Beech Nut yesterday announced it had acquired the trademarks, assets and business of Fedfood's biscuit and breakfast cereal interests housed in Febisco for an undisclosed sum

The announcement comes on the heels of Royal's R38m acquisition of US-owned chemical company Ferro Industrial Products in January, and its R113m acquisition of SA Preserving Company (Sapco) from Del Monte Foods International in December 1990

The transaction amount was "not material" and the acquisition would not affect earnings in the short term, but the longer-term implications of the deal for Royal Beech Nut and Royal Corporation were "exciting," the announcement said

Royal Beech Nut MD Errol Frielick said the latest acquisition, effective from March 31, was a strategic one

It included the brand names Riviera, Bells and Golden Harvest, would "widen the company's product range, and provide it with a meaningful entry into the market currently dominated by one manufacturer" Frielick said Royal Beech Nut "was no newcomer to biscuits and breakfast cereals, and was well placed to take maximum advantage of the opportunities inherent in the deal"

Royal's former US parent Nabisco, with which Royal still had important associations, was the world's largest biscuit manufacturer and a leader in technology Frielick said Royal would draw heavily on its foreign links for new technology and marketing innovation "with the objective of becoming a meaningful contender in these markets within two to three years"

The new products would also allow for the optimisation of Royal Beech Nut's distribution system, including a new R23m warehouse being built adjacent to the existing site at Chloorkop, Frielick said

Tiger Oats' rating boosts commercial paper market plans

BDay 4/4/91 ROBERT GENTLE 186

TIGER Oats, the food manufacturer in the Barlow Rand stable, yesterday became the first private sector corporate to be granted a rating by independent agency Republic Ratings.

This development, which follows previous ratings of a number of parastatals like Eskom and Transnet, was welcomed in corporate circles as a vital step towards establishment of a commercial paper market in SA

Republic awarded AAA ratings to three long-term Tiger Oats debentures — two R10m issues and one R16m issue — maturing in 1997, 1999 and 1998 respectively. General unsecured short-term debt up to R500m was rated A1+

Republic senior analyst Leon Claassen attributed the rating to Tiger Oats' dominant position in an essential industry, its diverse portfolio of staple and value added products, a long record of growth and good management, a soundly structured balance sheet, strong cash flows and good plant and equipment

On the upside, Claassen said, there was strong demand for its core products which was expected to continue due to rapid population growth and increasing black spending power Downside factors include the possible effect of negative real growth in disposable income on future volumes and margins

"All factors considered, Tiger Oats' ability to repay capital and interest timeously on the debentures being rated, as well as on bank acceptance credits up to R500m, is extremely strong," said Claassen.

A Reserve Bank spokesman said "We welcome this development and wish to see the extension of such ratings to other debentures and ultimately the commercial paper market"

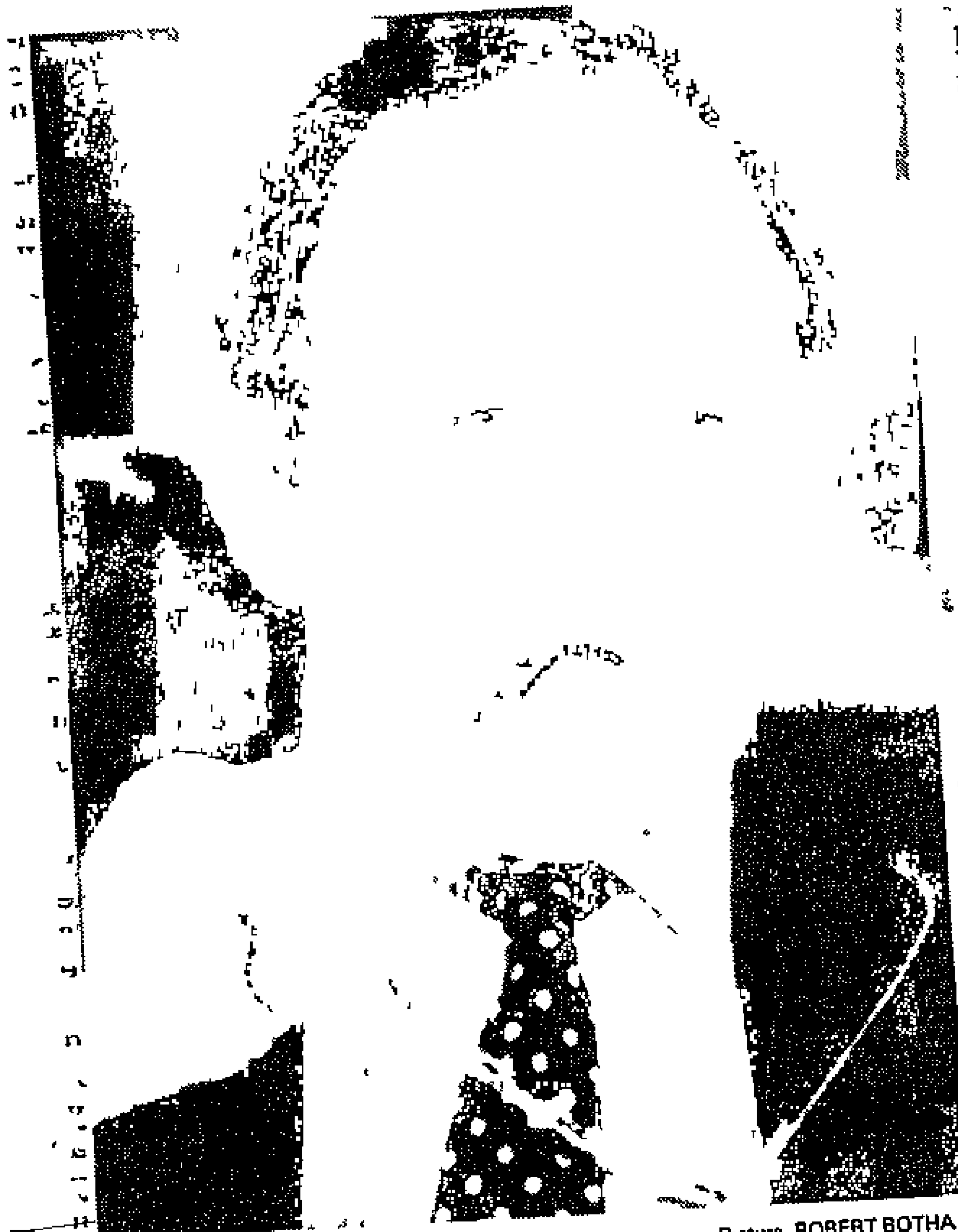
Abigail Dyer, associate director at chartered accountants Deloitte Pim Goldby, said "Hopefully, it will be the first of many We cannot get a commercial paper market going until more corporates are rated"

Premier group attracts respect despite adversity

Bday 5/4/91

MARCIA KLEIN

186



WRIGHTON . . . a new focus

Picture ROBERT BOTHA

THE cleaned-up Premier group has gained the attention and respect of various stock market analysts, despite the fact that the food giant has not found trading conditions easy

After Premier's recent deal with Rainbow Chickens, in which the group disposed of some underperforming subsidiaries, analysts expressed confidence in "the way group was handling its business"

Chairman Peter Wrighton said in an interview yesterday that the group's strategy for the last two to three years has been to dispose of underperforming assets and reduce debt

This was achieved with the deal with Rainbow, which saw Rainbow buy 100% of Bonny Bird Farms from Premier, Bokomo and Sacca and 50% of Premier's Epol Animal Feeds division The deal was beneficial to both parties, Wrighton said

Wrighton said Premier's philosophy was to be the brand leader in each of the industries in which it operated and to maximise margins, a goal which had been achieved in most of its industries

However, business had been difficult since November.

"It would require an enormous amount of effort to meet budgets", he said.

An area of concern ~~was that~~ margarine prices had hardly increased over the last three years, and that costs of raw materials and labour had risen substantially Premier had invested in a new R40m margarine and vegetable oil development plant, and a technical agreement with Kraft Food in the US would enable Premier to launch new products of a value-added nature

Concern

Twins Pharmaceuticals was undergoing a considerable clean-up under its new management This would affect Twins' results, but Wrighton was confident for the future

Pharmaceutical wholesale operations were also an area of concern particularly with regard to shrinkage, which was becoming a major cost

A significant sign of difficult trading conditions was that bread consumption had dropped since November The drop in consumption since then — when the bread price was increased — indicated that people were eating less, as maize meal had not compensated for the decrease

Meanwhile the bread subsidy had been taken away, government was making money on the importation of wheat, and only two staple foods were exempt from VAT — brown bread and wheat — while a full range of staple foods were excluded from GST

Wrighton said about 87% of bread was eaten by the poor, and although brown bread was exempt from VAT, about 50% of bread bought was white The introduction of VAT may see a further shift to brown

With regard to exports, Wrighton said there were big opportunities in Africa, and Premier had developed extensive network distribution and warehouses throughout southern Africa

In Namibia, Premier was "swimming against the current" with regard to fishing While many SA companies had disinvested, Premier had invested in modernising its plant

Although the land had been acquired for a new wheat mill in Pietermaritzburg, with the general slowdown in industry, the urgent necessity was no longer there. In the meantime, Premier was upgrading and modernising its other mills which would give it additional capacity

Cadswep expects real growth

B Day 5/4/91

186

MARCIA KLEIN

CADBURY Schweppes (Cadswep) is expecting real growth in financial 1991 despite increased competition and tight trading conditions, chairman Alan Clark says in the annual report

In the year to end-December, Cadswep — whose brand names include Cadbury, Chappies, Brookes, Roses, Oros, Moirs and Schweppes — raised its attributable profit by 14,3% to R35m and its earnings by 13,7% to 100,5c a share on a 22% rise in turnover to R538m Return on shareholders' equity was reduced from 25,2% to 23,2%

The group's markets may not improve far enoughand competitive activity will intensify The group intends to use its "excellent brand and distribution resources to best advantage in the marketplace, aiming to increase market shares still further"

Flood of funds for Fedgro

LIZ ROUSE (186)

FEDGRO Unit Trust, officially offered to the public in February this year after initiating its portfolio in December last year, achieved a rapid inflow of funds in the March quarter B/Day 5/4/91.

Starting off with total assets of R5,8m at the end of December, assets leapt to R15,8m at the end of March.

The increase in the value of the unit price outperformed the JSE all share index, notwithstanding the fact that as a new fund, liquidity levels were high

While the value of Fedgro's select equity portfolio amounted to nearly R7,4m in cash, deposits and undistributed income amounted to R8,4m (53,31%) of total assets at the end of March.

GM investments Ian Fraser says Fedgro was able to take advantage of attractive share prices in the early days of the fund while cash and deposits enjoyed high interest rates

Tiger Oats targets distribution

BDay 8/4/91 186

MARCIA KLEIN

FOOD giant Tiger Oats is to place increasing emphasis on distribution in future, using "the expertise developed with its Spar supermarket operations to spearhead the exercise".

Chairman Robbie Williams says the future of food producers also lies in value-added products, including the development of new products in sorghum, maize-based infant cereals, rice, health bread and long shelf-life breads

Last week Williams outlined the group's capex programme for the year, which will see Tiger Foods — the major contributor to group turnover and earnings — spending R265m on plant, machinery and upgrading projects

Tiger Foods — which operates in milling, baking and confectionery, animal feeds and agri-business, edible oils and derivatives, trading, distribution and shipping — contributed R5,8m to Tiger's turnover of R6,8m in the year to end-September 1990

It contributed R191m to attributable earnings of R255m, which were 16% up on the previous year.

Capex for 1991, which was 13% more than in 1990, was in line with the group's programme of expanding production capacity, and Tiger was also investing many millions of rands in encouraging and developing traders in the small business and informal sectors

Capex projects for 1991 include R60m for new bakeries in Randburg and Maritzburg, as well as upgrading other bakeries, and R43m on the continued upgrading of broiler facilities and layer units at Country Fair Foods and Golden Lay eggs About R35m will be spent this year on the R95m wheat and maize mill in Maritzburg When it is commissioned next year, the mill will be one of the largest in the country with a total capacity of 43 tons an hour

Tiger will also spend R27m on upgrading other maize mills, R20m on constucting a new warehouse for the Spar group, R16m on improving commodity handling facilities at Durban Bulk Shipping and R15m on a new plant and upgrading at various Meadow Feeds Mills

The contract between Meadow Feeds and Rainbow Chickens expires in two years Rainbow, which provides a market for 30% of Meadow Feeds' production, recently announced that it was entering a partnership with the Premier Group for the constuction of three new feed mills

Williams said Tiger had "carefully considered its strategic position should the relationship end". By the time the contract ends "alternative markets in which Meadow Feeds sees definite long term advantage will be firmly in place"

He said long relationships, such as the 30-year-old one between Meadow Feeds and Rainbow, often resulted in terms and margins that were not particularly profitable "Tiger sees the Rainbow move as an exceptional opportunity to seek business elsewhere on far better terms and take a re-look at opportunities"

Williams said Tigers' strength lay in its investments over a cross section of the food industry and the group's food basket was sufficiently wide to invariably achieve satisfactory results on a national basis

Tiger was beginning to emerge as a major exporter of finished food products and Langeberg was among the five biggest players in the export of canned fruit and foods

Rainbow's acquisitions mean big dip in earnings

MARCIA KLEIN

186

RAINBOW Chickens' acquisitions of Bonny Bird Farms and 50% of Epol will result in a 7,8c decrease in earnings for the major chicken producer for the year to end-March 1991 — Rainbow's new year-end.

In a circular to shareholders, Rainbow directors say earnings for the year to March, which would have been 20c a share before the acquisition, will be 12,2c a share.

This assumes the acquisition took place on April 1 1990 and that shares in respect of the R244m proposed rights issue were issued and proceeds received.

Based on the same assumptions, net asset value excluding goodwill and trademarks will decrease by 8,3% to 216,4c a share, and will increase by 4,2% to 228,9c a share if trademarks are included.

Gearing will increase by 19,1% to 24,7% (5,6%), calculated on the basis that the whole of Epol's borrowings are included as though Epol were a subsidiary.

The circular says that Rainbow's earnings for the year to March were affected by low demand and the resulting increased competition experienced in the market.

BDay 11/4/91

Improvement

In the six months to end-December, Rainbow reported an 11% decrease in earnings to 12,9c a share and net asset value was 224,2c a share.

Directors believe a significant improvement in earnings will result as a direct consequence of the acquisitions.

Bonny Bird's results for the year to end-March show an accumulated loss of R27,1m.

This is compared with a restated accumulated loss of R51,6m for the 13 months to end-March 1990.

Epol's profit forecast for the year showed a net income of R6,1m.

inefficiencies on to Spoornet."

FM 12/4/91

SUGAR INDUSTRY

186

HOW SWEET IT IS

Low world sugar prices and surplus stock on international markets don't offer much encouragement for SA Sugar Association (Sasa) exports, but there's a sweetener in the form of a 10-year supply contract to Botswana.

The deal will result in about 46 000 t being railed to the neighbouring state next year. This is a fillip for a domestic market that saw record sales of 1,3 Mt in the season that ended on March 31, says Sasa.

The association does not reveal contract prices but, going by the current industry price on the domestic market, the extra 46 000 t would be worth about R56,9m. The price paid by Botswana, however, will almost certainly be lower

Demand from Botswana is also likely to grow Sasa national market director Frans Oosthuizen, who was involved in the six-month negotiations with Botswana's State-owned Sugar Industry Ltd, says authorities there forecast a 5% growth in the market.

He adds "They are hard bargainers but very businesslike and professional. We're

Continued →

FM 12/4/91 186

both happy with the agreement "

Oosthuizen says a truckload of sugar was recently sent to Botswana for sampling and the reaction was good

SA stopped selling sugar to Botswana in the early Sixties, after which Rhodesia, and later Zimbabwe, supplied it Zimbabwe has, however, had bad droughts recently

Under the new agreement, Botswana will switch its packing operation from Francistown to a new plant closer to SA at Lobatsi

The 46 000 t is about the same amount of sugar that the SA industry supplies to Namibia annually

Reviewing the past season, Sasa chairman Glyn Taylor says domestic sales showed a 5,7% increase over the previous year to make it "the highest growth rate for a long time "

He adds that manufacturers using sugar increased offtake by 7%, with particularly good growth in the soft drinks industry Last year they used 150 000 t of sugar

Taylor says crop prospects for the current season are quite good and could yield 10% more than the past season

But the world price is not encouraging Coming off a peak of US 16c/lb in May, the price is now at about 9c After years of deficit, the world stock balance is now in surplus

The present strengthening of the rand is also adding to pressure on export revenues

But it's not all gloom Last season Sasa sold every available export ton at good prices because it had much success in selling its production forward early in the year when international prices were still high.

Shaun Harris

CADSWEP FM 12/4/91

REGROUPING COSTS 186

Activities: *Manufactures sweets, chocolates, other foods and beverages and soft drinks*
Control: *Cadbury Schweppes Plc 54%*
Chairman: *A J L Clark; CEO· P M Bester*
Capital structure: *35m ords Market capitalisation R945m*
Share market: *Price. 2 700c. Yields: 1,5% on dividend, 3,7% on earnings, p.e ratio, 26,9, cover, 2,5. 12-month high, 2 700c; low, 1 750c. Trading volume last quarter, 351 000 shares.*

Year to Dec	'87	'88	'89	'90
ST debt (Rm)	0,2	1,6	10,5	28,5
LT debt (Rm)	25,8	14,2	38,1	27,9
Debt equity ratio	0,26	0,07	0,15	0,14
Shareholders' interest	0,85	0,59	0,62	0,71
Int & leasing cover	7,4	10,0	7,6	3,9
Return on cap (%)	13,3	14,9	11,5	9,3
Turnover (Rm)	271	327	440	538
Pre-int profit (Rm)	24,3	32,0	41,9	47,1
Pre-int margin (%)	9,0	9,8	9,5	8,8
Earnings (c)	50,8	69,7	88,4	100,5
Dividends (c)	22	30	36	41
Net worth (c)	317	386	640	1 018

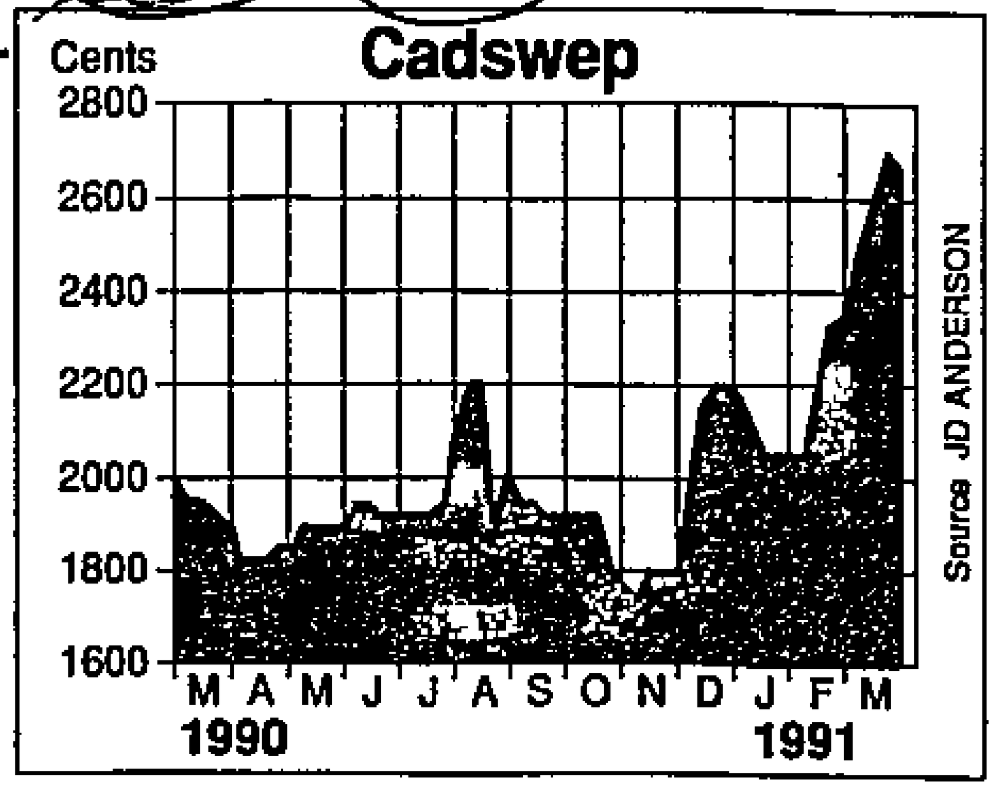
There are not many companies which are prepared, at this stage, to stick their necks out and forecast real earnings growth for 1991, as does Cadswep There are equally few with share prices more than 2,5 times net worth and trading on paper-thin dividend yields of 1,5% — which means the market not only expects the company to deliver during this year, but to continue doing so in future

The target may seem demanding in an economy which is unlikely to improve much in the short-term. But some of the factors which slowed last year's earnings growth to under 14% should not be repeated and, more important, the group should benefit increasingly from the restructuring and consolidation programmes which occupied it for much of 1990

CE Peter Bester attributes 1990's drop in operating margins mainly to costs associated with the regrouping of the group's various confectionery interests into a single structure It has also continued to invest heavily in infrastructure, including an ongoing programme to redevelop the Port Elizabeth manufacturing facility and the construction of a new distribution warehouse in the Transvaal, due for completion before mid-year.

In effect, the earnings forecast means Cadswep is hoping that, with most of the restructuring exercise behind it, real benefits of 1989's acquisition of, in particular, Chapelat-Humphries, will flow through to the income statement.

The effects so far have been far more apparent in the balance sheet. Net borrowings, for example, have soared from R9,4m in 1988 to R48,8m, accompanied by a quadrupling of net finance charges, to R12,2m. Some 60% of the increase in operating profit over these two years have thus not benefited shareholders. Particularly last year, though, this was offset by a fall in the tax rate to 29% — which accounted for almost all the growth



in taxed profit, before bringing to account attributable profit of associates.

Profit from associates also made a considerable impact on the bottom line Earnings from this source — mainly ABI — were 29,5% higher than in 1989 and the contribution to total group earnings rose to just short of 28% from 25% previously

The strong performance of ABI has, of course, been reflected in its share price When associated companies are valued at market valuation (they are shown in the balance sheet at historic cost), then over the past year alone, the surplus of market value of investments over book value has risen from R83,7m to R192m. Investment in associates at market/directors' valuation now accounts for 46% of total group assets, up from only 33% in 1989 and, pre-ABI, 23% in 1987

The impact of this substantial increase in the value of associates needs to be taken into account in assessing profitability ratios. Return on the investment in associates (at market value) is low at only 4,3%, which distorts Cadswep's own profit ratios.

Return on equity, for example, which works out at 9,3% based on a net asset value adjusted for current value of associates, is less than a third of what it would be without the adjustment *Brian Thompson*

Consumers hit in the breadbasket

B/Day 15/4/91. (186)

SHARON WOOD

FOOD prices have hit consumers in the stomach in the past year, with steady hikes continuing to outstrip the official inflation rate

Central Statistical Service's consumer price index figures show food prices have been going up at an annual rate of over 15% since the beginning of 1990

There have been particularly steep price rises for milk, milk products and eggs.

Fresh meat prices have climbed steadily, along with those for grain, while fruit price increases have been held at a high level of around 25% year-on-year

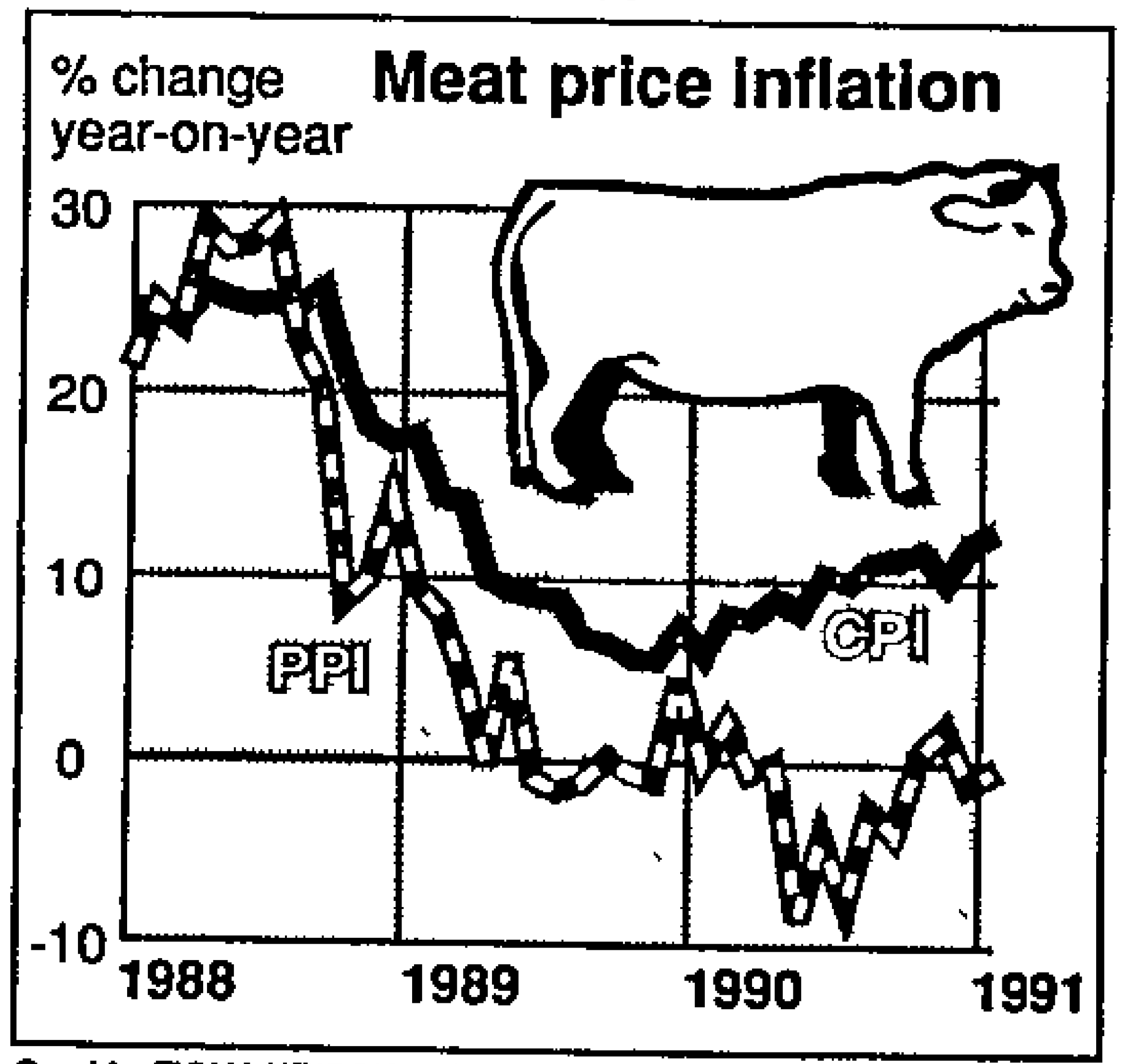
The one welcome exception is the rate of increase in the price of vegetables, which dropped dramatically after December 1990

The situation is unlikely to improve this year, with the introduction of VAT in October expected to exacerbate sharp price rises

All foodstuffs now excluded from GST will be subject to VAT, barring brown bread and mealie meal

Lower income earners are hardest hit by food prices because they spend about 55% of their income on basic items — food, clothing, footwear, rent and transport. This can be compared with the 28% that higher income earners spend on basic items

The dent food prices make in lower income earners' wages will intensify with the imposition of VAT on food in October Critics have questioned the advisability of this but the reasoning behind removing the exemption of food from indirect taxes is that higher income groups benefit more greatly from this.



Graphic FIONA KRISCH Source CSS

An area of great contention has been the large, and in many cases widening, gap between producer and consumer prices. The gap between food producer and consumer prices narrowed in the last few months of 1990, but this was after a considerable widening in the first half of the year. The trend in producer and consumer meat prices is a notable case of the widening, and still unexplained gap, and it has generated much conflict.

During 1990 the yearly rate of increase in meat prices experienced by the producer was negative for most of the year.

This is explained by the cyclical nature of the meat industry, where prices move up in times of restocking and down when the restocking phase is completed Herd restocking had been completed following the mid-1980s drought, depressing auction prices for farmers' livestock.

This was confirmed by the latest Meat Board Annual Report which said that SA could expect to be moving towards a period of surplus meat supply

It said auction prices should move sideways thus resulting in a lower real income for the farmer on a real basis

But this declining trend in producer prices has not been passed onto the consumer. Consumers had to pay steadily more for meat throughout 1990 Packaging and transport add to costs, but the consumer prices for meat should still follow the producer trend.

Critics say the apparent anomalies in the meat market are caused by the high degree of control within the industry.

Some have suggested the industry should be privatised and meat sold on a futures market, which would even out price fluctuations Others suggest that an equalisation fund should be set up to give aid to the farmer during "bad times", with the fund being built up during the "good times"

The Meat Board Annual Report stressed that deregulation, which would include abattoir privatisation, was a priority but a Meat Board spokesman said this would not occur for at least the next two years The report added that the board and the Agriculture Minister differed on the approach deregulation should take — an indication that a solution to problems in the meat industry is yet to be reached

The shocks to consumers' pockets with regard to milk, milk products and eggs are disturbing, bearing in mind the much-publicised milk price war and large surpluses in the milk industry

The annual rate of increase in milk and egg prices more than doubled in a year, rising from 12,3% in January 1990 to 26,5% in January 1991

Fruit remained consistently expensive during 1990, peaking at 32,6% year-on-year in January 1991

Vegetable price rises dropped dramatically from 48% year-on-year in January 1990 to 3% in January 1991.

The steady climb in grain prices can be attributed to both the drought, which severely affected maize and wheat crops, and the gradual removal of the bread subsidy during 1990

The total removal of the bread subsidy in the March Budget will put further upward pressure on grain prices in the next few months

BOOKS

MANUF. — FOOD — 1991

OCT. — DEC.

Arabs buy SA oil firm

By MARLAN PADAYACHEE

SAUDI Arabian businessmen bought a South African cooking-oil company this week in a R5-million deal S/Times 6/10/91

Now Natal industrialists are hoping this is just the beginning of a flood of Arab interest in the region.

The Dallah Group of Jeddah bought a 70 percent stake in Elangeni Holdings, producers of Dello Oil and soap products

The Arab businessmen are part of a conglomerate operating in 33 countries They were also responsible for starting the Al Baraka Islamic Bank in Durban's Grey Street 186

Pepsi talks to Fedfood about returning

MARCIA KLEIN

COCA Cola could soon be squaring up to its arch rival as negotiations between Pepsico and Fedfood for Pepsi's re-entry into SA continue

Fedfood GM planning Kleanthos Yannakou confirmed at the weekend that discussions between Fedfood and Pepsico, begun some months ago, were progressing. B/Day 7/10/91

He could not confirm if Pepsico was speaking to other parties

Fedfood has an association with Pepsico Foods International through its Simba division, which uses some of the Pepsico brand names

MD Jan du Toit said recently that the magnitude of the Pepsi venture was overwhelming, and he had reservations about Fedfood's ability to handle a project of that size.

However, Yannakou said Fedfood had been speaking to a number of parties with regard to financing, and progress had been made

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BUSINESS

Kanhym merger speculation grows

B/Day 11/10/91 (186)

MARCIA KLEIN

A SURGE in the Kanhym share price between Monday and Wednesday again raised strong market speculation of a merger between Kanhym and Fedfood, both of which are in the Sankorp stable

The Malbak subsidiary's share price has risen by 50c or 12,5% since Monday It closed on Wednesday at a yearly high of 450c — an 83,7% improvement on the 245c yearly low recorded in November last year

The surge followed an announcement on Monday which indicated that Sankorp was set to reshuffle some major companies in its stable in a complex deal worth more than R1bn

The reshuffling would see Malbak acquire Federale Volksbeleggings' (Fedvolks) interests in Fedfood and SA Druggists, while Murray & Roberts would acquire Malbak's interest in Darling & Hodgson and 50% of its share in Standard Engineering

However, Malbak executive director Dirk Jacobs said yesterday that speculation about "some form of merger" between Fedfood and Kanhym was premature

Jacobs, who is also executive chairman of Kanhym, said negotiations for the possible acquisition of Fedfood by Malbak "were still under way" and it would take several weeks to finalise

"Should these negotiations be successful, Malbak will obviously have to consider how best to structure its expanded food interests This is very much the second stage of the current exercise, however," Jacobs said

He said there were a number of options available, but the executives of both companies would be consulted extensively and all possibilities would be fully evaluated before a decision about possible restructuring was made

Analysts said on Wednesday that the rapid rise in the share price reflected market expectations of the merger

A speculation last year about a possible merger between Fedfood and Kanhym following the delisting of Fedvolks was denied

An analyst suggested that Malbak could also be placing its new food and pharmaceutical interests into one group. He said this would be very attractive to shareholders and there could also be rationalisation benefits

Analysts expect good year-end results from Kanhym when it reports next week

Despite a collapse in the price of red meat, value added operations propped up group earnings in the year to end-August 1990, when Kanhym reported a 5% drop in attributable earnings to R30m.

In the six months to end-February, the group's earnings decreased by 13% to R17,5m However, the second six months were expected to be substantially better, albeit off a low base

Jacobs said at the interim stage he expected significantly better results in the second six months due to measures taken to hedge the group against the red meat cycle, a beneficial effect of reduced feedlots on finance charges, and management's ability to maintain costs and be frugal with working capital

FM 11/10/91 (186)

ELANGENI

Arabian control

The surprise acquisition of 70% of Durban-based Elangeni Holdings by the Dallah Group of Jeddah, part of an international Saudi Arabian consortium operating in more than 30 countries, has generated optimistic talk in Natal about the end of investment sanctions and prospects for more Arab interest in the region

However, no less notable than the R5,1m investment, which gave the Dallah Group 11,8m shares at 43,5c apiece, is the way the price of Elangeni has dropped recently

Since listing in the Food sector in 1988, Elangeni Holdings' price had risen to more than 200c, and has traded as high as 130c during the past 12 months A week before the announcement, when shareholders were warned that negotiations that could affect the price were in progress, the shares were trading at 90c When the Dallah Group took control at the beginning of October, the share price had dropped to 44c

Though the deal was struck at less than half the price at which the shares last traded on the market, industry sources believe that 43,5c is a more accurate reflection of the value of the business At June 30 last year, the date of the last full balance sheet, the net asset value was just less than 50c a share

Elangeni Holdings, through subsidiary Elangeni Oil & Cake Mills, is active largely in the manufacturing of edible oils and soap from its factory at Isithebe, one of the KwaZulu Finance & Investment Corp's industrial estates near Stanger in Natal

Launched by a group of Durban-based businessmen about four years ago, including Jayaram Reddy, now chairman of the Ministers' Council in the House of Delegates, the company entered business initially by importing oil After securing an allocation of local seed about two years ago, it now manufactures edible oil Recent projects include the construction of a glycerine plant and the launch of a new toilet soap range

Results have not been sparkling, with EPS dropping from 8,8c in April 1989, to 3,2c in the year to June 1990 The company has not paid a dividend since listing in 1988

After the acquisition of control by the Dallah Group, a standby offer has been extended to minority shareholders, in terms of Securities Regulation Panel rules, to buy all or part of their shares at 43,5c a share It seems unlikely to attract much interest, and about 29% of minority shareholders, with 4,9m shares, have indicated that they will not accept the offer

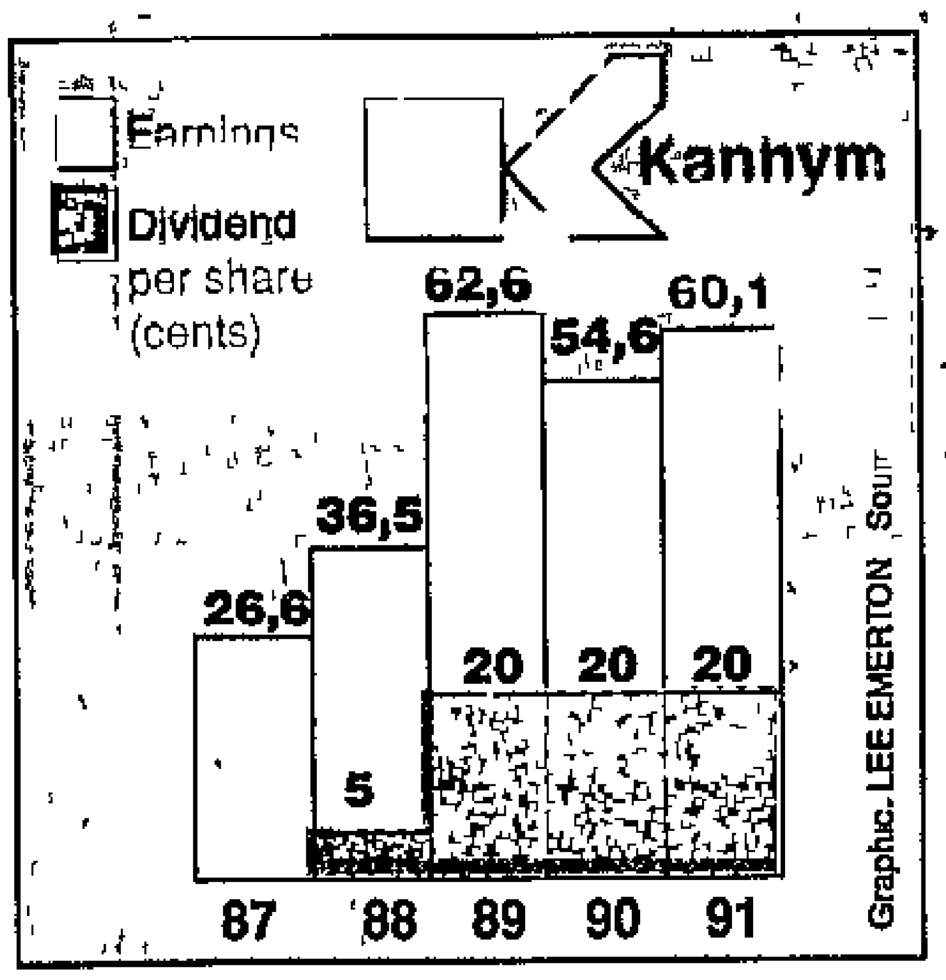
Three members of the original Elangeni Holdings board are on the reconstituted board They are Aboo Mahomed, joint MD, Yacoob Paruk, former chairman of the company and the new chairman of New Republic Bank, and Ismail Paruk, also joint MD New board members are Sheikh Saleh Kamel, head of a wealthy Saudi Arabian family, and three Egyptian members, M Samir Zaki, Mahmoud Youssef and Jamal Afifi

Incongruous though the deal may sound, it seems that the Middle East interest in an SA company which has not produced good returns arises from an earlier business connection Kamel set up the Al Baraka Bank in Durban just over a year ago with Aboo Mahomed He is on the bank's board, as is Elangeni Holdings co-directors Yacoob and Ismail Paruk Kamel, through this business association, evidently became interested in Elangeni Holdings, as an opportunity to invest in SA at the right time and price

There is talk that Kamel is planning to help recapitalise Elangeni Holdings, either by a substantial loan or an injection of equity capital None of the new directors was available to confirm this *Shaun Harris*

Kanhym's earnings rise 10%

(186)



Bday 16/10/91

MARCIA KLEIN

FOOD group Kanhym's results for the year to end August dispelled the myth that its profitability was linked to the red meat price cycle, executive chairman Dirk Jacobs said yesterday

Group earnings increased by 10% to R33m (R30m), although excluding income from discontinued mining operations showed earnings up 19% to R33m (R27,8m) Jacobs said this achievement — in the face of low meat prices, rising input costs and reduced consumer spending — was largely due to Kanhym's conversion to value added products and good cash and asset management

☐ To Page 2

Kanhym

Bday 16/10/91.

(186)

☐ From Page 1

The marginal increase in turnover to R987,4m (R979,2m) was due to a decline in consumer spending, a reduction in the number of cattle in the feedlots and an international softening in hide prices, he said.

Despite slow turnover growth, the 6% increase in operating income to R44m, (R41,4m) was achieved through containing expenses, which grew at a below inflation rate of 9%, Jacobs said. Operating margins improved from 4,23% to 4,45%.

Operating income from the group's branded value added division increased by 7% to R26,8m (R24,9m) Despite flat cattle prices, operating profits in the agri-business grew by 1% to R17,2m (R16,5m)

Jacobs said the reduction in feedlot throughput helped to reduce finance charges by 19% to R10,9m (R13,6m) despite high : terest rates

Dividends were maintained at 20c a share covered three times by earnings.

In terms of the group's divisions, Jacobs said Enterprise had excelled and Herti had also done well. All divisions had met budgets except for Mielie-Kip.

Gearing of 77% in 1987 had been brought down to 27% despite numerous acquisitions, the resumption of dividend payments and the payment of preference dividend arrears Interest cover was increased from 3,05 times to 4,02 times

Kanhym expected to pay tax next year as its assessed loss was almost fully utilised

Jacobs would make no further comments on the possibility of a merger between Kanhym and Fedfood.

However, analysts have speculated that it could be on the cards as there would be synergies between the two groups, and rationalisation in terms of central administration and distribution.

KANHYM (186)

Adding value

FM 18|10|91

For most of Kanhym's history, earnings closely followed the red meat price cycle Last time this collapsed, 1983-1985, Kanhym made losses But since executive chairman Dirk Jacobs took over in 1987 it has become more resilient Meat prices were on average 3% up on the year yet EPS rose by 10% Moreover, excluding discontinued mining operations, earnings from remaining businesses rose by 19%

Improved performance can be attributed to a swing towards branded products Kanhym has been scaling down feedlot throughputs and building up Enterprise processed meat. It bought Hanni Leathers at the beginning of last year, the Mielie-Kip chicken business and Herti deli meats At year-end it acquired a tannery in Bophuthatswana.

Added value accounted for just 7% of operating income five years ago — it's now 61%. In that time Enterprise's share of the processed meat market has increased from 27% to 40%, while main rival ICS's Renown has fallen from 27% to 13% Enterprise has just secured the SA licence for the Bernard Matthews range of meat products. It will be launched in April Jacobs estimates that, had Kanhym remained a primary producer, operating income would have been R12m, not R44m, at this point in the cycle

Processed meat has become an important convenience product in the black market Blacks now account for 36% of the red meat market compared with 16% 20 years ago Kanhym's products are almost all chilled rather than frozen and refrigeration is far more widespread than freezing facilities Processed products were liable to GST but now compete on an equal footing with fresh products such as poultry because both pay VAT

Financial disciplines have been imposed The sale of coal mining interests in Middelburg to Rand Mines for R20m helped gearing Interest-bearing debt is now 27%, down from 31% last year and 77% in 1987, notwithstanding the acquisitions, payments of arrear preference dividends and resumption of ordinary dividends

This year Kanhym is likely to resume paying tax, as assessed losses are running out. Jacobs admits that the major challenge is to ensure that this will not unduly dilute earnings But as a farming operation the tax rate will not exceed 30%

Kanhym is now the lowest cost producer as it has built a new feed mill to make it self-sufficient in animal feed Others have to buy maize at commercial rates

The results augur well for any merger with Fedfood At the very least Fedfood might report to Jacobs, as he is Malbak's executive director in charge of food; but Jacobs will say only that the width of the product base will add to Malbak's muscle in negotiating with the highly concentrated retail trade

Kanhym's EPS have grown more than twice as fast as Fedfood's in the past five years, it has better gearing and returns on equity Malbak must hope that Jacobs can effect the same transformation on Fedfood as he has on Kanhym *Stephen Cranston*

MEATY RESULTS

Year to Aug 31	1990	1991
Turnover (Rm)	979	987
Operating income (Rm)	41	44
Attributable (Rm)	30	33
Earnings (c)	50,6	60,1
Dividends (c)	20,0	20,0

continue →

FOX (186)

FM 18/10/91

Royal shows it has right recipe

Star 20/10/91

186

THE Royal Corporation food and chemical group is on course to meet its forecasts for the 12 months to February 1992 — to judge from results for the 18 months to August 1991.

With the group a lot larger now than 18 months ago, comparisons are not relevant

The two recent listings — Royfood and Roychem, in which parent Roycorp holds 65,2 percent and 57,8 percent respectively — do not have directly comparable previous results but both are expected to at least match their pro forma forecasts.

SA Preserving Co and Ferro Industrial Products have only contributed to the results over the last six months.

The preliminary report, which reviews results for the six months to August 1991, reveals that Roycorp earned 18,6c a share during this period — a figure almost 47 percent of the 39,8c achieved for the full 18 months.

The company forecasts "at least" a further 24,8c a share for the six months to February 1992, indicating it is well placed to reach the 43,4c for the year to February 1992 projected at the time of the Royfood and Roychem listings.

A dividend of 6,9c has been declared for the past six months

At Roychem, earnings for the six months to August are 16,2c a share, or almost 63 percent of the 25,8c for the entire 18 months.

The forecast for the next six months of "no less than" 18,3c a share should ensure the achievement of the 34,5c forecast The dividend is 5,5c.

Royfood reports earnings of 13,1c a share for the six months — 57,2 percent of the 22,9c for the 18 months. Expectations of at least 18,1c for the next six months indicate the forecast of 31,2c for the 12 months will be comfortably achieved The dividend is 5c.

Chairman Vivian Imerman says the group is continuing to pursue growth along both organic and acquisition paths. He says past acquisitions stemmed largely from foreign disinvestments.

While such opportunities will not be neglected, the group will seek joint ventures with international partners keen on entering local markets in line with changing overseas sentiment towards SA.

Mr Imerman says the group's operating companies are "still performing ahead of expectations notwithstanding the current restrictive climate and continued growth is expected both locally and internationally", subject to the usual caveats.

Gearing at all three companies is well below 20 percent

Based on projected earnings for the 12 months to February next, Roycorp yields 9 percent, Royfood 6,6 percent and Roychem 14,4 percent.

Royal's in the purple

S/Times (B4SS) 20/10/91

By JULIE WALKER 186

RIGHT royal spoils were dished up by food and chemicals group Royal Corporation in the 18 months to August.

Group chairman Vivian Imerman says "We can sell four times our current food production on the export market and are expanding to do so."

Acquisitions of disinvesting companies, such as Sapco and Ferro, effective for the last six months, have already made a big contribution to Royal's bottom line.

Forecasts

Earlier this year, Roycorp listed separately its interests in Royal Foods and Royal Chemicals. Proceeds of the listings paid for the acquisitions.

To indicate the effects of structural changes, the group has given results for 18 months and for six months to August 1991.

Roycorp's earnings in the six months of 18,6c a share account for 43% of the 39,8c made in 18 months. A maiden interim dividend of 6,9c has been declared. Turnover in the six months was almost R240-million.

The six-month earnings of Roychem and Royfood respectively made up 63% and 57% of the 18-month totals. All the companies should meet or beat their forecasts.

Mr Imerman says the group's policy has swung to seeking joint ventures with international partners keen on entering SA markets as foreign sentiment about this country improves.

Ferro's export prospects are growing in co-operation with its former foreign parent.

Value-added branded and speciality products will be the main area of growth. Royfood bought Fedfood's biscuits and breakfast cereals division, which should provide early returns.

Among the group's leading food brand names are Del Monte, Beechies and Royal.

All the shares are at or near their highs on the JSE.

2 SUNDAY TIMES, Business Times, October 20, 1991

Added value brings kudos for Kanhym

S Times (BUSS) 20/10/91. (186)

ADDING value in the past five years has helped Kanhym to bring home the bacon.

In 1986, the group's agri-business dominated earnings

Agri-business includes the maize farming, piggeries, feedlots, abattoirs, agencies and livestock auctions and the commodity operations that secure supply at the lowest cost for Kanhym's value-added businesses

The biggest problem with agri-business is its vulnerability to the red-meat price cycle, which in turn is linked to rainfall and economic factors

When Dirk Jacobs became executive chairman in 1987 he set about combating the effects of factors beyond the company's control

The solution came in adding value to raw meat in branded products and to hides

The contribution of value-added products to operating income has grown from next to nothing to 61% of income that has climbed from R14-million to R44-million in five years

Roughly equal contributions come from prepared meat and from leather

At a presentation of Kanhym's 1991 results to the Investment Analysts Society, Mr Jacobs told the A-B income audience that its members bought Kanhym's fighter brand Bokkie as opposed to the up-market Enterprise favoured by blacks

"Rich people can't resist a bargain, but blacks won't buy anything but the best

"People get up early in Soweto and they come to Johannesburg and buy an Enterprise polony sandwich from a street counter They look over the counter to make sure the packet says Enterprise polony"

DIRK JACOBS: The rich like a bargain Picture: PIERRE OOSTHUYSEN

He is especially grateful to members of slimming club Weighless who are prepared to pay a premium for Like It Lean value-added and portion-controlled chicken the club endorses instead of the conventionally priced Mielie Kip

Hide treatment doubles its value for use in furniture, car seats and so on Hanni Leathers is South Africa's biggest tanner with 90% of the motor and furniture upholstery market It has been approached to start operations in Spain, Portugal and Mexico because of its high standards

Mr Jacobs was anxious to dispel several myths about Kanhym that he believed lingered in investors' minds

He showed how urbanisation meant that people who formerly lived off the land were now obliged to buy food The amount spent on food by blacks had climbed from 25% to 44% of the total food bill in 20 years Their expenditure on red meat had risen from 16% to 36% of the total market

Red meat lost ground to white meat for 30 years But in the past two years red meat made a bit of a comeback in spite of cheap chicken Expenditure on red meat by whites fell from 73% to 46% in 20 years

Mr Jacobs does not eat chicken because he is not prepared to lower his standard of living

That was one myth dispelled

Another was about Kanhym's balance sheet, which is a different animal to that of five years ago Borrowings were reduced from R100-million in 1987 to R53-million in 1991 while permanent capital climbed from R130-million to R200-million

The third was Kanhym's earnings relative to red-meat prices There was a close correlation between 1975 and 1987, but although the red-meat price in real terms had been in a downtrend since peaking in 1987, Kanhym's earnings had continued upwards

Mr Jacobs says meat prices have turned up this year, the surplus eaten and the Northern Transvaal turned over to game Quantification of the national herd is therefore suspect in Mr Jacobs' judgment.

Mr Jacobs gave his assumptions for the year to August 1992 He expects no marked improvement in the economy until late that year, assumes interest rates will ease, and he hopes that the socio-political environment does not deteriorate

The only certainty is that Kanhym will resume paying tax next year

"I am going to take that first cheque to the Receiver of Revenue personally," said Mr Jacobs, who probably won't feel as enthusiastic when he hands over subsequent ones

The tax rate this year will be 15% to 20%, incrementally creeping up at 5% intervals to no more than 30% because of the farming tax base on the land activities Mr Jacobs says the biggest challenge is to phase in tax without diluting earnings

He amused analysts by highlighting the findings of stockbroker Simpson McKie on 10 listed food companies

Kanhym had the highest historic and forward earnings yields (making it the lowest rated), the third-best cash-flow yield, the second-best earnings a share compound growth over five years at 41%, its return on equity was fifth, gearing fourth and return on assets eighth

Mr Jacobs left nobody in any doubt about his views of several opposition companies and his opinion of the analysts in general on why Kanhym shares were cheap when it appeared to be well rated

His argument did not fall on deaf ears — Kanhym's share price jumped 40c to a high of R5 on the first trade after the Johannesburg presentation

Mr Jacobs declined to answer a question about what would happen if and when Fedfood entered the Malbak stable, saying the stock exchange ddid not allow it

● In the year to August 1991 Kanhym's earnings a share rose by 10% to 60,1c on flat turnover of nearly R1-billion All the food divisions except Mielie Kip did well, but hide prices tumbled

I & J aims to raise R98m in debenture rights issue

B|Day 21|10|91 (186)

LINDA ENSOR

CAPE TOWN — Irvin & Johnson's (I&J) rights issue of 2,9-million 6% debentures over a seven year term to raise R98,6m was considered a more attractive method of raising finance than the issue of shares, I&J financial director John Morrison said at the group's AGM on Friday

He said shares would have had to be issued at a discount of about 15%

The debentures are being issued at R34 each in the ratio of 10 for every 100 ordinaries held

Morrison had no doubt the offer which closes on October 25 would be fully subscribed, saying that the financial institutions were very keen

The debentures become convertible when the price earnings ratio of the I&J shares reaches a certain level

Deputy executive chairman James Williams said the group was not stretched for cash — it had cash resources of R77m at the last year-end — but it had been decided to raise funds at a time when the stock market was very bouyant.

Had the rights issue been completed by July last year and the money invested, I&J's earnings would have increased by 8,8%

In the year to end-June 1991, I&J's earnings increased by 20% to 243,1c (203,3c) a share

Williams added that I&J was involved in a heavy capital expenditure programme which included fleet replacement.

"There are other possibilities for expansion which may well occur and we want to be in a position to be able to take advantage of them," Williams said.

Tough

Responding to questioning by SA Shareholders' Association's Issy Goldberg, Williams said I&J's performance in the first quarter was on track in terms of the group's business plans and there had been no signs of a downturn

However, the economy was very weak and conditions tough so it was not possible to make predictions for the second quarter.

The group was nevertheless planning for an earnings increase this year.

Price increases of I&J products had generally lagged behind inflation

There was a clear trend by consumers to trade downwards as disposable incomes came under pressure

Unit prices had become important and steps had been taken to reduce the unit price by reducing the size of the products

The arrangement with the Soviets to use their fishing vessels in Namibia to catch horse mackerel was working reasonably well and about 100 000 tons of horse mackerel had been caught

However, the situation was in a state of flux due to the changes taking place within the Soviet Union.

Williams said I&J was re-evaluating its fleet replacement strategy in the light of the removal of import duties on trawlers

He said the group had in the past purchased trawlers from abroad because this was significantly cheaper

Royal does right by investors

Star 21/10/91

By Ann Crotty

(186)

Investor confidence in Royal Food appears justified by interim results

The share, listed in March after a reorganisation of operations acquired by parent Royal in the previous 12 months, has moved ahead strongly on investor belief in management expectations.

Having listed at 350c in March, Royfood moved ahead to its current level of 475c

Earnings for the 12 months to February '92 were forecast at 31,2c a share For the six months to end-August, earnings were 13,1c a share and, according to management "earnings for the next six months will be no less than 18,1c a share"

This suggests the 31,2c is within reach, putting the share on a prospective P/E ratio of 15,2 times The average historic P/E for the food sector is currently 16,7 times

This seems to be a fairly demanding rating for a share that is so new and for interests which have had little exposure to the JSE Dividend yield considerations also put it on the expensive side

On the positive side is that Royfood has reasonably recession-proof interests with well-established brand names that have export potential

There are already indications that management is bedding down the various interests and has been able to increase capacity utilisation — and therefore margins — in a number of areas

Royal's other operating arm — Royal Chemical — has not had such a warm reception from the market

The share was listed at 220c and is currently at 240c Earnings for the six months to August were 16,2c a share and, according to management, "earnings for the next six months will be no less than 18,3c a share"

This means it's likely to exceed the full-year forecast of 34,5c stated at the time of the listing

This puts it on a prospective P/E ratio of 6,9 times, compared with the average historic P/E for the chemical sector of 9,1 times

Crown waiting for economic turnaround

Star 21/10/91

Diagonal Street
186
LYNNE PEACH

Food group Crown is expected to mark time in the year ahead, waiting for renewed growth in the SA economy

In the latest annual report, chairman David Lovely says he does not envisage a turnaround in the economy until late in financial 1992, but that the improved results of the past year should at least be maintained

Results in the past year benefited from improved trading performance and a reduction in the tax rate thanks to the Ciskei factory becoming fully operational

Crown is a leading supplier of ingredients and meat-processing equipment to butchers and the meat industry, and locally manufactured equipment to the catering industry through 15 trading outlets and five factories

The meat industry supplies division accounts for 54 percent of group operating profit and the catering equipment division for the remaining 46 percent

Mr Lovely says the loss of business in the catering division, caused by cutbacks by major customers and purchases being delayed until the implementation of VAT, was partially offset by increased market penetration into the fast food industry

In the year to June, group turnover increased eight percent from R112,5 million to R121,4 million while operating profit grew a more impressive 19 percent from R8,2 million to R9,8 million

After interest expense rose 18 percent from R3,2 million to R3,7 million, pre-tax profit advanced 20 percent from R5 million to R6 million

A decline in the effective tax rate from 47 percent to 41,8 percent boosted attributable profit by 32 percent to R3,5 million

Earnings per share grew from 7,6c to 10,1c and the dividend for the year was raised from 3c a share to 3,5c

The balance sheet has improved in strength, with cash on hand of R2,6 million and a substantial reduction in gearing from 70 to 49 percent

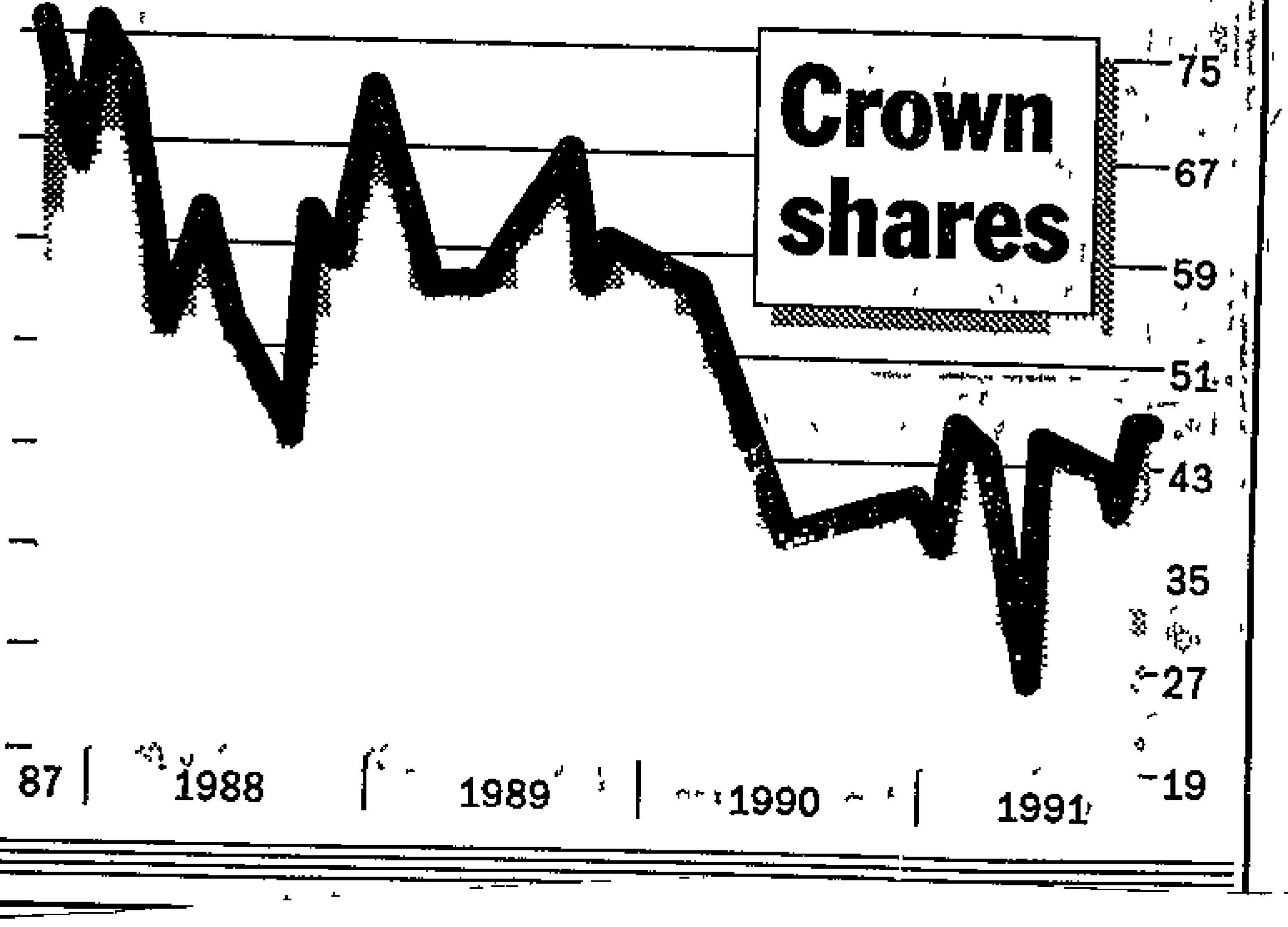
Crown, priced at 44c, is trading on a P/E ratio of 4,4 and provides a dividend yield of eight percent

These yields are attractive, but shareholders will probably have to sit through a dull 12-month period before real rewards start flowing

COMMENT For the past four months, Crown's share price has been consolidating in the early 40c range

The trend is positive, but the share needs to confirm its strength by breaking above the 45c level

The outlook will turn unfavourable if the price falls below 40c



Royal, French firm talk about joint operation

ROBERT GENTLE and SEAN VAN ZYL

BSN, the French food multinational with a string of world-class brand names in its stable and subsidiaries on four continents, is negotiating with JSE-listed Royal Corporation to set up an operation in SA.

A BSN spokesman, speaking from Paris, said yesterday there had been contact with Royal during the visit last month of French Trade and Industry Minister Dominique Strauss-Kahn. (186)

She spoke of negotiations being at the pre-selection stage, and played down suggestions that a final deal was imminent

Royal chairman Vivian Imerman said the companies had "a close relationship" and discussions on areas of mutual interest had been in progress for some time.

"At this stage, the discussions have not reached any conclusion."

French commercial sources in Johannesburg said the calibre of the representatives BSN sent out to SA, both before and during Strauss-Kahn's visit, suggested a major thrust was being planned relatively soon B\Day 24\10\91.

The key areas of interest were yoghurt and biscuits.

It is reliably understood that BSN is on the lookout for a partner to facilitate the establishment of a distribution and marketing network.

BSN, which in 1990 made net profits of Ff3,1bn on turnover of Ff53bn, has six main branches of activity: dairy products, general foods, biscuits, beer, mineral water and packaging.

Among its famous brand names are Gervais Danone (yoghurt, desserts), Evian (mineral water), Kanterbrau (beer), Panzani (pasta) and Amora (mustard)

Traditionally active in mainland Europe, BSN has gradually moved into England and the US, where it has become a major force in yoghurt and biscuits.

Royal, which in 1990 made attributable earnings of R12,5m on turnover of R171m, is active in the SA biscuit industry and acquired Royal Beech-Nut from the American Nabisco group two years ago.

Its product line also includes baking powder, cake mix, sweets, jellies and chewing gum.

Stable performance in food sector

Bpday 25/10/91. (186)

MARCIA KLEIN

RESULTS from major food companies reporting for the period to end-September would reflect the stability of the sector, but "do not expect any excitement", analysts said

They said the food sector was stable mainly due to population growth, increased urbanisation and a move towards the redistribution of wealth in SA

However, most of the major companies in the sector would show growth of between 10% and 15% in the current financial period

An analyst also pointed out that food was a political issue and many food companies had felt pressure not to push prices up, especially in view of the controversy surrounding the introduction of VAT This could affect their margins.

Despite little growth in the sale of non-durables, companies like Tiger Oats and the Premier Group would benefit from increased exports

An analyst said Premier would also benefit from good results at Clicks and from "a nice turnaround from Twins Pharmaceuticals" A major part of its business was milling and baking, which could hold up well as people traded down

Fedfood was finding the economy tough, and it could have a flat interim period, an analyst said He said that not only was the group conservative but results could also include a rise in the tax rate The usually buoyant snacks division could also have found the last six months tougher than usual

Tiger Oats increased its earnings by 14% at the interim stage, and had said this will be maintained at the year-end

The broiler side of its operations, which had suffered in the last reporting period, would have picked up in line with the recently improved chicken prices, an analyst said There would also be a turnaround in Langeberg and Tiger would start to feel the benefits of the Beacon acquisition Some analysts have pegged Tiger's growth as high as 18%, mainly on the back of exports and good results from Beacon and Langeberg

An analyst said Hunt Leuchars & Hepburn-controlled (HL & H) Rainbow Chicken would take the full knock of its acquisition of the under-performing Bonny Bird from Premier, as well as high debt, additional shares in issue and weak chicken prices, which had only picked up in the last two months A dramatic drop was expected, but there would be an improvement in the second half

HL & H would also show the effect of the Rainbow acquisition and of more shares in issue An analyst said the timber division would reflect the depressed timber industry, and there had also been a downturn in the sugar price Analysts expected a drop in earnings in the first half and an improved second half.

Imperial Cold Storage would show flat interim earnings and slightly lower earnings at the end of the year, an analyst said While wholly-owned commodity-type businesses would show lower growth, value-added products could boost earnings.

MEAT INDUSTRY FM 25/10/91

Scrap controls, or else! 186

Government is pressuring the Meat Board to reduce its huge powers over the supply, marketing and price of red meat. Should the Meat Board refuse to go along, the Agriculture Minister could deregulate the industry under presidential powers contained in the Temporary Removal of Restrictions on Economic Activities Act.

"The ball is in the Meat Board's court and we are waiting on their response," says Agriculture Deputy D-G Chris Blignaut.

"The industry has now matured sufficiently to allow for freer competition and the increased availability of meat supplies at all markets," he says.

But the stakes for the industry are high. According to the board's 1989-1990 report, producer sales of red meat (beef, mutton and pork), hides, skins and offal totalled R3,8bn. At current retail prices, processed red meat sales could easily total R8bn annually, says Organisation of Livestock Producers (OLP) chairman Nils Dittmer.

The most important reform being pursued by the Department of Agriculture is for the board to end its enormous control over the flow of red meat into major urban markets.

The removal of the distinction between so-called controlled urban areas and uncontrolled non-urban areas would reduce the clout of the giant Abattoir Corp (Abakor), which owns 10 abattoirs in the major urban centres. It would also be a victory for the 500-member OLP, which has lobbied for deregulation since 1983.

The result would be to allow smaller abattoirs in rural districts to supply the urban markets with cheaper slaughtered meat, saving transport and labour costs The current board system forces farmers to send livestock on the hoof to urban markets.

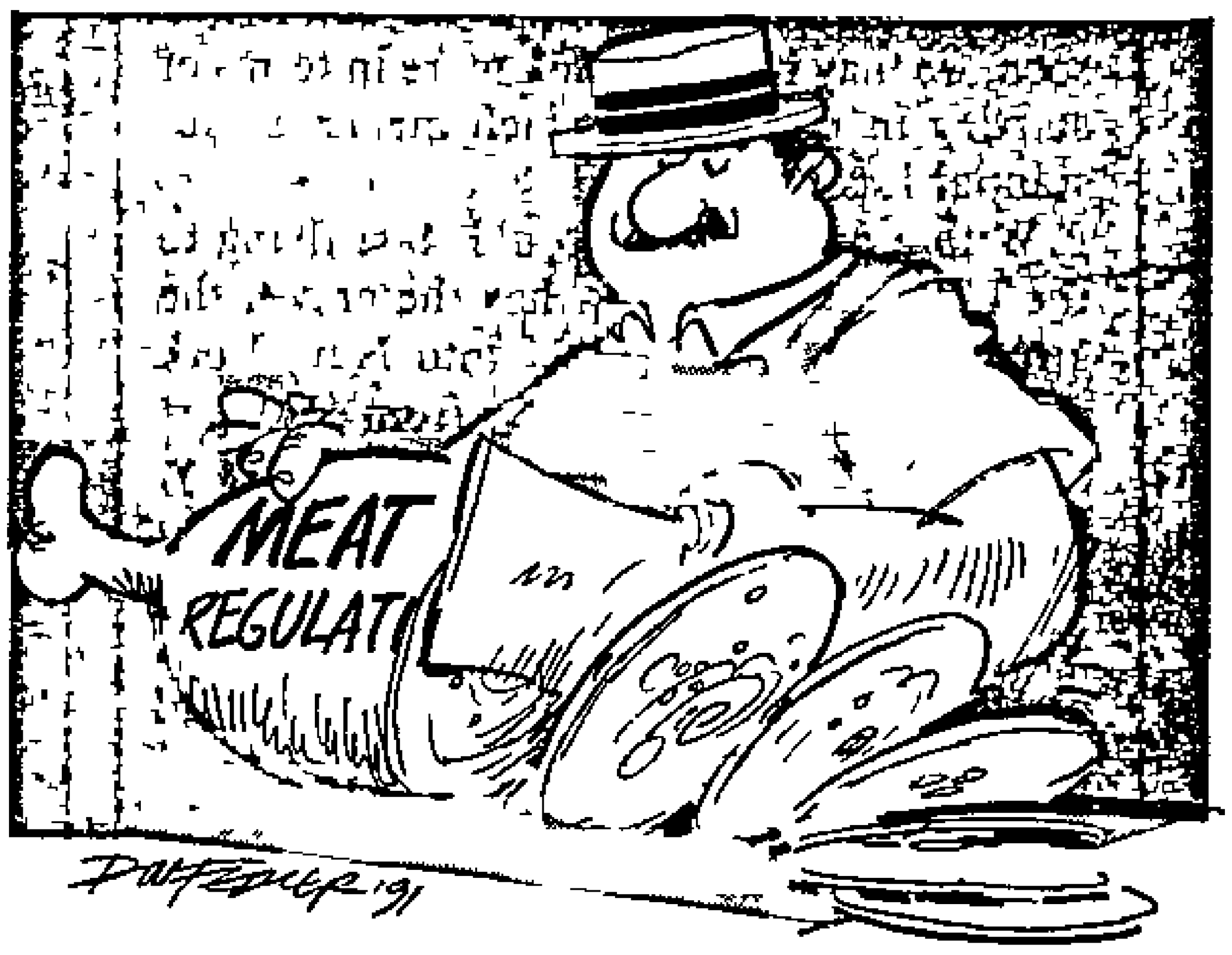
"Freer movement of meat from country areas to urban markets would lead to cheaper prices because the transport costs of a higher-value product would be lower," Blignaut says "I think the system of controlled areas has become obsolete."

The industry is already reacting to government's demands. Jan van der Walt, manager of the Red Meat Producers' Organisation, says the board's meat scheme committee has agreed to free up the movement of meat into the controlled areas.

"In future, about 80% of all beef slaughtered in SA, 86% of the mutton and 87% of the pork will be allowed free entry into urban markets, compared with the current limited entry of about 60% This will also allow outside abattoirs to compete more freely with Abakor."

Blue Ribbon Meat MD Gareth Ackerman welcomes the proposed deregulation, but adds that the floor price system also must be reformed, as it protects inefficient farmers.

"I believe that the Meat Board should focus on just three major areas — promoting red meat consumption, creating an acceptable grading system for the industry, and



exercising control over meat hygiene and sanitation," he says.

The OLP has been working with the Sunnyside Group deregulation lobby to draw up legislative proposals to reform the industry The group's Gwynne Main says it will release recommendations next month. One proposal will be to allow farmers to opt in or opt out of the board's meat scheme.

Dittmer says advantages of deregulation would include:

- Slaughtering stock close to the point of production. This would reduce injuries to animals, weight loss of up to 5%, deterioration of meat quality due to stress, time between loading and slaughtering, and cost, because it is far cheaper to transport meat and by-products than live animals,
- The farmer having far greater bargaining power in dealing directly with the agent on his farm, rather than being forced to accept whatever the agent offers at a compulsory auction and after the animal had been killed

"The agent, who is usually also a buyer, has a 3% incentive to get the farmer the best price and a 100% incentive to get him the worst price because he also acts on behalf of the big buyers," Dittmer says;

- Far greater price stability. Now prices can vary hugely ("up to R1/kg within an hour," Dittmer says);
- More competition between abattoirs because farmers could use the abattoir of their choice. At Abakor auctions, the farmer has no right to negotiate, or even to refuse the price obtained by the agent after the animal has been killed,
- De-boning, meat packaging and processing, and hide curing plants could be located near rural abattoirs

"This would ease congestion in cities, bring development to rural areas and site factories where land is cheaper," he says,

- Butchers would be able to buy according to customers' demand, buy forward and be assured of a constant flow of a product of their choice;
- Meat packers would be able to supply butchers with the cuts that they require;
- Butchers and traders would be able to market and sell products under trade names and trademarks, being assured of the quality of their product, and
- Freedom of choice and freedom of entry would ensure that producer and consumer prices would be linked

"Overall the impact would be tremendous," Dittmer says "Consumers would be offered a wider choice, availability would be greatly increased, and the quality, cost and presentation of the meat would be in line with demand. This would lead to increased consumer satisfaction, which would lead to increased demand "

Dittmer says it must be expected that companies with "massive mal-investments," such as the huge Abakor abattoirs and the feedlots, hide and skin and by-product processing plants that have grouped themselves near these abattoirs, will resist deregulation

"But do we protect the mal-investors at the expense of consumers and a vast part of our range land, or do we accept sound economic policies at the expense of the mal-investors and lobbyists, for the eventual benefit of the whole country?" ■

STEEL TARIFFS FM 25/10/91

Score one for David

Iscor and other big steel producers came away disappointed last week when government finally ruled on their application for higher steel import tariffs

Government decided not to go along with the request filed by the SA Rolled Steel Producers' Co-ordinating Council in December to increase the protection for locally made hot-rolled steel products and wire rod. The decision was published in last Friday's *Government Gazette.*

Iscor argued that the protection for these products has not been raised since 1985. "Over the past six years, cost inflation in the local economy has soared, so we are understandably disappointed that government turned us down on wire rod and hot-rolled

continued →

Heinz targets SA for joint venture

186

INTERNATIONAL food conglomerate Heinz is poised to enter the local market in a joint venture with an undisclosed SA company BDay 29/10/91

"We are extremely interested in SA," H J Heinz chairman Tony O'Reilly said yesterday Any move into SA would be in the form of a joint venture, and would be undertaken "as soon as possible"

The decision to enter SA via a joint venture arose out of the problem in SA of a great deal of domestic liquidity "caused by the inability of companies to invest outside SA". This meant there were lots of rands chasing a limited number of targets, O'Reilly said

Analysts yesterday pegged AVI as the possible partner for Heinz, but said the major food companies, including Premier, Tiger Oats, Fedfood, Royal Corporation and Hunt Leuchars & Hepburn could also be possible contenders, MARCIA KLEIN reports

Heinz is currently imported to SA in small amounts and distributed by Cape-based M & L Distributors

Heinz, which is based in Pittsburgh, is world renowned for its tomato sauce, soup, baby food, tuna and pet food.

Apart from looking for a joint venture in SA, O'Reilly said Heinz would also open a new factory in China and would try to expand in Eastern Europe, with Poland and Hungary targeted as areas of expansion — Sapa-Reuter.

(186) FM 1/11/91

Tiger, tiger . . .

Tiger Foods plays a major role in processing SA's maize

Tiger Foods is a giant of the SA food industry It dominates the maize milling and animal feeds industries, while playing a strong role in the production of eggs, broiler chickens, edible oils, margarines, petfoods and in the food processing industries

Recently, the mega-group (turnover R5,7bn in 1990), also commissioned its first maize-based glucose plant at Univeral Industries in Durban Tiger Foods, therefore, plays a major role in the processing and beneficiation of maize products.

Tiger Foods operates seven maize mills and 22 depots throughout SA, while another huge maize mill is now nearing completion in Maritzburg. Tiger is also strong in the sweets, baking and confectionery markets

And the animal feeds and agribusiness division, employing about 11 000 people, produces animal feeds, eggs, chickens and processed food products

Charles Beiles, chairman, milling and baking, of Tiger Foods, says his division handles the group's traditional business, milling an annual tonnage in excess of 1,25 Mt of maize, of which about 50% is white (human consumption) and 50% yellow (animal feeds) maize.

"We are the biggest single client of the Maize Board and our mills are strategically located to serve the whole country Our modern new mill at Maritzburg (being built for R110m), will be able to serve the whole Natal market," says Beiles It will be the second-largest mill in SA.

Tiger's Randfontein site elicits superlatives:

- Its massive 63-bin silo can hold 60 000 t of maize;
- It is served by the largest private railway siding in SA,
- It is the largest-capacity milling plant in SA Employing more than 1 000 people and with replacement costs of R500m, it boasts

Loading maize-based animal feeds at a Tiger mill

feed and maize mills, a bakery and an oil expressing plant, while also manufacturing a variety of products, including petfood.

Beiles says the total replacement costs of the capital under his management is in excess of R1,2bn.

"While business in the white maize milling sector has been fairly static lately, we have instigated a planned programme to branch out into value-added food products, such as specialised baby foods for the black market," he says

The new maize-based infant cereals, using enriched maize meal and easy to prepare hygienically (with boiled water), are an important new development, says Beiles.

"The most important, formative period of a child's life is its early years, when the correct, balanced nutrition is essential," he adds

Product development includes educating people at clinics and hospitals on how to use the Tiger baby product range. Beiles says African health development programmes, under the auspices of United Nations health agencies, may also find benefit in Tiger's nutritional product range.

For the past seven years, Tiger Foods has supported and promoted the National African Federation of Chambers of Commerce (Nafcoc), sponsoring Nafcoc's annual congresses, education and training. Tiger has also supported Operation Hunger (feeding the hungry in mainly rural areas) for the past 10 years

"These behind-the-scenes commitments not only build mutual goodwill, but also help make SA a better, stronger country for all its people," says Beiles ■

Used from A to Z

Starch derived from wet milling has many uses

African Products (Afprod), a division of the Tongaat-Hulett Group, is the largest wet miller on the African continent.

It produces, according to the 1991 Tongaat-Hulett annual report, "a wide variety of starches, including speciality and modified starches, glucose, maltose and dextrose syrups, glucose powder, caramel colour, maize germ, high-protein gluten meal, gluten feed and corn steep liquor."

Afprod's Germiston mill is the second-biggest individual maize buyer in SA, after the Delmas-Randfontein mill Afprod manufactures starches and glucoses at its three mills at Germiston, Meyerton and Bellville.

The many industrial applications of these products will amaze those who only know maize as a basic food or an animal feeds product.

Markets include corrugated packaging materials, textiles, mining, confectionery, baking, instant coffee and coffee creamers, canning, brewing, pharmaceuticals, building materials and general food industries, as well as the animal feeds industry

Maize starches and glucoses are also used in such diverse products as concrete (as a plasticiser), acoustical tiles, gypsum board,

Starches and glucose feature in many commercial products

brandy and whisky (as colourant), paper (surface sizing), briquettes (as a binder), baby foods, intravenous drips, beer, breakfast foods, ceramic articles, photographic paper, dyes, printing inks, baking powder, gravies and sauces, prepared mustards, cosmetics, yeast and many others

Wet milling is a process carried out in water during which starch is obtained from maize This process is the most efficient method for the recovery of starch from cereals The dry-milling process, by contrast, is used for the production of maize meal, samp, maize rice and maize grits.

The starches are manufactured and dried after the milling process And, by adding acids and oxidants, a number of modified starches are also created, tailored for individual industry chemical requirements

Starch slurry is also used as the base for preparing various glucose products, by adding acids or enzymes Glucose syrups as well as liquid dextrose and maltose products are derived Another product is caramel colourant, used in brandies, vinegar, whisky, beer, cola drinks and gravy powders ■

Ample application

Major SA companies use maize-based products

Glucoses and starches from African Products and new competitor Universal Products in the Tiger Group are widely used in industry

A few examples

- Beacon Sweets & Chocolates commercial director Ivan Epstein says the local industry produced 108 000 t of sweets in 1990, using glucose as one of the prime raw materials. "More competitive pricing would increase the scope for exports," he says,

continued

ROYAL CORP FM 1|11|91

Growing sweetly 186

Royal Corp still has a reputation as a company which is prepared to pay a high price for good assets and brands Certainly it has been one of the JSE's most visibly acquisitive companies in recent years. Its prey in 1989 included Royal Beech-Nut and Manhattan Confectioners Last year, a further R150m was paid for SA Preserving Co (Sapco), Ferro Industries and Fedbisco

These acquisitions have immediately improved the bottom line.

EPS to February 1990, the first full year

FM 1|11|91 186 FOX

after the Royal Beech-Nut acquisition, rose by 37% This year EPS increased by an annualised 44% on the 18 months to August.

EPS for the six months to August 1991 alone, at 18,6c, were higher than for the entire year to February 1990 In the past 12 months the share price has soared from 150c to 500c Royal is debt-averse Gearing has been kept relatively low as it listed Royfood and Roychem to pay for recent acquisitions Gearing is stated at 10,9%, down from 20,2%, though goodwill is included in the balance sheet.

Sapco produces 60% of the canned fruit for Del Monte Europe. It now accounts for more than half Royfood's turnover and profit It has a long-term agreement with Del Monte Europe, which will take up at least 90% of its previous year's purchases for 25 years Roycorp chairman Vivian Imerman says Sapco can export four times current production and is expanding to meet this

Roycorp paid only 10,2% tax, thanks to export incentives and writing off trademarks Imerman doesn't expect the tax rate to rise significantly in the next three years.

Imerman says Royal continues to pursue growth both organically and by acquisition

But it remains questionable if Roycorp offers value after its present run. On pro-

continue →

FOX

FM 1/11/91

spective p es for the year to February 1991, the first year of trading in its present form, Roycorp offers a p e of 11,5, Royfood 16,8 and Roychem 7,8

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As it is largely in sweets, Royfood likes to compare itself with Cadbury-Schweppes Cadswep has a forward p e of 22, which makes Royfood's 15 look cheap But Royfood is rated ahead of the historic p es of Premier and C G Smith Foods and not far behind I&J and Tiger Oats, both longer established with consistent profits over many years Roychem, with the impact of the Ferro purchase, is an unknown quantity Roycorp itself may offer some value, though it has run very hard

Stephen Cranston

(186) FM 1/11/91

☐ Johan Strydom, manufacturing manager at Cadbury Schweppes' Mayfair factory, says dextrose (a constituent of glucose) has quick, energy-producing qualities that allay fatigue

It is popular in confectionery, soft drinks and some alcoholic drinks Glucose has greater solubility than sucrose, as well as greater resistance to micro-organisms, he adds

"The presence of dextrins also ensures a high viscosity, which is useful in producing whipped confectionery, chewy caramels and nougats," he adds;

☐ Dave Upshon, corporate affairs manager of Nestlé's Food & Nutritional Products, says corn starch syrups are used to mould foods and confectionery.

Nestlé, an international giant in food (1990 global turnover stood at R100bn, says Upshon), focuses on the production of hi-tech, added-value food products like instant coffees;

☐ SA Breweries' (SAB) chief brewer Steve Kleynhans says SAB (whose beer division turned over R4,1bn in 1991) used about 210 000 t of maize-derived products in that year.

"While we use maize grits as an adjunct to malt, the liquid maltose and dextrose syrups are important fermentable extenders which add to the flavour and drinkability of the end-product, providing a more refreshing beer, with better shelf life," says Kleynhans;

☐ Food company Becketts also depends on maize-based glucose to manufacture instant coffees and coffee creamers.

Procurement director Ben Pienaar says 64% of the dry product in coffee creamers consists of glucose, and 50% in the case of mixed instant coffees. In the 19 500 t/year mixed instant coffee market, about 9 500 t of glucose is consumed annually. And, in the case of the 24 000 t/year coffee creamer market, the glucose use is about 15 000 t,

Kleynhans

☐ Sappi and Mondi, SA's two paper giants, would also be lost without the extensive use of maize-based starches

"Sizing, or adding starch, is essential in the manufacture of quality papers, as it improves the gloss and printability of high-quality paper," says John Varton, GM of Mondi's Merebank (Durban) factory

Sappi national sales manager Charles Combrinck says total starch use in SA's 1,8 Mt/year paper industry is about 19 200 t. Of this, about 10 500 t goes into the manufacture of 350 000 t of sized paper, while 8 700 t is used for Kraft paper manufacture;

☐ Kohler Packaging and Nampak both make extensive use of maize starch-based glues to manufacture corrugated packaging products

Kohler recently signed export contracts to the value of R30m to supply corrugated cartons for the South American fruit packaging market, with three container shiploads taking the 14m cartons to South America

Nampak national packaging and quality manager Brendan Gillespie says about 13 500 t of starch is used each year to manufacture about 230 000 t of corrugated packaging; and

☐ Adcock Ingram R&D director Stuart Ashworth says "A large percentage of medicinal tablets contain maize starch" Starches also form a relatively cheap filler to give "body" to tablets ■

Looking ahead

■ The CSIR researches new applications for maize

Developing new food, animal feeds and industrial applications for maize-based starches and glucoses is an important task of the Food Science & Technology Division (Foodtek) of the CSIR in Pretoria.

"While we mostly do contract work for the private sector, we also expand our own knowledge and expertise with an eye to commercialisation," says Frans Gous, manager of the food processing programme at Foodtek.

Using pilot-scale extrusion facilities, Gous's group has developed a number of maize-based extruded products, in collaboration with the Maize Board and other clients.

Foodtek has also been involved in developing breakfast cereals, meal replacement bars, fried maize snacks and maize bread pre-mixes

"We have the ability to adapt global food technologies for the African situation. Fortified grain products, with increased protein content, could find a big market in Africa," he says

Leonie Bosman, leader of Foodtek's grain protein-enrichment project, may have the solution to the growing shortage of cheap protein-rich animal feeds.

She has developed a low-technology process involving the application of non-toxic fungi to "hominy chop" (a by-product of the wet milling of maize), which increases the protein content from 10% to 30%.

The fungus converts the nitrogen added to the wet hominy chop into valuable amino acids, an excellent, high-protein animal feed. This process could save SA millions of rands on the import of expensive soya and fishmeal products, says Bosman.

Marthinus Horak, programme manager of the food and agricultural chemicals section of Foodtek, has done extensive research on "alternative uses of maize."

Bosman

He says starch-based polymers can replace major markets currently served by petrochemicals. Biodegradable plastics, chemically modified starches, biopolymers, ethanol and high-fructose corn syrup are all maize-based products which can open up tremendous new marketing opportunities, once cost-effective methods are developed to commercialise these products. ■

ICS does better than expected

B Star 5/11/91.

ICS, the cold storage and food group, has reported better-than-expected results for the year to September, with a 24,3 percent rise in attributable profit to R45,5 million, representing earnings per share of 119,7c

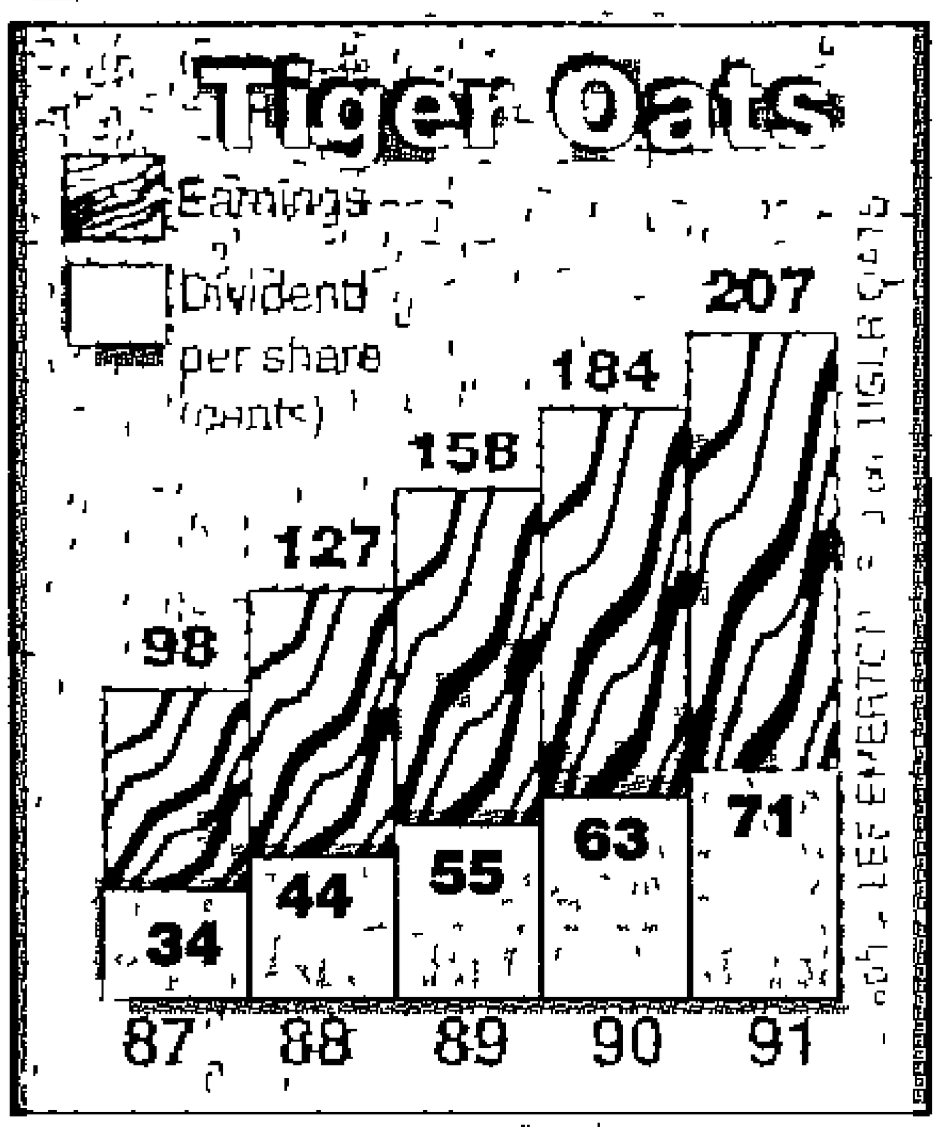
Earnings, before abnormal items, rose 37 percent (186)

A dividend of 23c has been declared, making a total of 37c — an increase of 15,6 percent

Turnover at R2,1 billion was virtually unchanged

The company says two major factors contributed to the improved results — a 31 percent rise in the contribution to attributable profits by associated companies, particularly Sea Harvest, while the restructuring programme and tight management and financial controls brought a turnaround in some subsidiaries

Managing director Nick Dennis says the company will continue to focus on reducing costs and addressing undeperforming assets — Sapa



Tiger bounds in with good results

MARCIA KLEIN (186)

TIGER Oats, the diversified consumer-based arm of Barlows, increased earnings 13% to 207c (184c) a share in the year to end-September on the back of its broad portfolio of established brand names.

Chairman Robbie Williams said the development of a broad and balanced spread of interests across the food and pharmaceuticals industries, backed by exports, had contributed to good results in a competitive trading environment

Although results were lower than market expectations, Tiger did well to show a 21% growth in operating profits to R598m (R495m) off an 18% turnover increase to R7,98bn (R6,78bn), reflecting improved margins B/Day 6/11/91

Turnover showed a lower rate of growth than the 21% rise reported at the interim stage. Williams said turnover was bolstered by the inclusion of Beacon Sweets' results for the full year, so in real terms turnover had not improved

He said the recession and the increase in unemployment had contributed to reduced consumer spending, and placed pressure on food volumes and margins But effective asset management and cost controls

☐ To Page 2

Tiger Oats B/Day 6/11/91 (186)

☐ From Page 1

had contributed to the earnings increase

Income from investments rose to R12m (R10m) and the interest bill increased by 37% to R89m (R65m), resulting in an 18,4% growth in pre-tax profits to R521m (R440m) After tax of R173m (R156m), profits were 23% up at R348m (R284m)

However, a good performance by partly owned subsidiaries Langeberg and Beacon Sweets saw profits attributable to outside shareholders in subsidiaries and preference shareholders in the group double to R59m (R29m)

This resulted in attributable earnings increasing by 13% to R289m (R255m) on a slight increase in shares in issue

A final dividend of 46c a share was declared to bring the full year dividend up by 13% to 71c (63c) a share

MD Clive Wolpert said the canning, confectionery, distribution and shipping divisions had achieved strong performances, but results from the edible oils, broiler, eggs and bakery operations were below expectations

In the pharmaceutical division, both Adcock Ingram and Logos Pharmaceuticals had reported good results, with major brands showing good growth

Despite low anchovy quotas and reduced lobster catches, Oceana Fishing Group maintained its earnings

Tiger spent more than R300m during the year, of which 65% was for new production facilities and the expansion of existing plant

The widely based capex programme included the new mill in Maritzburg, which would come on stream next year, a new distribution centre for Spar, two new bakeries, and a new shipping facility

Wolpert said Tiger was well positioned for exports, and although it had been exporting throughout the sanctions period, it would become increasingly easier without the strain of having to discount prices

BUSINESS

East Dagga cuts interim

East Daggafontein has dramatically cut its interim dividend from 55c to 31c for the six months to end-September.

Net pre-tax income was R9,1 million (R16 million), while net income plunged from R7,98 million to R4,69 million.

East Dagga has a history of distributing, by way of dividends, all its taxed profits to shareholders

Star 6/11/91.

Chairman Peter Bieber says the decrease was a result of Dumpco, East Dagga's wholly owned subsidiary, having to contribute 50 percent of capital expenditure in terms of the contractual arrangements with Ergo

Dumpco's share of this total expenditure, which was incurred on slime dumps acquired recently from GFSA, was R4,097 million — Sapa.

Tiger lifts earnings 13%

Star 6/11/91

By Ann Crotty

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Weak performances from Tiger's core food operations were countered by strong showings from Langeberg, Beacon and pharmaceuticals, enabling Tiger to report a 13 percent improvement in earnings to 207c (184c) a share

A final dividend of 46c a share has been declared for a total of 71c (63c) a share.

In the 12 months to end-September group turnover rose 18 percent to R7,89 billion (R6,78 billion), representing a volume increase of around one percent.

Operating profit rose 21 percent to R598 million (R495 million), reflecting an improvement in margins to 7,49 percent from 7,3 percent

Margins were helped by a change in the operating-income mix, with higher margin items, particularly pharmaceuticals, providing a relatively higher contribution to operating income.

A strong performance from exports also helped margins

Interest payments were up 37 percent to R89 million (R65 million), in line with the group's heavy capex spend

This topped R300 million over the year. Although group cash flow funded most of it, there was some recourse to bank borrowing

Despite this, there was a marginal reduction in gearing to 38,8 percent.

Pre-tax profit was up 23 percent to R348 million (R284 million).

There was a more than doubling in earnings attributable to minorities — up from R29 million to R59 million

The sharpness of this increase helps to highlight the source of Tiger's profit improvement.

The bulk of the minorities are accounted for by Adcock-Ingram, Langeberg and Beacon Sweets

Adcocks' figures are known and although this pharmaceutical group put in a very strong performance, Langeberg's improvement is thought to be a major factor in the extent of the hike in minority interests

In addition, Beacon, which performed well, was in for the full year

Attributable earnings were up 13 percent to R289 million (R255 million).

Reviewing the figures, chairman Robbie Williams says that in the light of tough trading conditions, he is pleased with the results

"The recession and the significant increase in unemployment contributed to reduced consumer spending and placed pressure upon food volumes and margins."

According to one analyst, the bottom-line figure compared to the operating-profit figure indicates that Tiger's basic foods contributed around 10 percent less than expected to operating profit.

On the food front, the difficult areas were edible oils, broilers, eggs and bakery.

Fishing also had a tough year, with low anchovy quotas and reduced lobster catches

Rainbow profits plunge by R30m

B/Day 8/11/91

MARCIA KLEIN

RESULTS from Rainbow Chicken, SA's major chicken producer, reflect the sorry state of the poultry industry

Excess production, reduced margins and increased interest charges saw the company's attributable profits plunge from R36,2m to R5,7m in the six months to end-September.

Earnings fell from 13,2c to 1,7c a share, and no interim dividend was declared

Turnover more than doubled to R801,4m (R335,9m) — mainly due to the inclusion of recently acquired Bonny Bird and Epol However, operating profit fell 50% to R20,9m (R30,3m), reflecting low prices

MD John Geoghegan said the year had begun "with excessive production and excess stocks in the poultry industry", and this had led to severely depressed prices.

Rainbow's margins decreased from 9% to 2,6%, on the back of these selling prices, which Geoghegan said were below the cost of production for the first quarter. Rainbow's sales prices had increased by only 3,6% in the six month period.

But Geoghegan said "pleasing progress" had been made in integrating Bonny Bird's facilities and systems with those of Rainbow and that costs in Bonny Bird had been significantly reduced.

After earning interest of R7,3m in the previous year, Rainbow paid interest of R14,7m for the six months. Gearing was at 27,3%, but Geoghegan said that R144m of Rainbow's debt will incur interest at 6% below prime

Pre-tax profits dropped from R37,6m to R6,2m. Rainbow did not provide for tax due to assessed losses in Bonny Bird and allowances from the company's capital expenditure programme.

Geoghegan said Rainbow had traded at acceptable profit levels for the second quarter, it would show an improvement in operating income — but not in earnings — in the second six months.

IRVIN & JOHNSON FM 8/11/91

Highly regarded

(186)

Activities: *Catching, processing, marketing and distribution of seafoods and other frozen foods*
Control: *Anglovaal Industries 68,6%*
Chairman: *J C Robbertze, CE J Williams*
Capital structure: *28,6m ords Market capitalisation R1,17bn*
Share market: *Price R41 Yields 1,9% on dividend, 5,9% on earnings, p e ratio, 16,9%, cover, 3,1 12-month high, R41, low, R18,50 Trading volume last quarter, 85 000 shares*

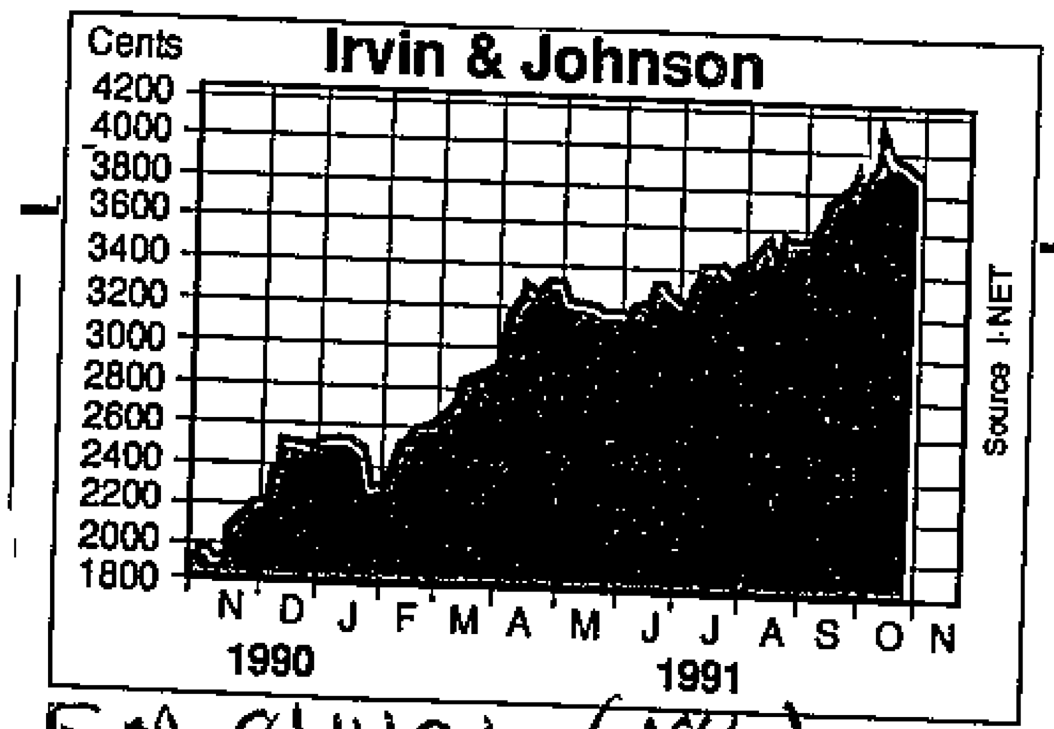
Year to June 30	'88	'89	'90	'91
ST debt (Rm)	15,0	20,2	11,0	20,3
LT debt (Rm)	38,4	38,6	35,1	24,0
Debt equity ratio	0,02	0,08	n/a	n/a
Shareholders' interest	0,46	0,48	0,49	0,52
Int & leasing cover	34,0	160	n/a	n/a
Return on cap (%)	22,4	22,6	17,9	17,3
Turnover (Rm)	890	1 094	1 257	1 444
Pre-int profit (Rm)	82,2	103,1	89,0	99,7
Pre-int margin (%)	9,2	9,4	7,0	6,9
Earnings (c)	179	232	203	243
Dividends (c)	55	70	70	78
Net worth (c)	594	772	856	1 042

Changes taking place throughout Eastern Europe, neighbouring African states and within SA itself could significantly benefit the business of Irvin & Johnson (I&J)

It has already entered into a joint venture with a Soviet fishing organisation to catch horse mackerel in Namibian waters as a result of new quota allocations there

Negotiations are under way with a Mozambican company to form a joint venture to harvest crustacea off the Mozambican coast and market the product internationally

For many years, I&J has been in the



FM 8/11/91 (186)

vanguard of the quest to get government to rescind duties and taxes on the acquisition of trawlers from abroad Now that the authorities have adopted a different attitude to protection and removed these duties, the fishing industry, for the first time in many years, is in a position to acquire vessels at prices considerably less than similar vessels would cost if built here

Two important consequences follow for I&J Firstly, international competitiveness should improve because of more efficient use of capital, secondly, it can more economically renew its fleet which, at an average age per trawler of about 15 years, is about 50% older than those of foreign competitors

This partially explains why 1991 capex of R47m was the highest in I&J's history It also explains why it came to the market with a rights issue of R97m (successfully completed last week) It can, therefore, be expected that fleet replacement and hence high capex will proceed apace as viable second-hand trawlers are bought, imported and then adapted to suit local conditions

Regrettably, I&J does not disclose performance figures relating to fishing activities on the one hand and its substantial participation in frozen food on the other In national terms, chairman Jan Robbertze says, compound growth in the domestic retail frozen food market has been 8% a year over the past decade In 1991, growth was only 1%

The moderately buoyant seafood market, helped by the strengthening of the US dollar in the last four months of the year, says Robbertze, compensated for depressed domestic trading conditions It was thus the frozen foods division that held back group pre-tax profit, which rose by 12% A reduction in the tax rate enabled EPS to rise by 20%

With additional earnings that should flow from investment of much of the proceeds from the rights issue, Charles Atkins, director of SA operations, is optimistic that EPS growth in 1992 will beat the inflation rate

The market has shrugged off the 1991 earnings hiccup and taken the share to a record price The relatively high p e and low yield suggest that, as a provider of competitively priced, basic foodstuffs and because of the quality of earnings, long-term potential and the calibre of management, I&J remains highly regarded

Gerald Hirshon

TIGER/ICS FM 8/11/91

Feeding Barlows (186)

A couple of Tiger Oats' recent acquisitions proved the backbone of this year's result Langeberg, 56% held, and Beacon Sweets (50%) more than doubled their contribution This helped to offset weaker performance from traditional businesses — edible oils, chickens, eggs and baking — where volumes were under pressure As milling in particular has high fixed costs, this had an immediate impact on profit.

Chairman Robbie Williams says the market proved tougher in the second half Sales growth of 21% in the first half fell to 15% in the second He says that the retail trade squeezed margins as the year went on Tiger's own distribution interests, W G Brown, which wholesales to Spar members, and Radue-Weir must have done some squeezing themselves, as they had a good year

Fortunately, oversupply in the chicken market corrected itself by year-end and the County Fare broiler operation was profitable for the last two months Tiger MD Clive Wolpert says other poor performers should come right this year

Though most growth has come from branded goods Tiger continues to invest in its commodity areas It is not actively seeking joint ventures with multinationals entering SA "We prefer to manage our businesses, we are established in our markets and are not

Cont —D

FOX FM 8/11/91 (186)

keen to give up part to multinationals "

Results were bolstered by the strong pharmaceutical interests The contribution from Logos and Adcock Ingram increased to 25%, from 22% last year Oceana Fishing's contribution was static at just 4% of the total

Sister company **Imperial Cold Storage** (ICS) has a far more cyclical portfolio of businesses Analysts expected EPS to fall even further after last year's 35% drop Instead EPS rose 24%, though off a low base It is still lower than the levels achieved between 1987-1989 Williams, who also chairs ICS, says the group was tough on its cash management and sold loss-making operations, which helped reduce interest paid by 9% Gearing was cut from 35% to 24%

FOOD PERFORMS

Tiger Oats **Year to September 30**	**1990**	**1991**
Turnover (Rbn)	6,78	7,98
Operating profit (Rm)	495	598
Attributable (Rm)	255	289
Earnings (c)	184	207
Dividends (c)	63	71
Imperial Cold Storage **Year to September 30**	**1990**	**1991**
Turnover (Rbn)	2,07	2,11
Operating profit (Rm)	26	28
Attributable (Rm)	37	46
Earnings (c)	96	120
Dividends (c)	32	37

The receiver also contributed The tax rate fell sharply from 48% to 32% because of export incentives and assessed losses

At R38,50 Tiger Oats sits on a p e of 18,6 and dividend yield of 1,8%, one of the most highly rated shares on the industrial boards Williams says he'll be disappointed if Tiger does not increase earnings by at least 13% again. In view of Tiger's portfolio and the prospect of an economic upturn in mid-1992, that looks achievable But 13% is less than real growth and might not justify the rating.

ICS, on the other hand, might provide some value if recovery can be sustained At R13 its p e is 10,9, with a dividend yield of 2,8% A substantial gap in the two shares' ratings is, however, likely to continue, the market values Tiger's consistency

Stephen Cranston

Rainbow still waiting for pot of gold

Star 8/11/91

By Ann Crotty (186)

For a company that has been fairly short on performance and long on promise, Rainbow enjoys an extremely high rating, and has done so since its listing in June '88

In the six months to September, earnings per share plummeted to 1,7c from 13,2c. This is from a company that is on a P/E rating of 25,4 times and a dividend yield of 1,3 percent

The share price may soften over the next few weeks, but not dramatically, because the interim performance is in line with market expectations

Investors and analysts remain bullish about prospects

They are confident that Rainbow is recovering well from one of the worst trading periods suffered by the broiler market and that a streamlined industry will see lower production and firmer prices

Just as heavy price competition eroded bottom-line performance, any sort of improvement in prices will provide a fast and considerable boost to the bottom line

In the review period, turnover was up to R801,4 million (R335,9 million) — boosted by the acquisition of Bonny Bird and Epol from Premier

But margins were slashed from 9 percent to 2,6 percent, reflecting the lower selling prices. Management says during the first quarter these were below the cost of production

Separate figures are not given for Epol, but it had long been a non-performer for Premier and, given the condition of the agricultural industry, it is unlikely that Rainbow saw any joy on this front.

Management does note that Epol margins were squeezed by lower demand.

There was a R22 million turnaround in the interest position from an income of R7,3 million for the financial '91 interim to an outlay of R14,7 million in the review period

This is attributed chiefly to the debt that came with the acquisitions (Bonny Bird and Epol) and, the amount owing to the vendors of Bonny Bird

Taxed profit was down to R6,2 million (R36,2 million) and attributable earnings were R5,7 million (R36,2 million)

The directors say that while an improvement is expected, in the second six months, "it is unlikely that there will be any growth in earnings per share for this year"

"In the medium term, the group's prospects remain positive"

Food sector remains a good investment choice

JOHN SPIRA (186) ARGT 9/11/91

Weekend Argus Correspondent

JOHANNESBURG — Investors with an exposure to food shares have, by and large, done well in recent years

And the sector retains attractions for its defensive qualities in times of recession, while it offers growth potential for the pending economic upswing

Premier Group, a diversified conglomerate with food interests the main focus of its activities, is one of the preferred investments in the sector

Premier continues to enjoy a dominant position in the manufacture of staple foods — especially milling and baking

The share's blue chip status is well entrenched, aided by benefits to be derived from recent acquisitions

In spite of difficult trading conditions in many of Premier's spheres of operations, the group raised earnings by 17 percent to 210c a share in the year to March 1991. The distribution was increased by a like percentage to 70c

While Twins and Score recorded lower profits and while earnings in some other divisions were flat, the overall results were boosted by creditable performances from Teltron, CNA Gallo and foreign operations.

Since the end of the 1991 financial year, Premier sold its 50 percent stake in loss-making poultry company Bonny Bird for R112 million — funds which have been used to acquire an effective 69,6 percent stake in Metro Cash 'n Carry, the wholesaling group formerly in the Tradegro camp Metro was subsequently merged with Score Foods.

In the year to June 1991, Metro incurred a loss of 40,7c a share.

Some analysts have suggested that to return Metro to a satisfactory profit situation could take two or three years.

Others regard this as a pessimistic prediction, arguing that rationalisation and the closure of stores (already underway) will enable Metro to achieve healthy profits in the period to April 1992.

CG Foods bites back at recession

(Times? (Pa?) 11/11/91

By IAN SMITH

BARLOW RAND blue chip CG Smith Foods has ended the year strongly, in spite of the recession

The 14% improvement in attributable profit to R284,3-million in the year to September 30 goes a long way to justify the confidence of investors, who have kept the share price near its current high of 4 350c

The group increased earnings in the previous year by 12%

Earnings a share were 300,8c and the dividend has been increased from 87c to 99c

Margin

Basic industries, including food, have weathered the recession better than most, and have probably also benefitted from the improved standard of living of some lower-income groups

At current levels CG Smith Foods shares provide an earnings yield of 6,9% and a dividend yield of 2,3% compared with the JSE Actuaries index for the food sector of 5,1% and 1,7% respectively

Financial director Brian Steele says that although most operations felt the effects of the recession the earnings increase was "pleasing"

Group turnover, which exceeded R10-billion for the first time, was also 14% higher at R11,3-billion.

But an improvement in overall margin from 6,76% to 7,01% helped operating profits to jump by 19% to R794,5-million

It shows the strength of the group's broad and diversified range of food, pharmaceutical and distribution activities, says Mr Steele

A 21,8% increase in interest paid to R180,8-million and a slight fall in investment income combined to reduce the growth in pretax profits to 15%

Lower tax, however, restored the improvement at post-tax level to 17% at R466,9-million

The pharmaceutical division again played a star role and a good performance came from Tiger Oats, bolstered by the acquisition of a 56% stake in the canning operations of Langeberg

It was also a good year for the shipping and distribution divisions

Imperial Cold Storage recovered after rationalisation from the bad patch it hit in the previous year

Sea Harvest reported good results and CG Smith Sugar improved its earnings in spite of lower world sugar prices

Star 11/11/91

CG Smith group performs rather better in second half

DURBAN — Although earnings at CG SMith were hammered down to a six percent improvement in the six months to March, total earnings for the second half to September were up 12 percent

Both CG Smith Foods and Nampak are credited for the improved figures

186

Nampak lifted its share of group attributable profit from 37 percent in the first half to 38,4 percent in the second half for a total of R147 million

Smith Foods provided the bulk of the income at 60,1 percent at R231 million for the year, while Romatex contributed only 1,3 percent at R5,2 million

Profit attributable to shareholders rose nine percent at R384,7 million, or 818c a share.

Turnover was up 13 percent at just over R16 billion (R14,1 billion)

The group says that while associated companies performed well, raising their contribution by 78 percent and boosting profit growth to 14 percent, outside shareholders' share grew 19 percent, which reduced ordinary shareholders slice.

A final dividend of 175c has been declared, bringing the total for the year to 286c (263c) — Sapa

COMPANIES

Healthy diet for CG Smith Foods

B/Day 11/11/91 (186)

Business Day Reporter

CG SMITH Foods, the core investment of Barlow Rand subsidiary CG Smith, this weekend reported a 14% increase in attributable profit to R284,3m for the year to end-September from the previous year's R249m

This is equivalent to 300,8c a share from which a dividend of 99c a share was declared It compares to earnings of 263,6c and a dividend of 87c

The company's main interests are Imperial Cold Storage, Tiger Oats and sugar

Commenting on the results, the directors said "The 14% improvement in turnover and earnings demonstrate the strength of the group's broad and diversified range of food, pharmaceutical and distribution activities"

They said ICS benefited from a rationalisation programme and good results from the meat division and Sea Harvest

As expected, Tiger Oats results were strengthened by good performances by the pharmaceutical companies.

The sugar interests managed to overcome a drop in world sugar prices to show an increase in earnings

Operating profit at CG Smith Foods was up 19% to R794,5m giving an operating margin of 7% on turnover of R11,3bn (up 14%) A 21% rise in interest and a slight drop in investment income combined to reduce growth at the pre-tax level to 15%, but a lower tax rate restored the improvement at after-tax level to 17%

CG Smith Food shares are trading at R43,50, giving an earnings yield of 6,9% and a dividend yield of 2,3%

The group does not give details of a R16,4m below-the-line write off compared to the previous year's R4,2m

(186)

HLH hit by adverse conditions

Star 11/11/91

Hunt Leuchars and Hepburn (HLH) experienced difficult trading conditions in the first six months to September and reports earnings attributable to ordinary shareholders declined nine percent to R47,8 million, compared with the same period last year.

Earnings per share, which have been diluted as a result of the additional shares issued to fund the group's investment in Rainbow Chicken, showed a decrease of 17 percent

An unchanged interim dividend of 13,5c a share has been declared.

Margins

Chief executive Neil Morris says the results highlight the difficult trading conditions experienced by all companies, but especially by equity-accounted investments, Rainbow Chicken and H Land H Timber Holdings.

"Operating margins and sales volumes came under pressure

"Notwithstanding the difficulties in the economy generally and trading conditions in our markets, the performances of our subsidiary companies, Transvaal Suiker and Robertsons, have been most satisfactory and group operating income increased 10 percent on a turnover increase of 21 percent over the same priod last year", Mr Morris says.

High stocks and production in the poultry industry in the first six months of the calendar year, coupled with the current unfavourable socio-political climate, had a marked negative effect on the performance of Rainbow Chicken, affecting bottom-line earnings for the group — Sapa.

Fedfood group companies contribute mixed results

Star 15/11/91

Finance Staff (186)

Excluding its foreign fishing operations, Fedfood reports after-tax income up 11 percent in the six months to end-September in spite of difficult trading conditions

But poor results from the equity accounted overseas operation brought attributable earnings down 10 percent to R21,5 million (R24 million)

Earnings a share were 71,8c (80,1c). The interim dividend is unchanged at 19c

The company, now controlled by Malbak, saysTable Top and Harvestime were affected by drought in the Cape Simba's contribution was also reduced

However, good performances came from Nola, Ruto and Sunbake, as well as the South African fishing operations

Results from the fruit processing plant acquired last year were disappointing and had a severe impact on profitability Some of these activities will be discontinued

RAINBOW CHICKEN (186)

FM 15/11/91

Squawk, squawk (Poultry)

Have the chickens come home to roost? That is what shareholders are asking Rainbow Chicken after the near-elimination of earnings in the six months to September

Support for the integrated broiler producers remains strong in the market, with the share price highly rated At 400c, Rainbow sits on an historical p.e of 20, ahead of all food counters other than Cadbury Schweppes This is remarkable in a group which has seen operating profit fall from R30,3m to R20,9m and earnings dive from R36,2m to R5,7m.

There was a disastrous start to the year The broiler industry went through one of its toughest times as a severe chicken shortage, caused by a viral epidemic, was followed by a surplus as production pushed stocks well into excess Prices plummeted below the cost of production for most of the first quarter

Prices have since normalised and Rainbow has the capacity to increase production as soon as demand dictates, says financial director Chris Wells, who adds that supply and demand are now well balanced

Chicken sales grew by a compound 9% in the 10 years to 1990 and Wells expects growth of at least 6% until end-century

Rainbow's influence on the market has increased with the acquisition of Bonny Bird, and this could lead to greater price stability

Greater output should have a quick and dramatic effect on profits, especially considering that, as prices were discounted to clear stocks at the beginning of the year, Rainbow's sales prices increased by a paltry 3,6%

The low chicken price was the main reason for poor performance But results were not helped by the poor contribution from Bonny Bird Farms, acquired for R224m from Premier, along with 50% of Premier stablemate Epol for R20m

Rainbow puts reduced income down to these acquisitions — funded by a rights offer which raised R252,5m — saying acquired debt and the amount owing to the vendors resulted in interest and other income decreasing from a net R7,3m in the previous period to a negative R14,7m this time

Though separate figures are not given for Epol, which was not a strong performer for Premier, animal feed producers saw lower demand eat into margins

So why the aquisitions and when will they add to profits? Bonny Bird was, of course, a logical buy, bringing Rainbow full control of its biggest competitor and around 50% of the chicken market Wells puts the figure closer to 47%, saying the effect of the informal

Cont →

NOT SO BONNY

Six months to	Sep 30 '90	Mar 31 '91	Sep 30 '91
Turnover (Rm)	336	354	801
Operating profit (Rm)	30	17	21
Attributable (Rm)	36,2	18,8	5,7
Earnings (c)	13,2	6,8	1,7
Dividends (c)	—	4,3	—

FM 15/11/91 (186)

market is hard to estimate

Epol, while not expected to affect future results significantly, remains the problem child Wells says new feed mills will fall under Epol, and Rainbow and Premier intend to focus it correctly (Poultry)

Buying feed producers is in line with Rainbow's intention to produce much of its own feed, reducing its dependence on Tiger's Meadow Feeds But one suspects the purchase of Epol had more to do with negotiations around the Bonny Bird deal

Rainbow MD John Geoghegan says while operating income should improve in the next six months, growth in EPS is unlikely for the year The interim dividend has been passed

But the group seems to be coming out of a heavy recovery period Barring the variables of chicken disease and the sensitive period which food prices appear to be entering, financial 1993 could be when shareholders get their golden egg. Rainbow has a clear strategy for efficient production, if prices increase in line with inflation, vastly improved results should follow *Shaun Harris*

FM 15/11/91 **COMPANIES**

CROWN FOOD FM 15/11/91

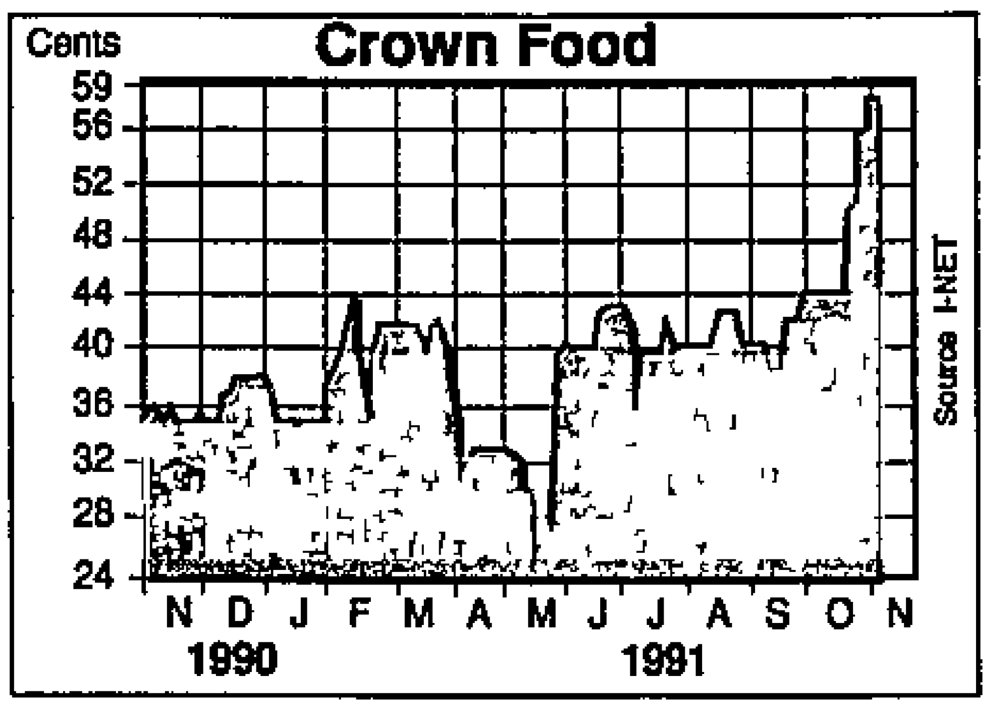
Better flavour

(186)

In mid-August, immediately before the preliminary figures were published, the share was quoted at 40c, so it has firmed by about 40% on assessment of the results

Yet it still offers one of the highest yields in the food sector and the price is still below the levels of two years ago The image has not yet recovered from the unexpected and major setback to earnings in 1990, and good as the latest results may seem in isolation, they are not back to those of 1988-1989

In the interim report in February, EPS were slightly down and the company forecast only a marginal improvement in 12-month earnings A major boost came from a running down of borrowings in the second half Average borrowings rose but over the year gearing fell from 70% to 49%, the interest bill, 54% up at half-time, was only 18% up for the full year On the asset side, the group



Activities: *Supplies ingredients and equipment to the butchery, meat processing, industrial catering and other food industries*

(186)

Control: *Murray & Roberts 78,0%*

Chairman: *D E J Lovely, MD D Fowlds*

Capital structure: *34,8m ords Market capitalisation R20m*

Share market: *Price 58c Yields 6,0% on dividend, 17,4% on earnings, p e ratio, 5,7, cover, 2,9 12-month high, 58c, low, 25c Trading volume last quarter, 518 000 shares*

Year to June	**'88**	**'89**	**'90**	**'91**
ST debt (Rm)	1	1,5	2,9	7,8
LT debt (Rm)	12	12,7	15,6	8,7
Debt equity ratio	0,62	0,55	0,70	0,49
Shareholders interest	0,39	0,42	0,43	0,46
Int & leasing cover	6,6	3,4	2,3	2,6
Return on cap (%)	15,3	20,6	13,5	15,6
Turnover (Rm)	91	115	112	121
Pre-int profit (Rm)	8,3	11,2	8,2	9,8
Pre-int margin (%)	9,2	10,2	7,3	8,1
Earnings (c)	10,6	12,5	7,6	10,1
Dividends (c)	4	4,5	3	3,5
Net worth (c)	63	71	75	82

COMPANIES FM 15/11/91

(186)

managed to trim stocks by over R3m

Some of these developments presumably reflect the Ciskei factory's becoming fully operational and generating increasing revenue Growing revenue from Ciskei also helped push down the tax rate from 47% to 42% But even at operating level, Crown did better, translating an 8% gain in turnover to a 20% improvement in trading profit

In their joint statement, chairman David Lovely and MD David Fowlds say that trading conditions for the Vulcan catering equipment division remained difficult, but concerted efforts to jack up efficiency led to much better performance by the Crown Mills division The group no longer breaks down divisional turnover but the contribution of catering equipment to operating profit fell from R5,8m to R4,5m, supplies to the meat industry rose from R2,3m to R5,2m

Lovely and Fowlds expect results at least to be maintained this year but warn that a "material improvement" depends on renewed economic growth — which they do not expect until late in the period

The group certainly seems to have put its act together last year If progress can be sustained, and further benefits flow from the Ciskei factory and improved liquidity, the rerating of the share could still have a way to go In spite of recent firmness, the share price is still a 30% discount to NAV

Michael Coulson

Mixed results mean dip for Fedfood

B/Day 15/11/91 (18b)

MARCIA KLEIN

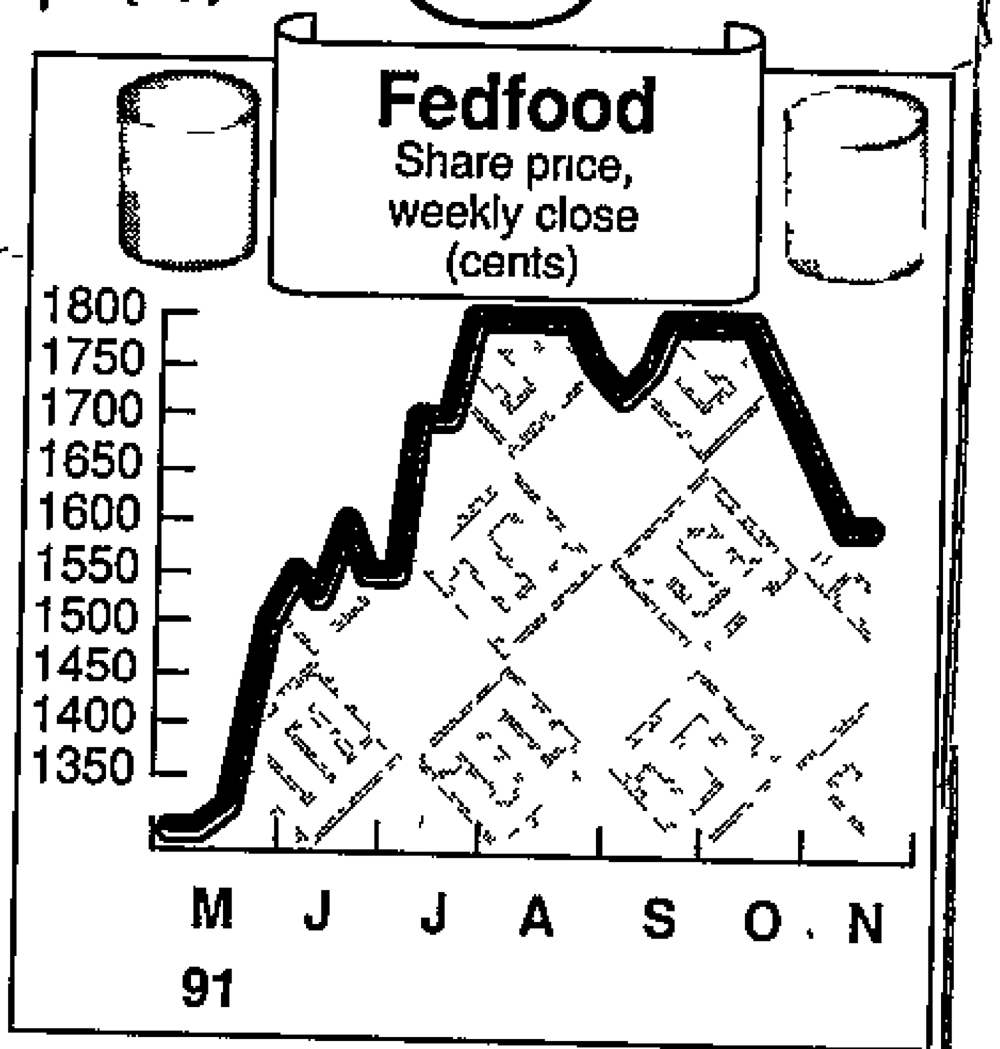
FOOD manufacturer Fedfood's 10% earnings drop to R21,5m (R24,0m) in the six months to end-September reflects a mixed bag of results from its diverse operations

Fedfood, which recently became part of the Malbak stable after a reshuffling of companies within Sankorp, increased its turnover by 4% to R714,8m (R687,7m), but trading profit was 3% down at R49,5m (R50,9m) Lower taxation of R13,5m (R17,9m) saw profits after tax 11% up at R23,2m (R20,9m)

However, poor results from the equity accounted foreign fishing operations, due to poor catches in the north of Chile, saw earnings decline by 10% to 71,8c (80,1c) a share The interim dividend was maintained at 19c a share

Deputy chairman Jan du Toit said yesterday that recent acquisitions, Mango Man and Patoma foods, had produced disappointing results due to problems with raw materials, distribution and distribution costs The group had already acted to rationalise these two, and some areas of these activities would be sold Although the poor results had been fully accounted for, extraordinary write-offs would be reflected in Fedfood's year-end results

Simba, one of the group's star performers, "had not enjoyed its previous high growth rate" due to downtrading, increased distribution costs and a pressure



Graphic LEE EMERTON Source I NET

on margins But it still produced real earnings growth for the period

Other value added products Table Top and Harvestime were affected by the drought in the eastern and southern Cape A reduction in bread consumption indicated that not only was there a trading down, but also a trend to eat more sparingly

This decrease was not being supplemented by an increase in consumption of mealie meal, meaning that people were spreading their rands more thinly

Fedfood had also noticed that the VAT application to white bread had seen a 4% switch towards brown bread since VAT's implementation

New bosses wield axe at Fedfood

(186) BY DON ROBERTSON

AT least 10 staff members involved in the purge at the Fedfood corporate headquarters in Bedfordview are to seek legal advice after the retrenchment of 32, including senior executives

Others intend to ask the Industrial Court for advice

The employees were told on the morning of November 5 that their services were no longer required They were given until the afternoon to leave the premises They will be allowed to use their company cars until December

The retrenchments followed the takeover of Fedfood by Malbak It bought a 69% stake in the company from Federale Volksbeleggings last month

Emotions were running high this week among those who were laid off, although many had expected rationalisation

Radical

Indications were that any staff changes would be made only in January

Employees were assured earlier by Malbak chief executive Grant Thomas that business would continue as usual, no radical changes would be made and all matters would be discussed with workers

The subsequent appointment of Dirk Jacobs, chief executive of Kanhym, as chairman of Fedfood, prompted the latest retrenchments

The status of previous managing director Jan du Toit has been changed to non-executive chairman Mr Du Toit is due to retire in March

Mr Jacobs says "Although staff cutbacks were planned for next year, protraction caused uncertainty and stress among the staff, so I decided to take the retrenchment decision on November 5

"Malbak has a strong decentralised management style and I plan to initiate this in Fedfood to allow for controlled autonomy with more emphasis on decision making at the operating level where experience and knowledge lead to quality decisions"

The move will save the group about R6-million a year in overheads It should pave the way for the second phase of the programme early next year, says Mr Jacobs

The rationalisation is aimed at trimming head-office costs after the acquisition of the R1,2-billion Fedfood group Details of the scheme and the offer to minorities were announced this week

Mr Jacobs says the retrenchments affect the human resources division and the planning and public relations sections which were closed Finance and administration will be placed under the control of Niels Kilian, finance director of Kanhym

The second phase will involve the merging of Fedfood and Kanhym It should be completed next year

One company will be delisted after the merger Share prices ruling at the time will depend on which one remains so as not to prejudice minority shareholders, says Mr Jacobs

S/Times (Buss) 17/11/91

Base

Employees fear that the merger will result in more retrenchments and rationalisation

Mr Jacobs says the combined group will have a broader base of highly branded products and will become a significant player in the market with more value-added goods

It will run a close second to Premier Group's food division

Mr Jacobs has turned Kanhym around from its disastrous results in 1983 This week, Fedfood announced a 10% decline in attributable profits for the six months to September

Rationalisation of activities and remedial action will now be taken by Mr Jacobs to stem the decline in Fedfood's profits

Roychem close to deal with US group

B/Day 20/11/91

SEAN VAN ZYL

ROYAL Group's listed chemical subsidiary Roychem has struck a deal in principle with US chemical group Ferro for the local manufacture of chemicals to be distributed by the US group's worldwide network, group MD Doug Johnston said yesterday

Johnston would not disclose the value of the deal or the product concerned and noted that the venture still had to be finalised

Roychem was formed earlier this year when Royal acquired Ferro Industrial Products from Ferro US after the former parent company pulled out of SA The local Ferro operation manufactures speciality plastics, coatings and ceramics.

The Ferro deal closely follows news that Royal — through its food operation Royal Foods — is negotiating a joint deal with French food multinational BSN

BSN manufactures and distributes world-class brand names in food and is apparently looking for a local partner to market its products in SA

Royal chairman Vivian Emerman admitted the group had a "close relationship" with BSN but said discussions were far from concluded

Market sources said Royal, possibly with BSN, was also set to acquire a major local distributor in the dairy field

Imperial Cold Storage and Supply Company (ICS) would appear to be the most likely candidate However, market analysts did not expect ICS's parent CG Smith Foods and ultimate controlling shareholder Barlow Rand to put the company on the bidding block.

Johnston declined to comment on the food-related deals but said Royal was in contact with various parties worldwide and had openly expressed its intention to seek international partners

Reduced tax props up Tongaat-Hulett

B/Day 21/11/91

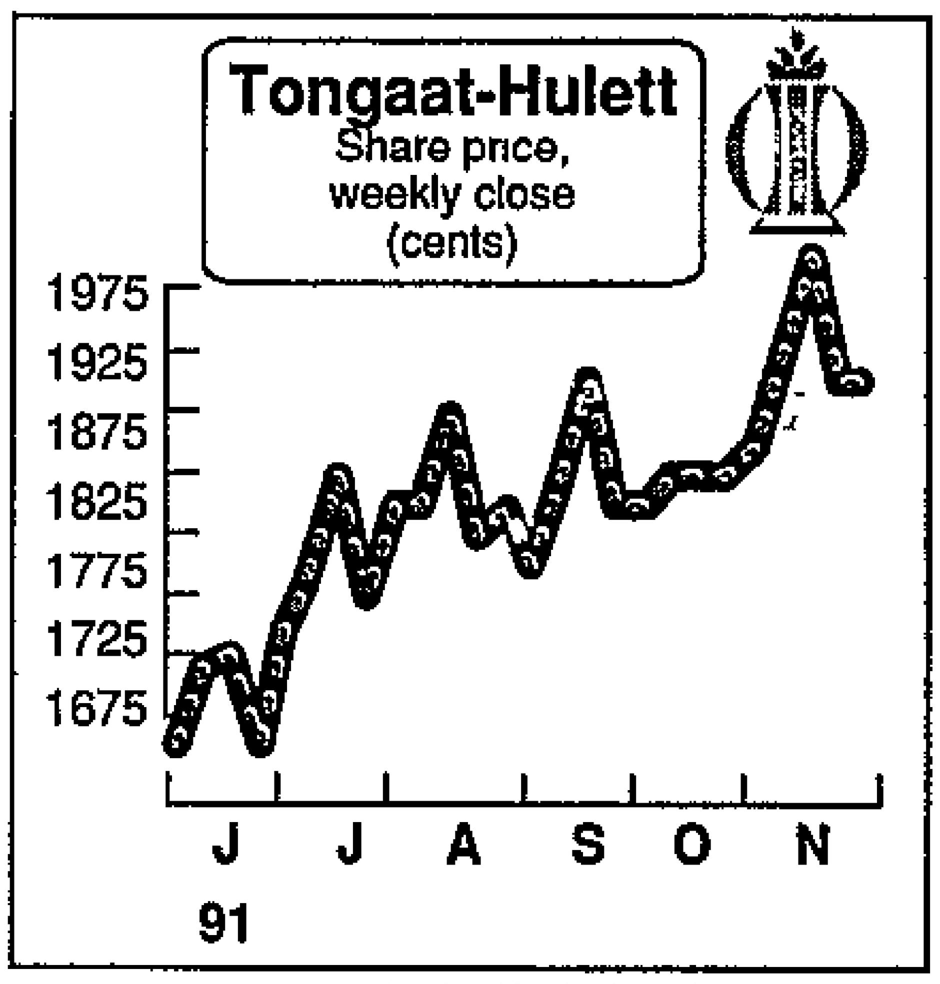
(1-86)

MARCIA KLEIN

A LARGE reduction in taxation helped to prop up Tongaat-Hulett's earnings in the six months to end-September.

The Natal-based sugar, aluminium and food group yesterday reported a 4% earnings increase to R64,2m (R61,6m) after pre-tax earnings had declined by 9% to R88,2m (R96,8m).

It also announced its decision to close its Hebox factory at Hammarsdale, which will result in the loss of about 1 000 jobs



Graphic LEE EMERTON Source I-NET

The closure next month followed an "unacceptable loss" in Tongaat's textile division because of the serious effect of increased imports on SA fabric manufacturers, directors said yesterday.

Our Durban correspondent reports that the textile mill has been running at 60% capacity. Government's moves to free textile imports had seen imports of competitive cloths treble in the past three years.

Interim turnover increased by 5% to R2,02bn (R1,92bn), but operating profit was reduced by 3% to R141,8m (R146,1m) Directors said that operating margins were affected by deteriorating trading conditions both locally and internationally.

Higher borrowing levels and the resultant 8,7% rise in interest payments, to R53,6m (R49,3m), saw Tongaat report its 9% pre-tax decline.

However, attributable earnings were up by 4% on the back of the reduction in taxation from R34,5m to R23,6m. This was because of the 2% decrease in company tax on the group's deferred tax balance (half of which has been brought into account) as well as export incentives.

☐ To Page 2

Tongaat-Hulett

B/Day 21/11/91 (186)

☐ From Page 1

Earnings were up 4% to 85,8c (82,3c) a share, and the interim dividend was maintained at 23c a share

Group borrowings of R687m (R628m) were expected to decrease to about R350m by the March year-end because of the seasonal nature of Tongaat's agricultural operations. Borrowings were at R377m at the March 1991 year-end

Directors said the sugar division, the major contributor to group earnings, "was enjoying a good season with excellent spring rains and the promise of a near record crop" They said the starch and sweetener's division also continued to perform well

Other interests, including the building materials, aluminium and food divisions, had experienced difficult trading conditions

Tongaat expected earnings at the full year to be maintained at last year's level

Directors said Tongaat had been successful in improving productivity and cost reduction as part of its commitment to improve long-term competitiveness.

Kanhym faces a taxing challenge

B/Day 21/11/91 (186)

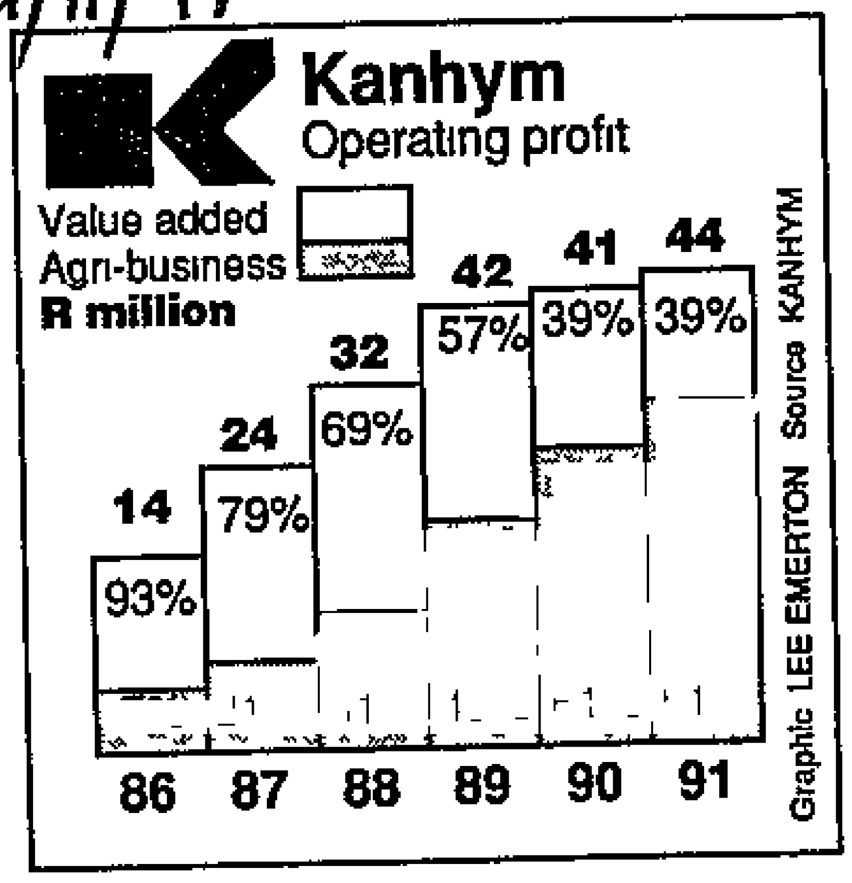
MARCIA KLEIN

ALTHOUGH food company Kanhym expects increased profits in financial 1992, its major challenge will be to maintain growth without diluting earnings by phasing in taxation

Executive chairman Dirk Jacobs says in the Malbak subsidiary's annual report that "the Kanhym of today is a vastly different company to the one which was previously prone to rise and fall with economic and agricultural tides over which it had no control"

While its move towards value added products and the rationalisation of group companies has hedged it against low meat prices, rising input costs and depressed consumer spending, Kanhym will find itself paying tax as assessed losses have been almost fully utilised

Jacobs says Kanhym will continue to be affected by depressed consumer spending in financial 1992 But he is confident that all operations "are capable of increasing their contributions in 1992".



In the year to end-August, Kanhym increased its earnings 10% to R33m (R30m previously) Excluding income from discontinued operations, earnings were up 19% to R33m (R27,8m).

Jacobs expects further growth in the coming year.

Kanhym's successful transformation during the past five years "had freed it from its traditional bondage to economic and agricultural cycles and had given it a much greater degree of control over its own destiny"

During 1990, tanning operation Hanni was reconstituted in a new business unit covering all Kanhym's leather, hides and skins interests. Exports, which accounted for almost 40% of Hanni's sales, would continue to grow, and Hanni expected to achieve real growth in 1992.

Enterprise had maintained its margins and improved profitabilty despite reduced volumes, depressed demand and severe competition The Enterprise range could be extended through its recent licensing agreement with a UK company.

Poultry division Mielie-Kip was affected by surpluses in the industry. It began rationalisaton to address its decreased margins

Herti, which produced Continental-style prepared meat products, reported higher margins than expected because of effective management and stringent cost control Production capacity was being expanded

FM 22/11/91

FOX

FEDFOOD FM 22/11/91

Acting swiftly

186

Fedfood's share had been substantially re-rated this year and recent improved results made it a tempting acquisition target for Malbak The latest interims, however, have disappointed And Malbak has taken drastic action leading to an unsavoury sideshow which has somewhat overshadowed the results.

Though there were earlier assurances that nothing would be done without consulting existing management, incoming CE Dirk Jacobs acted swiftly — 32 of the head office staff were laid off, including financial director Charl Kocks and senior GM Johan Brand

There were complaints that the victims were escorted off the premises by security guards and that one or more are seeking legal action over what they consider to be inadequate retrenchment packages and the suddenness of the dismissals. However, Kocks describes his own dismissal as "a purely commercial decision." Jacobs, in keeping with the usual Malbak approach, apparently favours a decentralised style and the moves will cut overheads by R6m.

It is unlikely anything so drastic will take place in the underlying operations. Fedfood improved profitability last year, principally through good performances from Simba snacks and Table Top frozen foods, which enjoy higher margins than basic foods, but they have proved vulnerable to recession

Simba did not enjoy volume growth of the magnitude it had enjoyed in the past and it faces increasingly high distribution costs Demand for Table Top and Harvestime products declined and the crucial pea crop was much reduced because of a drought in Port Elizabeth.

But Fedfood deputy chairman Jan du Toit says basic foods have also been hit — national bread sales have declined by 5% since the price was increased last November and it has not been made up in more sales of substitutes such as mealie meal

Group turnover increased by 4%, though Du Toit says this figure is distorted by discontinued operations such as the Namibian fishing interests and Fedbisco. Turnover of remaining activities increased about 17%. Operating income fell by 3% but, owing to a R95m investment in preference shares and an increase in exports, particularly from Table Top, the effective tax rate was reduced from 46% to 37% That led to an 11% increase in income after tax.

The fishing operations in northern Chile, which are equity-accounted, have a volatile influence on Fedfood's results. In these interims, there was a R2,2m loss from equity accounted interests because of a poor season in northern Chile To reduce the volatility, it might be time for Fedfood to show only dividend income from these interests The domestic fishing interests had a better year and enjoyed good crayfish and abalone catches, which are substantially exported The fruit processing division, Patoma, proved to be another profit drain It is being rationalised and extraordinary losses will be shown at year-end

Despite falling bread sales, the flour miller, Ruto Mills, the baking operation, Sunbake, and the edible oil subsidiary, Nola, all improved earnings.

Fedfood shares may still offer value at R16, which gives a rolling 12-month p.e of 8,6 and a dividend yield of 3,3% The long-term profitability of snacks and frozen food and continued demand for staples should continue to underpin results *Stephen Cranston*

FEDFOOD FLOUNDERS

186

Six months to	Sep 30 '90	Mar 31 '91	Sep 30 '91
Turnover (Rm)	688	597	715
Operating income (Rm)	50,9	59,5	49,5
Attributable (Rm)	24,0	34,6	21,5
Earnings (c)	80,1	115,3	71,8
Dividends (c)	19	34	19

Kanhym 'wrests Fedfood from Rembrandt grasp'

(186)

BIDay 28/11/91

MARCIA KLEIN

REMBRANDT Group company Hunt, Leuchars & Hepburn (H L & H) had almost clinched a deal with Sankorp to acquire Fedfood, but was pipped at the post by Kanhym in an unexpected last minute twist, a source close to Fedfood claims.

The source said that Fedfood MD Jan du Toit and holding company Fedvolks' MD Peet van der Walt had "made a deal" with the Rembrandt Group six months ago

The deal would have seen Fedfood merge with the food interests of Rembrandt subsidiary H L & H.

The source believed Sankorp CE Marinus Daling was persuaded to agree that in the process of merging Fedfood with another company with food interests, a new leader — in the form of H L & H CE Neil Morris — could be found following Du Toit's retirement

Daling had been concerned over who would fill Du Toit's shoes, he said, and had previously indicated he would want this to be someone within Fedfood

"The idea was that Morris would succeed Du Toit, who would retire next year in a blaze of glory after having concluded the deal"

However, the source believed that just before the scheduled signing of the deal, a Kanhym board member heard of the developments

Kanhym approached holding company Malbak, telling executive chairman Grant Thomas that Fedfood was a sitting duck for a takeover, the source said Kanhym apparently suggested to Malbak that the takeover would not be hostile, as it would constitute a rationalisation of food interests in the Sankorp stable

Malbak moved quickly — within four or five days — and the deal was wrapped up

Federale Volksbeleggings (Fedvolks) MD Peet du Toit confirmed yesterday that there had been discussions between Federale and H L & H But he said these were merely discussions, and that Federale had also been talking to "various parties"

According to the source, Du Toit announced to senior executives that Fedfood had been taken over by Malbak using Kanhym as the vehicle, but he assured them there would be no major changes

Thomas also addressed them a few days later and reassured them He said the deal had been concluded quickly, and there had been no time for due diligence studies, which would begin as soon as possible

Newly appointed Fedfood CE Dirk Jacobs told the executives that Fedfood's projection figures — of turnover and profits — would not be met as the company had invested too heavily in assets He said the implications of the deal would be known in January

However, some days later he retrenched 32 people at head office These included financial director Charl Kocks, GM strategic planning Anthos Yannakou, senior GM Johan Brand, Fedfood founder and ex MD Sias du Toit, group manager public affairs Dirk Rezelman, financial officer Anna da Trindade, research and development manager Owen Frisby, and corporate financial manager Lappies Labuschagne

The source said "succession planning" was a major concern of Sankorp When it became clear that Du Toit was to retire, three senior GMs — Brand, Simba MD Neville Isemonger and Tjaart van der Walt — were appointed with a view to succession, but that succession was not to materialise

Various top executives who had been retrenched were seeking legal advice on whether the retrenchements constituted unfair dismissal Most were given a month's notice (but had to leave the group with immediate effect) as well as one month's retrenchment pay

TONGAAT-HULETT (186) FM 29/11/91

Savage cuts from a new broom

The decision to close the Hebox mill, SA's dominant denim producer, may show a more aggressive approach by Tongaat-Hulett to underperforming assets Many of its businesses, such as sugar and aluminium, are tied to international commodity prices, others, such as bricks and textiles, are linked to local economic activity Most underperform in recessions but are poised to increase profitability significantly in an upturn.

But after months of investigation it was clear that Hebox had little chance of returning to profitability Denim is being imported from the Far East at a third less than Hebox's cost Recently appointed group MD Cedric Savage, though an insider, is known to be taking a hard look at the portfolio

Tongaat has commissioned a study from Quantum Associates of Boston in the US, a management consultancy that specialises in conglomerates Previous clients include Gencor

Further rationalisation within the textile division is likely Yarns have been hit by imports and Trade & Industry Minister Org Marais is reluctant to increase tariffs The main group textile business, David Whitehead, has a brighter outlook because it has well-established export markets for bed linen in Germany and the UK

Though the textile division, which contributed R18m to the bottom line in the last full year, made "an unacceptable loss," the performance of the rest of the group was ahead of expectations

Group sales were under pressure, increasing by just 5% in the half year The operating margin fell from 7,6% to 7%. The principal boost came from tax, as the effective tax rate fell from 36% to 27%

Tongaat, which had R256m deferred tax in its year-end balance sheet, has reduced the provision as company tax has fallen by two percentage points Half of the tax credit has been reflected in the interim statement, presumably the rest will be accounted at year-end Export allowances was the other main contributor to the lower tax rate

Key sugar profits were predicted to be down by a quarter at the beginning of the year but have held up The international sugar price firmed on news that Cuban production would be lower. Tongaat expects a near-record crop this year It is investigating ways of increasing cane supplies by irrigation in the Heatonville area It is competing for land with the timber industry though the sale of canefields to timber companies has apparently slowed down

Afprod, the starch and sweeteners arm, continues to provide good increases, though it represents only about 15% of group sales and profits

A LITTLE SWEETER

Six months to	Sep 30 '90	Mar 31 '91	Sep 30 '91
Turnover (Rbn)	1,92	1,88	2,02
Operating inc (Rm)	146	171	142
Attributable (Rm)	61,6	81,1	64,2
Earnings (c)	82,3	108,3	85,8
Dividends (c)	23	50	23

Other markets show little respite. The world aluminium price remains low but the price paid by Hulett Aluminium to Alusaf is based on historic prices, so is a premium on world prices

The long-expected low-cost housing boom is yet to materialise Corobrik's operations, however, have been cut back considerably, though it still sits on 65 days of brick stocks, about twice normal levels

The group spent R70m last year on modern mushroom farms but they have not yet yielded the expected returns owing to commissioning problems and low demand

Tongaat is continuing to cut overheads and intends to reduce working capital needs Group borrowings were up a tenth from the middle of last year to R687m, as capital is tied up in higher sugar stocks, which peak in mid-financial year But the group hopes to reduce year-end borrowings to R350m, from R377m last year Interest cover fell from 3,2 to 2,6, which is low for a conglomerate with such potentially good cash generators

Savage forecasts that 12-month earnings will be in line with last year's Any economic upturn next year will have little effect on the current financial year, which ends on March 31 Below the line, there will be losses from the closure of Hebox and laying off of 1 000 workers

Tongaat has been a volatile performer relative to the Industrial index, though it showed a clear upward trend in late October and earlier this month, which has tailed off

At R19 it sits on a rolling 12-month p.e of 9,8, a considerably lower rating than most counters exposed to consumer markets — understandably, in view of historic performance Tongaat has the potential to turn around sharply with the economy but Savage needs to give investors more insight into his strategy

Stephen Cranston

ARGUS FM 29/11/91

Following rights

Despite depressed advertising volumes and static circulations, the core metropolitan newspapers proved the best performer in the

FM 29/11/91

Argus Holdings stable in the 1992 first-half

Wholly owned Argus newspapers — through enhanced operating efficiencies, improved liquidity and the benefits of new headquarters for Natal Newspapers — increased their contribution by a healthy 16,2% The main titles, *The Star*, *The Argus* and *The Daily News*, are mature and look unlikely to show major leaps in advertising revenue or circulation, even though they have high readership in the black, coloured and Indian markets

The best growth is going to come from *The Sowetan* Argus CE Doug Band describes

Argus's Band *better operating efficiencies*

The Sowetan's improved contribution as one of the high spots of the year, though he says it is not yet enjoying advertising support in proportion to its circulation

There will be a material reduction in newspaper costs due to better newsprint prices having been negotiated for next year Band says not all of this will go to the bottom line. Argus will increase its spending on training and skills improvement and will pass on some of the savings through incentives to major advertisers

The Argus share has strongly outperformed the Industrial index this year, particularly over the past two months. But it would be unrealistic to attribute this to investor perceptions about the Argus dailies

The increase has been largely on the back of its investment in M-Net It holds 18% of M-Net directly and a further 7% through its investment in Times Media

At R28,50, Argus has a rolling 12-month p e of 17,1 and a dividend yield of 1,8%. This is expensive on fundamentals, especially as the short-term outlook for earnings growth is tough

Turnover of the consolidated companies — Argus Newspapers, CNA Gallo and CTP — increased by a tenth, but trading income rose 7% After the distribution to minorities,

Contin—P

KANHYM FM 29|11|91

Merger talk (186)

Kanhym's share price was a pedestrian performer until Malbak's acquisition of Fedfood was announced. It was soon apparent that Kanhym executive chairman Dirk Jacobs would preside over, a merger between Kanhym and Fedfood.

In effect, though Fedfood was the larger and more diversified company, Kanhym management has taken it over. Jacobs is CE of both groups and Neels Kilian has combined responsibility as financial director

Until recently, Fedfood's p:e was higher than Kanhym's, though they are now similar, at 8,3. Both groups are exposed to cyclical areas of the food business: Fedfood to fishing and frozen foods, Kanhym to the meat price As a combined group, they should be less exposed to risk, unless the meat price, fishing catches and the vegetable crop all slump together.

Jacobs has managed to reduce Kanhym's exposure to the meat price considerably, by increasing the contribution of added-value products to operating income from 7% to 61%. Prices of these products — which are sold under the Enterprise, Bokkie and Herti labels — are more easily controlled by the manufacturers.

Chicken producer Mielie-Kip does not compete with Rainbow in the volume market but concentrates on chicken portions and prepared products such as the Like-It-Lean range endorsed by Weighless slimming clubs.

Cont ->

Activities: *Fresh and processed meat supplier Raises, feedlots and slaughters cattle, pig, sheep and broiler chickens Auctions livestock and supplies abattoir agency services Manufactures leather*

Control: *Malbak 70,2%*

Executive chairman: *D J Jacobs*

Capital structure: *55m ords. Market capitalisation R275m*

Share market: *Price· 500c. Yields· 4% on dividend, 12,0% on earnings, p e ratio, 8,3, cover, 3,0 12-month high, 575c, low, 250c. Trading volume last quarter, 3,1m shares.*

Year to August 31	**'88**	**'89**	**'90**	**'91**
ST debt (Rm)	47,1	20,0	42,4	42,6
LT debt (Rm)	20,5	12,7	12,1	10,8
Debt equity ratio	0,36	0,19	0,30	0,27
Shareholders' interest	0,57	0,53	0,53	0,57
Int & leasing cover	2,7	3,9	3,1	4,0
Return on cap (%)	9,9	14,8	12,2	12,6
Turnover (Rm)	801	862	979	987
Pre-int profit (Rm)	32,2	46,1	41,4	44,0
Pre-int margin (%)	4,0	5,3	4,2	4,5
Earnings (c)	20,5	60,6	54,6	60,1
Dividends (c)	5	20	20	20
Net worth (c)	287	301	324	363

Enterprise, in particular, has been positioned as a premium product, which has enjoyed a better margin than competitors. Enterprise has entered into a licensing agreement with Bernard Matthews, the leading premium producer of processed meat in the UK, which offers opportunities for a large range of new products. A dedicated factory is being built in Germiston and the products will be launched late next year

The introduction of VAT is having a mixed impact on Kanhym Meat, which was GST-free, now attracts 10% VAT, which has dampened red meat sales On the other hand, processed meat was subject to GST and its competitors such as chicken are subject to VAT

Turnover rose a nominal 1%, as Jacobs continues to wind down the agri-business The feedlot at Wartburg, which did not produce satisfactory returns, was sold and stock levels at Middelburg were reduced by 50% to 30 000 animals Added-value divisions were expanded, though sales of these products fell by 2%, to R417m. A tannery in Bophuthatswana was bought and renamed Hanni Bop, and a new factory for Herti delicatessen meats opened in Durban

Gearing has fallen to 27%, despite the acquisitions of the past two years Borrowings have fallen from R100m in 1987, when Jacobs took over, to R53m now. Last year interest paid fell by a fifth, to R10,9m.

Expenses rose by 9%, well below inflation, because of more stringent cost control and

Kanhym's Jacobs . *borrowings still falling*

asset management Net working capita however, increased by 11%. Kanhym's EP of 60,1c is still below the 1989 record c 60,6c, but, if previous cycles are repeate the meat price should start rising next yea and climb sharply in 1993 and 1994.

Leather prices are also soft but Hann supplies the more stable, higher margi automotive market, for which it receive benefits under Phase Six of the local conten programme

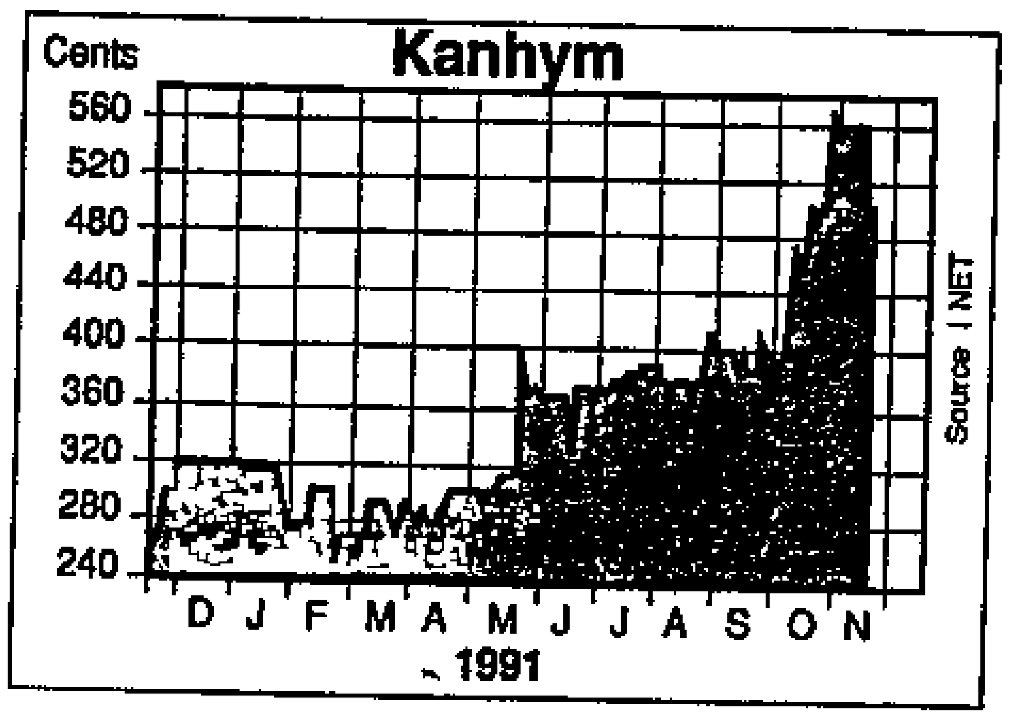
Kanhym has just R6,6m of tax losses which means it will pay some tax next year Certainly, a merged Kanhym/Fedfood will pay tax Kanhym has no tax equalisation fund, though it is understood that certain provisions have been made, perhaps unde. sundry loans or insurance provisions

As a primarily agricultural business, Kanhym's tax rate is unlikely to exceed 30%, and this rate will effectively be phased in Nevertheless, Jacobs says the major challenge is to maintain growth without letting tax unduly dilute earnings

Kanhym will not exist in its present form for more than a few months Present shareholders will get in at the ground floor of the new, diversified food company.

The group, which has a strong parent in Malbak, could be involved in joint ventures with Pepsi and possibly with Heinz Once established, it is likely to trade on earnings multiples well above eight Though Kanhym's price has increased, it remains undervalued relative to the food sector index which has a p.e of nearly 20 It looks a good buy

Stephen Cranston



COMPANIES

'Acceptable' interims from Premier

MARCIA KLEIN

THE Premier Group will report interim earnings growth of between 13% and 15%, industry analysts said yesterday. (186)

Premier, which will report later ~~this~~ week, will be incorporating four months of earnings from newly formed Metcash, as well as a change in year-end to April, so comparisons with the previous year will be difficult. B/Day 3/12/91

However, analysts say the results will be marginally above the 13% attributable earnings growth reported by Premier's major competitor Tiger Oats.

An analyst said yesterday that Tiger's results in its core food interests had been "disappointing". This could indicate either that there was a downturn in volumes in the staple food market or that Tiger could have lost share to Premier. If the latter was true, then results from Premier's food interests could be "pretty acceptable".

He said CNA Gallo, which had not performed well, was not a big contributor to the group's profits. A much improved performance is expected from Premier's pharmacutical interests, with a substantial improvement from Twins, and satisfactory results from Gresham.

Metcash, which has only been consolidated since July, could have broken even or could already be in a profit situation, he said. If Metro did break even for the four months, the Metcash acquisition would not adversely affect Premier's results.

But he warned that the difficult times still lay ahead for Metcash.

Another analyst said the decline in the Metcash share price — from 400c in July to 200c last week — was indicative of investors' doubt about Premier's ability to turn the huge cash-and-carry operation around.

Broad portfolio lifts Tiger Oats

B/Day 3/12/91 (186)

MARCIA KLEIN

SA's economic and political situation had affected even the relatively immune food business, Tiger Oats chairman Robbie Williams said in the group's annual review.

Although the population was growing, Williams said SA had experienced a static and even declining food consumption during the year under review, and food volumes and margins had come under pressure.

But he said Tiger's strategy of developing a broad and balanced portfolio of established brands, as well as additional export opportunities, enabled it to report a 13% growth in attributable earnings to R288,6m and a 23% rise in profits after tax to R348,3m in the year ending September.

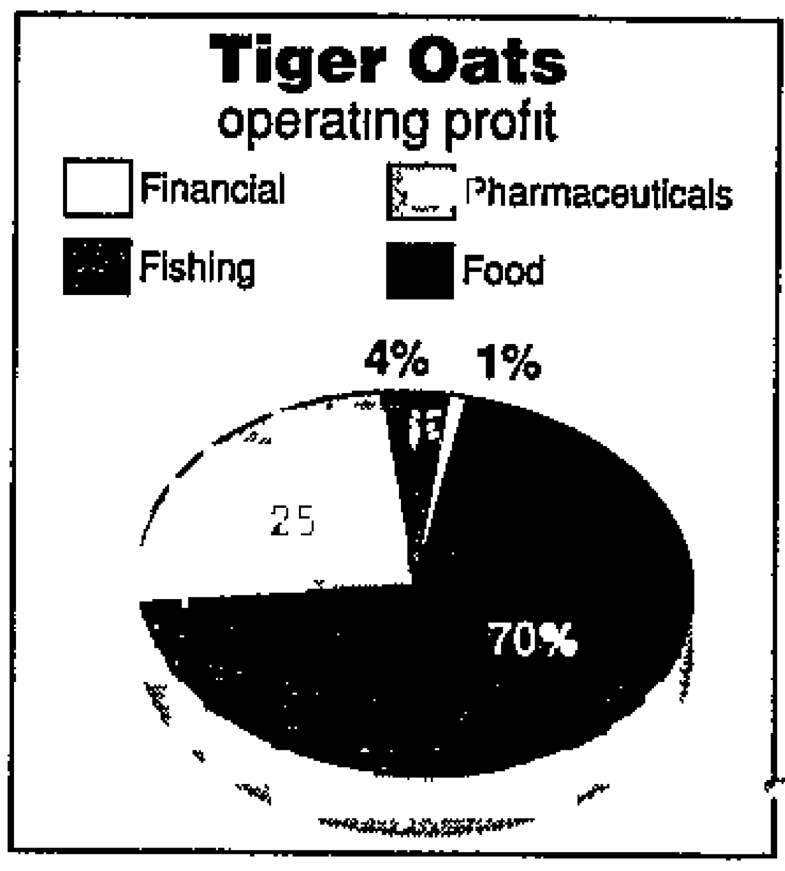
During the year, Tiger Foods — the major contributor to group earnings — had maintained and in some cases improved market share. The food division increased its turnover by 18% to R6,8bn and its operating profit by 19% to R423,4m, contributing 70% to group operating profits.

Williams said although there had been substantial increases in input costs, "selling prices were generally maintained below the increases recorded by the food component of the consumer price index".

Future investments in this division will focus on Beacon's sweet and confectionery operations, on Spar distribution centres and the extension of the group's shiploading and discharging facilities in Durban.

Pharmaceutical companies Adcock Ingram and Logos Pharmaceuticals — which contributed to 25% of group operating profits — had performed well, increasing turnover by 25% to R890,2m and operating profits by 32% to R153,4m.

Exports and turnover of foreign subsidiaries contributed R1,2bn or 15% to the group's R8bn turnover in financial 1991. Total cash generated rose by 19% to R758m, with R190m being available for future operations.



Graphic LEE EMERTON Source TIGER OATS

Malbak gears up for less volatile sectors

MARCIA KLEIN

MALBAK's major acquisition and disposal transactions — valued at more than R1bn — will see the group refocused, with more than 80% of its earnings coming from consumer oriented businesses, chairman Grant Thomas said in the annual review

Malbak has acquired a 60% interest in Fedfood and 68% in SA Druggists through the issue of 46,9-million Malbak shares with a market value of R560m

It also sold its interest in Darling & Hodgson and half of its interest in Standard Engineering for about R400m cash

Thomas said the group's enlarged consumer oriented businesses would operate in less volatile sectors of the economy and in areas which would do well in the new SA

Although the acquisitions and disposals would result in the dilution of Malbak's earnings for the year to end-August 1991 by 5% to 117c a share, Thomas said there was a significant benefit in "the creation of a well balanced and more focused consumer oriented group with excellent growth potential"

Malbak's growth over the past decade had been based on its long term strategy to become a major player in its chosen markets Investment selection had given priority to industries with good profit potential and growth opportunities, and in sectors with above average ratings

During this time Malbak had remained convinced of the importance of its smaller divisions — food and healthcare, he said

He said the acquisition of SA Druggists "elevates Malbak's healthcare division to market leader, while the food division will become a major force in its market".

Food, which contributed to 12% of group turnover and to 11% of earnings in financial 1991, would now contribute 23% to group turnover and earnings

Healthcare would now comprise 15% of Malbak's turnover and 14% of its earnings Previously the development division, comprising healthcare, chemicals and electronics, contributed to 13% of turnover and 11% of earnings.

Thomas said healthcare would receive more attention in a new SA society, and rapid urbanisation would result in more people becoming purchasers and consumers This would lead to a greater demand for the group's enlarged product range.

The new acquisitions would also result in productivity improvements and expenditure reductions.

Premier's new mix is turning out well

STAR 6/12/91 (186)

Diagonal Street

ANN CROTTY

Premier's 15 percent increase in earnings per share for the interim period to end-October is in line with market expectations

For the seven months to end-October earnings were 113c a share from which a dividend of 32c a share has been declared An adjustment dividend of 5c a share has also been declared "to smooth out the change in the financial year-end."

(Earnings for the six months to end-September '90 were 84c a share with a dividend of 28c.)

The interim period has been extended to end-October to allow for the change in the year end from March to April aimed at avoiding having two Easters in any one financial year.

This is just one of the changes that makes comparison between the review income statement and the previous year's income statement a fairly pointless task.

It has certainly been a frenetic period for Premier management But for shareholders who may be a little weary from trying to work out what 4 months of Metcash and Score is worth when its added to seven months of Twins and Food (without Bonny Bird) etc the important consideration is that the underlying assets appear to be performing very well

Overall group margin is down from 6,3 percent to 4,3 percent but about half of the turnover is now derived from wholesale and retail operations which have much lower margins So it seems likely that margins from the previous year's mix of business are significantly better

Chief executive Peter Wrighton would not be specific about margins but did agree that comparing like with like (i e Food, Gresham and Twins) there was a substantial improvement on last year's interim operating margin of 6,2 percent

It means that bringing Metcash, Score and Clicks into the group has not taken management's eye off the ball This is a significant achievement given all the restructuring and tidying up that was going on in those operations — action that appears already to be showing benefits.

Looking to the published figures — turnover for the seven months was R5,2 billion compared with R2,5 billion for the six months to end-September '90. Trading profit was R227 million (R158,4 million); net interest payment was R46 million (R37,2 million) The tax rate was up to 44 percent from 42 percent, leaving taxed profit at R101,1 million (R69,3 million). Dividend income and equity accounted retained earnings were R13,3 million (R14,9 million) Attributable earnings were R84,8 million (R60,3 million)

Apart from the incorporation of Metcash, Score and Clicks and the extension in the reporting period, other changes affecting comparison include the sale of 50 percent of Bonny Bird and 50 percent of Epol as well as the decision to no longer consolidate the results of CNA Gallo

Referring to the Bonny Bird and Epol transaction, Mr Wrighton notes that the disposal of non performing assets helped the food division's performance, chiefly because the R60 million of proceeds significantly reduced the interest bill.

The CNA Gallo contribution, which was previously consolidated, now only comes in at the equity accounted earnings level Despite this, equity accounted earnings were still down because Premier's investment in Clicks and Score are now consolidated.

Looking to the second half Mr Wrighton said he would be pleased if the review period's performance could be sustained

Answering criticisms about the frenetic pace of reorganisation activity over the past two or three years Mr Wrighton noted that for years there was little of this sort of activity at Premier "SA is going through a period of rapid change, it is necessary for us to change also if we are to thrive in the years ahead" He added that it was essential to dispose of non-performing assets

But the next financial year will be a period of consolidation.

Revamp proves a boon to Premier

BDay 6/12/91 (186)

MARCIA KLEIN

PREMIER Group, significantly restructured following its acquisition of a controlling interest in Metro Cash and Carry (Metcash), Score Supermarkets and Clicks, has lifted its interim earnings by 15% on a like-for-like basis with the previous year

Results, which compare seven months to end-October with the six months ending September 1990 and reflect the change in year-end to April, cannot be directly compared to the previous year

In addition, the sale of 50% of Bonny Bird Farms, 50% of the Epol animal feeds division and the decision to equity account CNA Gallo make comparisons difficult

However, Premier CE Peter Wrighton said yesterday the group had "comfortably exceeded" its own budget, with a 34,5% jump in earnings to 113c (84c) a share Earnings adjusted for a six-month period were 97c a share (on more shares in issue), reflecting a 15% rise on the previous year

Results showed that attributable earnings were 40,6% higher at R84,8m (R60,3m), or 15% higher at R72,7m on a six month like-for-like basis

Wrighton said in an interview that Premier had basically become a new group which had sold off its underperforming assets and made substantial acquisitions in the cash and carry and retail businesses. This had been successful

Apart from declaring a 14,3% higher interim dividend of 32c (28c) a share, Premier has also declared an adjustment dividend of 5c a share in order to smooth out the change in the group's year-end

Turnover, which more than doubled to R5,22bn (R2,53bn), included the results of the substantial acquisitions. But Wrighton said turnover for the existing operations rose by 13% on a comparable basis

Trading profit was 43,3% up at R227m (R158,4m), and pre-tax profit was R181m (R121m) after interest of R46m (R37,2m)

Wrighton said interest had been contained despite the huge turnover increase,

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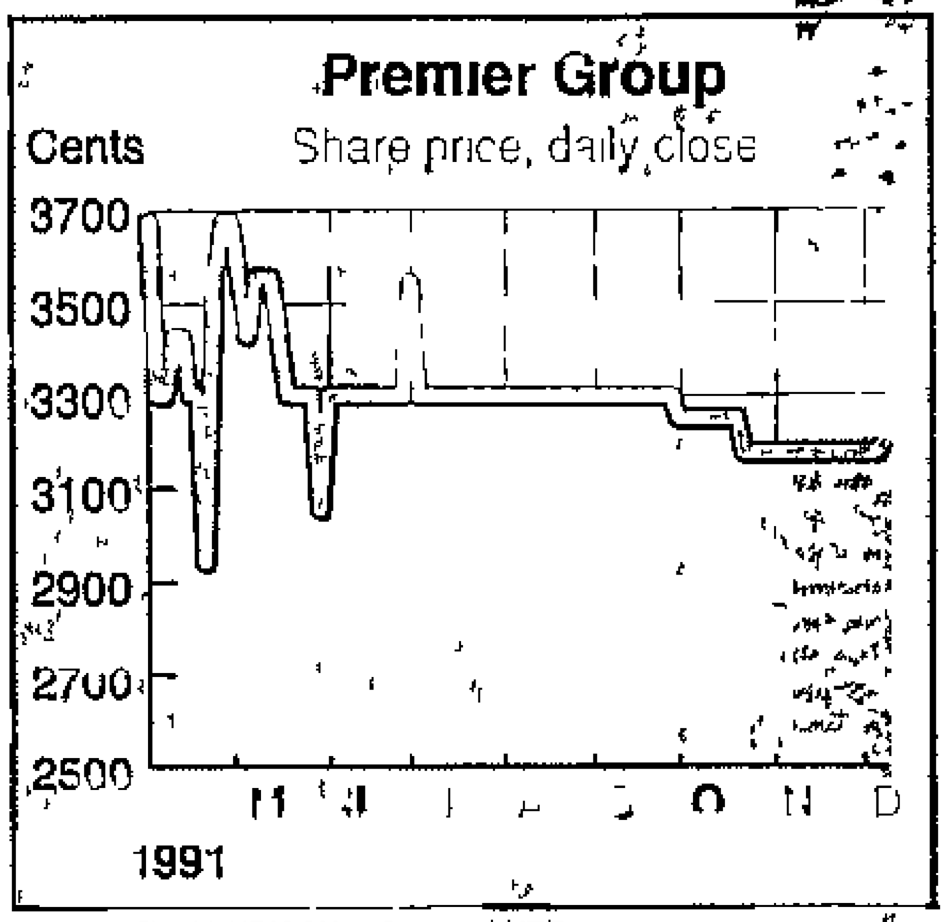


Graphic FIONA KRISCH Source I NET

Premier

BDay 6/12/91 (186)

☐ From Page 1

and gearing of 46,8% (43,3%) would be materially reduced by the year-end

After a 53,9% higher taxation of R79,9m (R51,9m) and reduced dividend income and equity accounted earnings, profit after tax lifted 35,9% to R114,4m (R84,?m)

Wrighton said all divisions — with the exception of CNA Gallo — had contributed to the growth in earnings

The food division — aided by the sale of interests in Bonny Bird and Epol — had performed exceptionally well, Atlantic Fishing had made a good contribution, and Premier's investment in the Kraft plant was showing a return

However, he said volumes in the core food business were under pressure and were exacerbated by VAT's introduction

Twins Pharmaceuticals and Clicks had also produced good results, while Gresham's results were encouraging, he said

Commenting on the food inflation debate, he said Premier's basket was up by 13,2% for the period August to October

There were "all sorts of opportunities for alliances and joint ventures globally", he said Premier had all the expertise in its international division for global opportunities, but it would take time to move into new markets

Barlow Rand sets aside R1,7bn for year's capex

B Day 9/12/91 (186)

LESLEY LAMBERT

BARLOW Rand has budgeted for capital expenditure of R1,7bn during the current financial year, much of which will be invested in Tiger Foods' maize and wheat mill at Maritzburg, executive chairman Warren Clewlow says in his annual report

During the past 10 years the group has invested R10,3bn in new and replacement projects, including R1,4bn spent during the past financial year

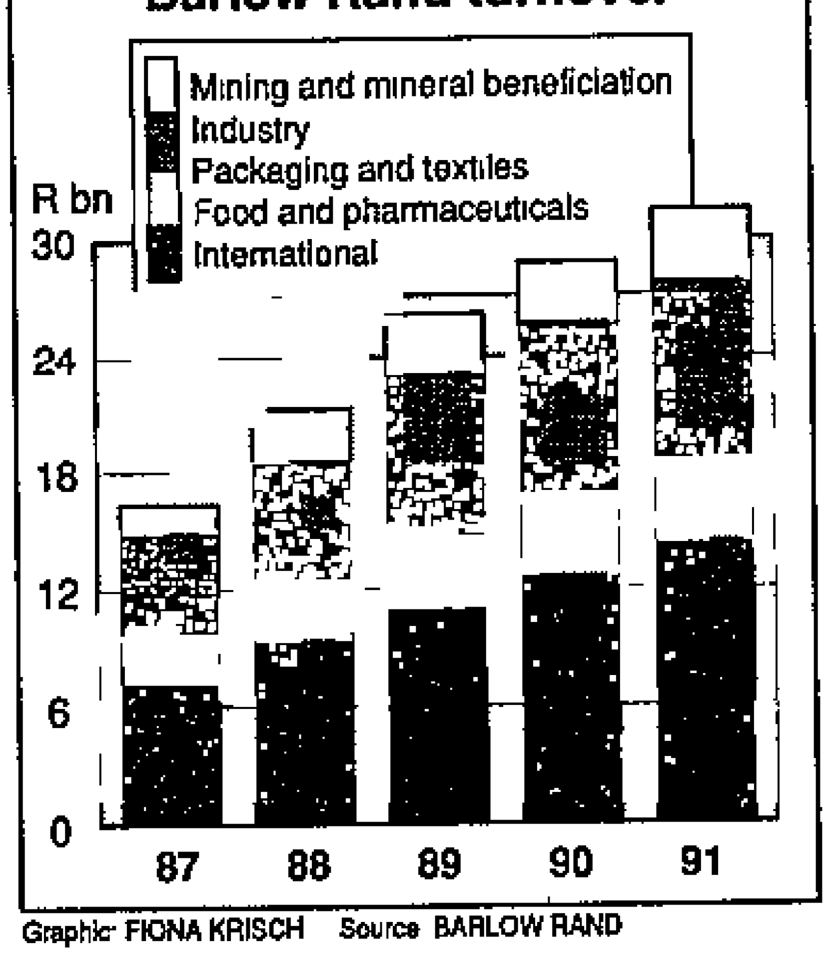
Apart from Tiger Foods' mill, other recent major investments have included R114m for the Khutala and Majuba collieries, R110m for Nampak's new tissue plant and R50m for its new glass factory

Clewlow is pessimistic about future domestic economic and foreign trade prospects

"The downturn has been severe and prolonged The issues of the day hang heavily over the economy, casting a pall over the way ahead. Right now I see no signs of it lifting, and the next year will be as difficult as, if not more so than the last," he says

While he agrees that SA's return to the family of trading nations is a positive development, he believes it will be difficult for the country to

Barlow Rand turnover



Graphic: FIONA KRISCH Source BARLOW RAND

overcome tough international economic conditions.

However, he does see promise in the Eastern markets and believes they could offer further opportunities for Barlow Rand.

Clewlow says the group's policy of concentrating on exports is succeeding and will be intensified

However, he cautions that export efforts have not been without setbacks and disappointments.

Like other SA exporters in Africa, Barlow Rand was affected by upheaval in Zaire this year

Parts of the distribution network for the food and basic health products it exports into central Africa were destroyed during the riots

The group's major transaction of the year was the agreement to sell Middelburg Steel & Alloys and its chrome interests to a consortium backed by Anglo American, De Beers and Gencor for about R1,08bn

In an otherwise relatively quiet year, other acquisitions included the purchase of the outstanding RIH minorities for R43m, the acquisition of 67% of African Cables for R102m in a joint venture with Siemens, and the exchange of 39% of the equity of French Bank plus an issue of Barlows shares for a 19% interest in the Natal Building Society, at R103m

Clewlow reports that the UK-based Bibby group continues to make strategic acquisitions

Significant disposals included the sale by Rand Mines of Lotzaba Forests to Sappi for R100m and the sale of some of the interest in Witbank Colliery for R93m

Group turnover increased 10% from R29bn to R32bn during the year, with volumes in most sectors either static or in decline

Margins remained under pressure in a tough economic environment The group margin fell from 8,5% to 8%

Cadbury plant is moved to Swaziland

LINDA ENSOR

CAPE TOWN — Cadbury-Schweppes is to relocate part of its Chapelet-Humphries sweet factory from Ndabeni to Swaziland.

The Ndabeni plant will be closed and various components relocated also to plants in Port Elizabeth and Johannesburg. The closure will mean the retrenchment of about 350 workers.

Cadbury already has a sweet manufacturing plant in Swaziland and is able to import sweets into SA at much lower prices because of lower Swazi sugar prices. This has been a source of dissatisfaction within certain sectors of the industry, which have had to labour under fixed SA sugar prices.

Cadbury group financial director John Buchanan said the Humphries plant would be closed by March as part of a programme to rationalise Cadbury's sugar confectionery business. There had been duplication and insufficient capacity following Cadbury's takeover of Chapelet-Humphries in 1989.

Management had negotiated a retrenchment package.

(186)

Oceana chairman expects group results to improve

B|Day 10|12|91 (186)

LINDA ENSOR

CAPE TOWN — Oceana Fishing Group expects an improvement in earnings in the year to end-September 1992, provided budget expectations are met, says chairman Walter Lewis in the latest annual report.

Last year Oceana's earnings stagnated at 142,8c (142,9c) a share on a 5% increase in turnover to R325,9m (R309m) The group was plagued by a low anchovy quota, reduced lobster catches and the economic recession, though export earnings helped to offset the lower domestic earnings

Divisionally, the contributions to pre-tax income (including income from associated companies) were fishing 43% (42%) or R10,6m, cold storage division 18% (18%) or R4,4m, trading and shipping 25% (24%) or R6,2m, and investment income 14% (16%) or R3,6m

Lewis said the industry's rock lobster quota for the 1991/92 season had been cut by 28,6% — about equal to the previous season's landings. He expected this quota to be landed in full and that the division's earnings would not be materially lower than in 1991

The quota is to be reviewed at the end of February 1992

"The export markets for lobster products remain buoyant and the lifting of sanctions in the US offers further opportunities for the marketing of frozen lobster tails"

He added that an increase in the anchovy quota was expected, while the pilchard quota could remain the same as last season

"Earnings from Cold Storage are also expected to improve following operational rationalisations but could be affected by the initial start-up costs and depreciation of the new Cape Town harbour facility A conservative view has been taken of the trading division's performance, where business should improve with an upturn in the economy"

The 10 000-ton cold store facility in Cape Town is a R20m project being developed in partnership with Portnet and due for commissioning in 1992 Following a merger of Oceana's and ICB's commercial cold storage operations in October 1990, a total capacity of 80 000 tons of cold storage space became available.

Lewis said the group had made considerable progress in restructuring and rationalising its operational activities to enhance profitability, once fishing and economic activity improved

He believed the major challenge facing the inshore pelagic fishing industry was to operate successfully in an environment of steadily rising costs and variable total allowable catches and landings

To counter this Oceana had "embarked on a programme in 1990 aimed at reducing operating costs and adjusting to the fluctuating fortunes of the industry Substantial progress was achieved in 1991, through fleet and plant rationalisation, the implementation of procedures to improve yields and efficiencies and adjustments to staffing levels"

Regarding lobster, Lewis believed that government and the industry would have to confront the effect of poaching and abuse of the resource and suggested the need for a re-evaluation of the management of the marine environment

CG Smith undeterred by bleak outlook

8 | Day 12/12/91 (186)

MARCIA KLEIN

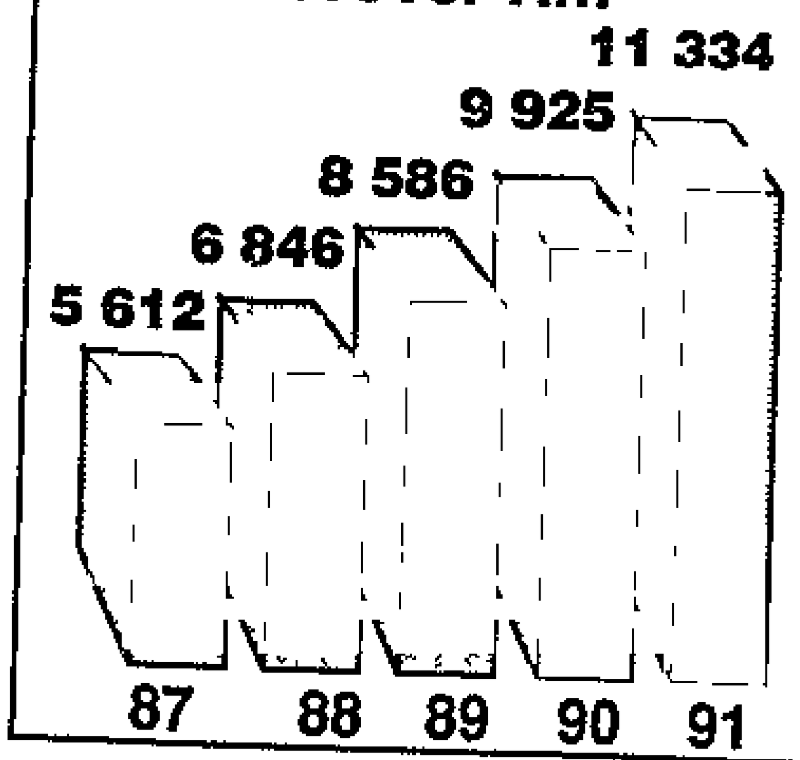
C G SMITH Foods expected to increase earnings during financial 1992 despite the pessimistic outlook for the economy chairman Robbie Williams said in the group's annual review

While he did not expect the economy to turn, Williams said C G Smith's increased earnings would be achieved on the back of its competent management team, strong consumer brands, technology links and broad range of activities.

The Barlow Rand subsidiary, which has holdings in Tiger Oats, Imperial Cold Storage (ICS) and wholly owned C G Smith Sugar, raised its earnings by 14% to R284,3m on a similar turnover growth to R11,3bn in the year to end-September

During the year, price wars and a struggle for market share in the food, pharmaceutical, and distribution industries were fuelled by surpluses in basic food products and a decline in consumers' spending power, Williams said Despite these factors, all operations managed to maintain or improve market share

C G Smith Foods
Turover Rm



Graphic LEE EMERTON Source CG SMITH

About R256m of the R436m capex during financial 1991 was used to expand manufacturing capacity and areas of operation More than R1,5bn was spent over the past five years on capital goods, and C G Smith Foods has budgeted for further significant projects over the next year These included the new maize and wheat mill in Maritzburg

C G Smith Sugar, which reported a lower rate of growth than in previous years, would show ~~only a~~ modest improvement in earnings in the current year due to the sharply lower world price Its chemical division and warehousing and distribution would report improved results

Williams said Tiger Oats should show a satisfactory earnings increase because of the strength and diversity of its operations.

ICS's results would depend "on a stable demand/supply scenario in the red meat, milk and chicken markets". It would continue to focus on reducing costs, rationalising underperforming assets and enhancing quality and service.

Williams said the launch of additional branded, value-added products was a step towards the long-term objective of moving away from commodity products

Pharmaceutical division Adcock Ingram, which increased earnings by 30%, expected its growth trend to continue during the current year

Oceana Fishing, which reported a marginal rise in earnings, expected improved earnings "subject to the realisation of budgeted quotas and landings"

EXPANSION PAYS

Six months to	Sep 30 '90	Mar 31 '91	Oct 31* '89
Turnover (Rbn)	2,53	2,57	5,22
Operating inc (Rm)	158	216	227
Dividend and equity accounted inc (Rm)	13	38	15
Attributable (Rm)	60	93	85
Earnings (c)	84	126	113
Dividends (c)	28	42	37

* Seven month period

FM 13/12/91 (186)

Premier Foods is exposed largely to staples. Not only are these foods low margin, but they are also mature and offer organic growth at a pace no greater than the population growth But Wrighton considers the group's dominant share in flour, bread and maize meal to be its strength, as sales are more stable during a recession Premier's target market is in the C- and D-income groups, likely to be recipients of social spending in the new SA Premier Foods, which is wholly owned, will still account for more than 60% of Premier's bottom line this year.

Shareholders' funds fell by about R25m, as R217m goodwill acquired with the acquisitions was written off, though this was partly offset by an increase in equity of R129m from issue of about 5m new shares to fund the acquisitions.

Gearing, at 47%, is at a seasonal high because of extra stocks for Christmas. Wrighton says it should fall to about 25% by year-end.

Despite a doubling of turnover, and providing funding for the Metro and Score acquisitions, Premier's interest bill increased by just 6% on a comparable basis.

Premier's result looks particularly creditable as CNA Gallo, a star contributor, had static earnings The pharmaceutical interests, Twins and Gresham, are recovering. A small increase in Metro's margin could have a marked effect on the bottom line.

At R32, Premier offers a 14,3 earnings multiple and yields 2,3% on dividend This compares with 17,9 and 1,9% for Tiger Oats, and 20,8 and 1,6% for the Food index Premier is relatively underrated, though in absolute terms it is fairly priced. *Stephen Cranston*

PREMIER GROUP FM 13/12/91 (186)

Changing shape

Chairman Peter Wrighton describes Premier as "the most successful corporate unbundler" of the past few years It seems a curious comment from a man who has just bought the giant Metro Cash & Carry chain and sizeable retail interests

But Wrighton points out that under his chairmanship, Premier divested its 34% interest in SA Breweries, moved out of the chicken and egg businesses and reduced its interest in animal feed. Only a portion of the funds raised have been used for the Metro

FM 13/12/91 (186)

and Score acquisitions, which have safeguarded an important part of Premier's distribution network

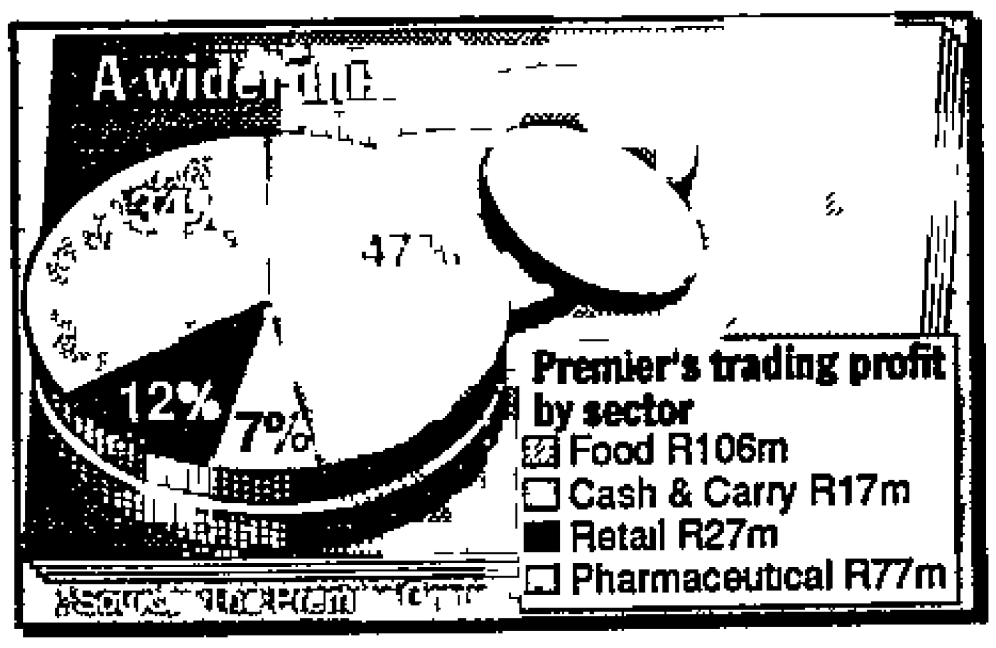
The market has treated Metro as a risky investment for Premier. After a strong rerating over the previous two years, Premier's share has tended to underperform both the Industrial index and the food sector since the share peaked at R37 in July In anticipation of the interim results, however, it has performed rather better over the past six weeks

Premier has outperformed better rated counters such as Tiger Oats and even SA Breweries EPS for the six months to end-September increased by 15% to 97c.

Other comparisons are difficult to draw The year-end has been changed to April 30, to avoid distortions created by the moveable Easter holiday These results are for a seven-month period Premier no longer consolidates CNA Gallo, but consolidates Metro Cash & Carry, Score Supermarkets and Clicks, though only since the acquisition was completed in July

But Premier must be relieved that Metro and Score have not proved to be the drain which some analysts feared them to be (see separate report) The businesses are not yet operating to full potential, but Metro made an after-tax profit, and Score beat the prelisting forecasts Premier's operating margin has fallen from 6,3% to 4,4%, partly reflecting the larger role of retailing and wholesaling, that now accounts for more than half of turnover. Metro is operating on a wafer-thin 1% margin, that should increase in the second half, but is unlikely to exceed 2,5%

Profitability of the food businesses improved, there was a substantial pick-up in the performance of edible oil as a substantial new Kraft margarine and salad dressing factory made a full contribution Wrighton says there was a downturn in flour production of 6%, as the standard loaf was reduced from 850 g to 800 g, as well as a general drop in demand Wrighton says in view of the overcapacity in the industry he feels vindicated in the decision not to proceed with a new mill in Maritzburg For less money than Tiger Oats is paying for its mill, Premier has upgraded a number of its 17 mills and improved efficiencies.



COMPANIES

ICS resolves to concentrate on value-added products

186

PAUL ASH and NINA SHAND

FOOD group Imperial Cold Storage would continue reducing its reliance on unstable commodity prices in the current financial year by concentrating on value-added branded products, MD Nick Dennis said in the group's latest annual report

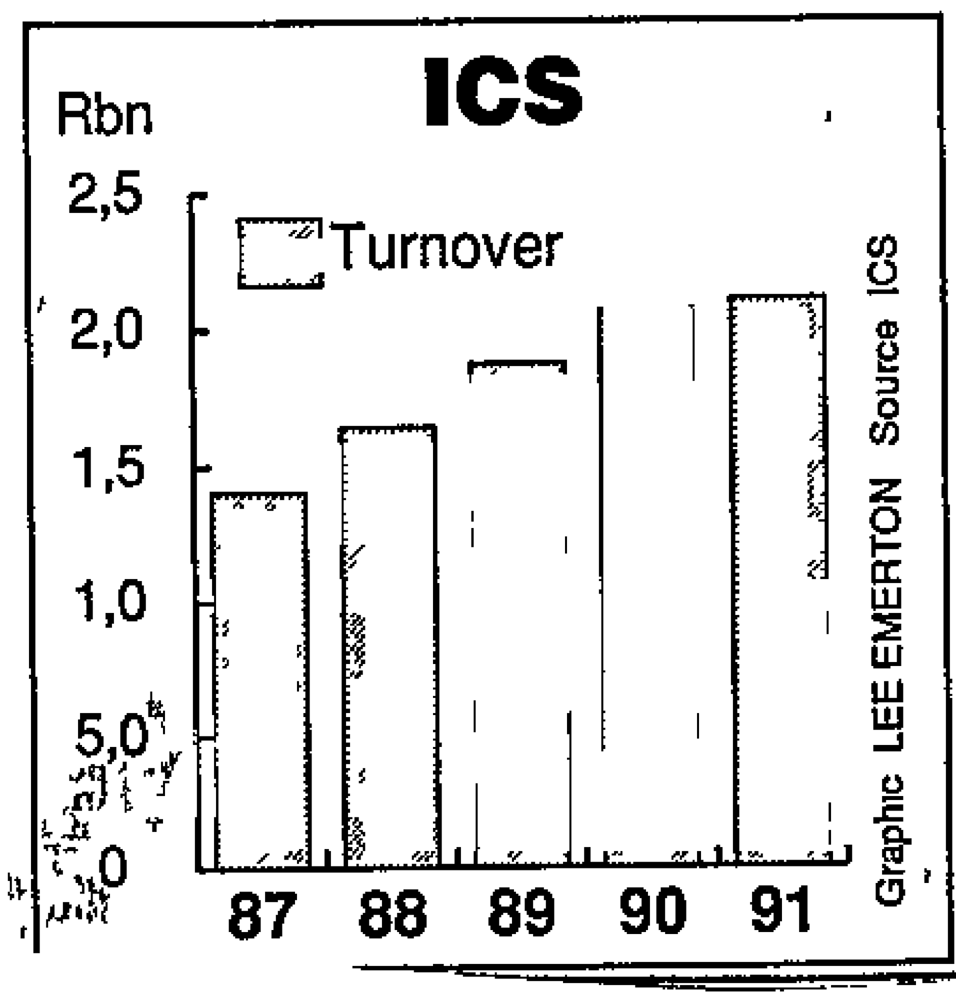
The rationalisations of the past year and an improvement in the economy should, he said, improve profitability for the year

However, chairman Robbie Williams said conditions would probably only start improving for the consumer in the second half of 1992, despite indications that the economy had bottomed out

Cost reduction and rationalisation of the activities of food group Imperial Cold Storage had been the group's main focus in 1991 The group, whose associates include Sea Harvest, Fedics, Bull Brand and Chandling International, posted a 24% increase in earnings on a R2,1bn turnover. Attributable profits, however, were down to R2,94m from R3,39m previously

Dividends rose 18% to 37c compared with 32c in 1990

In cost-cutting moves, the company closed a number of operations, including Dairy Belle operations in Port Elizabeth and Natal, and the Port Elizabeth Dairy Maid operation The company also closed its cheese factory in Klerksdorp, bringing the total number of retrenched employees from all divisions to 1 838



Human resources director John McGahey said yesterday "We have taken the action we had to take in the light of current trading conditions"

Restructuring of the group's activities included the merger of its commercial cold storage interests with the Oceana Fishing Group and the merger of The Cold Chain's distribution facility in the PWV area with its Midrand facility

The dairy industry was hampered by a substantial milk surplus and a higher level of competitive activity as a result of the increase in the number of smaller processors, Dennis said

A major rationalisation in the meat division resulted in the closure or sale of various unprofitable operations and surplus properties, Williams said.

Williams called for urgent deregulation of the meat industry as continued restrictions on the free flow of meat were contributing to inefficiencies in the industry

Government's intention to privatise the Abattoir Corporation was to be welcomed as long as it was not replaced by another monopoly "protecting vested interests", Williams said. Deregulation should precede privatisation, as this would benefit the most efficient abattoirs

A winter of high industry mortalities as well as over-production resulted in the broiler industry recording one of its worst years ever

Royal looking out for further acquisitions

(186)

Bday 18/12/91

MARCIA KLEIN

ORGANIC growth and acquisitions would enable Royal Corporation to maintain its record of achieving above-average returns, executive chairman Vivian Immerman said in the group's annual review

Immerman said Royal would continue to be proactive in its search for growth opportunities where it could identify sound stand-alone management, niche markets, good brand franchises and technology transfer

Newly acquired Ferro Industrial Products was investigating the opportunity "to exploit a joint venture with Ferro Corporation USA", and this should be finalised in the current year

Immerman said that Royal's chemical division had an infrastructure which was attractive to many multinationals wishing to re-invest, and international markets were being developed to take advantage of Ferro's "world-wide technological leadership".

He said the "eventful" 18 months to end-August saw the Royal group acquire the SA Preserving Company (Sapco) and Ferro, re-organise its structure to form Royal Foods and Roychem and list the two companies separately on the JSE

Earnings of R27m for this period reflected an annualised growth of 43%, and gearing levels were reduced to a low of 10,9% during the 18 months

Immerman said he was confident that earnings for the 12 months to end-February would be R29,4m

Successful

But he said a more meaningful measure of performance from a shareholders point of view was that since Royal's listing in 1987, a shareholder would have seen his investment yield about 50% compounded annual growth including dividends, and increase his profits nearly eight times if he follwed all his rights

The Sapco and Ferro acquisitions had been successful, MD Doug Johnston said

Sapco's market in the short term would be limited to its contracts with Del Monte due to the availability of raw fruit, but new market opportunities were opening up and demand for its products remained strong.

Tiger Oats set for R100m food deal

B/Day 19/12/91. (186)

MARCIA KLEIN

TIGER Oats is set to buy out Reckitt & Colman SA's food interests in a deal said to be worth R100m

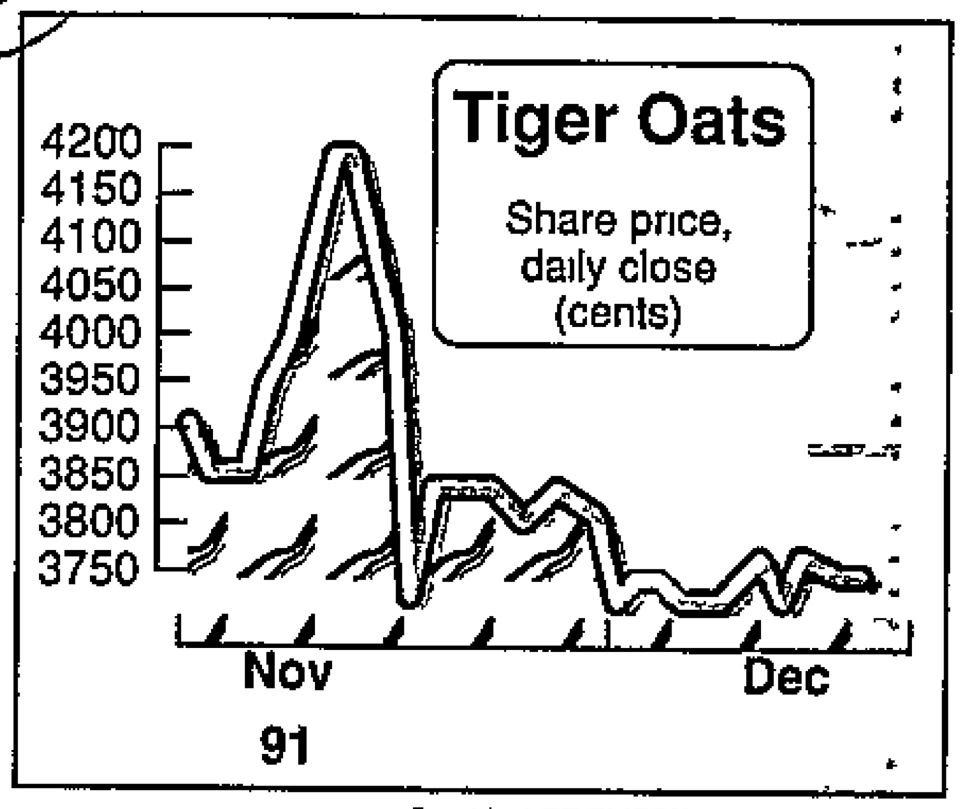
Tiger said yesterday it had reached agreement in principle to buy from Reckitt & Colman SA the assets and brands of Colman Foods as well as its 50% shareholding in Petz Products The move would add R200m to Tiger's annual turnover

Yesterday Reckitt & Colman SA chairman Graham Higgo said the sale was "definitely not a disinvestment", but a strategic move which suited the group's worldwide developments Reckitt & Colman had been in SA for 102 years and would not be selling its other interests

The purchase price was not disclosed, but market analysts pegged it at R100m. Tiger chairman Robbie Williams said the deal would have a marginal effect on earnings for the current year.

In terms of the deal, Petz Products — with brands such as Husky, Pamper, Choice, Catz-D-Lite and Happi Kat — would become a wholly owned Tiger subsidiary The Colman brands include Purity Baby Foods, Cartwrights Curry Powder, Colmans Mustard, Holbrooks Worcestershire Sauce, Fortris and Spray 'n Cook

Williams said the proposed acquisition



Graphic LEE EMERTON Source I NET

was in line with Tiger's objective of developing a broad and balanced portfolio of established brands

A Tiger spokesman said Reckitt & Colman ran a tight ship and had excellent products.

There would be no changes to the present structures, he added

Ed Hern Rudolph analyst Sid Vianello said the deal was further evidence of the totally different strategies which Tiger and the Premier group were adopting.

While Tiger was moving into upmarket, First World products, Premier was concentrating on basic foodstuffs

Food hikes continue to reflect VAT

B/Day 20/12/91

186

MARCIA KLEIN

FOOD industry spokesmen said yesterday the fresh 10-year peak in the rate of food inflation could reflect the continued effect of VAT as well as seasonal price changes

But they said the latest figures were, nevertheless, disturbing and added that the current investigation by the Board of Trade and Industry into the food price issue could clear the air regarding the source of price hikes.

Retailers said yesterday that increases resulting from VAT would continue to be reflected in the year-on-year figures for food price inflation. The higher month-on-month increase could reflect the fact that many major retailers refused to accept price increases before VAT and during its implementation, and these increases were only now starting to filter through

The major contributors to higher food prices in November were fruit and nuts, which showed an increase of 9,2% over October, meat (5,1%), vegetables (3,4%) and coffee, tea and cocoa (3,3%).

A Red Meat Producers' Association spokesman confirmed that since October, production prices had shown a marked increase after lagging for about four years. He said this cyclical phenomenon was common over a seven-year period, and prices could be expected to increase over the next two years.

Pick 'n Pay chirman Raymond Acker-

☐ To Page 2

Food

B/Day 20/12/91.

186

☐ From Page 1

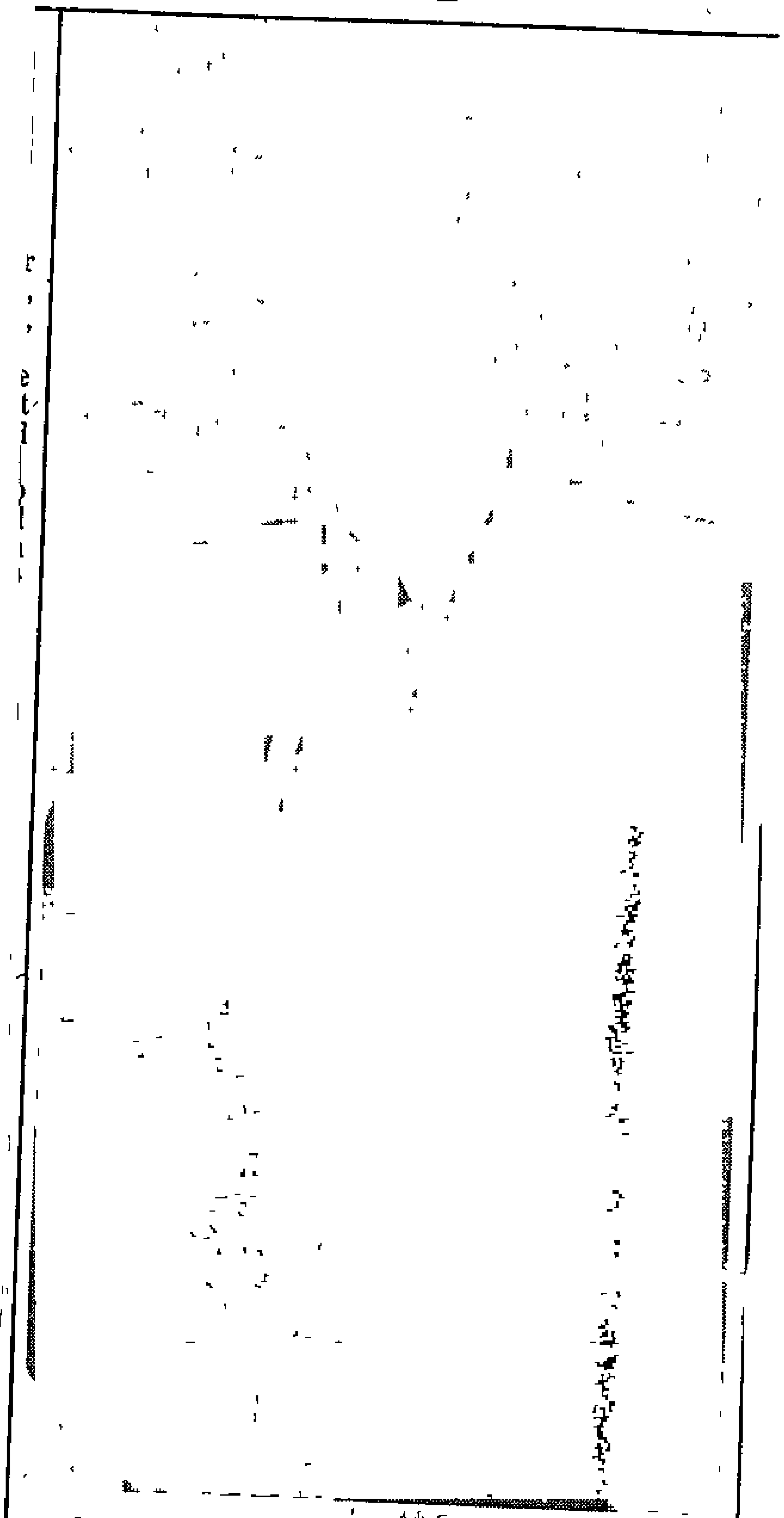
man said apart from the effect of VAT on meat prices, meat was generally more expensive when there were good rains, and there was a glut of meat on the market during a drought

He said the changes in the prices of other produce was often climatic, and some of the increases could be purely seasonal Ackerman added that his group had recorded a 13% increase on all food prices

OK Bazaars marketing director Mervyn Kraitzick said meat prices had risen by about 7% to 8% over the past few months, excluding the effect of VAT, and fruit and vegetable prices had risen by 5% to 7%

The tea, coffee and cocoa price hike mainly reflected an increase in the price of tea He said this was because the OK had not accepted price increases by suppliers before VAT and during the VAT change-over, but these increases could not be held off indefinitely

Consumer Council deputy director Ben Stafford said while the drop in the inflation rate was good news for consumers, the council was concerned that the food price index was still increasing He also expressed concern about "businesses that abuse the Christmas season by drastically increasing their prices"



VIVIAN EPSTEIN . . voted into top post

City businessman heads world body

S/Times (CM) 22/12/91

(186)

VIVIAN EPSTEIN, a Cape Town-based businessman, has been elected president of the International Association of Fish-Meal Manufacturers.

At its 31st annual conference in Berlin, he was unanimously elected by member nations, which included most of the world's leading fish-meal and fish-oil producers — Chile, Peru, Denmark, Norway, USA, Canada, Germany and the UK.

Mr Epstein, a chartered accountant who was born at Moorreesburg in the Western Cape, joined the Suiderland Group in 1959.

He is now joint managing director of Suiderland Development Corporation of Cape Town, chairman of the SA Fish Oil Producers Association and Marketing Company, a director of the SA Fish Meal Producers and Marketing Company, and a director of Federal Marine.

The International Association of Fish Meal Manufacturers is represented on committees at the World Health Organisation, Food & Agricultural Organisation (a division of the United Nations), the World Bank and the EEC Commission.

It carries out research and development programmes, lays down quality control guidelines and industry trading standards, and monitors global production, market trends, legislation and technical advances on behalf of member nations.

Red meat: going for the gristle

STAR 13/1/93

(3) Meat

Consumer Reporter

'The red meat industry is a problem child — and that's official

The Kassier Committee noted that no scheme under the Marketing Act had been so frequently, thoroughly and intensively investigated as that of the red meat industry

"No fewer than 26 commissions and committees of inquiry have brought out reports which directly or indirectly concern the red meat industry, to which must be added a large number of theses, research reports, memoranda, etc "

The committee, which also dealt specifically with the egg, dairy and maize schemes, found that the red meat industry was one of the first to be subjected to Government intervention in 1937 The reasons given then, and still repeated today, were droughts, the Great Depression and low producer prices

It accepted that the intent was "supportive", but said that, in practice, the system distorted the market and eliminated effective competition. This had resulted in the protection of pressure groups

The situation today was that a few organisations effectively controlled the marketing of red meat and by-products such as hides, skins and offal

But, said the committee, the Meat Scheme had not served the best interest of most producers, nor had it benefited consumers

Although measures had been taken by the Meat Board to deregulate, large organisations were likely to remain in control of the industry

Futures Exchange hooks up red meat

③ MEAT

CT 13/11/93

From TIM MARSLAND

JOHANNESBURG — The SA Futures Exchange yesterday confirmed it was looking at setting up a commodity futures such as red meat

Exchange CEO Stuart Rees said the move was a direct result of the release of the Kassier report.

Rees said red meat would satisfy the criteria of a free market with a range of suppliers and consumers He said such contracts would take price uncertainty out of the market for meat buyers and producers

"Buyers will be able to decide in advance what price they wish to pay for a commodity," Rees said

Futures contracts allow investors to buy a product at a fixed price for either physical or cash delivery at a later stage Contracts normally expire every three months

On the Chicago Mercantile Exchange, the price of pork belly futures costs about $75 per 50,8kg The US agriculture department controls the standard and mass of the meat Rees said similar standards would have to be set up in SA

Rees said the development of the contract would take "some time", but would be done in conjunction with the market The exchange was also evaluating linking up with Botswana and Zimbabwe

● A major meat retailer said the futures contract would be good news for consumers "It will enable us to predetermine the price of meat and manage fluctuations," he said

Meat men like board report

③ MEAT

Staff Reporter CT 14/1/93

SOUTH AFRICA's three largest red meat marketeers and meat product manufacturers yesterday welcomed the recommendations contained in the Kassier Committee report which calls for a drastic overhaul of the current agricultural marketing system

Top officials from Kanhym, Imperial Cold Storage and the giant co-operative Vleissentraal — which together share about 35% of the South African market — yesterday said the recommendations were good news which would go a long way to promoting a free market system

● The Cape Town Chamber of Commerce welcomed the committee's findings.

● The National Party's agricultural study group said it supports the streamlining of agricultural product marketing procedures

The NP said it was impressed with the swiftness of the committee's investigation

Agriculture industry 'needs urgent support'

BDay 21/1/93.

GERALD REILLY

PRETORIA — Support for the agriculture industry was one of the major issues demanding urgent attention in SA, Deputy Agriculture Minister Tobie Meyer said in Bloemfontein last night.

Opening the Free State Red Meat Producers' Organisation congress he said mining had lost its potential as one of the economy's main driving forces and the manufacturing industry had not been fully exploited because of an inability to compete with overseas countries.

Meyer said agriculture's role had been grossly underestimated.

Because of this it was essential that industry should support the agriculture sector.

The agricultural economy had reached a watershed with high input costs and relatively low product prices.

(3) Meat

On tariff protection, Meyer said the Board on Tariffs and Trade hopefully would ensure that effective anti-dumping and counter procedures were set up to protect producers from disruptive competition and consumers from excessive tariffs.

If the related problems could be solved, most agricultural sectors could compete on the local market in an environment of low tariffs, or even one free of tariffs.

Meyer said the red meat farmers' debt was the highest in 20 years and in real terms producer prices were the lowest in 20 years.

It could be questioned whether producers were getting a just share of the consumer rand.

The greatest potential for raising red meat consumption lay in the buying ability of lower income groups, Meyer added.

Futures exchange set to trade in red meat

(3) meat

TIM MARSLAND

8/10/93

THE SA Futures Exchange yesterday confirmed it was considering futures contracts in commodities such as red meat

Exchange CEO Stuart Rees said this was a direct result of the release of the Kassier report

Rees said red meat would satisfy the criteria of a free market with a range of suppliers and consumers Such a contract would take price uncertainty out of the market for meat buyers and producers

"Buyers will be able to decide in advance what price they wish to pay for a commodity," Rees said

Futures contracts allow investors to buy a product at a fixed price for physical or cash delivery at a later stage Contracts usually expire every three months

On the Chicago Mercantile Exchange, the price of pork belly futures costs about $75 for 50,8kg The US agriculture department controls the standard and mass of the meat Rees said similar standards would have to be set up in SA

The exchange had evaluated 60 soft commodities but had decided red meat presented itself as one of the most likely candidates An exchange report said meat at present was traded on an auction basis, with major markets at City Deep in Johannesburg and Cato Ridge in Natal There were more than 1 000 major buyers and a number of agents who sold the meat on behalf of farmers on a commission basis

Rees said the development of the contract would take "some time", but would be done in conjunction with the market The exchange was also evaluating linking up with Botswana and Zimbabwe on the contract,

An analyst said that on the Chicago exchange, live cattle was the most actively traded meat future However, volumes had been declining over the past five years

A major meat retailer said the contract would be good news for consumers

Meat and banana moves help public

FRUIT MEAT

JOHANNESBURG. — Shoppers should soon be able to get cheaper food, following the scrapping of the Banana Board and the relaxing of restrictions on the movement and sale of meat, industry sources said yesterday.

On Tuesday Agriculture Minister Dr Kraai van Niekerk said the Banana Board would be abolished and replaced by a private company, Subtropico Meat would be able to move freely between rural and urban areas, and producers could opt out of the floor price scheme.

Afrikaaner Handelsinstitut (AHI) chief economist Mr Nick Barnardt said deregulation could have a deflationary effect

Meat constitutes a third of the food price index, and 6% of the total Consumer Price Index Last year food inflation was a major factor in the high Producer Price Index and CPI rate

He added there would be clearer direction with next week's release of the report into control boards

SA Consumer Council spokesman Paul Roos said any moves towards a free-market orientated structure would benefit the consumer, but cautioned against over-optimism

Abakor Managing director Mr Frans van der Vyver said one of the last stumbling blocks towards Abakor's privatisation had been removed.

He said that Abakor was prepared to function in a competitive environment, and had sufficient assets and reserves to meet the challenge

Red Meat Producers' Organisation manager Mr Gerhardt Schutte said the marketing of meat remained a complicated process

Banana Board general manager Mr Okkie Fourie said all the assets and staff of the board would be transferred to the new company,

Food and packaging

By Teigue Payne STAR 30/12/91
industrial analyst,
Frankel Max Pollak Vinderine (186)

OUTLOOK '92

With the fickle attention of investors now transfixed by the vagaries of the gold sector, interest in industrial sectors which have provided excellent returns over the past few years has virtually lapsed.

Self-fulfilling adjectives like "fully priced" and "ex-growth" are current about defensive industrial sectors

Of the defensive sectors, have the most basic of them — food and packaging — also ended their run?

Attractive as gold may be, it cannot be eaten. And in a non-subsistence economy, food and other goods still have to be packaged

In the otherwise defensive sector of food retailing, there may well be a trend towards smaller outlets which may not favour the larger retail companies

No such threats appear to be challenging the large food and packaging manufacturing companies — barring the established fact that larger companies of all types are naturally more vulnerable to industrial action and do not compete well when industry entry thresholds are low

Diversified food companies seem set to continue providing safe, and possibly excellent, returns in the future

Packaging companies probably stand more to gain or lose depending on whether SA takes the low or the high road.

On the low road SA would become similar to Zimbabwe or even Zambia, but more ugly because of a higher degree of urbanisation. That very urbanisation, with its consequent relinquishment of subsistence plots, combined with population increases, must result in demand for basic foods increasing steadily

In Zimbabwe, these factors, plus redistribution in the form of a ballooning of the civil service and minimum wage legislation, resulted in large increases in food consumption in the 1980s

In this scenario, basic-and-broad food manufacturers would do well Export-orientated food companies would also have a chance, provided the road is not too low.

Less committed operators would disappear. Branding activity, and choice of products, would decline.

Basic product

Shop shelves would hold one or two brands of each basic product, and the food industry would become more oligopolistic — as in many other African countries.

The economy would be consumption-driven, with investment having dried up.

Packaging companies generally would not fare as well as food companies, but major packaging companies would survive.

In the modern economy, packaging is an increasingly important part of marketing and branding.

Declining per capita incomes have resulted in a trend towards smaller packs, even though this makes the product more expensive on a unit basis

Other trends favouring the packaging industry have been population increase and urbanisation, westernisation and more out-of-home eating

Demand for packaging has been growing at an increasing multiple of GDP If there is little economic growth in the long term, some of these positive trends must slow or reverse and the multiple is likely to diminish.

The main concern for investors would be to select a company which would survive. That done, the investment would probably be safe if only because of the closed economy Witness the performance of the Harare stock exchange

On the high road, SA would stay on its current full-blown westernisation track. Economic growth would derive partly from new investment in non-consumption areas.

This would result in less power concentration in all sectors of the economy, and particularly in the food and packaging sectors because they would be attractive to foreign investors with large resources

The large increase in food consumption expected on the low road would still take place, but would be stronger because of rising prosperity generally

In these lotus days, the trend towards packaging would be even more pronounced than that towards food.

As is already often the case (in breakfast cereals for instance), packaging would increasingly exceed the food contents in cost (and probably nutritional content too).

In this happy scenario, investors in both small and large food and packaging companies would do well.

Whichever road is taken by SA — excluding civil war — large, diversified food and packaging groups will continue to be good investments.

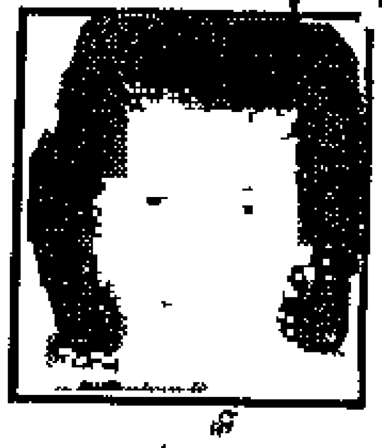
Tiger ponders funding route

STAR 24/12/91

Diagonal Street

180

ANN CROTTY



Tiger's acquisition of Colman Foods and the 50 percent of Petz Products it does not already hold should fit in very comfortably with its existing food products

In recent years Tiger has put much emphasis on developing a broad and balanced portfolio of established brands.

In following this strategy it is diverging increasingly from that of its main competitor, Premier, which seems to be targeting basic food commodities for much of its growth

The latest profit performances of the two groups indicate that the different strategies are working well for both — although Premier's recent hectic acquisition activity makes this assumption less straightforward

Profit growth

In Tiger's case, the acquisition of a large stake in Langeberg in financial '90 played a significant part in financial '91's profit growth

Also helping last year's performance was the earlier acquisition of Beacon

Both of Tiger's purchases include strong brand name products.

Feeling in the Tiger camp is that these sorts of products are better able to survive economic downturns than non-branded products

Apparently consumer loyalty to a strong brand can overcome the tendency to trade down to cheaper unbranded products

With regard to the Colman Foods and Petz Products deal, the only figure that has yet been officially mentioned is an estimated R200 million in annual turnover.

Speculation at this stage is that Tiger will be paying in the region of R100 million for the acquisition

It is far too early for any details about how the purchase will be funded, although there is market talk of a rights issue

Assuming that it was funded entirely by borrowings, the extra R100 million would lift gearing from the end-September level of 39 percent to around 45 percent

Given the current level of interest rates (and little sign of any near-term relief) this would be an expensive burden for the group to bear

But given Tiger's cash-generating abilities, and assuming that there are no other major acquisitions on the cards, the burden could quite quickly be eased

In addition, tax relief for the trademark portion of the purchase price would further help — although this help would be staggered over a number of years

Another option is for Tiger to go for a rights issue

Given the institutions' apparently insatiable demand for blue chips, it could certainly be easy enough for the group to go this route

And at R38 — which is close to the 12-month high of R42 which was touched briefly — it must be quite an enticing route

The share is currently on a dividend yield of a mere 1,3 percent and a P/E rating of 18,6 times — way above the sector average

In recent years Premier has come to the market on a number of occasions — each time with great success, moves which have coincided with an improved rating for Premier

Apart from the excellent rating that Tiger currently enjoys and the institutions' willingness to support blue chips, another reason to go to the market for funds instead of using debt, is that hefty working capital requirements have adversely impacted on the group's cash-generating ability

Cash available

The figures for the year to September '91 show that cash available from operations was up by just 11 percent to R262,2 million (R236,2 million)

After allowing for dividends and "other cash flow movements", cash available for investments was R190 million

This represented a slight drop on the financial '90 figure of R195 million

Working capital requirements took an additional 39 percent of cash generated — R153,1 million compared with R110,1 million in 1990

In addition, tax paid was up 35,4 percent to R161,9 million from R119,5 million

Given the current dividend yield — compared with interest rate costs — Tiger may be tempted to go the rights issue route

However, management is in the enviable position of not being forced to go one way or another

Hard times abroad unfortunate for SA

(186) STAR 23/12/91.

Finance Staff and Sapa-Reuter

Recent news that Pilkington and Colman Foods were moving out of SA came at an unfortunate time in terms of local political and economic developments.

Both moves reflect the current tough times facing the major international economies much more than any local developments

As far as local politicians and businessmen are concerned, the weakness of the international economy could not have come at a worse time

The recent political initiatives need the support of a healthy economy that is in a position to generate wealth and employment

The state of the major world economies indicates that in the short term there is unlikely to be much external impetus on this front

Corporations in each of these economies are battling to survive tough trading conditions.

Recent dismal news about the slump in IBM's profits, combined with last week's news about the closure of a number of GM plants in the US, emphasise the difficulty in kick-starting the American economy

On Friday, the US Federal Reserve Board took its boldest move in years to try and stimulate business activity, cutting the discount rate by a full percentage point to 3,5 percent, the lowest level since 1964

In so doing, the central bank responded dramatically to criticism by some observers of the gradualist approach it had been taking for the past year towards the mission of promoting recovery from the recession

At the same time, it rejigged the numbers in the political calculations shaping up for early 1992 over possible tax and spending measures by the US government and Congress in an election year

"We think this will make a very significant difference," said Samuel Skinner, President George Bush's chief of staff, after the Fed had made its move

The Fed's "Christmas present" came wrapped in the kind of vague rhetoric that is customary whenever the monetary authorities speak

It said its move, "together with the cumulative effects already in train from previous actions, should provide the basis for a resumption of sustained economic expansion"

What that signalled, analysts said, was a conclusion by Federal Reserve Board chairman Alan Greenspan and other Fed policymakers that business conditions had deteriorated in recent weeks to the point where strong measures were called for.

Among stock and bond analysts, some saw an effort by the Fed to dampen momentum in the White House and Congress for fiscal-policy action — in the form of tax cuts, spending increases, or both — to try to revive the economy

Mr Greenspan had warned as recently as last Wednesday about what he described as the dangers of a quick fix

"Only in the context of prudent, non-inflationary expansion of money and credit are improvements likely to be lasting," he said

When the Fed moved on Friday, it said it had concluded that present inflationary pressures were subdued enough to permit a more aggressive strategy

Analysts say the reduced inflation rate, which has been a consistently stated aim of the Fed's decisions, stands as an important plus for recovery prospects

And in Japan on Friday the government revised downwards its estimate for economic growth for the year to end-March 1992 amid widespread evidence of an economic slow down

The government's Economic Planning Agency set a new estimate for real growth of 3,7 percent, down from 3,8 percent It also fixed a target of 3,5 percent for growth in 1992-93

The Japanese government's latest admission that the economy is slowing will lead to further demands for stimulative measures, including interest rate cuts and pump-priming public spending

President Bush is expected to press for such action when he visits Tokyo next month

Japanese officials believe the president will argue that Japan has the capacity to help a recovery in growth in the industrialised world

Many private economists believe that even domestic considerations will eventually persuade the Japanese government to resort to stimulative action

MANUFACTURING — FOOD

1992

No share offer with Langeberg listing

B|Day 29|4|92 (186)

MARCIA KLEIN

THE listing of canned food manufacturer Langeberg later this year could be one of the few successful ones enjoyed by the JSE this year.

Langeberg intends to list in the food sector during June

Directors said last week that the company did not need additional share capital, so the listing would not be accompanied by a share offer A share option scheme would be introduced prior to listing

Directors said the listing would give Langeberg a further source of permanent capital to facilitate future growth and expansion and increase the tradeability of Langeberg's shares A three-for-one capitalisation issue would take place

Analysts said although this was a step towards making the shares more tradeable, they would remain tightly held

Langeberg is 56% held by Tiger Oats and 30% held by Langeberg Co-operative. Some other co-operatives have smaller but significant stakes

Although they expected tradeability to remain a problem, analysts said Langeberg would be one of the few successful new listings The shares would trade on a PE slightly lower than highly rated Royfood's, to which SA Preserving Company — canner and exporter of deciduous fruit under the Del Monte label — is a major profit contributor

Langeberg's results for the year to end-September show turnover grew 15,4% to R645,8m and operating income more than doubled to R79,4m Earnings rocketed from 46c to 155,7c a share on the back of good exports and improved margins in the domestic market

Langeberg's three major divisions are local, deciduous and pineapple, and major brands include Koo, All Gold, Silverleaf, Naturlite, Helderberg and Gold Reef

Directors expected further improvement in Langeberg's performance in financial 1992 following a moderate recovery in the domestic economy. They said the pineapple division should show an improved performance as there were indications that the market should stay firm for some time Although the deciduous division was unlikely to experience another year "with so many coinciding favourable factors", directors said increased efficiency should enable it to hold its own

Analysts said the company still had some way to go in terms of earnings growth The long downward trend in canned fruit had turned around

The lifting of sanctions had benefited Langeberg exports amounted to more than R250m a year But analysts said success in this area could prompt some international competitors to enter the market, weakening the share price

An analyst said competitors must have realised the industry's earnings potential, both in terms of canned food and fruit Heinz could be one of the first companies to pose a threat, although it was not involved in canned fruit

However, Langeberg's listing would enable it to brand its product more aggressively abroad, and its export market could grow significantly

The canned fruit industry had been constrained by capacity and fruit supplies, but a recent announcement that fruit production would increase by about 50% by 1995 meant that these constraints were falling away, analysts said.

Better catches push up Oceana's earnings

B/Day 29/4/92

(186)

LINDA ENSOR

CAPE TOWN — An improvement in catches of pelagic fish and a significant reduction in overhead costs in the fishing division resulted in Oceana Fishing Group turning in a 90% increase in earnings in the six months to end-March on a 36% rise in turnover

The achievement comes following last year's stagnation when earnings showed no growth at all due to a low-anchovy quota and poor-lobster catches

The interim dividend increased by 20% to 30c (25c) on earnings of 83,5c (43,9c) a share

This was derived mainly from the fishing division which produced a R176 000 loss at the last interim In the period under review the division contributed 55% or R9m to group pre-tax profit compared with the 43% in the full financial year to end-September.

This improvement offset the declines in the contributions from the cold storage division to 8% (28%), the trading and shipping division to 20% (44%) and investment income to 17% (30%).

Executive chairman Walter Lewis said the availability and quality of fish had been satisfactory this season.

The total allowable catch of pilchard for the season was slightly lower at 45 000 tons (50 000t), but the anchovy quota was increased to 270 000 tons (150 000 tons)

Lewis said Oceana's rock lobster quota was 859 tons — down from the landed catch of 1 022 tons last year — but was expected to be landed in full while landings and sales of abalone and tuna were ahead of last year's figure.

"Demand for lobster products on the export and local markets remains firm," Lewis added No material benefit was derived during the six months from the weaker rand.

The fishing division underwent radical changes last year including staff, fleet and plant rationalisation and the implementation of procedures to improve yields and efficiencies This rationalisation has already begun to show benefits in improved profitability.

The trading division's performance was satisfactory, but the shipping division performed below expectations and steps were taken to improve profitability Occupancy levels of the cold-storage facilities improved and results were satisfactory, Lewis said.

The gain in turnover which rose to R196,2m (R144,2m) were further strengthened by an almost doubling of the operating margin to 7% (3,6%), which generated an operating income 167% higher at R13,8m (R5,2m)

Income from investments increased by 25% but bottom-line growth was constrained by the higher tax rate of 49% (37,4%). An extraordinary income of R2m was generated from the sale of surplus land and the receipt of dividends from unlisted investments and was not included in attributable income of R7,9m (R4,1m).

Oceana had little gearing with interest bearing debt to shareholders funds standing at 15% (8%) at end-March, while short term investments and cash amounted to R21,6m (R13m) The group continued to be a net receiver of interest

Lewis said the group's year-end results would reflect the better outlook for the pelagic fishing industry and provided that fish landings met budgeted expectations earnings should improve satisfactorily over 1991 However, there would be a slowdown in the rate of growth, he said.

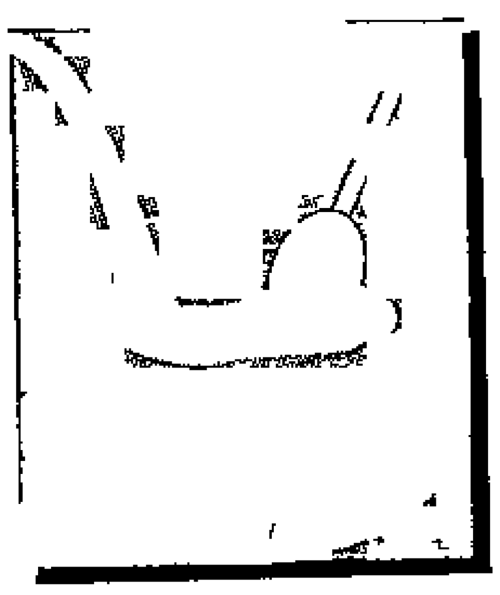
Construction of the new R20m, 10 000 ton cold store at Cape Town port was on schedule and it should begin operating in June

LANGEBERG

All bottled up

(186) FM 24/4/92

Benefits of the co-op's listing will not be directly available to the public



One of the most important listings of the year is imminent — that of Tiger Oats subsidiary Langeberg in June Alas, for the private investor looking for a new vehicle, no new shares will be issued and there are not likely to be many shares of any description available to the public Market speculation, in fact, is that Tiger Oats actually wants to raise its shareholding from its present 56,2%

The basis for this development dates back to 1987 when members of the Langeberg Co-op agreed that they were suffering insuperable handicaps because of a lack of capital It was essential to find a corporate partner Then, when Tiger took control of the company in May 1988, it was agreed there would be a listing within four years, and the members of the co-operative naturally enough indicated that they would like to take some profit from the deal

The likelihood is that Langeberg — along with Beacon — will remain the jewel in an increasingly patchy Tiger Oats crown Tiger's Tastic Rice and Fattis & Monis, which have dominant market shares, and the pharmaceutical blue chip Adcock Ingram, are largely carrying the business which enjoys very low margins in staple foods

It seems that the further the businesses are from Tiger head office in Bute Lane, Sandton, the more successful they are Charl van Veijeren is chairman of Langeberg and represents the interests of co-operative members — but MD Ray Brown has full bottom-line responsibility.

Until 1988, Langeberg was a co-operative Set up in 1940 to can and export deciduous fruit, it sells 85% of its production abroad It developed the famous Koo brand and acquired the All Gold label when it bought Pickcan from the Picardi group in 1981

More recently, Langeberg's principal local competitor, Gant's, has gone out of business and its deciduous fruit and pea facilities have been taken over by Langeberg

Langeberg turned over R646m in the year to September and had an operating margin of 12,3% in 1991 — a generally good year — compared with 6,6% in 1990 It paid almost no tax last year or the year before because of export incentives and a tax shield from the old co-op days

The balance sheet looks strong, with gearing of about 27% When the listing was announced, Langeberg had 40m shares, with a net asset value of 608c a share, but the listing price looks certain to be much higher EPS last year were 155c A similar group, Royal Foods, which cans peaches for Del Monte Europe, and runs a small confectionery business, trades on an 18 price earnings multiple

Brown says the group plans to list its shares and does not plan a rights issue "until a suitable acquisition is found" Langeberg has considerable borrowing capacity — in the 1991 balance sheet it had R65m in loans and R243m in shareholders' funds

Langeberg's backbone has always been deciduous fruit, mostly peaches and to a lesser extent pears It is less than half the size of fresh fruit exporter Unifruco, which markets internationally, but has been equally aggressive in export markets

Since the "yes" vote in the referendum, previously forbidden markets have started opening up It is believed, for example, that the Norwegians, once the most hard-core sanctioneers, are coming back to the market for SA fruit Many cities and states in the US still have sanctions against SA fruit but these may be connected to the political influence of the huge canning industry in California The Irish have also lifted restrictions on SA imports, though retailers are hesitant to stock their shelves until consumer resistance dies out entirely

This is quite a contrast to the late Seventies when government actually launched a tree-pulling scheme as SA canners found it increasingly difficult to market their products internationally Indeed, the referendum could not have been better timed for Langeberg, just a few months before June's stock market debut It also coincides with a worldwide shortage of canned pineapples, due to drought in certain Far Eastern countries — and a long-term switch from pineapple farming to hotels and golf courses in Hawaii

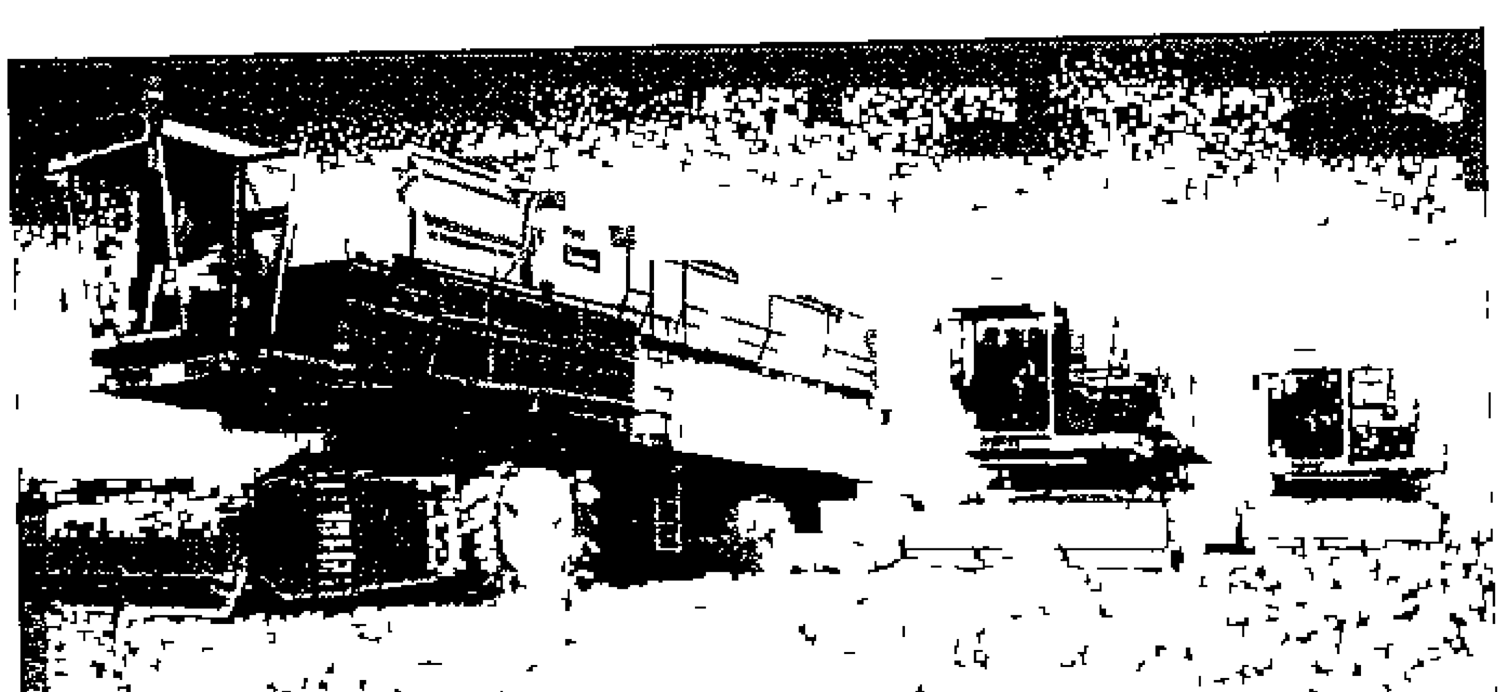
Brown maintains that the quality and colour of SA peaches are unmatched Langeberg's principal competitors in the quality end of the market are Australia and California Greece, with 40% of the export trade in peaches, is the biggest exporter but tends to be at the commodity end of the business SA has about 20% of the exported fruit business, and Langeberg has the lion's share of that

Before the UK joined the EC in 1973, Langeberg was able to sell into the British market duty-free — a hangover from Empire Free Trade (protection of Commonwealth suppliers) and there were tariff barriers against Greek, Italian and Spanish products Since then the roles have been reversed and Langeberg now has a 24% duty on its products entering the west European market Brown comments that SA "scores on the quality side"

He adds that distance from the European market is not a major concern — it is cheaper to take canned goods by water from SA than by land from the Mediterranean to northern Europe So Langeberg, which exports about 85% of its canned fruit, includes a pineapple cannery in East London Demand for canned fruit is good at the moment, Langeberg's problem could be supply in the future, as it is competing for suitable farmland against wine farmers in particular

Langeberg has become the bulwark of the "animal feeds and agri-business" in the Tiger accounts, which includes somewhat lacklustre animal feed and poultry interests Langeberg's operating profit of R79,4m ac-

Big brand names *a range of good taste*



Harvesting peas *bulwark of 'agri-business'*

cont

FM 24/4/92 186

counted for about 58% of the division's operating profit in 1991, compared with about 37% in 1990. The operating margin in chickens, eggs and chicken feed — which make up the rest of the division — is 5,1%, down from 6% in 1990

Langeberg has published an annual report every year since Tiger took it over but it escaped the attention of most financial analysts since it was not a listed company

But a glance at the financial highlights shows that attributable income for the year to September 30 was R62,3m, compared with R18,4m in 1990 and R33,3m in 1989 Fruit sales are a highly cyclical business but demand internationally is strong at this stage Cash flow has been strong In the 1991 year, there was a R48m inflow and Langeberg expects to receive similar this year It repaid R25m net in long-term loans

The local market, which takes up most of the canned vegetables, jams, tomato sauce and canned soups which Langeberg produces, is linked to the business cycle and therefore remains slow And it faces the prospect of competition from Heinz in the medium term, assuming that the apparent deal between Kanhym and Heinz comes off

Officially, there is no deal — but Jacobs and Malbak financial director Dave Keneally have been seen in Pittsburgh where Heinz has its worldwide head office, and may well be close to signing a deal

Brown says he would welcome Heinz's entry into the SA market because there are no professionally run competitors to Langeberg, with its Koo and All Gold brand champions He says that Heinz's advertising expenditure will increase the size of the whole market, introducing more people to the pleasures of canned foods

The proof of Tiger's success at Langeberg can be clearly discerned from the numbers In spite of drought for the second year in a row in the eastern Cape, all three divisions were profitable in 1991 and Langeberg expects at least to repeat that performance

The deciduous division is really the original Langeberg, the fruit farmers are the members of the co-operative Next year, Brown hopes to reap the benefits of the new markets — almost all of this year's crop (the main fruit season runs from November to April) has already been ordered

Langeberg has established good labour relations, in the tradition of the Barlow Rand group, and all its factories and units are now unionised This did not prevent a few punch-ups at the Boksburg factory, largely over a conflict on "issues which did not have a direct link with the workplace," presumably issues relating to Inkatha-ANC rivalry

Langeberg is watching asset management closely and preaching the Crosby total quality management system Stock increased by 12% to R179m in 1991, while debtors were down about 8% to R102m Creditors, however, increased by 16%, and net working capital was static at about R206m, even though turnover increased by 15% It has recognised the need to train blacks and coloureds and other "deprived groups" for senior positions, as well as minimum skills training

The local division has a dominant share of the local canned foods market, which enables it to have a fair margin because of its strong brands This contrasts with most other companies in the Tiger Oats group, which have to share the meagre spoils generated by mealie meal, bread and margarine with major players such as Premier, Malbak's food division, Tongaat and Unilever

Much will depend on the price at which Langeberg comes on to the market — but it has had considerable success with consumers, and there are figures to back that up As markets open up internationally, it has good long-term prospects but would naturally be vulnerable to fluctuations in world fruit prices

Stephen Cranston

CG Smith lifted by sugar output

(186)

BDay 27/4/92

MARCIA KLEIN

AN INCREASE in its sugar production saw newly listed C G Smith Sugar boost earnings by 8% in the six months to end-March, and placed it on track to meet its pre-listing forecasts.

The Durban-based group's attributable profit was up 8% from R45,1m to R48,7m. Earnings were 32c a share and an interim dividend of 9c a share was declared

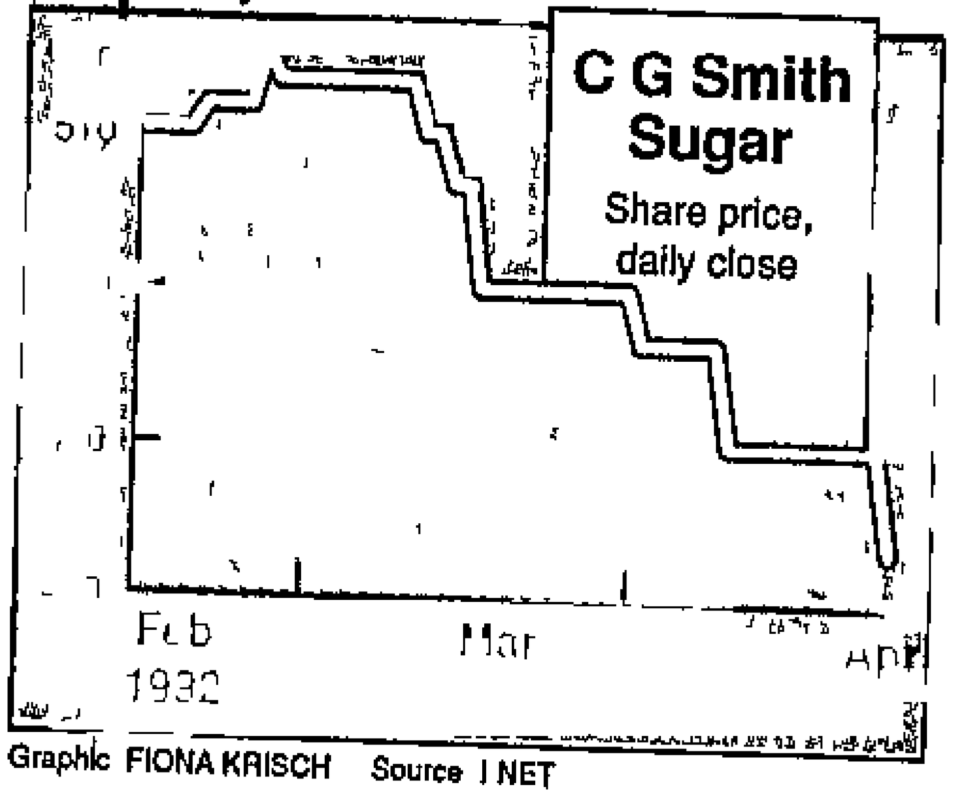
Directors said despite a lower world price, income from the sugar division improved, mainly due to an increase in production of 83 000 tons of sugar The chemical and the warehousing and distribution division also made higher contributions

In the prospectus released before the group's February listing, directors forecast a 7,4% rise in earnings to 58c a share, and a 9,5% higher dividend of 23c a share.

They said yesterday that attributable profits would meet the forecast R90m in the full year to end-September

In the six months, turnover increased by 11% from R481,6m to R534,1m, and operating income rose 15% from R76,1m to R87,2m

After a marginal increase in interest and higher income from investments, pretax profits were 19% higher at R72,0m (R60,4m). But a 54% hike in taxation to R22,5m saw profit after tax rise by only 8% from R45,9m to R49,5m



Graphic FIONA KRISCH Source I NET

Taxation for the six months was higher than the R20,1m forecast for the full year

The directors said C G Smith Sugar had "escaped the severity of the current drought in some cane supply areas" because of its wide geographical spread

There could be an improvement in the company's share of industry production, they said

Also, the next six months will see half a season's profits brought into account from the recently acquired Umfolozi sugar mill

The share closed on Friday at 430c after coming to the JSE at an issue price of 520c

Decision on fired workers

Sowetan 9/4/92

186

A MEETING to discuss the fate of more than 100 dismissed Simba factory workers at Prospecton, Durban, will take place on Thursday

The factory closed down on Friday after workers had been dismissed for stopping work for several hours on March 23, a spokesman for the workers said

He said the union and the company had not even started wage negotiations when the workers were dismissed.

The company had dismissed two senior management workers who are members of the Food Beverage Workers' Union (FBWU) when a dispute was declared, with the workers demanding their reinstatement, he said.

The workers also demanded to address the issue with senior management and not with the local management.

The request was turned down and the workers stopped work for several hours on March 23 They went back to work at about 11.30am

He said that when they reported for work on Friday last week they were each given letters informing them that their services had been terminated.

Asked to comment, Simba management referred the question to Mr John Ogle at their Johannesburg head office

He was not available for comment

Cadswep beats the trend

B/Day 14/4/92 (186)

MARCIA KLEIN

SHAREHOLDERS in Cadbury Schweppes (Cadswep), which significantly outperformed market trends in the year to end-December, can expect another year of buoyant growth in financial 1992

The soft drink and confectionery group's earnings grew by 33,5% to R46,8m in the 1991 financial year

Although turnover was only 13,4% up at R610m, rationalisation benefits and improvements in internal efficiencies and product mix saw operating profit rise by 28,6% to R60,6m.

The group's earnings have shown a 28,6% annual compound growth rate over five years, and dividends have increased by a compound 29,2%

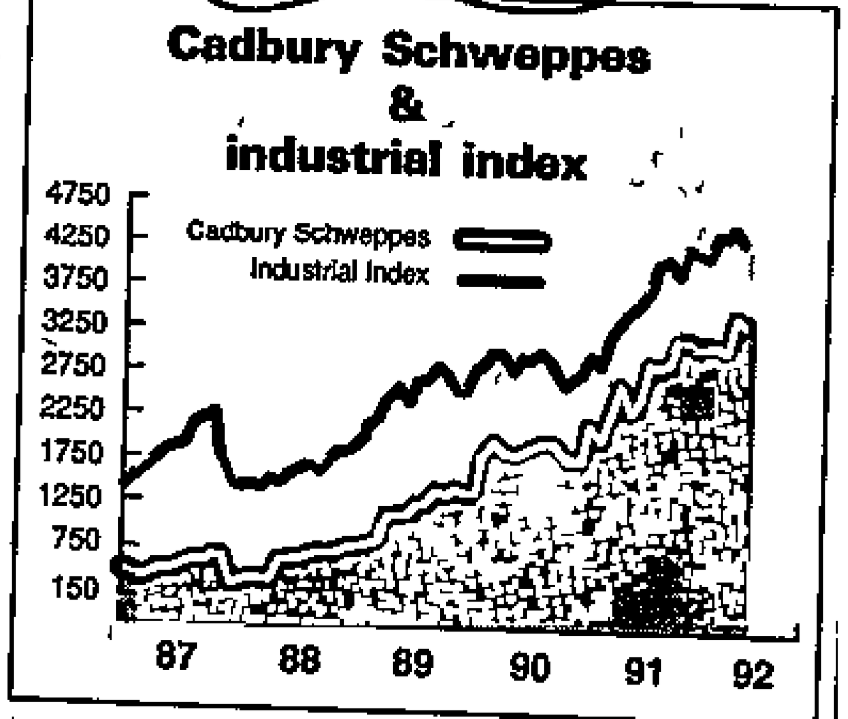
Chairman Alan Clark said in his annual review Cadswep expects real growth in financial 1992 despite the fact there would be no volume growth

He said the recession would not lift for most of this year and consumer confidence would take some time longer to recover.

In this light volume growth would not occur even in the group's markets which were relatively resistant.

But he said "continued tight control of costs, careful brand husbandry and aggressive marketing" would lead to growth in real terms

This trend would follow the group's



Graphic RUBY-GAY MARTIN Source I-NET

performance in financial 1991, where sales volumes declined slightly, but the group increased earnings significantly in real terms by "focusing sharply on improved cost efficiencies and product mix and by making the most of the benefits to be gained from integration and revitalisation of Chapelat-Humphries"

Over the past year R47,3m was spent on replacing and upgrading existing fixed assets and on new plant and facilities, and financing costs grew by 23%.

Clark said Cadswep would continue with upgrading and development, and R34m capex was approved at end-December Although borrowings would increase as Cadswep continues to expand in the current year, they decline significantly in the future

ROYAL CORP FM 3/4/92

On target (186)

Growth by acquisition is certainly not without risk, but the Royal group still shows no signs of faltering in its rapid expansion.

Though latest interim results for Royal Corp and its operating companies Royal Foods and Roychem are not strictly comparable with the year-ago figures, the earnings forecasts have been comfortably met

Share prices of Royal Corp and 65%-held Royal Foods have climbed steeply since late 1990 Early this week, the holding company was up from about 150c to R5 It gained another 50c after release of the figures Royal Foods rose from about 350c in mid-1991, shortly after the group was restructured, to 560c ahead of the figures, when it gained 20c.

The market seems less convinced at this stage about the merits of Roychem, held 58% by Royal Corp. After trading at 260c last April, it stands at 240c, having dropped to 200c earlier this month.

With EPS for the six months to end-February at 18,9c, Royal Foods' 12-month EPS rise to 32c, place the share on an earnings multiple of 18 — a demanding rating but not notably out of line with the sector average In contrast, Roychem, with 12-month EPS of 34,6c after the interim figure of 18,4c, offers an earnings multiple of 6,9 on the historical results

Tougher markets

Royal Corp has produced interim EPS of 25,3c, giving a 12-month figure of 43,9c and an earnings multiple of 12,5 — still below the industrial holding sector average of 14,2

The chemical activities appear to be facing tougher markets, with pressures on margins Emphasis appears to be on at least maintaining market share. Directors note that the Holpro-Lovasz division has held its market in difficult trading, but prospects will depend on how soon economic recovery enhances demand for chemicals In the plastics division, competition is "fierce" and markets thin

Even allowing for seasonal effects, Royal Foods continues to enjoy substantially better

FM 3/4/92 (186)

margins than Roychem The foods produced a trading profit for the six months of just over R25m on turnover of R127m; the chemicals show trading profit of R11,7m on turnover of R93,2m.

Royal Corp financial director Jacques Fragis notes that trading conditions over the past year were generally more difficult than was expected when the group was restructured and the earnings forecasts were set However, the forecasts were conservative

He says management believes the group will again have a "fairly good" six months and he notes that demand for fruit exports by Royal Foods has remained firm The fruit exporter Sapco has nearly completed the season's pack, which will slightly exceed forecasts *Andrew McNulty*

STAR 2/4/92

German market offers opportunity

South African food producers have excellent opportunities to increase their exports to Germany and, through that country, to other countries in Europe, says Mr K V Schuurman, chief executive of the South African-German Chamber of Commerce. 186

He says Germany's food imports are worth about R21 billion a year, of which South Africa supplies only 1,3 percent.

"High quality South African fruit would find a ready market in Germany — Sapa

Royal exceeds forecasts

186

Royal Corporation managed to stem the effects of the downturn, exceeding its forecasts for the six months to February.

The group's four listed companies — parent Roycorp, pyramid Royhold and recently listed operating arms Royfood and Roychem — all bettered their expected earnings levels and matched dividend forecasts.

Comparisons with the previous accounting period are largely futile because the financial year-end has been changed to August.

To give shareholders a more meaningful target at the time, earnings for the 12 months to February were forecast for each company.

Royal Foods achieved earnings of 18,9c a share for the six months and 32c for the 12 months to the same date

This compares with the forecast at listing in March 1991 of 31,2c a share and is a performance described as "creditable in the unexpectedly poor economy".

The dividend for the half-year is the forecast 5,5c a share

Roychem earned 18,4c a share over the six months and 34,6c for the 12 months to the same date to marginally exceed the 34,5c predicted at listing

The interim dividend again matches the forecast at 6c a share.

Roycorp's earnings for the half year were stated at 25,3c a share — an increase of 64 percent over the equivalent previous period before Sapco and Ferro joined the group — and representing an average compound growth in earnings over the past five years of 43,2 percent per annum.

Earnings for the twelve months totalled 43,9c, comfortably exceeding the 43,4c predicted in the 1991 annual report

A dividend of 7,6c a share has been declared for the six months — Sapa.

STAR 31/3/92

KANHYM
FM 27/3/92 (186)

Preparing for merger

When Malbak took over Fedfood late last year, it was clear that a merger with Kanhym would soon take place But Malbak was waiting for a moment when minorities in both companies could get a "fair price" for their scrip — Malbak's way of saying that it thought Fedfood overpriced at around 1 750c against Kanhym's 390c

Kanhym was then on a p.e of about 8 and Fedfood about 10, in spite of Kanhym's considerable turnaround since 1987 in trading performance and balance sheet, in contrast to Fedfood's somewhat pedestrian results Now Fedfood has firmed to 1 850c, but Kanhym has shot up to 650c.

This is crunch year for Kanhym as it is starting to pay tax after a 10-year holiday Executive chairman Dirk Jacobs said in the annual report that it would be the major challenge for the year In what he promises will be Kanhym's last results in its present form, it increased pre-tax profits by 31% That enabled it to raise EPS by 5%, despite an effective tax rate jump from zero to 20%

Jacobs says some assessed losses had not been used, so no tax was due, but 20% tax was shown in the interim income statement as a prudent measure

Kanhym's operating margin firmed from 4,7% to 5,4%, which partly reflects the increased role of value-added products

Kanhym's Jacobs *sees pressure on meat price*

Hanni Leathers increased exports, after receiving the SABS mark, which is equal to international standards

Enterprise raised market share without indulging in a price-cutting war and this will be supplemented by the Prime range, licensed from Bernard Matthews in the UK, once the R10m plant is completed in the second half

Agri-business remains a strong contributor Kanhym Estate boosted its operating income substantially, thanks to the previous year's good maize crop and self-sufficiency in feed stemming from a new mill Red meat prices improved marginally, with a positive contribution from this source, despite absorbing the cost of the Durban manufacturing operation The increase in unit cost of animals on the hoof benefited Karoo Ochse

Overall, controls held cost increases to just 6% Gearing rose from 32% to 39% due to increased capital expenditure of R27m on expansions and the acquisition of Hanni Bop

Jacobs does not expect market conditions to improve Consumer demand remains in the doldrums He says the red meat price is at or just above the floor price and will be under pressure as the drought creates an oversupply of animals Still, he expects Kanhym's EPS to equal last year's level.

TAXING TIME

Six months to	Feb 28 '91	Aug 31 '91	Feb 29 '92
Turnover (Rm)	496	491	535
Operating inc (Rm)	23	20	29
Attributable (Rm)	17	15	18
Earnings (c)	31,8	28,2	33,4
Dividends (c)	10	10	10

Fedfood, on the other hand, suffered a 10% dip at the first interim in September and is not likely to lift earnings in the 12 months to March

Though Fedfood and Kanhym have not merged on the JSE boards, they already operate from one head office Rationalising head offices alone will save R6m a year. Jacobs has disposed of poor performers in Fedfood such as Patoma and Mango Man Some operations have been rationalised but there are few common areas other than prepared frozen foods

Merging Kanhym and Fedfood will give the new group "critical mass" Jacobs says this does not mean all problems disappear when a group reaches a certain size But he believes the marriage will reduce volatility and enable the group to achieve the consistent growth enjoyed by food majors such as Tiger and Premier

He hopes it will achieve similar ratings The major groups sit on p e ratios of 18-20, though their ratings are boosted by pharmaceutical and trading interests

Jacobs predicts the merger will happen in June or July and says it will not be accompanied by a rights issue Malbak is keen to see Fedfood produce better returns from its asset base, which has increased by R200m in the past two years with a 6% marginal return The Malbak food businesses have an increased capacity for cash flow should this come about He also says it is not a good time for a rights issue as the paper is still too cheap

Stephen Cranston

Workers locked out in bid to end long strike

ARG 26/3/92

(18)

SHARON SOROUR
Labour Reporter

ONE of the largest Kentucky Fried Chicken franchises in the Western Cape has legally locked out striking workers in a bid to end a three-month strike

Southern Cape Fast Foods locked workers out of stores in Bloubergstrand, Milnerton, the Strand, Stellenbosch, George and Worcester this week, a company spokesman said

The workers, members of the S A Commercial, Catering and Allied Workers' Union (Saccawu), went on strike on December 16 over centralised bargaining.

Union spokesman Mr Allan Horwitz said 15 of 48 Kentucky Fried Chicken franchisees in the country had settled with the union, effectively ending the strike at more than 40 stores

Southern Cape Fast Foods had stipulated that workers would be allowed to return to work if they accepted management's final wage proposal of a 6 percent across-the-board increase, withdrew a demand for centralised bargaining and accepted a new "labour matrix system".

The company spokesman said workers would not lose their status as permanent workers, and any change in their hours would not necessarily mean less money

Mr Horwitz charged that the lock-out had been "unsuccessful" as more than 20 workers in the Strand and Stellenbosch had rejected all three conditions and had joined the strike This could not be confirmed by the company.

Although 15 Kentucky Fried Chicken franchisees nationwide had settled, the strike was spreading, with about 100 workers in six Northern Transvaal stores joining it.

Kanhym masters market and tax

186

BDay 25/3/92

MARCIA KLEIN

IN SPITE of phasing in taxation for the first time in 10 years, Kanhym has increased earnings in the six months to end-February in the face of poor market conditions.

In his 1991 annual report, executive chairman Dirk Jacobs said Kanhym's challenge was "to maintain growth without the phasing in of taxation unduly diluting earnings"

Kanhym achieved this in the six months, reporting a 5% rise in attributable earnings from R17,5m to R18,4m and a 31% rise in pre-tax earnings from R17,5m to R23,0m in what Jacobs described as its highly satisfactory performance

He said in an interview yesterday that this was Kanhym's last reporting period before it merged with Fedfood to form Malbak's listed food division After publication of Fedfood's second set of interim results in April, Kanhym and Fedfood are to be merged One listing will be dropped and the two groups will be incorporated into a renamed group

Turnover for the six months increased by only 8% from R496,2m to R535,0m, and operating profit rose 24%, from R23,5m to R29,1m, reflecting an improvement in operating margins from 4,7% to 5,4%.

Jacobs attributed the results to strong contributions from both the value added and the agri-business divisions

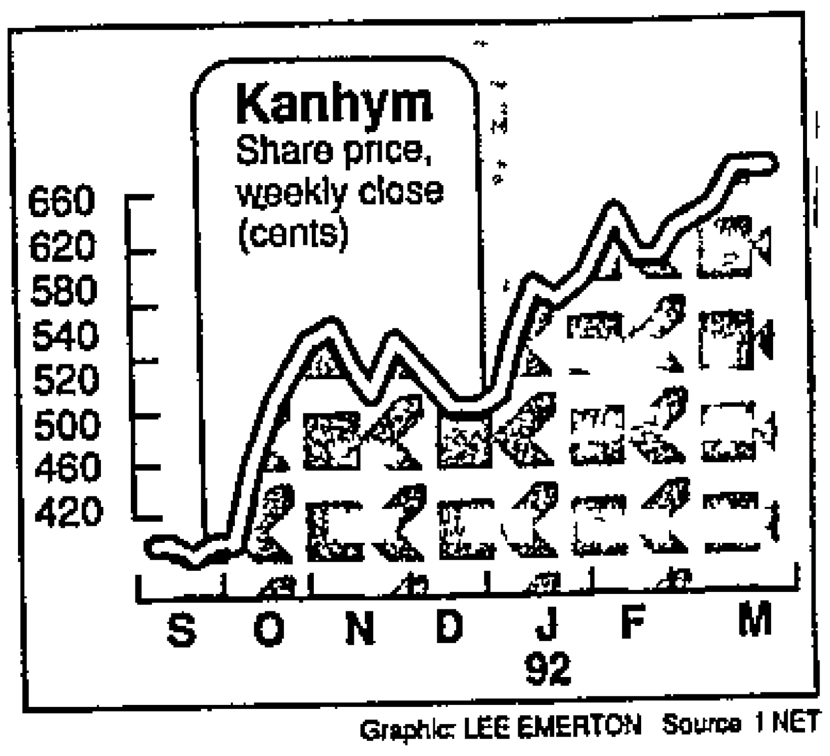
In the value added division, which increased its contribution to operating income by 25% to R15,3m, Hanni Leathers made further inroads into the export market, and Enterprise increased market share while maintaining price levels and margins

In the agri-business division, which increased its contribution to operating income by 23% to R13,8m, Kanhym Estate did particularly well on the back of a good maize crop the previous year, and its self-sufficiency as a low-cost producer.

Mielie-Kip "continued to reflect the depressed state of the poultry industry"

Jacobs said Kanhym's results reflected "the continuing success of the company's strict cost control measures, which had contained the increase in expenditure to 6% during the review period"

A rise in gearing from 32% to 39%



Graphic: LEE EMERTON Source I NET

reflected capex of R27m on expansions and the acquisition of Hanni Bop The benefits of these moves would be felt in the second half

Finance charges rose marginally from R6,0m to R6,1m, bringing earnings before taxation up by 31% Jacobs said that with some assessed losses still not fully utilised, no tax had been due for the first half. But Kanhym made a prudent R4,7m provision — reflecting a 20% tax rate, which was the estimated average for the full year.

Earnings rose by 5% to 33,4c (31,8c) a share, and the interim dividend was maintained at 10c a share Jacobs said earnings a share would have shown a 31% rise to 42c a share excluding taxation

Jacobs did not expect market conditions to improve over the next six months

But he was confident the group would at least equal last year's earnings in 1992

Tax provision impacts on Kanhym's earnings

STAR 25/3/92

(186)

By Magnus Heystek

A return to taxpaying status for Kanhym prevented it from turning a sound performance at operating level into an equally sound performance at attributable level.

Turnover for the group, which includes subsidiaries Enterprise, Herti, Hanm Leathers, Kanhym Estates, Karoo-Ochse, Kanhym Fresh Meat and Mielie-Kip, rose eight percent to R534,9 million in he half-year to February

Operating income, despite tough conditions caused by the drought and declining consumer expenditure, rose 24 percent to R29,1 million But after a finance charge of R6,11 million (R5,9 million) it stood at R23,02 million

Executive chairman Dirk Jacobs said yesterday that with some assessed tax losses still not yet fully utilised, no tax had actually been due in the first half of the financial year.

Kanhym, however, had deemed it prudent to make provision for tax at a rate of 20 percent (R4,666 million) — the estimated average for the whole year.

This left earnings attributable to ordinary shareholders up five percent at R18,3 million, or 33,4c per share. The dividend has been left unchanged at 10c.

Targets

In the value-added division, Enterprise, Herti and Hanm Leathers all achieved or bettered their targets, as did Kanhym Estates and Karoo-Ochse in the agri-business division, says Mr Jacobs.

Kanhym Fresh Meat made a positive contribution, despite the start-up costs related to its new Durban manufacturing facility

Mielie-Kip, however, continued to reflect the depressed state of the poultry division

Prospects for the next six months are likely to be adversely influenced by the drought, says Mr Jacobs.

Nevertheless, he is confident that Kanhym will manage to equal last year's earnings of 60c per share

"The drought is expected to create sales in distress of animals and will depress red meat prices, which are already at or just below floor price level

"Broiler prices are likely to remain at their present unrealistically low levels

"There is little prospect of a general improvement in the current low level of consumer demand.

"However, given its efficient cost structure, its strong market position and the fact that the full benefit of recent investments will only start to flow through in the second half of the year, I am confident Kanhym will at least equal last year's earnings per share, notwithstanding the group becoming liable for tax this financial year," Mr Jacobs says

Liquid Air

Mapping the future of convenience foods

BDay 24/3/92 (186)

A range of gas packaging mixtures, introduced to the market by Liquid Air, not only boost shelf life and eye appeal but also the quality of value added foods.

Food market development engineer Dipak Madhav says that following international trends, Liquid Air decided the time was right to introduce modified atmosphere packaging (Map) to the local market, where value added and convenience foods have taken off over the past few years

Map is the term used for packaging food in atmospheres other than air, to protect and preserve products and to extend their shelf life Control of the atmosphere in which the food is packaged is achieved by using hygienic mixtures of mainly nitrogen and carbon dioxide

Liquid Air's method ensures that oxidation of foodstuffs is prevented and the growth of micro-organisms inhibited Unlike generic gases, each cylinder is dedicated to gas packaging with chrome valves for additional hygiene assurances.

Madhav says demand for this type of packaging is on the increase due to changing trends in food manufacturing and in customer preference, and longer shelf life and less spoilage leads to more convenience for the producer, retailer and consumer

Optimise

He says suppliers using Map's Aligal range can optimise production and distribution, and can manage stock more efficiently Cost will be reduced through larger and less frequent deliveries

"On the one hand, there is rapid growth in convenience foods and on the other, consumers are demanding products with less additives, some of which are now banned," he says

One of the target markets for gas packaging is "the sophisticated consumer who expects not only high quality food but also enhanced appearance", he says, and Map can meet both those demands.

In many cases, Map reduces or eradicates the need for preservatives and gas packaging also allows optimisation of presentation "Unlike the traditional and sometimes messy vacuum packs, cold meats and other delicatessen items can be loosely packed in attractive yet practical units," Madhav says

But Map is not restricted to the top end of the market, and it can be used together with the "mother bag" concept instead of traditional portion packaging techniques.

He says the need for overwrapping or backroom packing at local supermarkets can be eliminated as foodstuffs are packed at a central point Pre-wrapped portioned products, like meat cuts or chicken pieces, can be packaged in overwrapped trays and placed in a large "mother bag" with gas and vapour barrier properties

A vacuum will remove the air from inside the bag, and a gas mixture will be introduced Madhav says that traditionally coffee, milk powder and peanuts have been packed under gas, but the Aligal range "is at a point where there is a mixture for every application"

Modified

Madhav says it is now possible to place fish, vegetables, dairy and delicatessen products, wine, beer, fruit juice, bakery products, potato chips, pizzas, pre-cooked foods and even oil in a modified atmosphere pack

The fresh biltong packs which have recently become available in some supermarkets are also packed under gas

Food companies rate highly

STAR 26/2/92

By Jacques Magliolo

MAGLIOLO
186
on the
MARKET

The decline in food inflation to 26,2 percent (December 1991 28,3 percent) shown in the latest CPI figure is meaningless

While it creates the perception that rises in the price of food are slowing, it does not address the vast discrepancy between this figure and the food producer price index (PPI) of 12 percent

There are a host of problems in the industry which affect prices and, in turn, raises the question of why there is a disparity between CPI and PPI

CPI is the price consumers are paying for food at retailers and includes both staple and non-staple foodstuffs and are outlined below

● **Staple foods:**
The level of consumption for mielie meal and bread has, over the past year, remained static. However, in terms of per capita income, it indicates that consumers are buying less (in volume) of basic food stuffs

To make matters worse, last year's white maize crop was poor, which resulted in white and yellow maize being mixed in maize meal This proved unpopular and resulted in maize meal consumption not rising as would otherwise be expected during recessionary conditions

Bread price increases last year further reduced the per capita consumption of staple foods. The current drought is expected to cause a poor crop and further importation of yellow maize which will result in a return to unpopular mixes

● **Non-staple foods.**
These consist mainly of processed value-added products Demand for such foods has fallen in many categories and one analyst points out that "the expected compensating increase in consumption of staples did not occur"

This, he says, pinpoints the crux of the consumer's dilemma "The food companies are largely recession-proof," he says

To highlight the consumer's problem, one only needs to look at the current market ratings of food companies against the industrial index

While the industrial index displays earnings yields of 4,6 percent and dividend yields of 1,5 percent, food companies have EYs of 6,5 percent and DYs of 2,3 percent In addition, if there is an economic recovery towards the end of the year, these stocks should see substantial growth.

PPI is the cost of producing both staple and non-staple foodstuffs However, the discrepancy between CPI and PPI arises because there are three different producer costs, but only one is quoted.

Farmers, manufacturers and retailers have different expenses and overheads, but only the farmers' costs are used in the quoted PPI figure.

Until current investigations into the food industry are completed, the manufacturing and retailing stages will remain dominated by a few large companies

This points to a possible reason for the high annual food price increases

Food sales take a knock

Business Staff (18) ARG 17/3/92

JOHANNESBURG — Sales of food apparently collapsed in the second half of last year

Figures compiled from government statistics by Econometrix, which analyses economic developments, show that sales of food in real terms held up reasonably well in July and August

They then started to decline and by December were down more than 17 percent on the year-ago figure

The drop in sales of non-edible groceries was even sharper Sales of these were down 17,9 percent in July, compared with a year earlier, and by December the year-on-year decline was more than 34 percent

In sharp contrast, sales of clothing, furniture, audio equipment and TV sets held up well, though sales of small appliances declined

Econometrix attributes part of the decline in sales of food and non-edible groceries to the increase in the prices of these commodities last year

While food prices in July were running 17,3 percent higher than the previous year, by December prices were 28,3 percent higher than a year earlier

In January this year, the year-on-year rate of increase in food prices had dropped to 26,2 percent.

The increase in prices of non-edible groceries was even greater In July these were running 30 percent up on the previous year, but by January this year the year-on-year rate of increase had dropped to 23,8 percent

However, Econometrix has some doubts about the figures for the decline in food sales

It says anecdotal evidence from clients suggests that sales of food did not collapse to the extent indicated by the graphs.

It has taken up the issue with Central Statistical Services, which compiled the figures and which has promised to investigate the matter.

Econometrix says that one possible explanation could be the sharp increase in meat prices last year.

As meat accounts for close on a third of the value of food sales, a dramatic fall in meat sales could have masked a reasonable performance by other food sales

If this is indeed the case, one has to question the validity of current monetary policy, says Econometrix

In view of the low level of new investment in food production and the need to bring more marginal land into production, fairly significant food price increases must be expected, whatever the inflation rate.

It is argued that it would make more sense if the food component of the CPI were ignored when the Reserve Bank determines monetary policy.

This would reduce the inflation rate on which monetary policy is based to 13,7 percent on a year-on-year basis and give the Reserve Bank scope for at least a modest increase in money supply, leading to a similar reduction in interest rates.

ICS FM 3/1/92

Thawing out

186

Activities: *Processes and distributes dairy products, meat and poultry Has investments in frozen fish, catering and meat canning*
Control: *C G Smith Foods 69,1% Barlow Rand has ultimate control*
Chairman: *R A Williams, MD N Dennis*
Capital structure: *38m ords Market capitalisation R504m*
Share market: *Price 1 325c Yields 2,8% on dividend, 9,0% on earnings, p e ratio, 11,1, cover, 3,2 12-month high, 1 400c, low, 900c Trading volume last quarter, 183 000 shares*

Year to Sept 30	'88	'89	'90	'91
ST debt (Rm)	18,9	42,7	50,6	30,2
LT debt (Rm)	69,8	70,2	84,8	70,2
Debt equity ratio	0,19	0,26	0,30	0,21
Shareholders interest	0,50	0,48	0,46	0,50
Int & leasing cover	4,4	4,3	1,7	1,8
Return on cap (%)	7,3	8,0	4,4	3,9
Turnover (Rbn)	1,65	1,88	2,07	2,11
Pre-int profit (Rm)	49,1	61,5	33,5	32,5
Pre-int margin (%)	2,7	3,0	1,3	1,3
Earnings (c)	140,9	147,4	96,2	119,7
Dividends (c)	40	48	32	37
Net worth (c)	1 012	950	1 007	1 091

After 1990's poor results, in which the operating margin fell by more than half and EPS by more than a third, the need for rationalisation was apparent

In this Nick Dennis, in his second year at the helm, has been the action man. The annual report lists a number of closures, including DairyBelle in Port Elizabeth and Natal, a cheese factory in Klerksdorp and wholesale meat operations in Springs and Maritzburg

The main benefit of the programme will be felt only in the current year, but it did contribute to the better bottom line That was up by a quarter More than three-quarters of earnings, however, originated from associate companies, such as 46%-held caterer Fedics, and 50%-held Chandling International and Bull Brand Sea Harvest was the most important associate contributor, principally thanks to good hake catches

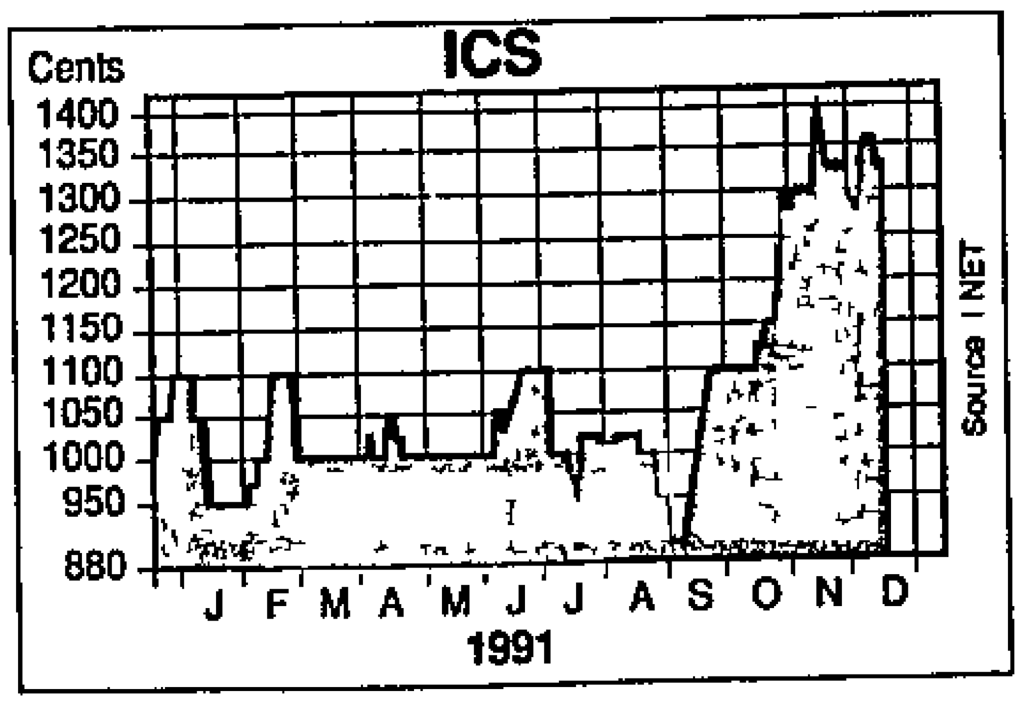
The managed operations all had a difficult year because of surpluses in all three business areas meat, dairy and poultry Festive Chicken made a loss and the industrial dairying operations barely broke even.

But the business cycle is now turning in favour of both businesses, with product surpluses diminishing Like all food businesses, ICS is trying to move into added value products to reduce the influence of commodity cycles The recovery of the dairy business is being spearheaded by the Anytime cheese brand, that features cartoon character Bart Simpson Festive is planning to relaunch high-quality fresh chicken products soon

The vast majority of ICS products were exempt from GST and there has been a downturn in volumes of these products since the introduction of VAT

Like sister company Tiger Oats, ICS is pushing for the end of the stranglehold that the boards hold on it

Chairman Robbie Williams says the control over the movement of meat from uncontrolled to controlled areas leads to inefficiencies in the market He welcomes the intention to privatise the Abattoir Corp, as long as it takes place after deregulation of the Meat Scheme ICS also calls for a reassessment of the role of the Dairy Board, as certain milk producers are refusing to pay board levies



Working capital was watched closely, stock and debtors were both reduced and creditors increased Cash flow was strengthened, cash retained from operations was R44,5m, compared with less than R1m the previous year and cash requirements were reduced by R35m

Lower tax rate

Part of ICS's improvement was courtesy of the tax man ICS's effective tax rate was reduced to 39,5% from 57%, because of the use of prior year's tax losses Tax losses of R53,6m are still available

ICS's improvements took the market by surprise Dennis expects profitability to improve this year, thanks to rationalisation and a recovery of the economy in the second half

ICS's p e ratio of about 11 looks quite respectable but it masks a greater rating gap ICS trades a little over NAV, whereas Tiger Oats trades at about four times net worth and has a market capitalisation about 10 times larger than ICS ICS remains particularly prone to commodity cycles and is worryingly dependent on nonmanaged businesses To the investor, ICS's associates are the main attraction ICS is still the weakest of the major food companies but could recover strongly in an upturn

It is nevertheless difficult to recommend with much enthusiasm *Stephen Cranston*

FM 3/1/92 (186)

…CE HOLDINGS

Significant losses

The "rescue" of this DCM company out of the wreckage of Mighty Meat hardly seems much improvement, though chairman/MD Johnny Limberopoulos takes "great pleasure" in submitting his report of a R1,5m net loss — bringing accumulated losses in two years under the new regime to R3,1m and taking the equity deficit to R1,5m

Limberopoulos says trading conditions were "difficult" and "significant infrastructure costs" were associated with the growth programme Management decided to maintain sales volumes in real terms, which "proved effective despite the concomitant fall in margins " "Significant funding" was allocated to new operating and administrative systems, and this was "the significant contributor" to the latest loss

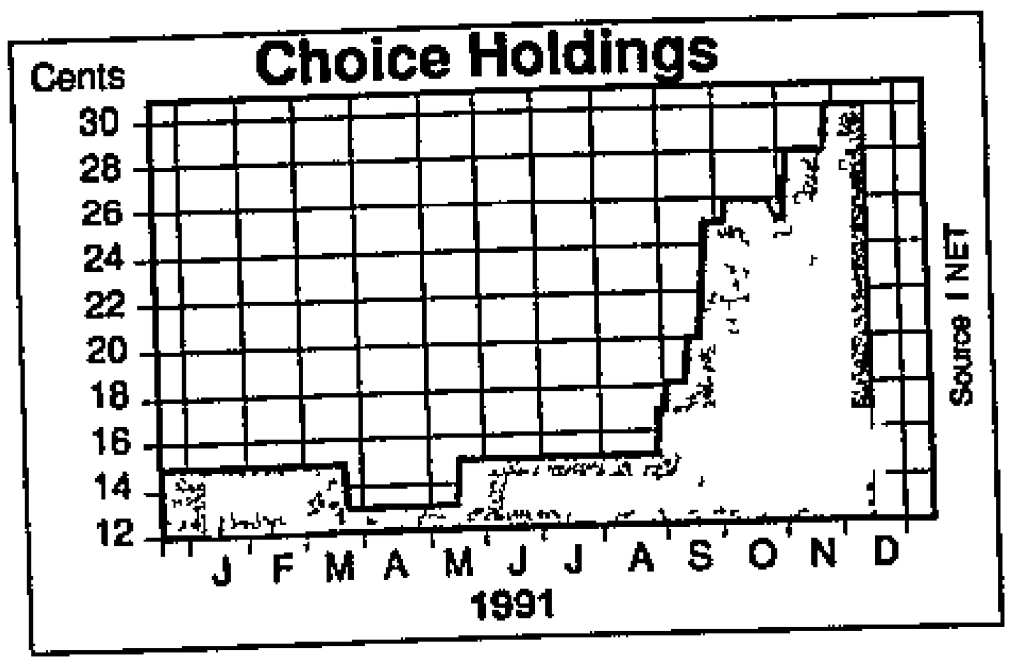
Activities: *Processes and distributes meat products and other foodstuffs*
Control: *Directors 55%*
Executive chairman: *I Limberopoulos*
Capital structure: *10,1m ords Market capitalisation R3,0m*
Share market: *Price 30c, 12-month high, 30c, low, 15c Trading volume last quarter, 2 800 shares*

Year to February	'90	'91
ST debt (Rm)	1,80	1,89
LT debt (Rm)	1,62	2,76
Debt equity ratio	27,6	n/a
Shareholders' interest	0,01	—*
Turnover (% increase)	n/a	34
Pre-int profit (Rm)	(1,3)	(0,8)
Net worth (c)	0,7	—*

* Negative after deducting goodwill

In fact, the operating loss narrowed from R1,3m to R755 000, it was higher finance costs and the new minority interest that pushed down overall results

At least the company managed to publish its annual report almost three months earlier than the previous year And while Limberopoulos says the 50% interest in a chain of butcheries in Bophuthatswana "made little contribution," the R197 000 minority interest suggests that this is a rewarding venture, as it was bought mid-year for only R372 000



The recent interim report could presage better times On a 57% increase in turnover, it revealed net income of R308 000 (1990. R847 000 loss), after R189 000 attributable to minorities (nil) This indicates that both own operations and the Bophuthatswana investment are doing well

The directors say the return to profitability results from rationalisation and the benefit of the new systems Finance costs remain high but they expect all operations to continue trading "well" in the second half

With year-end assessed losses of R3,3m, tax won't be a problem for some time And, fortunately, of total long-term debt of R2,76m, R2,03m is interest-free.

First-half EPS of 3,05c, if repeated, would give a forward p e of only five. Recent strength in the share price, which is at the 12-month high (still well below the effective 45c Limberopoulos paid for control, however), suggests the market shares the company's optimism But given the horrendous gearing and negative NAV (both excluding goodwill), which may delay any declaration of dividends, the stock remains highly speculative

Michael Coulson

FM 3/1/92 (186)

C G SMITH FM 3/1/92

A sweet return (186)

After a year of few new listings, the market will welcome the return of C G Smith Sugar, absent for more than 10 years The listing is aimed at raising R206m "to take advantage of future investment opportunities "

The move has fuelled speculation that Smith Foods is raising funds to follow an impending Tiger Oats rights issue to fund its recent acquisition of the Colman Foods range and reduce borrowings (see *Companies*) Tiger has been the most profitable of Smith Foods' three investments, which include all of Smith Sugar and 69% of ICS

Smith Foods plans to float 40m shares at 520c, which will reduce its holding in Smith Sugar to about 70% A simultaneous rights offer (underwritten by Barlow Rand) of a further 7,7m Smith Sugar will raise R40m

Chairman Glyn Taylor says Smith Sugar is not particularly capital-hungry but the funds will be useful if the bid for the Umfolozi mill succeeds September year-end gearing of 67% looks high but Taylor says that stocks are high as this is halfway through the year Gearing is very much lower at the end of the season on March 31 Requirements of Smith Foods as a whole, rather than Sugar, drove the deal

Taylor argues that the listing will give investors the opportunity to invest in a predominantly sugar counter Main tradeable

FM 3/1/92 (186)

counter in the sugar sector, Tongaat-Hulett, is a conglomerate which derives less than a third of profit from sugar — against about 70% at C G Smith Sugar The remaining 30% is derived from the chemical division, which manufactures alcohol, solvents and hydrogen peroxide

Whether investors will consider sugar a good investment is questionable Smith Foods' annual report admits that the world price has dropped sharply and a recovery is not expected in the near future It expects prices to be US$100/t lower in the 1991-1992 season than in 1990-1991

Lonrho Sugar reported a fall in EPS of 7,3% for the six months to September, though it has the advantage of privileged access to the EC through its fields in Swaziland, Malawi and Mauritius

Global production has outstripped consumption for the second year running as harvests in Brazil, Thailand, India, the US and Mexico have exceeded expectations. The local industry escaped the worst of the decline, thanks to hedging by the Sugar Association, but this cannot hold off a decline indefinitely Domestic sales of packaged sugar are flat

C G Smith Sugar is the second-largest investment in the C G Smith Foods stable, after 53% of Tiger Oats When the interests in Tiger and ICS are factored out, a notional value of R840m remains for Sugar For the listing, Sugar was valued at about R780m At a p e of 10, the Smith Sugar price is in line with the sugar sector index Though sugar will be difficult over the next year, Smith Sugar could prove a good long-term investment

Stephen Cranston

Smith Food to hold 70% of Smith Sugar

By Ann Crotty (186)

The proposed listing of CG Smith Sugar (Smith Sugar) will result in CG Smith Foods (Smith Foods) reducing its holding in Smith Sugar from the current 100 percent to 70 percent

Ahead of the listing, Smith Sugar is a 100 percent subsidiary of Smith Foods The proposal is for Smith Foods to relinquish a 30 percent stake in Smith Sugar

This reduction will be achieved through two separate and simultaneous steps The more significant one sees 39,5 million Smith Sugar shares being offered for sale at 520c a share This will raise approximately R206 million for Smith Foods

The 39,5 million shares represent 25 percent of the 157,7 million Smith Sugar shares that will eventually be listed

The other step involves a rights issue by Smith Sugar of just under 7,7 million shares at 520c a share

STAR 7/1/92

Injection

This represents almost five percent of the total 157,7 million Smith Sugar shares

Reason for the 7,7 million rights issue is to provide Smith Sugar with an injection of funds — it will receive R40 million.

The two transactions involve 47,2 million Smith Sugar shares.

Smith Foods is renouncing its entitlement to the shares in favour of CG Smith Ltd, which holds 81 percent of Smith Foods This means that 19 percent of the 47,2 million Smith Sugar shares can be taken up by the minority shareholders in CG Smith Ltd

CG Smith Ltd will in turn be passing on its entitlement to its controlling shareholder, Barlow Rand, which has made arrangements to pass on the shares to various institutional investors

After all of this, the shareholder profile of Smith Sugar will be Smith Foods holding 70 percent, the various minority shareholders in the CG Smith/Barlow grouping holding a maximum of about 7 to 8 percent, institutional investors elected by Barlows holding the remaining 22 to 23 percent

Co-operative sells mill to CG Smith

186

PAUL ASH

INDEPENDENT sugar milling company Umfolozi Co-operative Sugar Planters had sold its mill and related assets to CG Smith Sugar for R90m, a CG Smith spokesman said in Durban yesterday

Co-operative members at a special general meeting on Monday voted unanimously in favour of accepting the bid

B/Day 8/1/92

CG Smith executive chairman Glyn Taylor said the deal would be financed by the R40m accruing from a rights offer after CG Smith's application for a separate listing on the JSE of its sugar interests and the rest from borrowings

The company would take control of the mill on April 1.

During the 1990/91 season, the mill crushed 995 335 tons of cane, making it the third-largest crusher in Zululand and ninth-largest in the industry

"The mill produces 125 000 tons of sugar and this, added to our existing group tonnage, puts us close to being a 1-million ton producer," Taylor said

The deal will see CG Smith become the country's largest sugar producer.

"We have now inherited a going concern and there will be payback in year one," he said

There was room for expansion of cane production in the region, mainly from Zulu cane growers.

Small cane growers, who began supplying the mill with cane during the '70s, produced about 10% of SA's total crop last season.

These growers would "participate in the sale of the milling assets and the milling profit for the year," Umfolozi Co-operative chairman Ian Wiseman said

The deal includes a refinery and related assets

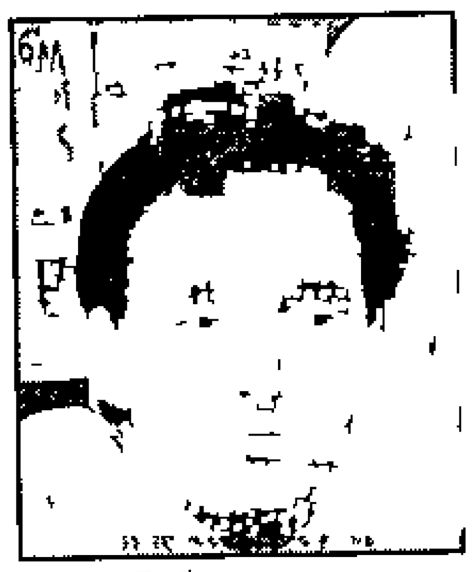
The co-operative will continue to transport cane to the mill on the industry's last remaining narrow-gauge cane tramway, as well carry out river control and drainage operations on the Umfolozi Flats

FM 10/1/92 (186)

RED MEAT

Wagging the dog

The Meat Board admits in its annual report that it controls producer funds and assets worth more than R340m In the financial year to June the board boosted its coffers by more than R68m in levies from producers So, while consumers face ever-rising meat prices, the powerful red-meat lobby grows stronger



Ackerman

Since 1986 the board has done little in response to a Cabinet instruction to proceed with meat deregulation, apart from allowing the sale of pork at any market — provided it is slaughtered at approved abattoirs — and abolishing the compulsory registration of meat traders

The problem is that many farmers are wary of competing in a deregulated market So they are prepared to operate within the strictly regulated confines of the meat scheme the Abattoir Corp, Red Meat Producers' Organisation and Vleissentraal co-operative The board and government now seem to be stalling yet again on deregulating the "controlled" urban markets

A company like Meatlands, of Colesberg in the Cape, an abattoir and meat packer owned by local farmers, which slaughters up to 1 000 sheep daily, is one of the victims of the distorted distribution system

Meatlands chairman Goebbels Ferreira says "We cannot market our product where the demand exists. For example, in Cape Town (Maitland abattoir) and Durban (Cato Ridge), where shortages exist, we cannot sell freely We transport about 5 000 carcasses each week past the Bloemfontein market (only 220 km from Colesberg) but are not allowed to sell any produce there This is a ridiculous situation"

In Pretoria, Meatlands has two depots which are allowed to sell frozen mutton and lamb cuts and carcasses, packed in Colesberg, directly to consumers, thereby bypassing the normal costly chain which passes through the urban abattoirs

"Our frozen cuts retail for up to R5/kg cheaper than the rest of the trade This has proved to be so successful that we have just completed a new R2m cutting and processing plant We believe this is one of the main methods of the future for marketing meat," says Ferreira Apart from savings in selling pre-cut and-packed meat, the transport of fresh and frozen boxed meat is also at least 25% cheaper than that of livestock on the hoof, he adds

Transporting live animals is demanded by the Meat Board in implementing its scheme in controlled urban markets

"It is obvious that this can lead to a lot of stress, harm and even injury to animals along with weight and quality losses," says Organisation of Livestock Producers chairman Nils Dittmer

Ferreira feels that, as with boxed meat, it should not be necessary to sell fresh (or frozen) carcasses via meat agents "who add their 4% commission to our prices"

Deputy Director-General Agriculture Chris Blignaut says a statutory board is envisaged to monitor operations of meat and livestock agents who are excluded from control of the Agricultural Produce Agency Sales Act The new board, to be created in terms of the Agriculture Produce Agents' Bill, will incorporate the role of the meat agencies

Blue Ribbon Meat national GM Gareth Ackerman says, with frozen European boxed beef available at R4,50/kg (compared with SA's R7,80/kg), government should allow freer imports of this cheaper meat — especially if shortages occur

Meat Board GM Pieter Kempen says the board is not against imports as long as meat is not dumped on the SA market.

Imports were controlled by the Meat Board but permits are now issued by the Department of Trade & Industry ■

Joffe buys Crown Foods for R23-m

STAR 10/1/92

By Ann Crotty (186)

After sitting incongruously in the Murray & Robert's stable for the past 14 years, Crown Foods is to be sold to Brian Joffe's Bidvest group for 84c a share

The R23 million acquisition of Crown, which will be paid for in cash, will increase Bidvest's gearing from an end-June level of 38 percent to around 65 percent.

Application of the Bidvest management style to the Crown operation, should see this being reduced sooner rather than later

Bidvest's executive chairman Mr Joffe is confident that with the introduction of tighter asset management gearing will be reduced to more acceptable levels.

Tighter asset management will enable the operations to throw off more cash and will improve operating margins from the current 8 percent

The end-June balance sheet shows stocks of R31,1 million, debtors of R24 million and creditors of R13,5 million — on a turnover of R121,4 million

Stronger cash flow and better margins would have considerable benefits for the bottom line.

One analyst speculated that, applying these benefits to financial '91 earnings (to end-June), could have produced earnings of 12,5c compared with the actual 10,1c a share In this case Bidvest 84c a share could be closer to a price/earnings rating of 6,5 times than 8,3

The 84c purchase price, based on net asset value (this will be finalised only when the results of an end-December audit become available in February), looks extremely generous compared with the share price

The share price hasn't come within sight of 84c in recent years This reflects a number of considerations

Little trade

Earnings growth over the past four years has been sluggish, M&R holds almost 79 percent of the shares, which means there has been little trading in it, and although it has an annual turnover of more than R120 million a year, Crown has a very low investor profile

The most crucial of these factors is probably the M&R stake M&R has an excellent reputation for managing its major assets — but these are in the construction market A comparatively small food company was unlikely to get the sort of head office attention that ensures good margins and solid earnings growth

This will change once it is in the Bidvest stable Crown, which comprises Crown Mills and Vulcan Catering Equipment, will fit in well with the Bidvest operations which include National Spice and Cater Plus And it is not Mr Joffe's style to waste a JSE listing with a low profile

The 84c a share that is being paid for M&R's 78,7 percent will be offered to minority shareholders

C G SMITH FOODS FM 10/1/92

Riding the Tiger 186

The main attraction of C G Smith Foods (Smith Food) recently has been as a cheap way into Tiger Oats Smith Food sits on a p e of about 14, which, while a good rating, is well below Tiger's 20-odd

Smith Food derives more than half of its attributable income from its 53% of Tiger, which gives it steadier results than either of its parents, C G Smith and Barlow Rand But the two other subsidiaries, 69%-owned ICS and wholly owned C G Smith Sugar, make it more volatile than Tiger

Last year, thanks to better asset management, ICS, normally the laggard of the group, boosted its earnings by a quarter, providing the extra fillip to Smith Food Sugar's earnings, on the other hand, rose just 5% to R79m, and are likely to dip this year because international prices are soft

Chairman Robbie Williams says Smith Food intends to continue broadening its portfolio The decision to list C G Smith Sugar (*FM* January 3) and cut the holding to about 70% will further reduce the dependence on commodity cycles The R206m raised from the sale will help to finance Tiger's recent purchase of the Colman Foods product basket and the group's heavy capital expenditure programme, which has topped R1,5bn in the past five years and R436m last year alone

Sugar output last year was hit by the winter drought Smith Sugar's share of local production, normally over 40%, fell to 38% The furfural plant is a good contributor, but sales of DME and hydrogen peroxide were lower than expected A R15m diffuser was commissioned at Umzimkulu and the chemical division launched a new bagasse sifter

Sugar prices this season are expected to fall by about US$100/t The industry will get a small boost from the lifting of sanctions and expects a US quota of 30 000 t

Subsidiaries Tiger and ICS (whose annual reports were discussed last week) fought hard to maintain and increase market share across the board Tiger's Adcock Ingram subsidiary did particularly well, and pharmaceuticals now account for 12% of Smith Foods' net profit, up from 8% two years ago.

Smith Food itself rarely acts as a corporate entity. One exception is that it will contribute R24m over the next five years to the Private-Sector Initiative.

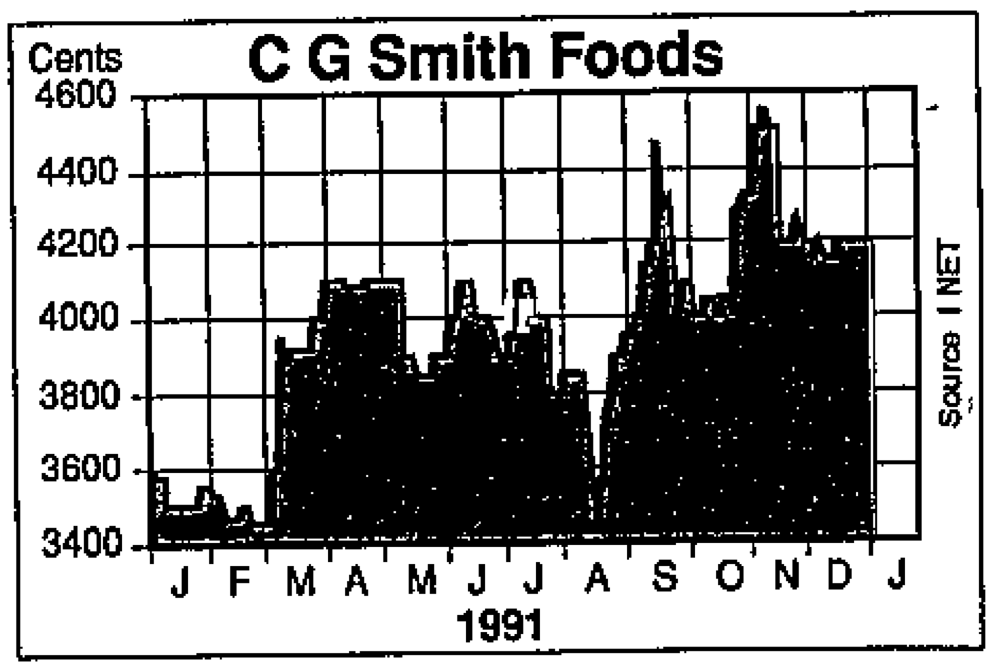
The group is strongly decentralised. The head office's main role has been to assess and modify Barlow's food portfolio It has done a good job on acquisitions, such as Langeberg, Beacon and Logos It was able to rationalise ICS by moving Nick Dennis into the top spot from Tiger But it may need to take a more ruthless view of underperformers in dairy products, edible oils and poultry

With a p e of 14 and 2,4% dividend yield, Smith Food is fairly priced It offers a one-stop investment in well-rated food, sugar and pharmaceutical interests. *Stephen Cranston*

Smith Foods' Williams *wants to broaden the portfolio*

Activities: *Processes foods, including sugar, basic foods and perishables Fishes pelagic fish and rock lobster Manufactures and distributes pharmaceutical and medical care products*
Control: *CG Smith 81% Barlow Rand has ultimate control*
Chairman: *R A Williams*
Capital structure: *94,5m ords. Market capitalisation R3,97bn*
Share market: *Price R42 Yields. 2,4% on dividend, 7,2% on earnings, p e ratio, 14,0, cover, 3,0 12-month high, R45,50; low, R34,50 Trading volume last quarter, 359 000 shares*

Year to Sep 30	'88	'89	'90	'91
ST debt (Rm)	490	464	655	665
LT debt (Rm)	332	331	362	388
Debt equity ratio	0,33	0,37	0,41	0,38
Shareholders' interest	0,44	0,44	0,44	0,45
Int & leasing cover	7,8	6,1	5,0	4,7
Return on cap (%)	14,1	16,6	13,0	15,8
Turnover (Rbn)	6,85	8,59	9,93	11,33
Pre-int profit (Rm)	534	706	742	864
Pre-int margin (%)	6,9	7,3	6,8	7,0
Earnings (c)	192,6	235,1	263,6	300,8
Dividends (c)	64	78	87	99
Net worth (c)	1 061	1 212	1 380	1 588



A WIDER SPREAD

Sales and profit sources for CG Smith Foods

	Turnover Rm 1990	Turnover Rm 1991	Turnover % 1990	Turnover % 1991	Net profit Rm 1990	Net profit Rm 1991	Net profit % 1990	Net profit % 1991
Foods	7 888	8 853	79	78	122	128	49	45
Sugar and Chemicals	1 078	1 245	11	11	88	102	35	36
Fishing	309	326	3	3	17	19	7	7
Pharmaceuticals	651	911	7	8	22	35	9	12
Total	9 926	11 334	100	100	249	284	100	100

FM 10/1/92 (186)

BIDVEST/CROWN FOODS

FM 10/1/92

Changing hands

(186)

The sale of Crown Foods to Brian Joffe's Bidvest is imminent Joffe confirmed the transaction had been finalised and would be signed this week Murray & Roberts (M&R) will dispose of its entire 78% holding in Crown

Crown has been a somewhat anomalous fit in M&R's portfolio. Soon after Dave Brink took over the helm he sold the baking powder and jelly manufacturer Bromor to Cadbury Schweppes, but kept Crown

M&R recently acquired almost all of Darling & Hodgson and 38% of Standard Engineering from Malbak through offers to minorities This reaffirmed M&R's focus on engineering and construction and was seen as an opportune time to sell non-core businesses

For M&R, Crown is small beer. It provided 1,5% of the bottom line and less than 3% of turnover For Bidvest, though, it is a major acquisition If Crown had been in the group for the 1991 financial year, it would have increased group sales by a quarter and the bottom line by a fifth

Bidvest competes directly with Crown Mills' sausage casings and kitchen equipment through National Spice and operates a Caterware division which competes with the other Crown subsidiary, catering equipment supplier Vulcan

Joffe, citing the long history and goodwill attached to the Crown name, says he does not intend to integrate the businesses

Crown's operating margin for 1991 was 8,0, compared with 8,6 for Bidvest, though the margin in Bidvest's Cater Plus division cannot be determined At the market price of 70c, M&R's 78% stake in Crown is worth R19m The company is capitalised at about R24m.

If the price is struck at around market levels, payment in cash would put some pressure on Bidvest's gearing, pushing it up to about 50% On top of the R57m Bidvest still owes for Steiner Services, at end-June 1991 it had R40m in long-term loans and R50m in liquid funds.

But, in line with previous acquisitions, convertible debentures or preference shares could form part of the deal Bidvest paper is looking more attractive than Crown Bidvest trades on a p e of 8 and a dividend yield of 4,1%, pyramid Bidcorp, which is more tradeable, has a 10,3 p.e and a 4% dividend yield This compares with a p e of 6,1 and a dividend yield of 5,6% for Crown

Stephen Cranston

'Safe' food shares in favour on JSE

186

B/Day 13/1/92

JABULANI SIKHAKHANE

FOOD sector shares have been in good demand on the JSE despite depressed consumer spending and reduced demand for food products.

Since the beginning of November, the JSE's food index has risen 13% to 5 804 on Friday compared with an increase of about 4% in the industrial index over the same period

Although the whole industrial market has been active, the flurry of deals and restructurings among some of the food companies has added further interest to the sector

According to analysts one factor driving up the food sector is that food shares are perceived to be relatively recession-proof Although food companies' growth may slow, they will still outperform the rest of the market

Southern Life investments senior GM Paul BeachyHead says investors are also buying food shares on a long-term view Given all the catching up to be done, BeachyHead says basic foods, for instance, will outperform the market in the new SA This should benefit staple food producers like Premier, Fedfood and Tiger Oats

He also points to special situations within the food sector such as the separate listing of CG Smith Sugar which enhances the attractiveness of CG Smith Foods, reducing its exposure to the cyclical sugar industry and enhancing its exposure to the more stable Tiger Oats

Tiger has been one of the most profitable of CG Smith Foods' investments which include a 69% holding in Imperial Cold Storage (ICS)

BeachyHead says Tiger, which increased earnings by 13% in financial 1991, will continue to show growth in earnings Interest has also been kindled by a possible rights issue to fund acquisition of Reckitt & Coleman's food brands and reduce borrowings.

Other stocks being sought by investors are Kanhym and Fedfood following Malbak's acquisition of a 69% stake in Fedfood last October

The market also seems to have liked the Premier Group's restructuring

BeachyHead says another reason for the recent interest in the food sector is that food shares lagged the rest of the industrial market for most of last year They are now being rerated.

He says the continued institutional cash pressure on the market will tend to go towards good quality shares, some of which are in the food sector like Tiger Oats, Cadbury Schweppes, CG Smith and Rainbow.

But Ed Hern Rudolph analyst Syd Vianello sees no reason for the buying of food shares except pure market sentiment. He says food demand is flat and in some areas, like staple foods, has fallen He adds that there have been substantial increases in meat prices Chicken prices are up by between 50% and 60% compared with April last year (although the chicken market was very depressed at this time) Prices of red meat are also up by 20% to 25% over last year

Vianello adds that when sales volumes of staple foods fall major producers' margins tend to be squeezed However, he notes that Kanhym, which runs a nunmber of feedlots, should get a one-off boost from the rise in red meat prices

Smith listing may 'benefit sugar sector'

PAUL ASH (186)

TRADING activity in the JSE's sugar sector could benefit from the forthcoming separate listing of CG Smith Sugar, say analysts.

The sector has suffered from a lack of activity, as only Tongaat, one of the three listed sugar companies in the sector, sees its shares traded regularly.

Little interest has been shown in Crookes recently and only 200 shares in Lonrho Sugar were traded last year.

The CG Smith listing "could stimulate institutional interest in both Tongaat and Smiths", said a Fergusson Bros, Hall Stewart analyst.

However, CG Smith Sugar would be the only pure sugar company, since only one third of Tongaat's business was sugar-related. B/Day

Another analyst said the CG Smith shares, once listed, would trade at a price to earnings ratio of 10, based on the issue price This compares with the sector's average ratio of 9,3. As a result, the listing would be unlikely to move Tongaat whose ratio stands at 10,8, he added. 13/1/92

"The listing should, however, draw attention to a sector which people are unduly negative about," he said.

Meanwhile, CG Smith has further expanded its sugar interests with the R90m acquisition earlier this week of the Umfolozi Co-operative Sugar Planters' mill and refinery, making it the industry's largest sugar producer

The move was in line with the predicted expansion of the industry which should see output increase by about 300 000 tons during the next few years. However, the deal did not change the industry's competitive structure, analysts said

TIGER OATS FM 3/1/92

A curate's egg (186)

Activities: *Manufactures, processes and distributes food and pharmaceuticals, has fishing subsidiary*
Control: *C G Smith Foods 52,8% Barlow Rand has ultimate control.*
Chairman: *R A Williams; MD C Wolpert*
Capital structure: *139m ords. Market capitalisation R5,16bn*
Share market: *Price· R37 Yields. 1,9% on dividend, 5,6% on earnings, p·e ratio, 17,9, cover, 2,9. 12-month high, R42, low, R26,50 Trading volume last quarter, 458 000 shares.*

Year to Sept 30	'88	'89	'90	'91
ST debt (Rm)	386	366	479	523
LT debt (Rm)	104	98	128	153
Debt equity ratio	0,30	0,35	0,39	0,38
Shareholders' interest	0,43	0,43	0,43	0,44
Int & leasing cover	22,0	10,1	7,8	6,8
Return on cap (%)	15,2	17,4	16,3	17,3
Turnover (Rbn)	4,39	5,74	6,78	7,98
Pre-int profit (Rm)	352	452	504	605
Pre-int margin (%)	7,4	7,6	7,3	7,5
Earnings (c)	126,6	158,1	184	207
Dividends (c)	43,5	54,6	63	71
Net worth (c)	594	686	798	931

Tiger has again produced earnings growth of 13%, about in line with some estimates of inflation But it would be misleading to see the group as a portfolio of consistent performers Rather, the good performers offset the more disappointing parts

In animal feeds and agri-business, for example, margins narrowed sharply for animal feeds, chicken and eggs, but this was more than offset by a much improved performance from Langeberg, which is believed to have more than trebled earnings off a low base

Unlike traditional rival Premier, Tiger has held on to underperformers such as eggs and broilers, and indeed plans to expand them It is prepared to ride out valleys in the agricultural cycle, increase market share in difficult times and reap the rewards in the upturn

Profitability will get less predictable as control board power is trimmed But chairman Robbie Williams makes a valid point when he says that deregulation must be followed through to be effective As long as single-channel marketing for wheat remains, the milling industry has almost no control over its main input cost Control boards still wreak havoc on profitability, or at least can be used as convenient scapegoats

Of most concern is the poor performance of edible oils and derivatives, where operating profit halved and the margin fell below 2% Profitability plummeted after the import substitution scheme for vegetable oils was withdrawn Dry dog food products were the

Tiger's Williams ... *follow through is needed* (186)

only oil-based line to lift their margins, though off an extremely low base. There is little likelihood that edible oil margins will improve significantly.

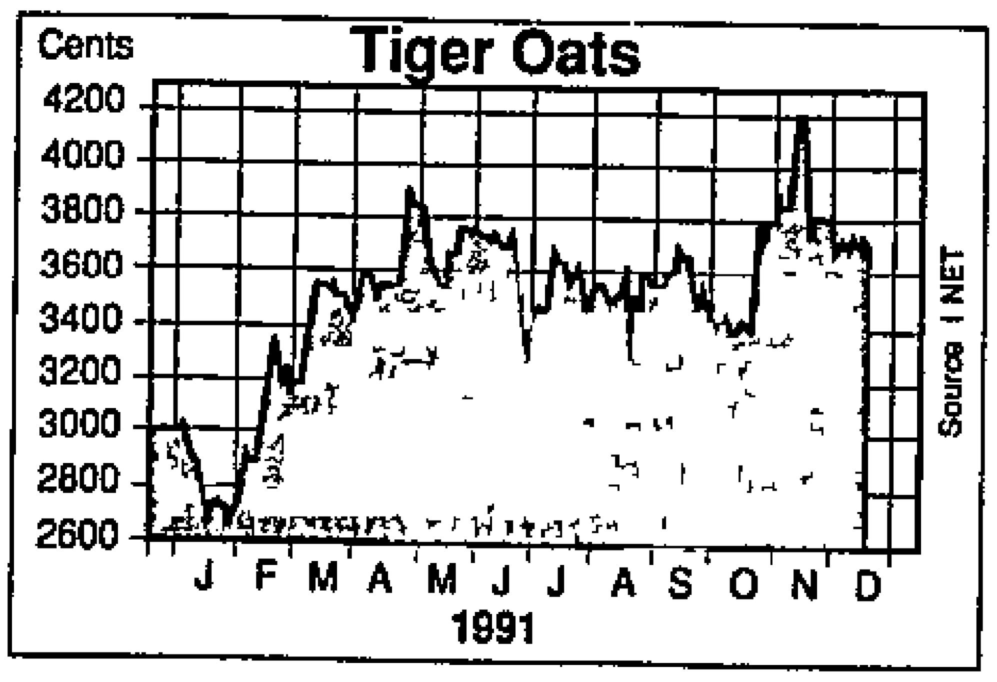
Milling, baking and confectionery did surprisingly well Operating profit from the core milling and baking division rose by 24%. But an 11% gain in operating profit from trading, distribution and shipping is unexpectedly low in view of the good increase in market share by Spar, and the increase in international trading Exports and foreign subsidiaries contributed R1,2bn to sales

Pharmaceuticals' earnings contribution rose by 43% Adcock Ingram and Logos now provide about a quarter of the bottom line, and remain by far SA's best-rated pharmaceutical interests Fishing continues to disappoint, but Oceana is deriving an increasing portion of revenue from cold storage, having merged its facilities with ICS

Financially, Tiger is still well run It raised working capital by 14%, in line with turnover, despite importing key raw material stockpiles and a reduction in creditor financing from farmers Cash generated by operations rose by 19% to R758m Only R28m went on acquisitions, down from R106m (mainly on 50% of Beacon Sweets) in 1990

Just before Christmas, Tiger bought Reckitt & Colman's food brands, including Colman's Mustard, Cartwright's Curry Powder and the remaining half of Petz Products (previously a joint venture), which makes wet petfoods Cash was static at about R100m, much of which will be used by this deal — though no price has been disclosed It would be a good time to replenish cash by a rights issue, perhaps of about R400m

Tiger suffers from a reluctance, which it inherited from Barlow Rand, to sell assets



COMPANIES FM 3/1/92 (186)

The future of the highly unprofitable edible oils division in a post-Middelburg Steel Barlows might be a different story

Tiger remains a well-regarded counter A p e of 17,9 is beaten in the food sector only by Cadbury Schweppes, which operates purely in high-margin beverages and soft drinks But analysts ask whether Tiger's broad base is such a strength It has some excellent assets but the place of underperformers must be reviewed

Stephen Cranston

Tiger issue to fund buyouts

186

JABULANI SIKHAKHANE

FOOD group Tiger Oats has announced that it will raise R370m through a rights offer to existing shareholders.

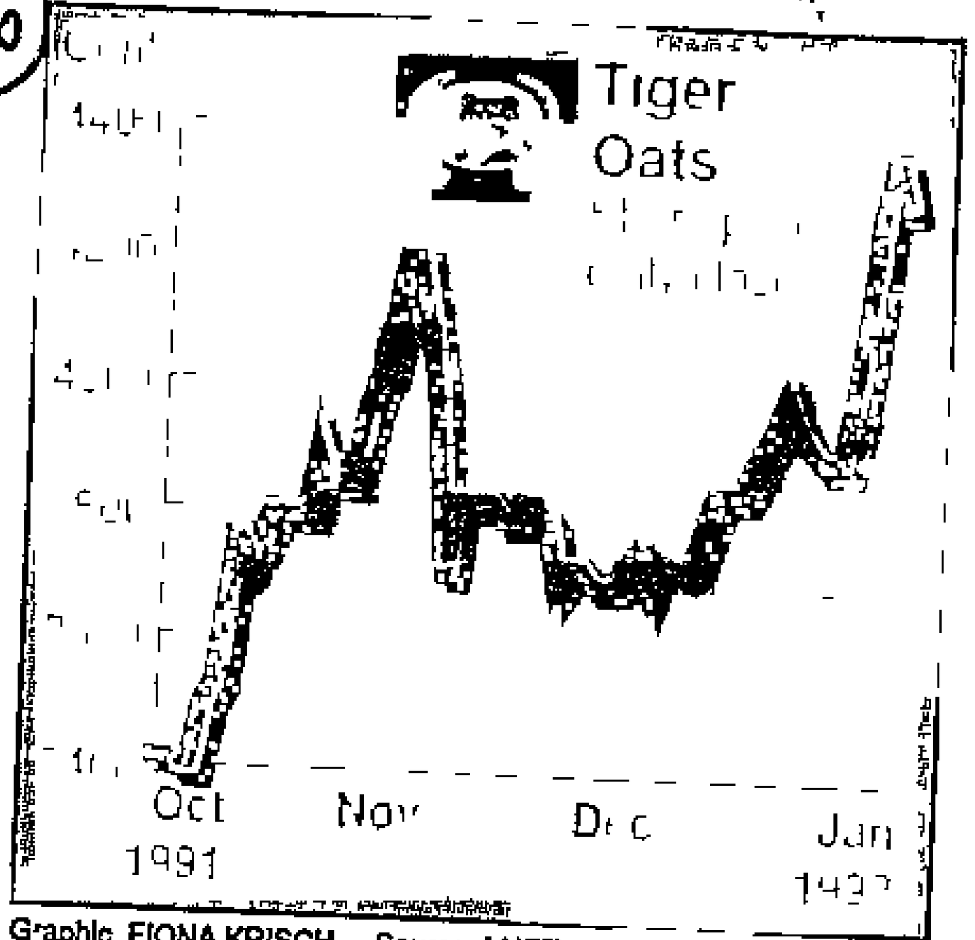
The group announcement said the proceeds of the issue would fund the recent acquisitions of the assets and brands of Colman Foods and the remaining 50% of Petz Products The terms of the rights issue will be announced on January 24

Market analysts said yesterday that Tiger Oats was likely to pitch the offer at about R37/R38 a share — a discount of 11%-15% on the current price of R43

Although the company has not disclosed the cost of the two acquisitions, market speculation is that together they cost more than R100m. BDay 14/1/92

Tiger's announcement also said the purpose of the rights offer was to make sure the group had adequate funds to maximise future business opportunities.

Analysts said Tiger would probably use the remaining proceeds to reduce borrowings CG Smith Foods, which holds 52,8% of



Graphic FIONA KRISCH, Source I NET

Tiger, is underwriting the issue

Smith Foods will probably use the proceeds from the separate listing of subsidiary CG Smith Sugar to fund its share It needs about R195,4m to follow its rights in Tiger Oats Through the floating of 40-million CG Smith Sugar shares at 520c a share, Smith Foods will raise R206m after

☐ To Page 2

Tiger

BDay 14/1/92

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which its stake in Smith Sugar will reduce to 70%

In December, Tiger Oats bought Reckitt & Colman's food brands and Petz Products in which Tiger and Colman were joint partners Reckitt & Colman sold its food interests as part of the group's worldwide divestment from food to concentrate on household products

Ahead of today's announcement, Tiger Oats shares have been in good demand with the price rising to R43,75 on Friday — just short of its R44 peak But the shares eased 75c yesterday to close at R43

Tiger Oats takes the rights route

STAR 14/1/92

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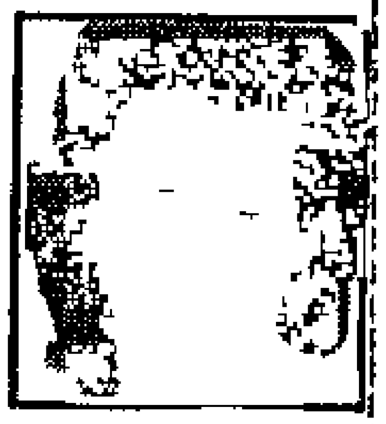
Diagonal Street

ANN CROTTY



Tiger Oats' R370 million rights issue looks set to reduce gearing from the 38 percent level at September year-end to around 34 percent

This drop will be achieved after allowing for the estimated R100 million cost of acquiring the assets and brands of Colman Foods and the outstanding 50 percent of Petz Products

If management had opted to use borrowings to fund the R100 million acquisition, gearing would have increased to around 45 percent (This figure makes no allowances for other balance sheet developments)

While gearing at 45 percent is not crippling, Tiger obviously decided it was an unnecessary and avoidable burden — particularly in view of the prevailing high interest rates

What may also have encouraged Tiger to go the rights issue route was the fact that the group's cash flow came under some pressure last year. The end-September '91 balance sheet shows that cash available from operations was up by just 11 percent to R262,2 million However after allowing for dividends and "other cash flow movements" cash available for investments was R190 million — this represented a slight drop on the September '90 figure of R195 million

Inevitable

Given these considerations and the institutions' apparently insatiable demand for blue chip industrials, opting for a rights issue seemed inevitable.

There has been no mention of the price at which the issue will be pitched The share is currently trading at a high of R44 This compares with a 12-month low of R26,50 — reached last January From that low level it has moved fairly steadily to its current price

At R44 Tiger is on a price/earnings rating of 21 times and a dividend yield of 1,6 percent These are fairly demanding ratings — reflecting the institutions' enormous appetite for blue chips and their increasing tendency to take a long-term view of investments

The market price is way off the group's net asset value of 930c a share So nav will probably be ignored for the purposes of the issue.

Something around R30 to R35 would be appropriate. It would enable Tiger to avail of the institutions' appetite without straining it too much

Assuming a price of R35, some 10,6 million shares would be issued This would increase the number of shares in issue by 7,5 percent to 149 million CG Smith Foods which holds 52,8 percent of Tiger would have to pick up 5,58 million new Tiger shares at a cost of R193,5 million.

Smith Foods last week announced that it will be receiving R206 million cash from the listing of Smith Sugar It is unlikely they will want to use the bulk of these proceeds to increase its stake in Tiger This means that Smith Foods may pass on some of its rights via Barlows to institutional investors

But Smith Foods will have to take up a certain amount of shares in order to ensure that control of Tiger is maintained Assuming the R35 issue price and an additional 10,5 million shares to be issued, then Smith Foods would have to take up 1,11 million shares in order to maintain control

According to a Tiger spokesman the R370 million will be used to fund the company's recent acquisitions and to ensure that adequate funds are available to enable the company to maximise future business opportunities

"This will have a positive effect on earnings and allow the company to fund further growth "

COMPANIES

Chicken market expected to grow

B Day 17/1/92. (186)

JABULANI SIKHAKHANE

BROILER chicken producers are confident that the industry is set to resume its growth pattern after experiencing one of the most difficult 12 months in its history last year

The broiler chicken industry had been growing at a compound 9% in the 10 years to 1990 But growth was static for most of 1991, according to a SA Poultry Association spokesman

The spokesman said the broiler market was now stable. Chicken prices rose towards the end of 1991 as retailers stocked up for the Christmas period but they had since weakened in line with the normal cycle for the industry

Rainbow Chicken, the country's biggest poultry producer, had a good Christmas trade, sales director Bill Brown said However, demand had started slackening this month, which is usually a quiet period Rainbow was currently sitting on a "couple of weeks' stocks" of frozen chickens, which would be cleared through a price reduction of 65c to R4,80 a kilogram

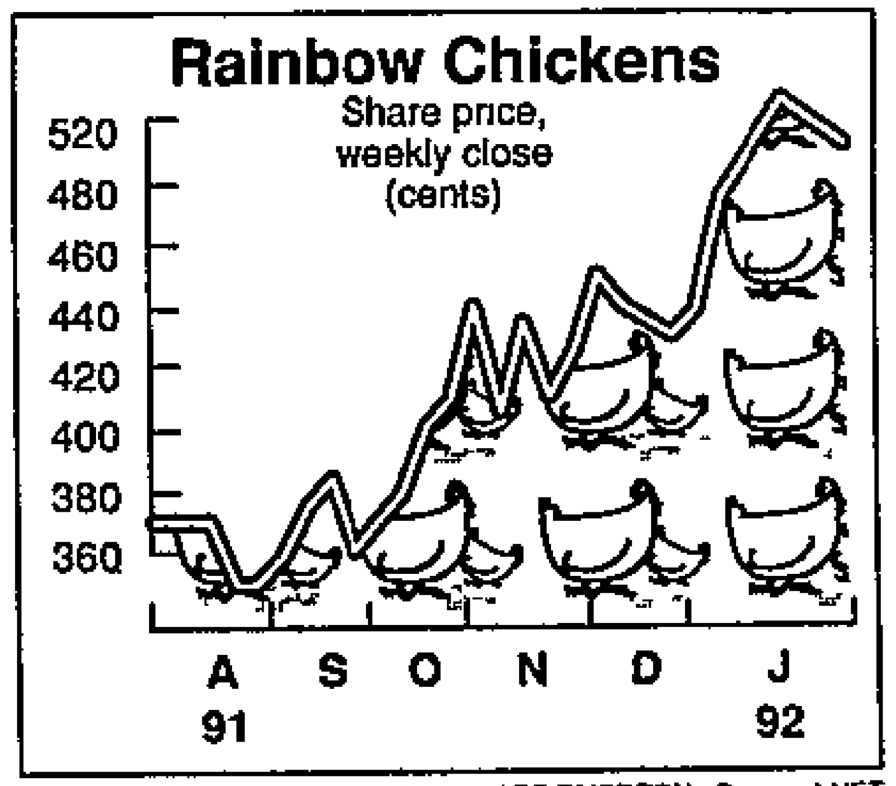
Brown said Rainbow was short of refrigeration capacity and had been using outside storage facilities An analyst said the shortage of refrigeration capacity was in spite of the group having increased capacity to about 10% of production during financial 1991.

Brown said Rainbow expected sales volume growth of between 5% and 6% for the 12 months to March compared with the nine month period of financial 1991 However, Festive Farms, a subsidiary of Imperial Cold Storage (ICS), was less enthusiatic about short-term prospects for the broiler market.

"The market is pretty stable with sufficient stocks But in the short-term it's tough going The high unemployment rate has affected protein consumption," he said

The association spokesman said after last year's production cutbacks there was spare capacity of between 3 to 4% overhanging the industry

"The broiler chicken industry used to operate on five- to six-year cycles.



Graphic LEE EMERTON Source I NET

Consumption was down in 1986/1987 and growth resumed in 1988 until 1990, a factor which saw producers expanding production capacity," he said.

But the bottom fell out of the market in 1991 with chicken prices falling below production costs and forcing production cutbacks to stabilise prices.

The spokesman said it was in the industry's interets to make sure that chicken retained its major competitive advantage over red meat — being the cheapest source of protein — even if short-term market forces might demand dramatic price increases.

Any artificial price ceiling, however, would require producers to keep a tight reign on costs Since 1988 production costs had increased by an average 18% compared with an average rise of 6% in chicken prices over the period

The broiler chicken industry is dominated by about eight major players who produce 80% of the total 392-million chickens a year The biggest operator is Rainbow with about 50% market share and second is Tiger Oats' County Fair with a 9% share

Festive Farms chips in with 8% of the total Despite this, the Poultry Association believes that the industry offers good opportunities for small-scale producers

"There are areas where the big producers are not cost-efficient For them to be able to supply those areas they will need huge investments in refrigeration facilities for instance," the association spokesman said

Kanhym, Fedfood set to merge

JABULANI SIKHAKHANE

THE merger of food groups Kanhym and Fedfood would be implemented in May, Kanhym executive chairman and CE of Fedfood Dirk Jacobs said yesterday

The merged food group would have turnover of more than R2,2bn and total assets exceeding R1,1bn B/Day 23/1/92

Jacobs said a merchant bank would be commissioned to evaluate the two groups after the publication of Fedfood's results for the year to March and Kanhym's results for the six months to February

He added that the merger of the two groups would be done on the the basis that there was no dilution of earnings for either party Analysts say the merger will involve a share swap and a cash alternative.

After approval by shareholders of both companies. the merger would be implemented by May, Jacobs said (186)

He said that after the rationalisation of the head-office structures of the two groups, which would save about R6m in overheads a year, there were no immediate plans to rationalise operations within the merged entity

However, market sources said packaging group Holdains, which is controlled by Malbak, was interested in Fedfood's packaging operation, Quix Packaging

Quix Packaging is a producer of packaging material, mainly for Fedfood's snack division Simba, which sells over 640-million packets of snacks a year

Govt pension funds may buy IDC's Sasol rights

B/Day 23/1/92

JABULANI SIKHAKHANE

ANALYSTS expect the Industrial Development Corporation (IDC) to sell its rights from Sasol's R1bn rights offer to state pension funds

The IDC, which sold 10% of Sasol shares to state pension funds for about R950m last year, holds 20% of Sasol's equity Selling its rights in the planned Sasol rights issue would net the IDC about R200m

Sasol announced this week that it will proceed with a rights offer of convertible debentures to raise funds to meet its cash-flow requirements and be in a position to promote future business opportunities of subsidiaries

An analyst said yesterday that the IDC was most likely to sell its rights to the government pension funds.

He added that since pension funds do not pay tax, the debenture issue would be very attractive for the pension funds since it offered a "tax-free investment"

"Government pension funds will get good income from the debentures Also the debentures are attractive since they convert into ordinary shares at some stage"

IDC senior GM Malcolm Macdonald said that no decision had been made on the Sasol rights issue, adding that the matter would be tabled at the next board meeting

Regarding the sale of other IDC share investments, including the remaining 20% of Sasol, a 16% stake in Iscor and smaller ones in Sappi and Sentrachem, Macdonald said that at present the IDC had generated substantial amounts of capital and these would take some time to invest.

Depending on the IDC's funding requirements it would consider the best way to sell these share investments Last year's deal with government pension funds had been done without disturbing the market for Sasol shares, Macdonald said

On the remaining Sasol stake, Macdonald said that it was unlikely that any one institution including the state pension funds would increase their exposure to Sasol significantly

Macdonald would not discount a possibility of foreign investors buying some of the IDC's share investments.

Most of the IDC's funding requirements will arise from its R10bn investment programme in projects worth about R30bn over the next five years

Life assurance market 'to stay difficult'

B/Day 23/1/92

LINDA ENSOR

CAPE TOWN — The market for new life assurance business would remain difficult in 1992 as it would take time for consumers to benefit from the economic upswing, said Metropolitan Life chairman Willem Pretorius in the company's annual report.

However, he expected premium income and dividends to continue to grow

The unfavourable economic climate last year was apparent in the high number of policy surrenders which rose to 12,1% from 11,2% of premium income

Metropolitan's Dynamic Life range of products accounted for more than 90% of premiums for new individual business sold during the year to end-September The products are aimed at professionals, civil servants and people in protective services

About 31% of total premium income came from group life, provident and pension fund business Recurring premium income rose 25% to R650m and investment income by 16% to R317m

Highlights of the year were the rights issue of 22,4-million shares at 805c a share which raised about R186m and the purchase of a 17% stake in African Bank

By William Wells and Jack Lindstrom

Ocfish argues for reduced lobster sizes

BIDay 24/1/92 [illegible]

Own Correspondent

CAPE TOWN — Oceana Fishing Group (Ocfish) could double its lobster exports if catches were adequate, executive chairman Walter Lewis said after the AGM yesterday

He told shareholders that there was "a huge mass of lobsters out there" But their growth rate appeared to have slowed down and most of them were undersized

"Substantial new research" was being carried out into the reasons

More would be known by February and the industry hoped to persuade Minister of Environmental Affairs Louis Pienaar to allow smaller lobsters to be included in the catch instead of being returned to the sea

"It is a problem that is limited to size, not to the numbers available," Lewis told the meeting

Lewis told shareholders that group operating results for the first quarter of the current financial year "have been most satisfactory and are ahead of budget"

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The availability and quality of anchovy was "most encouraging"

The total allowable catch of anchovy for the industry, which was 185 000 tons compared with 150 000 tons last year, would be reviewed by the Minister in February in the light of scientific surveys and industry landings

"Most of the catch to date is anchovy, whereas last year it was not"

Shareholders' association chairman Issy Goldberg suggested that representatives of the industry should be on the Quota Board, since they were "best equipped to judge conditions".

Discussing the group's other activities, Lewis said results of the trading, shipping and clearing division in the first quarter of the current year were "very satisfactory considering the depressed world and local economies and competitive conditions experienced in all markets.

"The group's shipping and clearing activities continue to contend with low demand and volumes, with little prospect of an improvement until the economy picks up

"Tuna Marine's abalone business is proceeding very satisfactorily It has already landed 65% of its 1991/92 quota, compared with 58% at the same time last year," Lewis said

Tiger Oats pitches rights offer at 14% below price

(186)

BDay 24/1/92

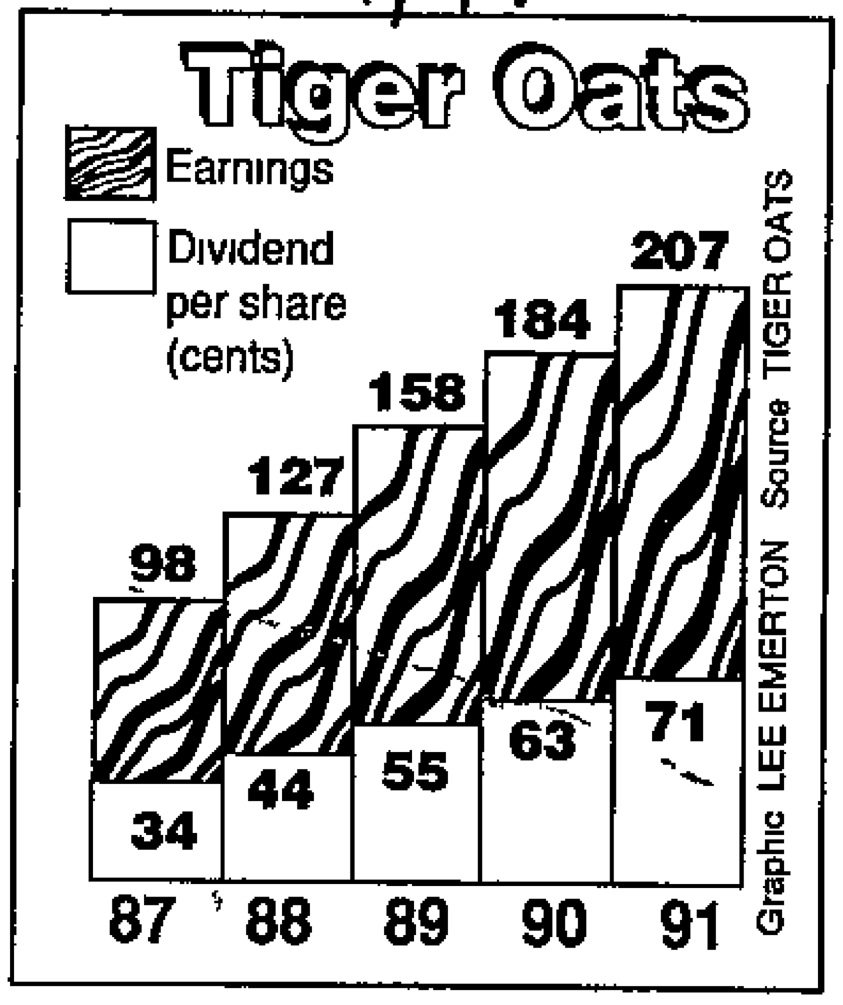
SEAN VAN ZYL

TIGER Oats' rights offer to raise about R387m, the terms of which are being announced today, has been pitched at a 14% discount — R37 a share compared with its ruling share price of 4 225c.

The food and pharmaceutical manufacturing group has released the terms of its offer, which closes on January 31, to existing shareholders Shareholders have been offered 15 ordinary new shares at R37 a share for every 200 already held The issue would boost Tiger Oats' share base by 10,4-million new shares to about 150-million ordinary shares in issue, enlarging the share base by about 8%

Group spokesman Patrick McLaughlin said the price decided on had been a balance established on "resonable value for shareholders and what the market could stand"

At R37 a share, McLaughlin expected market demand for the shares would be high "We expect an extremely positive reaction to the rights issue by our investors"



CG Smith Foods presently holds a 53% stake in Tiger Oats CG Smith Sugar, recently floated off as a separately listed company from CG Smith Foods, was listed apparently to raise capital for its holding company to follow its rights in Tiger Oats CG Smith Foods, having indicated that it plans to take up its full rights in the Tiger Oats rights issue, is expected to take up approximately 5,1-million of the new shares worth about R190m.

The market speculated that the Tiger Oats offer had been pitched at a significant discount to allow CG Smith Foods to take up its full rights and therefore maintain its controlling stake in the group.

McLaughlin said the capital raised via the issue would be used primarily to reduce the group's gearing which currently stands at about 45%. The new money would also be used to fund the group's recent acquisition of Colman Foods and Petz Products which is believed to have set the group back about R100m.

McLaughlin said the capital raised would also ensure that adequate funds would be on hand to maximise future growth opportunities

"However, besides reducing the group debt, the funds to be raised have not been earmarked for any specific purpose"

Tiger Oats offer has attraction

(186) STAR 24/1/92

Diagonal Street

ANN CROTTY

Tiger Oats has pitched its R387 million rights issue at R37 a share — a discount of 12,5 percent on yesterday's closing price of R42,25

Although the R37 price is below the level at which the share has been trading in recent weeks, it is well above the average level at which the share traded during calendar '91 A year ago, the share was around the R30 level

So, in terms of its trading history it's not a generous offer but unless the market falls right out of bed, shareholders will enthusiastically follow their rights

In terms of its historic operating performance (for the year to end-September '91) the R37 represents an earnings yield of 5,6 percent and a dividend yield of 1,9 percent.

This is in line with the expensive ratings currently enjoyed by food shares After a strong run in calendar '91 and during the first few weeks of '92, the average dividend yield for the food sector is 1,5 percent with an earnings yield of 4,3 percent

On the basis of its size and its earnings track record, the group could quite comfortably have gone for a higher price in line with its comparative attractiveness in the highly rated food sector

In addition, institutional shareholders are likely to be encouraged by the potential benefits to the bottom line of exchanging costly debt with such cheap equity

At end-September, ahead of the impact of the acquisition of Colman Foods and Petz Products, the group was sitting with gearing of 38 percent The Colman deal would have lifted this well over 40 percent

The inflow of funds from this rights issue will see gearing at just below 20 percent This is a comfortable position from which to be contemplating growth prospects over the next 12-18 months

A total of 10,5 million shares will be issued, increasing the number of shares to 149,5 million

CG Smith Foods which holds 53 percent of Tiger, has undertaken to subscribe for its shares in terms of the rights offer The balance of the offer is being underwritten by Barlow Rand

Expenses will account for 4,3 percent of the R387 million raised This is equivalent to R16,64 million and includes the underwriting fee It will leave Tiger with a net R370 million

Police probe huge canned-fish scam

S Times 26/1/92 (Buss) (186)

By DON ROBERTSON

A SCAM involving the sale of hundreds of thousands of cartons of pilchards is being investigated by Cape Town and East Rand police.

It has also been reported to the Board of Trade and Industry

Traders have been buying "bright", or unlabelled pilchards, in Namibia and SA after a fall in sales caused by steep price rises.

They forge labels carrying an SABS stamp and offer the fish to wholesalers, such as Metro, Makro and Shield at well below market prices

Other dealers have been relabelling cans declared below standard by the SABS The labels say the fish is of high quality and meets SABS requirements

Dominant

Some traders claimed they were exporting to Mozambique, Zambia and Zimbabwe The labels were printed in Portuguese and French

The scam was discovered when the labels were found on cartons in SA

Joe Viljoen, managing director of Veekom Intertrade, says he was offered 150 000 cartons at R35 apiece compared with the then price of R42

Another trader claims to know of a consignment of 500 000 cartons offered at R30 — a deal worth R15-million

Steve Malherbe, managing director of Federal Marine, which dominates the distribution of pilchards, says many traders offering the cartons seem unable to deliver

The illegal sale of pilchards came to light last November when Business Times disclosed that hundreds of millions of rands worth of toiletries and groceries, including pilchards, were being bought from suppliers ostensibly for export and without paying VAT

The products were not exported, but were sold in SA The "traders" claimed export incentives

The R2,6-billion pilchard business is dominated by Federal Marine, which has 95% of the market, mainly through its Lucky Star and Glenryck brands

Federal Marine was set up by major SA distrubutors, including Southern Seas in the Premier Group, Oceana, a Tiger Group subsidiary, Fedfood's Marine Products, the Suiderland Group owned by the Du Preez and Neethling families, and Saldanha Bay Canners, owned by the Silvermans

Fedfood chairman Dirk Jacobs says Federal Marine operates as a non-profit central selling organisation aimed at cutting the cost of transport and distribution

Membership of Federal Marine is voluntary and allegations that it was a cartel were dismissed by the Competition Board in 1986

Federal Marine recently asked the Board of Trade and Industry to lift import and ad valorem duties, amounting to 18,65%, because it could compete with foreigners.

Average

The price of Federal Marine's main brand names has been increased by 54% in the past three years.

Mr Jacobs says this was necessary because large quantities of pilchards had to be imported Because world prices are higher than those in SA, the domestic price was averaged out to take into account the additional cost. Between 20% and 30% of sales of about 6-million cases a year are imported, mainly from Chile

Tiger rights sure to yield the oats

(186) S|Times (BUSS) 26/1/92

TIGER Oats chairman Robbie Williams is confident the group's rights issue will be well received

Financial institutions will fall over themselves to get in at R37 But small shareholders who do not have to scramble for big parcels of scrip could prefer entry through CG Smith Foods

Smith Foods not only owns 53% of Tiger but has 69% of dairy and frozen-food group ICS and 70% of soon-to-be-listed CG Smith Sugar

Tiger members will be offered the rights to 15 shares for every 200 held at a price of R37

After a rapid rise from R25 last January, Tiger's share price has held above R37 only since October It is now R42,25 A 10% drop in the hyper-buoyant stock market could test the pitch price

Mr Williams says the latest acquisition could have been funded by Tiger without the rights issue

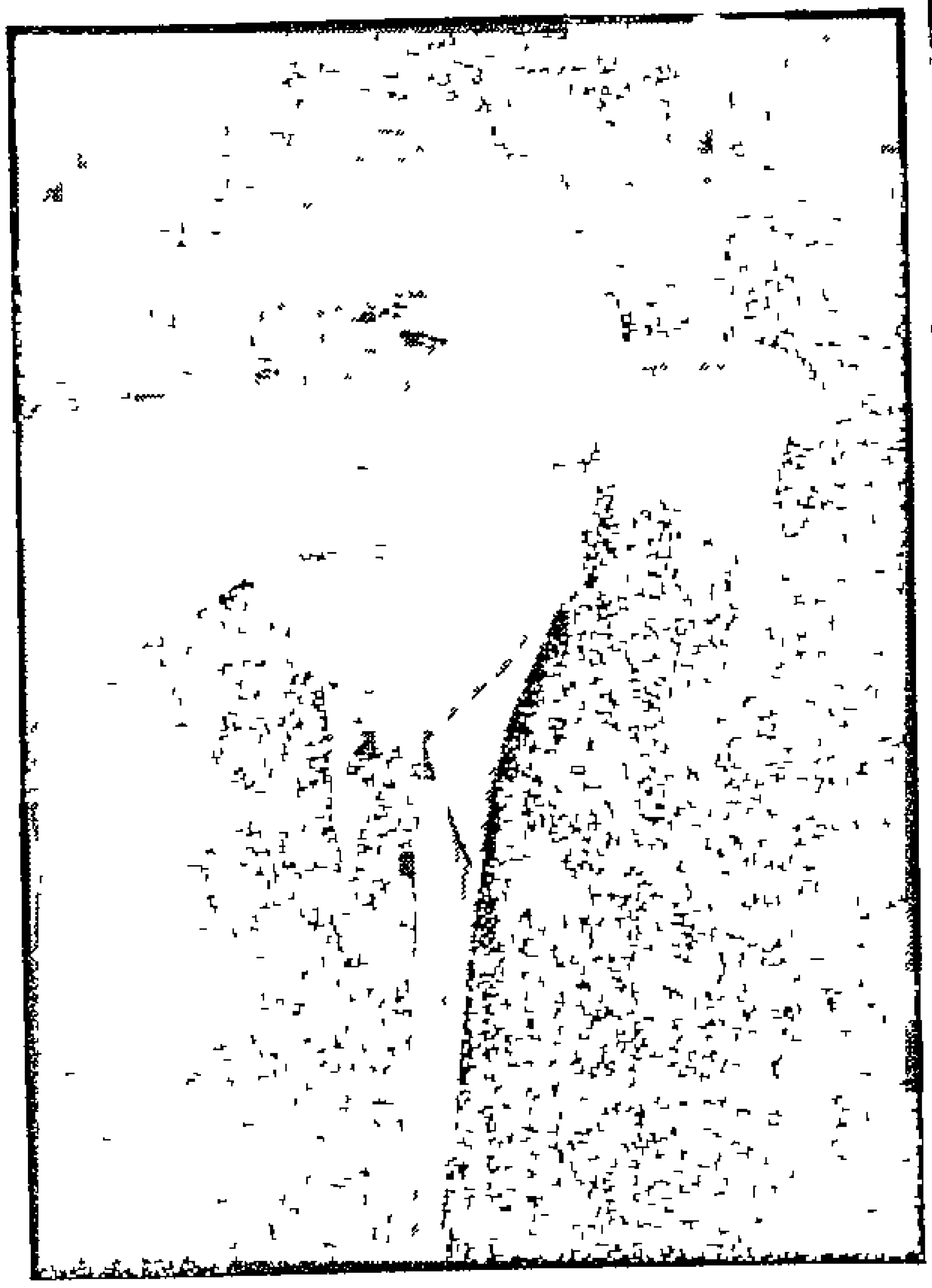
The groundwork for CG Smith Foods to follow rights was done through its sale of 30% of CG Smith Sugar It raised a little more than the R196-million needed to follow its full allocation

Besides, the market is perfect for a rights issue and with Tiger on a price-earnings ratio of higher than 20 times, equity capital comes cheaply

Tiger's gearing will fall to about 15%

The credentials of Tiger and its management are not in doubt — it is merely a matter of judgment as to which is the best level of entry to share in the group's fortunes At present, Smith Foods looks cheap at R47

Tiger has had a busy few years of acquisitions — Fatti's & Moni's, Sterling Drug, Saphar-Med and half each of Langeberg Foods and of Beacon Sweets before last month's Reckitt & Colman coup



ROBBIE WILLIAMS. Confidence in a consistent company

Its portfolio comprises food manufacturing, processing and distribution and investments in fishing and pharmaceuticals respectively through Oceana and both Adcock Ingram and Logos

Food dominates, accounting for 85% of turnover and 70% of attributable earnings Pharmaceuticals chip in 23% of profit from 11% of turnover, and fishing and financials the balance

Sales almost hit R8-billion in the recession-hit year to September 1991 Mr Williams says Tiger's core is not milling But it is a leader in branded names — buyers are discerning even about mealie meal

Tiger sells Ace and Induna in that line Leading products include Tastic, All Gold, Black Cat, Albany, Koo, Sunshine D, Dogmor, Colman's mustard, Purity babyfood, Cartwright's Curry and Pamper

Conventional wisdom has it that food shares outperform the market in hard times and underperform in good ones

Mr Williams says that Tiger has done consistently well

Undoubtedly, some parts of the group have outstripped the others — the recent acquisitions have already brought home the bacon Chickens and eggs fell foul of the recession

Perhaps the view is that if there is not much left worth buying, Tiger certainly will not sell but will prefer to correct the underperformers

The tightly held share has a sound future Every time it looks fully priced, it eases then comes back even higher

Tiger could pitch at R35 (186)

The price at which Tiger Oats' is pitching its R370 million rights issue will be announced on Friday week. The market seems to be looking for a price of at least R35. This compares with R44 at the time of the announcement earlier this week and R42 yesterday.

It seems that CG Smith Foods, which holds 52,8 percent of Tiger will be taking up its full entitlement. This means it will be contributing R195,3 million of the R370 million. (This contribution will take up most of the proceeds that Smith Foods will receive from the listing of Smith Sugar.)

The rights issue will see Tiger's gearing reduced to around 20 percent. The reduction to 34 percent referred to in this column on Tuesday did not take into consideration the double benefit of the issue — it not only reduces gearing by R270 million (after allowing R100 million for the Colman acquisition) but it also increases shareholders' funds by R370 million.

Food makers happy to change their labels

(186)

ARG 27/1/92

JACQUELYN SWARTZ
Staff Reporter

THE writing is on the wall for food ingredients that may cause heart disease, strokes, cancer and obesity

Several manufacturers have pledged to change their labels to list ingredients which may cause allergic reactions, and to include the amounts of nutrients such as salt, fat and fibre present in processed foods

This follows a call made by several nutritional advisory groups for stricter food labelling legislation in the light of the soaring diet-related disease

These organisations, which include the Heart Foundation and the National Cancer Association, believe disease prevention through nutritional education is futile without comprehensive food labelling

They say legislation should also create incentives for manufacturers to develop safer and healthier products

Mr Ray Brown, mangaging director of a leading canning operation, said he would have no objection to stricter legislation

"I think its only right that people should know what they are eating We would be more than happy to comply," he said

Mr Bruce Hartland, marketing manager for a competitor, said his company was working on new labelling to incorporate all the extra information they believed would interest people.

"As soon as it (the legislation) has been decided we will comply with any new regulations," he said

"We are in full support of it and think it's a very good idea"

Supermarket chains which sometimes make up their own foods, such as salads and frozen meals, have also pledged support for the new labelling

Mr Peter Dobson, research and develpment director for one chain, said his company had already started to apply new labels to about 200 of its latest products.

This would become more extensive if called for by legislation, he said

"The stricter the legislation the happier I will be We will be absolutely happy to comply," he said

Analysts urge caution on CG Smith Sugar listing

Bloem 27/1/92

(186)

JABULANI SIKHAKHANE

THE listing of CG Smith Sugar next month has not raised any great enthusiasm among stockbrokers' analysts, even though the company's chemicals interests are expected to generate faster growth this year than sugar.

They are cautious about the share's valuation because sugar, the group's core business and its biggest profit contributor, is highly cyclical Last year sugar provided 75% of Smith Sugar's taxed profit, chemicals contributed 12% and warehousing and distribution the remaining 13%.

Smith Sugar will be listed on the JSE following the offer of 39,55-million shares, or 30% of Smith Sugar's equity, by parent CG Smith Foods to its shareholders. The company has forecast earnings of 58c a share and a total dividend of 23c for the year to September. The company says most of this growth is expected to come from non-sugar interests.

These forecasts place Smith Sugar on a forward price earnings multiple of 8,9 and a dividend yield of 4,4% against the sugar sector's historical average of 9,5 and 4,1%, respectively. However, some analysts argue that though this indicates the offer is finely pitched, the index may not be the best benchmark. It is weighted heavily towards Tongaat-Hulett which generates less than 40% of its earnings from sugar — the rest is derived from less cyclical building supplies, aluminium and food

Frankel Max Pollak Vinderine analyst Teigue Payne says the sugar sector is determined largely by Tongaat-Hullett which currently trades on a price to earnings ratio of 11,7 and a dividend yield of 3,2%. He says due to sugar's high cyclicality, Smith Sugar's rating should be downrated.

Ed Hern Rudolph's Syd Vianello says Smith Sugar should not be held as a long-term investment. The group's profitability has been declining for the past three years For instance the forecast pre-tax profit of R111,919m for financial 1992 is still lower than 1989's R120,479m.

That earnings have grown since 1989, says Vianello, was due to a lower tax rate. The effective rate dropped from 38,9% in financial 1989 to 26,6% in 1991 because of capital spending allowances and is expected to drop below 20% in the current financial year Another rate cut will arise largely from accelerated depreciation of the Umfolozi mill's revalued assets

Smith Sugar chairman Glyn Taylor says his company's drop in operating margins was a result of declining world sugar prices for the past three years and temporary setbacks in the chemical division.

While the chemical division setbacks should be overcome in the short term, there is still uncertainty about world sugar prices, which are currently below $200 a ton compared with $357 in April 1990.

"Market prospects are more difficult to predict because of changes in Eastern Europe and the unknown outcome of the next round of GATT talks in Uruguay Expected production problems in Cuba could be a positive factor, but there are still too many other uncertainties," Taylor says

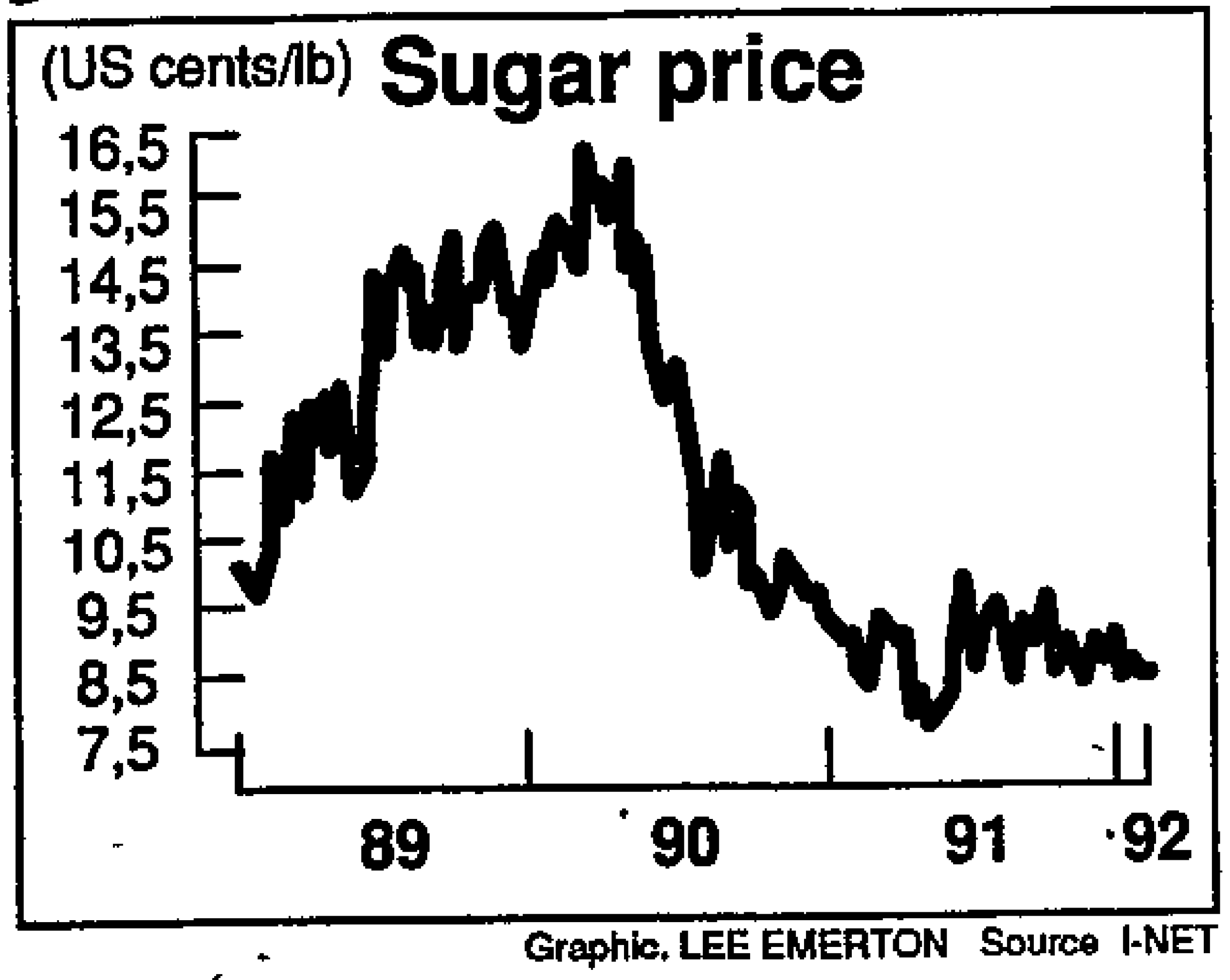
Sugar consumption in the domestic market had also been declining for two years until 1991 when it grew by 5,7%

A huge chunk of this growth came from industrial consumption which grew by 8%. Industrial consumption constitutes 33% of total domestic sugar production while household consumption accounts for 67%

Payne says household consumption has been growing at a far slower rate.

He adds that in the industrial market, sugar is facing competition from maize-based glucose which is produced by Tongaat's African Products and Tiger Oats's Universal Products

Taylor says the sugar industry is constantly keeping an eye on sugar alternatives and in recent years had been able to win back market share from glucose "The sugar industry offers incentives to manufacturers and the price is also fixed at a level which will dissuade them from using glucose."



Graphic. LEE EMERTON Source I-NET

Heinz looks at joint ventures with SA firms

BDay 29/11/92 (186)

MARCIA KLEIN

INTERNATIONAL food conglomerate H J Heinz has sent a task group to SA to investigate business opportunities, including a possible partnership with Malbak.

A Heinz spokesman said in an interview yesterday that his group was studying a broad range of business opportunities in SA, and if a decision were made to enter SA, Heinz would "come in with a substantial presence".

While there were no immediate plans to begin operations here, he said Heinz would be looking at a joint venture which would involve a food company.

Heinz, with about a $7bn turnover, manufactures food products including its famous soups, ketchup and baked beans, as well as pet and snack products. Weight Watchers is also a Heinz company.

Heinz executives' presence in SA follows a recent visit to the US by Malbak Food Division chairman and CE Dirk Jacobs and Malbak financial director Dave Kenneally, where they held discussions with Heinz chairman and CE Tony O'Reilly.

Malbak Food Division — formed via the merger of Fedfood and Kanhym after Malbak's acquisition of Fedfood — announced yesterday the Heinz task group, together with senior Malbak, Fedfood and Kanhym executives, would spend the next two weeks identifying opportunities.

Jacobs said there were many possible synergies in terms of the companies' business philosophies and style.

Apart from Malbak, the Heinz spokesman said Heinz was talking to two other companies, and it would be interested in a joint venture with the company best fitted to its product range and distribution needs.

He said Heinz had been interested in sub-Saharan Africa for some time, and was already present in Zimbabwe and Botswana. It hoped to enter post-apartheid SA, as discussed by ANC president Nelson Mandela in December 1991 when he presented the H J Heinz Company Foundation distinguished lecture at Pittsburgh University. Mandela said then he would agree to US trade and investment as soon as an interim government was in place, "even before there are free elections".

Heinz talks with Malbak on possible return to SA

STAR 29/11/92

By Ann Crotty (186)

Heinz, the US-based international food giant, and Malbak have started an investigation into the possibility of co-operating in the South African market

A high-level Heinz task group has arrived in South Africa and will spend the next two weeks identifying and evaluating opportunities and synergies with a team of executives from Malbak, Kanhym and Fedfood.

Heinz has been out of the SA market since the early 1980s It was previously involved with Anglovaal Industries.

Although discussions are at an early stage, establishing some sort of tie-up between Fedfood and Heinz could see Fedfood emerge as a significant player in a market that is currently dominated by Tiger Oats

Heinz is a world leader in canned vegetables, beans, jams and fruit It is also a leader in the tomato sauce and mayonnaise markets as well as baby cereals and other baby foods

Annual turnover of these products in the local market is close to R1 billion It is R1 billion of high margin sales which makes it a significant contributor to the bottom line of any of the participants

At present Langeberg, which falls into the Tiger fold, controls an estimated 75 percent of the market in canned vegetables, beans, jams, fruit and tomato sauce

Synergies

Nestle dominates the baby foods market although through Colmans, Tiger now has a significant stake in pureed baby foods

There are obvious synergies between Fedfood, which is soon to acquire the operations of Kanhym, and Heinz' non-fruit operations.

Harvestime-Table Top, which is Fedfood's frozen food division, is the country's largest procurer of vegetables This means that Fedfood can offer Heinz procurment and preparatory facilities

Canning facilities could be added relatively easily as could the facilities for making baby pureed foods and tomato sauce

Through Kanhym and Fedfood's marine division, there should be considerable potential for Heinz to develop its pet food interests in SA

One area in which there is little or no synergy is canned fruit Fedfood has indicated that it will be disposing of its relatively small fruit operations However procuring fruit should not be too difficult

A major issue for Heinz, if it is to re-enter the local market, will be the need to relaunch its brand name with its high quality, expensive image

Although the brand name is strong in the international arena, it has little impact in SA, particularly among black consumers who represent a crucial segment of the market

It is this aspect rather than the existence of physical assets that will be critical to the success of Heinz in SA, particularly as it will be up against established strong brand names

It may be for this reason that the Americans have made initial links with Malbak

In recent years, Kanhym under Dirk Jacobs has made significant progress in developing value-added products with a strong brand image This has helped Kanyhm to produce a steady earnings performance in the face of fluctuating price and demand for its red meat

With Mr Jacobs at the head of Fedfood, brand awareness will be an important theme in that group's culture

Encouraged

The establishment of a second strong brand name in the local market is likely to be encouraged by retailers who at present are heavily reliant on one supplier

There is no indication as to how long it will be before something is, or is not, resolved from this initial investigation

A spokesman for Heinz said "We are studying a broad range of business opportunities in SA However we have no immediate plans to begin operations All activities are aimed at long-term business objectives"

Heinz is involved in a joint venture with the Zimbabwean government It also has operations in Botswana

FM 31/1/92 (186)

ROYAL CORP (186)

A handsome profile

Activities: *Holding company of Roychem and Royal Foods* FM 31/1/92
Control: *Royal Group Holdings 51,6%*
Chairman: *V S Imerman, MD D H B Johnston*
Capital structure: *67,8m ords Market capitalisation R325m*
Share market: *Price 480c Yields 2,9% on dividend, 7,8% on earnings, p e ratio, 12,9, cover, 2,7 12-month high, 500c, low, 270c Trading volume last quarter, 1,0m shares*

Year end Aug	Feb '90	Feb '91	Aug* '91	Aug† '91
ST debt (Rm)	5 1	n/a	9,3	9,3
LT debt (Rm)	10 7	n/a	1,2	1,2
Debt equity ratio	0,20	n/a	0,11	0,11
Shareholders interest	0 63	n/a	0,64	0,64
Int cover	5 1	3 6	5,3	4,4
Return on equity (%)	14 3	14,7	14,0	10,0
Turnover (Rm)	170,5	220,8	240,0	460,8
Pre-int profit (Rm)	17 8	22,3	28,1	50,4
Pre-int margin (%)	10 4	10,1	11,7	10,9
Earnings (c)	18 6	21,2	18,6	39,8
Dividends (c)	6,0	7,0	6,9	13,9
Net worth (c)	130	144	266	266

* 6 months † 18 months

Despite undergoing structural changes in the past year, Royal retains a little-changed profile for shareholders

It was a year of major acquisitions and listings for Royal Foods and Roychem, with significant minority interests being introduced into the previously wholly owned companies The new structure — including consolidation of the acquisitions — took effect during the last six months of the 18-month accounting period to August, so the period is not strictly comparable with previous happenings

Nevertheless, a breakdown of attributable earnings for this half-year indicates that Royal Foods contributed 65% and Roychem 35% This is almost the same as the 64 36 split estimated by the company for the full 18 months and compares with 64 36 for the 1990 financial year (to February)

The marginal reduction in Roychem's contribution can be attributed to the larger minority holding in this company — 42,2% against 34,8% for Royal Foods

But shareholders should be pleased that the minor change in earnings profile indicates that the development of each division is receiving equal attention If this continues, it will preclude the development of a Cinderella syndrome that would ultimately rebound on Royal

Royal Corp's Imerman *growing tall*

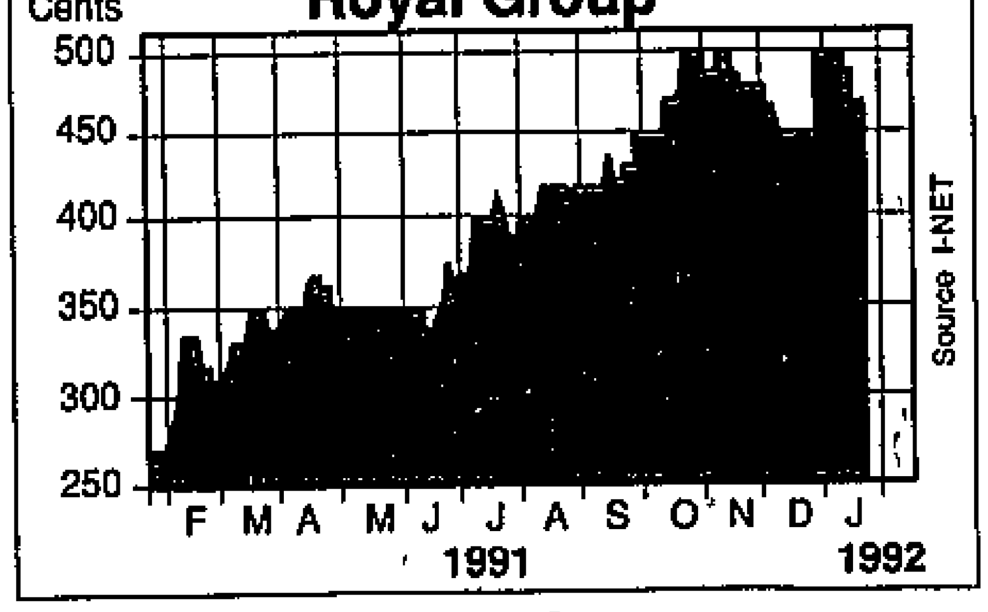
Because operations were wholly owned until March, there is no way of knowing if or how the structural changes affected the profile of net worth They did, however, yield a massive capital profit which boosted total net worth from 130c a share in February 1990 to 266c in August 1991

This figure is about 68% attributable to Royal Foods and 32% to Roychem The ratio highlights the glamorous image and, hence, market attraction of Royal Foods which boasts trademarks such as Beech-Nut and Del Monte, while Roychem is more profitable with an annualised ROE of 16% (Foods 13,6%)

Total attributable value of Royal Corp's holdings in Royal Foods and Roychem is R394,2m, of which 81% is in Foods and only 19% in Roychem This puts a hypothetical value of 581c on Royal Corp, 100c more than the current market price

If the two operating companies do no worse than hold their ratings, Royal's price could climb, even though it has trebled over the past two years

The same applies to pyramid **Royhold,** which has 35m shares in issue and holds a similar number of Royal Corp The two should, therefore, as is now the case, trade on a par with one another, but it follows that if Royal Corp is underpriced relative to its holdings in the operating subsidiaries, so is Royhold *Brian Thompson*



ROYAL FOODS FM 31/1/92

Healthy appetite

(186)

Activities: *Manufactures, markets and distributes confectionary, culinary dry-mix products and canned fruit*
Control: *Royal Corp 65,2%*
Chairman: *V S Imerman, MD D H B Johnston*
Capital structure: *97,4 ords Market capitalisation R487m*
Share market: *Price 500c Yields 2,0% on dividend, 5,2% on earnings, p e ratio, 19,1, cover, 2,6 12-month high, 550c, low, 350c Trading volume last quarter, 1,0m shares*

Year end Aug	Feb '90	Feb '91	Aug* '91	Aug† '91
ST debt (Rm)	0,2	n/a	9,6	9,6
LT debt (Rm)	0,6	n/a	0,1	0,1
Debt equity ratio	(0,03)	n/a	0,08	0,08
Shareholders' interest	0,58	n/a	0,60	0,60
Int & leasing cover	4,4	n/a	n/a	3,9
Return on cap (%)	22,3	22,1	22,0	12,8
Turnover (Rm)	103,7	118,4	130,1	248,0
Pre-int profit (Rm)	10,4	13,1	17,4	30,5
Pre-int margin (%)	10,0	11,1	13,3	12,2
Earnings (c)	12 5	15 0	13 1	22 9
Dividends (c)	4 1	3,1	5,0	8,1
Net worth (c)	56	68	118	118

* 6 months
† 18 months

Acquisitions have trebled the assets of Royal Corp's food interests, now housed in 65,2%-owned Royal Foods (Royfood)

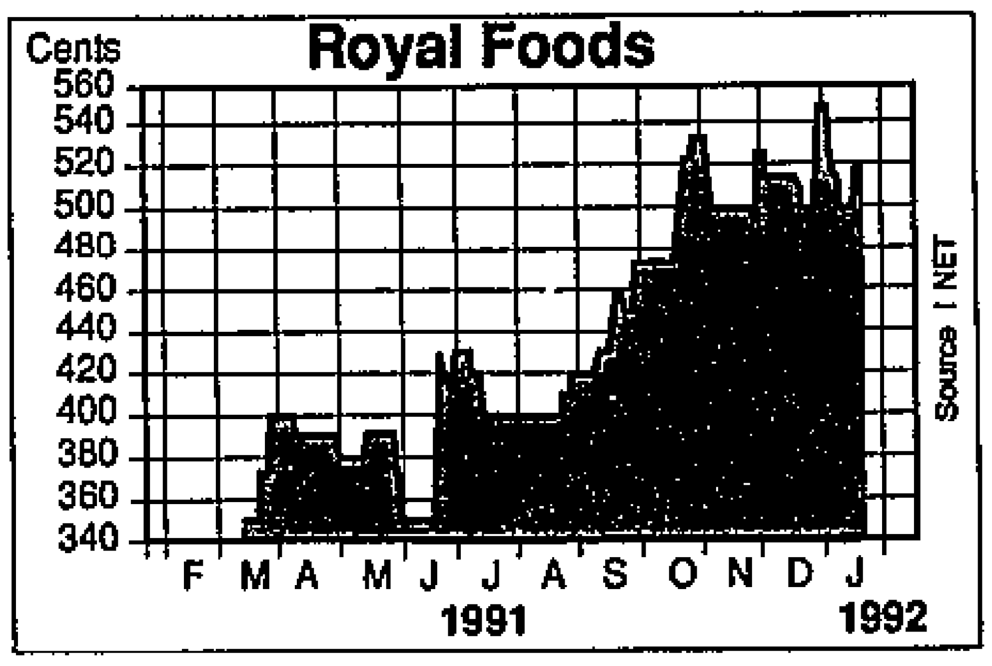
Royfood's takeovers, covering in particular SA Preserving (Sapco) last February and businesses which brought it into two new areas, fruit canning and biscuit manufacture, negate comparison with previous results Still, the latest results provide insight into the group's development Royal has been criticised for overpaying for acquisitions but there are signs that earnings were enhanced by the expansion last year

Precise analysis is difficult, owing to the capital reconstruction which preceded the March 1991 listing and the change of financial year-end from February to August. But it appears food interests before the takeovers would have earned about 15c a share on the capital for the 12 months to February 1991, 20% up on the previous year.

In the six months to August 1991, the first period to reflect consolidation of the new members, EPS on the full issued capital were 13,1c or 87% of the previous 12 months' total

Royfood's EPS projection for the 12 months to February 1992 is 31c But simply doubling August 1991 half-year results would yield EPS of at least 26c which, relative to the 15c for the year to February 1991, underscores how the earnings base has been enhanced And the 31c projection implies EPS of 18c in the six months to February.

Apart from the organic growth forecast by chairman Vivian Imerman, results should be enhanced by the rationalising apparently sparked off when Fedfood's biscuit division was acquired in April



A spin-off was the decision to establish a new warehouse at the Chloorkop factory Due to be commissioned in February, it will be large enough to store and distribute all Royal Beech-Nut and Fedbisco products When fully operational, the warehouse should yield cost and efficiency benefits

Sapco facilities are being expanded and upgraded, partly to take advantage of the larger share of the annual peach crop which it was able to secure after the demise of Gants. This, coupled with the development of new markets and products, should ensure continued growth here

With no firm base from which to project, it is not easy to predict this year's results However, just doubling the 18c earnings expected for the six months to February, a 36c target for the 12 months to August 1992 might not prove far off the mark

Royfood shares have performed well since the listing a little under a year ago, rising from an effective issue price of 335c to a peak of 550c (a 64% gain) before settling back to 500c, for net appreciation of 49% This can be attributed in no small measure to the impressive line-up of trademarks but a prospective 14 times p e ratio is not unreasonable for the food sector *Brian Thompson*

Heinz plays the field

ST Times [BUSS] 2/2/92

(186) **By ZILLA EFRAT**

INTERNATIONAL food group HJ Heinz's exploratory visit to South Africa is not its first.

The current trip was organised by Malbak's food division, but Heinz has been seeking to enter the SA market for some time

It is believed the US-based multinational has spoken to Premier Group, Anglo American Farms and Anglovaal Industries.

A Heinz team apparently visited SA last year to look at troubled food processor Gants

Irish-born Heinz chairman Tony O'Reilly, a Lions rugby star in his younger days, visited SA to host a birthday bash for Dannie Craven in 1990

Speculation then was that Mr O'Reilly was also looking at business opportunities He spent much time with Pick 'n Pay supremo Raymond Ackerman

Malbak group financial director Dave Kennealy says Malbak approached Heinz at the end of October after acquiring Fedfood and merging it with its other food interests

Malbak food division chairman and chief executive Dirk Jacobs and Mr Kennealy saw Mr O'Reilly in New York in December As a follow-up, five Heinz executives are in SA to look at Malbak's operations

Mr Kennealy says Heinz is looking for joint-venture manufacturing opportunities Other possibilities include Malbak making its products under licence and some kind of import and distribution agreement

Malbak will know whether talks will continue in a week's time

Heinz is famous for its ketchup, soup, baby food, tuna and pet food Small amounts of its products are imported by Cape-based M&L Distributors

... could affect the board.

Drought to be debated in Parliament

BIDay 6/2/92

CAPE TOWN — The drought in large parts of the Republic is to be debated in the House of Assembly today as a matter of public importance.

The House's Order Paper showed the debate was proposed by CP chief whip Frank le Roux.

Agriculture Minister Kraai van Niekerk is scheduled to visit the drought-stricken summer grain-producing areas early next week.

He expressed concern about the critical situation in the Free State and Transvaal in particular.

The SA Agricultural Union is to discuss the gravity of the situation with the Ministry of Agriculture at a meeting scheduled for February 14.

The Red Meat Producers' Organisation warned producers could face serious problems unless it rained soon — Sapa.

Harvestime to retrench 500

BIDay 6/2/92

PORT ELIZABETH — Frozen food manufacturer Harvestime is to retrench about 500 people nationwide because of severe drought in the Eastern Cape and the recession.

Harvestime chairman and Table Top MD Gert Schoonraad said 300 of those to be retrenched worked at the company's frozen vegetable plant in Port Elizabeth. (186)

Schoonraad said the drought was causing a lack of adequate supplies. Operations in Port Elizabeth had to be scaled down, due mainly ~~to~~ declining demand.

The decline in demand was probably being caused by the current state of the economy, with people eating more cheaply, he said. — Sapa.

I&J interim profits show healthy rise

(186)

Finance Staff STAR 7/2/92

Anglovaal Industries' frozen food company Irvin & Johnson (I&J) has continued its profit growth with an interim earnings increase of 22 percent

Earnings per share for the six months to December rose from 101,2c to 123,2c on a 20 percent improvement in turnover to R827,36 million (R692,3 million).

Interest from the R98,2 million rights issue contributed R2 million to pre-tax profits of R55,42 million (R48,39 million)

Chairman Jan Robbertze says that while turnover volumes were encouraging, margins remained under pressure.

Demand for brands of fish and vegetables was strong, but sales of prepared foods suffered as a result of recessionary conditions.

Fishing conditions deteriorated slightly in SA waters, but hake resources in Namibian waters continued to show signs of improvement

Namibian authorities have still not committed to a long-term policy over fishing of mackerel and hake resources, making immediate future planning in this section difficult.

Mr Robbertze expects earnings for the full year to be ahead of those of financial 1990/1, but that growth in profits will be lower than the interim 22 percent

186

FM 7/2/92

The watchers and the watched

Central Statistical Service December figures on consumer prices show an increase of 1,3% but Vatwatch, which monitors movements of a basket of 104 household and grocery items, found a decrease of 0,27% The discrepancy raises questions about each organisation's method of monitoring prices and the validity of their findings

CSS's Martie Grobler says it sends out about 5 400 questionnaires to storeowners countrywide each month to measure about 88 000 prices Calculations are based on responses The same item in the same shop is monitored each month on the same date "We investigate in the field if there are discrepancies or anomalies," says Grobler

David Geldenhuys, of Interfact, a market research company that monitors prices for Vatwatch, says it does a monthly check on 104 grocery items at 105 points countrywide The points are divided almost equally between urban and country areas

"In urban areas we monitor major outlets like supermarkets and hypers as well as small independent black stores Outside the cities, we survey a representative sample of larger towns (Pietersburg, Nelspruit, Ladysmith, Queenstown) and small rural towns, a typical rural area (western Transvaal) and two points in each self-governing state," Geldenhuys says

He adds "We have chosen basic products like bread, meat, milk, vegetables and cleaning materials, perishables, health and beauty products and general items like batteries and candles"

Dry items carry a weighting of about 50% in rand value, perishables about 32% and health and beauty items about 18%

Information is collected on the same date each month and the same stores and same items are monitored

December's decrease, according to Interfact, followed increases of

- ☐ 2,56% in August (corresponding CPI monthly figure was 1,4%),
- ☐ 2,26% September (1,4%),
- ☐ 2,71% October (1,9%), and
- ☐ 2,1% November (1,0%)

Interfact found that, in December, 11 out of the 16 regions surveyed showed a similar decrease Geldenhuys attributes this to slack demand and strong competition

The discrepancy between Interfact and CSS surveys for December could be because the former is done at the end of a month and the latter at the beginning The discrepancy over a number of months may arise because Interfact's survey captures more information on outlets that cater for blacks

Geldenhuys says "Our survey shows a 2,41% average monthly price increase before VAT and a 1,51% increase post-VAT" This follows the switch from 13% GST to 10% VAT on a wider range of goods

He adds that perishable items demonstrated the strongest pre-VAT price increases averaging 6,2% a month, dropping to 3,29% after VAT

The case of milk powder (branded and nonbranded) shows the power of inflationary expectations When GST was applied, price increases averaged 6,7% a month Post-VAT, when this item was zero-rated, price increases still averaged 5,6%

Other anomalies emerged in the pricing of VAT zero-rated items Geldenhuys says "Post-VAT canned fish prices dropped by about 5,6% a month Branded milk powders increased by about 4,6% while nonbranded milk powders increased even more sharply — by about 6%"

Rice, which carried GST and is now zero-rated "behaved much better" — prices fell about 12%

Since VAT's introduction, increases of more than 3% were recorded in milk powders, bread, Cheddar cheese, chicken portions, eggs, margarine, frozen peas, some fresh vegetables, mince, boerewors and beef "Perishables, which are the most popular items, increased the most after VAT was introduced"

Meat remains a major source of inflation Interfact monitored only mince, boerewors and stewing beef but, in all three cases, post-VAT price increases were about 27% over the three-month period

Housewives League president Lyn Morris doubts it is possible to monitor price movements accurately countrywide She says the league does its own spot checks The league's figures show in the year to November, apricot jam (tins) increased by 43,2%, baked beans 30%, sliced peaches 29,9%, white bread 26,1% and brown bread 27%, three cuts of red meat 34,2% and grocery items aggregated 22,7%

I&J share doubles to R47 in a year

(186)

B/Day 7/2/92

MARCIA KLEIN

MARKET anticipation of good interim results from Irvin & Johnson (I & J) saw the share rise to close yesterday at its yearly high of R47, exactly double its price at this time last year.

Shareholders will not be disappointed

The fishing and frozen food group yesterday reported a 22% growth in earnings to 123,2c (101,2c) a share in the six months to end-December on the back of buoyant sales and strict management controls

I & J, in the Anglovaal stable, reported a drop in earnings in financial 1990 after 12 years of uninterrupted profit growth But recent results indicated that its 1991 recovery would continue.

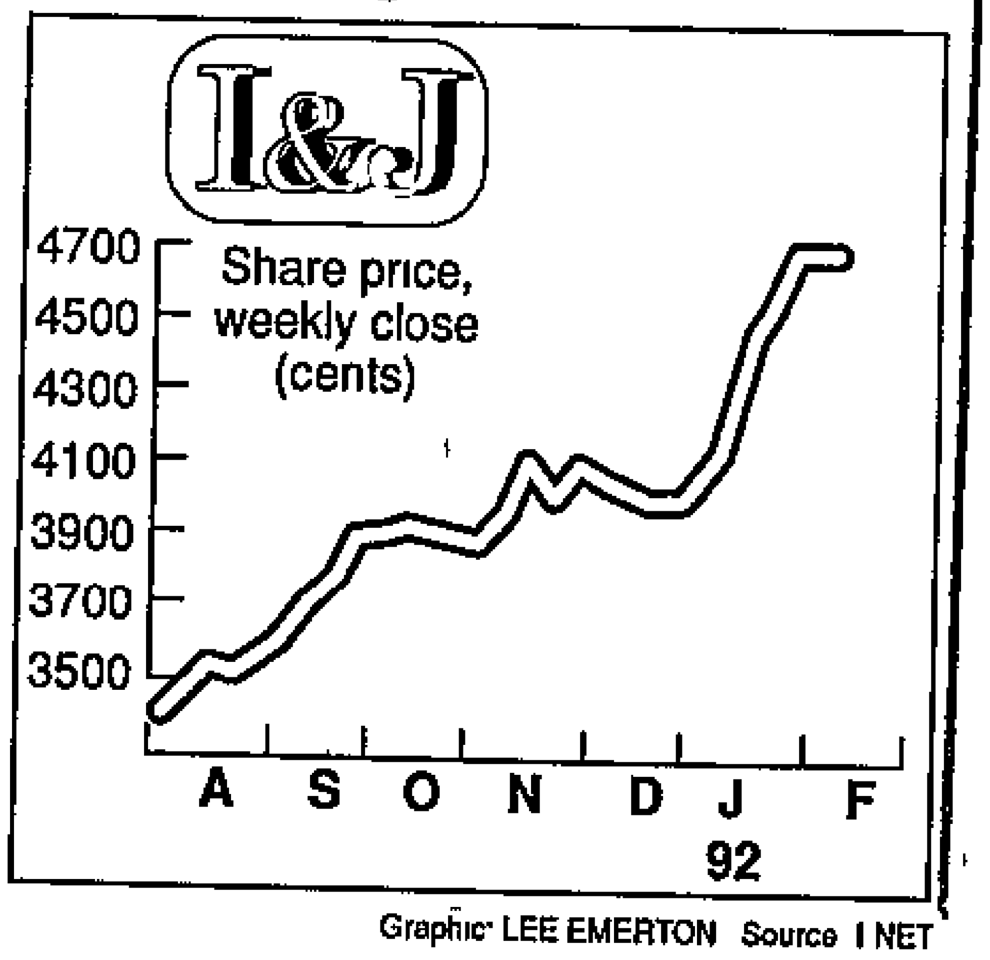
Chairman Jan Robbertze said turnover volumes were "encouraging" and interim sales were 20% up on the previous year at R827,4m (R692,3m)

While demand for I & J's fish and vegetable brands had been strong, prepared food sales suffered under recessionary conditions which prevailed during the reporting period

Fishing conditions in SA waters deteriorated slightly, Robbertze said, but hake fishing in Namibian waters continued to improve Namibian authorities did not have a long-term policy on fishing mackerel and hake resources, "making immediate future planning in this sector of the business difficult", he said

Pressure on margins and a 22% higher interest bill of R3,9m saw pre-tax profit rise by 14% to R51,6m (R45,2m)

I & J recently raised R98m in a debenture rights issue to fund its capital expenditure programme and to place it for any future expansion opportunities. The rights issue — of 2,9-million 6% debentures over a seven-year term — resulted in pre-tax profits of R2m for the period, so pre-tax earnings, excluding the offer, would have increased by 9,6%



Graphic· LEE EMERTON Source I NET

I & J spent R31,9m over the past six months, and a further R35,6m was authorised at end-December. Capex was mainly for new cold stores and rebuilding vessels.

Earnings were lifted by 22% to R35,1m (R28,9m) after tax increased by only 1% following a reduction in the group tax charge The group's share of associated companies' earnings — including Capensis Fishing and Marcofish — recovered from a small loss to a R224 000 profit

Although it was difficult to make any forecasts in the current climate, Robbertze said the group expected earnings for the full year to be above those of the previous year However, these would be "at a lower growth rate than that achieved in the first half"

The watchers and the watched

186

FM 7/2/92

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RBN takes over Lecol

(186)

STAR 12/2/92

Finance Staff

Royal Corporation's subsidiary Royal Beech Nut (RBN) has taken over Nestle South Africa's Lecol beverage interests for an undisclosed amount

Lecol is estimated to command about 25 to 35 percent of the market it operates in.

It currently turns over between R30 million and R40 million a year

Payment details of the acquistion were also not released However, indications are that this will be by way of cash and is unlikely to strain Royal Corporation's resources

COMPANIES

Lecol joins Roycorp product range

B Day 12/2/92

MARCIA KLEIN

186

THE acquisitive Royal Corporation (Roycorp) has added Lecol to its extensive range of food and beverage products housed in its newly listed Royfood division

It announced yesterday that Royfood company Royal Beech Nut (RBN) had acquired from the Nestle group its Lecol beverage interests for an undisclosed sum

RBN MD Errol Freilick said the Lecol brand was currently turning over between R30m and R40m a year, giving it a 25% to 35% share in its sectors of the cordial beverage market

It was likely that RBN would pay cash, and the acquisition would not strain Roycorp's resources Roycorp financial director Jacques Fragis said the financial implications would not be material this financial year, but could be significant in the following year

Freilick said the addition of Lecol would see the group "making optimal use out of our distribution capability and manufacturing capacity In particular, we expect it to maximise utilisation of our new distribution centre at Chloorkop between Johannesburg and Pretoria"

The deal also had "solid strategic implications for Royal", complementing its existing beverage interests which include Sweet Aid and the group's right to market Del Monte's fresh fruit juices.

RBN will be looking at export markets, especially those which Lecol lost because of SA's political profile

Mild reaction to C G Sugar

MERVYN HARRIS 186

C G SUGAR makes its debut on the JSE today, but support from Cape institutions has not been matched by Johannesburg investors who have been disposing of their rights to take up shares.

The sell-off through the market pushed the nil paid letters down from an opening high of 70c to 1c before rising to 2c yesterday on the last day for shareholders to register to take up their rights at 520c a share. Analysts therefore expect that the shares could open and trade today at a slight discount to the issue price but should hold at around 500c.

Fergusson Bros analyst Richard Price said: "The lack of interest in the shares is misplaced given the superb earnings record of the company. B/Day 13/2/92

"While earnings expectations over the next two years are fairly muted, this is partly because investments in the chemical field have yet to make a full contribution," Price said.

He added that the market appeared to take note only of the international traded price of sugar which did not truly represent the price received by millers and growers in SA or elsewhere.

Drought closes Fedfood plant

By DON ROBERTSON

THE drought and low demand for frozen vegetables have forced Fedfood to close its Harvest Time plant in Port Elizabeth. (186)

Chairman Dirk Jacobs says farmers will not have sufficient water for irrigation this year.

Some freezing facilities will be used at the plant and packaging and distribution will continue. S|Times

Several workers and produce from some farmers will be sent to the Table Top plant in George. (BUSS) 16/2/92

As announced in the last interim report, the Patoma sub-tropical fruit processor will be sold. Three buyers are interested.

Canning giant Langeberg bound for JSE

Business Staff (186) ARG 17/2/92

CAPE-based Langeberg Holdings, one of the largest food canning operations in the world and the first South African agricultural co-operative to privatise, is to apply for a listing on the Johannesburg Stock Exchange by June 30

Controlled by Tiger Oats, which has a 56 percent shareholding, Langeberg Holdings, through its wholly-owned subsidiary Langeberg Foods, has nine major food processing and canning operations located throughout South Africa and exports canned fruits, vegetables and other foods to world markets

Managing director Ray Brown said that in view of the strong financial performances of the company and the buoyancy of the stock market, the Langeberg board had decided the time was appropriate for a listing

Through the listing Tiger Oats and Langeberg would give effect to a clause which was contained in the 1988 purchase deal to provide members with an open market in which to deal in Langeberg Holdings shares

Langeberg has been a star performer for Tiger Oats In the 1991 Tiger annual report, Tiger chairman Robbie Williams commented on Langeberg's increased profitability "Very encouraging results were achieved by the group's recent acquisitions, particularly Langeberg"

Langeberg to apply for JSE listing

STAR 17/2/92

Finance Staff

(186)

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Its products include Koo, All Gold, Silver Leaf, Hugo and Naturlite

Managing director Ray Brown says in view of the company's strong financial performance and the buoyancy of the stock market, the Langeberg board has decided the time is now ripe for a listing

Through the listing Tiger Oats and Langeberg will give effect to a clause contained in the 1988 purchase deal to provide members with an open market in which to deal in Langeberg shares.

Langeberg has been a star performer for Tiger Oats.

In the 1991 Tiger annual report, chairman Robbie Williams said "Very encouraging results were achieved by the group's recent acquisitions, particularly Langeberg."

The scale of Langeberg's operations is vast — in an average year it processes about 350 000 tons of raw produce, consuming 35 000 tons of sugar and using more than 400 million cans, bottles and jars

Listing is cherry on top for Langeberg

BDay 17/2/92 (186)

EDWARD WEST

LANGEBERG Holdings will complete its transformation into a public entity with a listing on the JSE before June 30, two years after being the first agricultural co-operative to be privatised.

Cape-based Langeberg is one of the world's largest food canning operations and has an annual turnover of more than R640m

Langeberg Holdings spokesman Dev du Toit said the decision to list was based partly on the wish by minorities to trade their shares on the open market

Tiger Oats has a controlling 56% stake in Langeberg Holdings through wholly owned subsidiary Langeberg Foods. Langeberg Co-operative — mainly made up of the farmers who are Langeberg's prime source of raw materials — holds about 30% of Langeberg Holdings while about 14% is made up of minority shareholders.

The decision to go public was also to a large extent based on a clause in the contractual agreement between Tiger Oats and Langeberg Co-operative which was drawn up in July 1988 on Tiger Oats' acquisition of its stake in Langeberg. The clause stipulated that an attempt be made to list Langeberg by June 30 1992, said Du Toit.

Langeberg MD Ray Brown said in a statement the company had nine food processing and canning operations and exported a large variety of canned fruits, vegetables and other food products

It processes 350 000 tons of raw produce every year, consuming 35 000 tons of sugar and using more than 400-million cans, bottles and jars Its products include brand names such as Koo, All Gold, Silver Leaf, Hugo and Naturlite.

Brown said the Langeberg board decided the time was appropriate for a listing in view of the strong financial performance of the company and the buoyancy of the stock market.

In the 1991 Tiger Oats annual report, Tiger chairman Robbie Williams commented on Langeberg's increased profitability: "Very encouraging results were achieved by the group's recent acquisitions, particularly Langeberg."

Langeberg Holdings' 1991 annual report showed the company increased turnover by 15,4% to R645,8m in the financial year to September 1991 when compared with the same period in 1990. Earnings a share more than trebled to 156c. Consequently dividends increased from 11,5c a share to 45c a share over the same period. The report forecast a further improvement in Langeberg's performance in 1992.

Brown said drought in the northern regions of SA would have no effect on Langeberg's profitability. The past three years had seen drought affect pineapple crops in the eastern Cape, but farmers there expect crops to improve this year.

Fruit crops were mainly in the western Cape and were safe from drought. Pea crops were slightly affected by drought last year and only 70% of Langeberg's requirement was produced. Brown said drought was a natural occurrence in SA and the group experienced such conditions with at least one crop a year.

Row over food prices

B/Day 20/2/92 (186)

SHARON WOOD

CONTROVERSY about high retail food prices rages on, with the major food companies denying reports that food companies are exporting at the expense of the local market

Fedfood does not subsidise exports with local prices, says Fedfood Planning GM Anthos Yannakou

The argument that local food producers were short-supplying SA retailers did not apply to Fedfood because exports, at about 5%, were only a small part of the company's business.

Premier also denied the charge

LANGEBERG FM 21/2/92

Ready to list

186

When Tiger Oats bought control of Langeberg Co-operative in 1988, it agreed that a listing would be considered "at an opportune time" That may be now, as food shares have run ahead of the market this year. Langeberg hopes to go on the boards in June.

The canning giant falls into the added value end of the market. It has a dominant market share in fruit and vegetable canning. An operating margin of 12,3% is well above the 7% of Tiger Oats as a whole

Under MD Ray Brown, brought over from Tiger in 1990, results and returns look much healthier. Attributable income of R62m is well up on R18m in the previous year

continue →

FM 21/2/92 186

The balance sheet is also healthier. Gearing, 83% just after the takeover, fell each year to 27% in 1991. Despite a 15% rise in 1991 turnover, net working capital was almost static· a R20m increase in stock was offset by higher creditors and lower debtors

Says Brown "Tiger has brought two main strengths to Langeberg — financial discipline and improved trading skills."

Langeberg was set up in the Forties to can and export surplus deciduous fruit — less than 15% of its canned fruit is sold on the local market Langeberg developed some well-known brands such as Koo and All Gold. Under Tiger, however, a much clearer marketing orientation has developed.

Brown says the deciduous fruits division will expand as it has finished its consolidation phase It acquired Gant's deciduous fruit and pea facilities and now has no significant local competitor

Royal Foods (Royfood) subsidiary SA Preserving (Sapco) exports almost all its canned fruit to Del Monte Europe Langeberg has a much broader range of customers, so earnings are more variable. But the Royfood rating is a benchmark

Royfood, the listed company most comparable to Langeberg, is expected to derive 75% of income from canned fruit this year It has a demanding rating of about 21, another added value food manufacturer, Cadbury Schweppes, has a p·e of 29

Langeberg's link with Tiger Oats should engender investor confidence. Results have not necessarily peaked Certainly, deciduous fruit exports are at a high, the SA harvest was of unusually good quality, but there were problems in harvests from competitors Australia and the US. Langeberg's labour costs are lower and fruit canning is highly labour-intensive But local sales, which follow the business cycle, are depressed.

One danger is that market dominance, at least in canned vegetables and tomato sauce, will be challenged by the US multinational Heinz, that looks likely to enter the SA market within two years Brown says he would welcome a heavyweight competitor

"It's difficult to operate well for long without competition. A professional operation like Heinz would market aggressively and ultimately this would help grow the market."

Tiger has 56% of Langeberg and will not reduce its holding below 50%, to keep it consolidated. Some individual members, who make up 14% of the shareholding, would like the opportunity to sell for a capital gain, but the Langeberg Co-operative itself, which holds 30%, will keep its holding.

Langeberg has 40m shares, with NAV of 608c, or R243m gross In view of intangibles, such as its brand name and Tiger Oats link, the listing price is likely to be substantially higher.

Stephen Cranston

Fedfood turns back on Pepsico deal

186

MARCIA KLEIN

FEDFOOD has walked away from a possible deal with Pepsico Foods International for Pepsi's re-entry into SA. *8 Day*

Dirk Jacobs, head of the merged Fedfood and Kanhym, confirmed yesterday that the group was no longer involved in discussions with Pepsico *24/2/92*

He said he had gone to the US recently to talk to the Pepsico group, but Fedfood did not intend to hold further discussions This decision was based purely on business and commercial reasons, he said

For some time prior to the Fedfood-Kanhym merger, Fedfood had expressed its interest in forming a partnership with Pepsico. It had an association with Pepsico through its Simba division, which uses some of the Pepsico brand names. However, former MD Jan du Toit said last year that the magnitude of Pepsi's venture was overwhelming, and he had reservations about Fedfood's ability to handle a project of that size. It is believed that Pepsi is interested in having a 10% share of the SA soft drink market.

Analysts say Coke's strong hold on the SA market makes any deal with Pepsi an expensive and risky venture for a local concern Pepsi's re-entry into SA would require a huge capital outlay, and the product would have to be niche marketed

But they say Pepsi will remain interested in SA as it is one of the world's major soft drink markets.

Pleasure Foods' minorities get a delisting bonus

STAR 25/2/92

By Sven Lunsche (186)

Anglovaal Industries (AVI) has announced the delisting of Pleasure Foods, which runs a number of leading fast food franchises, including Wimpy, Pizza Hut and Milky Lane.

AVI subsidiary, National Brands, which already holds 72,4 percent of Pleasure Foods, will offer minority shareholders 125c per share, valuing the total buyout at just over R16 million.

The price to minorities offers a premium of 25 percent on Pleasure Foods' current share price of 100c.

In a statement yesterday, National Brands and Pleasure Foods said the listing was no longer appropriate in view of the limited tradeability of the shares and the cost of maintaining the listing.

The announcement coincided with the release of Pleasure Foods' interim results for the six months to end-December, which showed turnover 25 percent down at R36,4 million (R48,8 million).

The results are, however, not strictly comparable as a number of shares have been franchised and certain outlets sold.

While the Milky Lane and Golden Egg chain both showed volume growth, the costs associated with the expansion of Pizza Hut affected the company's profitability

Reduced turnover, coupled with lower margins, saw operating profits slump by almost 50 percent to R1,7 million (R3,3 million)

Attributable earnings were R1,7 million, a drop from 1990's R2,6 million, leaving earnings per share markedly lower at 3,7c (5,7c)

PLEASURE FOODS FM 28|2|92 (186)

Slowdown in fast food

Pleasure Foods has been a disappointment to Anglovaal's branded food interests Housed in National Brands, they include dominant players in the biscuit and salt market and large players in tea, coffee and spices.

Earnings have risen sixfold since 1986, but

FM 28|2|92 (186)

fast-food subsidiary Pleasure Foods has lagged Its EPS slipped from 8,4c in 1988 to 2,6c in 1990 It recovered in financial 1991, to 11,2c, but that proved short-lived December interim EPS fell by 35% to 3,7c

Demand for fast food, a discretionary purchase, has fallen considerably during the recession But sales have also fallen because Pleasure Foods has trimmed back Like competitor Interleisure's food division, it has been franchising company-owned outlets

The Milky Lane and Golden Egg franchises are still lifting sales in real terms. But Pizza Hut, after just a year in profit, is back in losses, after a special contribution of about R500 000 to the marketing fund, and start-up costs for four new branches

Chairman John Bryant says the listing is no longer appropriate, because of the share's limited tradeability But in the three months to January 166 000 shares changed hands

That may be less than 0,5% of issued equity but there are several counters that did not trade a single share in that time However, National Brands holds 72,4% of the listed equity, and 36 shareholders 98%

Tradeability might not be of concern if Pleasure Foods was visibly doing well

National Brands has been sitting on a cash pile since it sold its 16,4% of Cadbury Schweppes to Tempora for R177m The bid to minorities will cost R16m, barely denting this. At 125c, it's a price exceeded only in mid-September, soon after the encouraging year-end results.

Stated NAV is 136c, but almost 90% of "fixed assets" is trademarks Tangible NAV is 24,3c Pleasure Foods does not expect any short-term improvement in earnings, so if first-half earnings are repeated the take-out price represents a generous p e of 16,9

Minorities should have no difficulty accepting Unfortunately, as National Brands is unlisted, it can't offer the option of swapping for National Brands paper, which would undoubtedly command a high rating

After the delisting, National Brands will be free to rationalise Pleasure Foods away from the public eye Losses from Pizza Hut amount to very little in the greater-group, but must cause some embarrassment.

Stephen Cranston

AVI on track for a record year

186

B Day 28/2/92

MARCIA KLEIN

ANGLOVAAL Industries' (AVI) record earnings for the six months to end-December place the group on target for its seventh consecutive year of increased earnings

Today AVI announced an 18% earnings growth from R103,0m to R121,5m, or by 17% from 363c to 425c a share — on more shares in issue

This was achieved on the back of improved results from frozen foods manufacturer and distributor Irvin & Johnson (I & J), consumable goods division National Brands and the engineering division of AVI Diversified Holdings

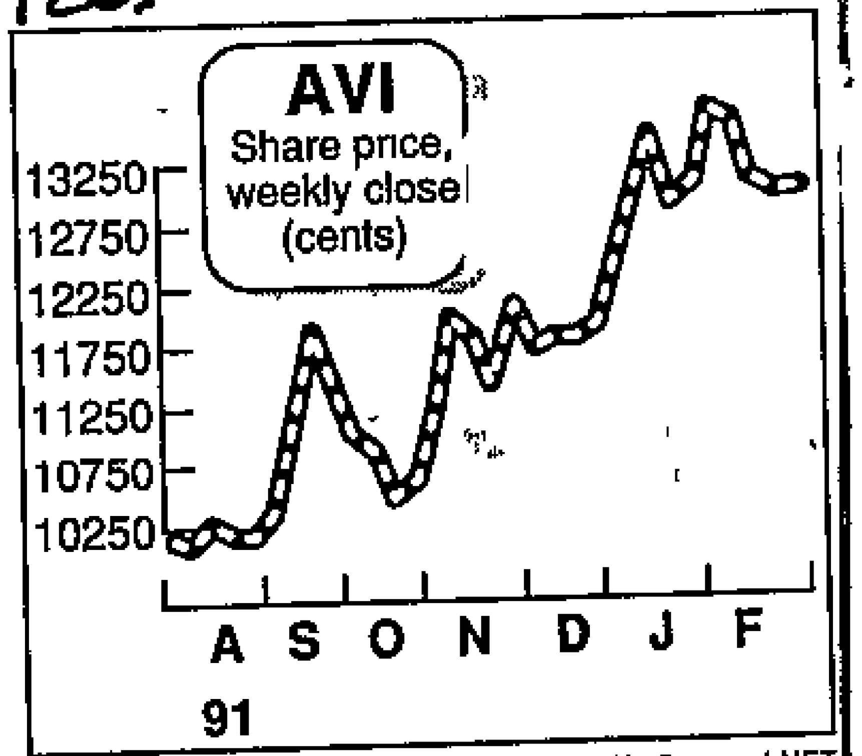
Increased

Group turnover rose by 8% from R3,6bn to R4,0bn, but pressure on margins saw profit before interest and tax rise by only 3% to R368,1m (R358,3m) The interest bill remained unchanged at R43m.

Directors said that pre-tax profit gains by I & J, National Brands and AVI Diversified Holdings' engineering division were offset by "a substantially reduced contribution from Grinaker Holdings and, to a lesser degree, Avtex Holdings' textile businesses" Packaging and rubber company Consol's contribution to pre-tax profit was unchanged

Taxation of R145,5m (R146,5m) resulted in a 6% rise in profit after tax from R168,8m to R179,6m

AVI Diversified Holdings, I & J and National Brands increased their contributions to group earnings to 21%, 20% and 28% respectively but Consol's contribution dropped from 29% to 27% and Grinaker's from 7% to 3%



Graphic LEE EMERTON Source I NET

Directors said earnings for the 1992 financial year would exceed those of the previous year, but the growth rate for the full year would be below that achieved in the first six months

The group's R388m rights issue saw it repay borrowings and reduce gearing from 29% to 17%. Cash resources exceeded total borrowings by R173m at end-December

The group has been involved in a number of acquisitions and disposals, which included AVI Diversified Holdings' sale of its 65,4% holding in Claude Neon, and its increased interest in Tristel — from 90,6% to 94,1%

AVI subsidiary Aveng acquired a 51% holding Bearing Man following the merger of the bearings businesses of wholly owned subsidiary Steelmetals with those of Bearing Man

National Brands sold its 16,2% interest in Cadschweppes for a profit of R153,7m, of which R150,2m accrued to the group This week it announced that it would acquire the 27,6% of minority shareholders' interest in Pleasure Foods for R16m to make it a wholly owned subsidiary

Heinz, Malbak come closer

S Times (?) 1/3/92

By JULIE WALKER

GLOBAL food king Heinz and Malbak companies Fedfood and Kanhym are poised to enter a joint venture

Kanhym chief executive Dirk Jacobs is reportedly abroad for negotiations with Heinz boss Tony O'Reilly

Mr O'Reilly is a former British Lions and Irish wing He toured SA with the Lions and took a shine to this country.

Fedfood is likely to be swallowed by Kanhym after the two were thrown under Mr Jacobs' management in a reshuffle of Sanlam's assets last year

186

Disaster

Malbak was given the consumer division and Fedfood was bought from Sanlam-owned Fedvolks

Mr Jacobs makes no secret of his international aspirations Under his direction, Kanhym has recovered from disaster and potential at Fedfood is being realised

Fedfood, currently R19, topped R20 recently It was close to R8 fewer than two years ago Kanhym is also near its high at R6.

Neither company has warned shareholders about negotiations and nothing has been signed yet.

Mr Jacobs is due back a week tomorrow

Oceana on growth path

STAR 3/3/92

Diagonal Street 186

LYNNE PEACH

Oceana Fishing, 70 percent-owned by Tiger Oats, took a breather in financial 1991, but the prospect of renewed earnings growth has sent the share price rallying.

In the annual report, chairman Walter Lewis says results were inhibited by a low anchovy quota, reduced lobster catches and the impact of the recession on other businesses

Export earnings, however, improved and Mr Lewis says export markets for lobster products remain buoyant and the lifting of sanctions by the US offers further opportunities for marketing frozen lobster tails

Oceana Fishing, incorporated in 1918, is the major inshore fishing group in SA

Its fleet of vessels and factories along the West Coast catch and process more than a third of the pelagic and rock lobster quotas

Products include canned and frozen fish, rock lobster, fish meal, fish oil and abalone

The fishing division contributes 43 percent to group pre-tax profit,including income from associated companies

The trading and shipping division accounts for 25 percent, the cold storage division for 18 percent and investment income for 14 percent

Recent developments include a cold store partnership venture with Portnet in Cape Town, which is scheduled for completion in mid-1992

The store will have a capacity of 10 000 tons and will cost R20 million.

Mr Lewis says this expansion, together with the merger of the cold storage operations with those of ICS, will bring benefits in the medium term

In the year to September, group turnover rose five percent from R309 million to R325,9 million, but operating profit decreased seven percent from R22,7 million to R21,2 million

After a 20 percent decline in dividend income to R1,2 million and a one percent fall in net interest income to R2,3 million, pre-tax profit fell more than seven percent from R26,5 million to R24,6 million

A drop in the effective tax rate from 46,1 to 42,4 percent reduced the decline in taxed profit to less than one percent from R14,3 million to R14,2 million

After a lower share of income retained by associated companies and less income attributable to outside shareholders, Oceana's attributable profit hardly moved from R13,3 million to R13,4 million.

Earnings per share amounted to 142,8c, compared with 142,9c in financial 1990, and the dividend for the year was maintained at 90c a share

The balance sheet discloses an increase in borrowings from R600 000 to R6,9 million, which pushed gearing up from one to eight percent.

The increase is attributable to the merger of the commercial cold stores of Oceana and ICS

Net asset value appreciated 17 percent from 825c a share to 966c

Oceana Fishing, priced at R18, is trading on a P/E ratio of 12,6 and provides a dividend yield of five percent.

These yields are relatively attractive and shareholders are advised to hold onto their shares

COMMENT: Oceana Fishing's share price has done well in recent months, but remains well below the early-1989 peak of R30

The price recovered from a low of 920c seven months ago and over the past three weeks alone has shot up from R13,30 to R18

Although some short-term correction could take place, the primary trend is bullish.

CROWN FOODS (186)

Overspiced dish

FM 6/3/92

There was some surprise when Bidvest paid a premium on net assets for catering equipment and spice supplier Crown Foods. When the deal was announced on January 10, the price was set at 101,5% of audited NAV On then estimated assets and liabilities, this was expected to be 84c a share, or R23m in all.

Now Bidcorp chairman Brian Joffe says it has been shown that the balance sheet was misleading· assets were overstated and liabilities understated The price has been cut by almost R11m, or from 84c to 45c a share.

To make up for the shortfall, Crown's

FM 6/3/92 (186)

seller, Murray & Roberts (M&R), has agreed to lend Crown R11m on favourable terms, pending a rights issue to refinance it. Moreover, while it was originally unwilling to take Joffe's paper, M&R will now take R8m in Bidvest shares and debentures, which will be placed on its behalf.

It is not yet clear to what extent the problem is ineptitude and to what extent fraud. Crown Foods MD David Fowlds no longer works there Other managers have been suspended pending an investigation, including Crown Mills MD Sunny Pillay.

Says Joffe· "It's not up to me to comment on how the problem arose It is up to M&R, which had clear management control."

M&R has nothing to add to what's been published.

Management of Bidvest's National Spice division, led by MD Charles Singer and newly appointed right-hand man Dave Rosevear, has been brought in to run Crown Mills Crown will eventually buy National Spice with its own shares.

Joffe says Crown is still a good business. Its reported turnover of R121m is "more or less correct." The Vulcan subsidiary, which makes catering equipment, is not implicated in the irregularities. It will keep its existing management team under Len Rose

Since relisting, Crown has fallen to 55c from a presuspension 80c In December, before rumours of a deal started, it was in the low sixties, so this does not seem to reflect either the latest setback or the Bidvest offer price Bidvest, however, has strengthened to a new high of R35 The original deal would have pushed Bidvest's gearing up to 65%; it will now be more like 40%. *Stephen Cranston*

Civil servants plan pay protest

GERALD REILLY

PRETORIA — A nationwide protest campaign will be launched this week by 11 public sector employee organisations against government's "unacceptable" pay increase offer from July of 8,54%, a spokesman for the organisations said at the weekend

Each of the organisations will determine its own form of protest.

Political observers say the protests will come at a bad time for government.

More than a million government workers are affected by the deadlocked pay negotiations, and about half of them are white voters B/Day 9/3/92

The spokesman said the organisations represented 305 000 public servants, but the outcome of the pay negotiations would affect more than a million state employees

Negotiations started on February 17 when the organisations demanded increases which the Commission for Administration claimed would have amounted to an overall 31% hike

This was rejected by the commission, which made a counter offer of 7,5%. This, in turn, was rejected by the organisations.

Negotiations were resumed on Wednesday and Thursday last week, but again ended in deadlock.

The commission upped its offer to 8,5%, while the employees dropped their demand to a 21% increase.

The commission then raised its bid by 0,04%.

The employee organisations again reduced their claim — to 15,3%. A spokesman said they had taken into account the economic recession, the drought and the need to curtail government spending.

The commission, however, refused to budge from its 8,54% offer

Negotiations will continue, but but no date has been fixed.

Agreement on national food industry forum

CAPE TOWN — Cosatu's Food and Allied Workers' Union (Fawu) and multinational cereal manufacturer Kellogg this week signed the first agreement towards setting up a national food industry forum, Fawu general secretary Mandla Gxanyana said on Friday.

The proposed national body would include all players in the food sector and serve as an industrywide negotiating forum, he said. 186

The March 3 agreement with the Kellogg Company of SA was the first to involve a formal, signed commitment to the envisaged forum, Fawu head office spokesman Mansoor Jaffer said.

Gxanyana said a food industry forum would negotiate minimum positions on matters like collective bargaining, training and development, economic restructuring, worker participation and a code of conduct for transnational companies. The agreement followed others between Fawu and firms in the food industry, inlcuding Donald Cook and Anglo American subsidiary Rhodes Fruit Farms.

The union hoped management and labour representatives would meet in early May to discuss setting up the forum. — Sapa. B/Day 9/3/92

Simba workers out on strike

MORE than 600 workers at five Simba plants went on strike this week over "blatant racial discrimination practised by the company" South 14/3-19/3/92

"Workers have taken this action after numerous unsatisfactory attempts to address the racist practices," said a spokesperson for the Food and Allied Workers Union (Fawu).

"A young inexperienced white man was employed as an area sales manager in George, ignoring experienced black workers," the union claims. 186

The company was not available for comment

Tony O'Reilly likely to put beanz in SA Heinz

S/Times (BUSS) 22/3/92 (186)

By ZILLA EFRAT

THIS week's resounding "yes" vote prompted international food group HJ Heinz chairman Tony O'Reilly to send a fax to Fedfood "A famous victory for SA — even beats Murrayfield"

The message refers to the Springboks' crushing victory over the Scottish rugby team in 1951

Fedfood MD Dirk Jacobs says Mr O'Reilly, a Lions rugby star in his younger days, is now at the stage where he is prepared to seriously consider making an investment in SA.

Dozens of other South African companies report that they have been flooded with congratulatory letters from their contacts abroad

Safto general manager Anne Moore says the referendum results reaffirmed goodwill that already existed abroad, but she doubts this will translate into a great jump in business in the short term (see main story)

Moving

... that the results could speed up the ending of those few sanctions that remain against SA and could lead to a mild upturn in foreign investment

The build-up to the referendum brought many deals in progress to a halt and these are now moving quickly through the pipeline

JH Isaacs chairman Les Weil says many property sales and lease agreements had suspensive clauses which would invalidate them if there was a "no" vote or if the "yes" win was, say, under 55%

The Media Shop managing director Dick Reed says some clients were holding back ahead of the referendum They are now going ahead at full speed

Satour executive director Spencer Thomas says SA lost out on tourism during the referendum campaign

Now the tourism, advertising and property industries expect to get a boost from the overwhelming "yes" majority

Mr Thomas expects it to result in the removal of all moral and legal restraints on tourism to SA He is confident there will be a surge in tourism, starting this year, but cautions that continuing violence could be a limiting factor

He also believes that a number of international hotel groups which have been watching developments in SA could now proceed with their plans

Lew Geffen Estates managing director Lew Geffen predicts a "mini-boom" for the property industry

But he says "Once all the euphoria has died down, we expect to see a levelling-off of the market From an almost exclusively buyers' market, we can expect sellers to become more resistant to low prices"

JHI's Les Weil expects the property market to start picking up gradually, but adds that much depends on political stability and economic growth

Times Media sales and marketing manager Robin Parker expects the confidence generated by the referendum to lead to a small rise in advertising, especially towards the end of the year

David Gant to head Unifruco

BDay 24/3/92

(186) LINDA ENSOR

CAPE TOWN — Somerset West fruit farmer and DP politician David Gant has been elected chairman of Unifruco, the international marketing body of the deciduous fruit industry.

Gant is also chairman of the SA Apple & Pear Producers' Association, DP executive committee chairman and a member of the President's Council

In a statement he forecast prosperity for the deciduous fruit industry, but said there were difficulties to be overcome, including high inflation and competition from other southern hemisphere countries.

Gant replaces Leo Fine who has retired

CADBURY SCHWEPPES FM 24/4/92 (186)

Helping to vindicate a premium rating

Activities: *Manufactures and markets confectionery, soft drinks and food*
Control: *Cadbury Schweppes Plc 53,4%*
Chairman: *A J L Clark; MD P M Bester*
Capital structure: *35,1m ords Market capitalisation R1,18m*
Share market: *Price R33,50 Yields 1,6% on dividend, 4,0% on earnings, p.e ratio, 25,1, cover, 2,5 12-month high, R34,25, low, R23,50 Trading volume last quarter, 187 000 shares*

Year to	'88	'89	'90	'91
ST debt (Rm)	1,6	10,5	28,5	13,8
LT debt (Rm)	14,2	38,1	27,9	46,9
Debt equity ratio	0,21	0,25	0,33	0,31
Shareholders' interest	0,57	0,49	0,53	0,46
Int & leasing cover	10,0	7,5	4,4	4,7
Return on cap (%)	17,3	14,9	14,9	16,0
Turnover (Rm)	326	440	538	610
Pre-int profit (Rm)	32,0	41,9	47,1	60,6
Pre-int margin (%)	9,8	9,5	8,8	9,9
Earnings (c)	73,7	88,4	100,5	133,6
Dividends (c)	30	36	41	54
Net worth (c)	320,3	399,7	469,0	501,1

The results go some way to vindicating Cadbury Schweppes (Cadswep)'s premium rating In a way which seems to defy logic, it has been able to increase earnings by a third, without any real growth in turnover

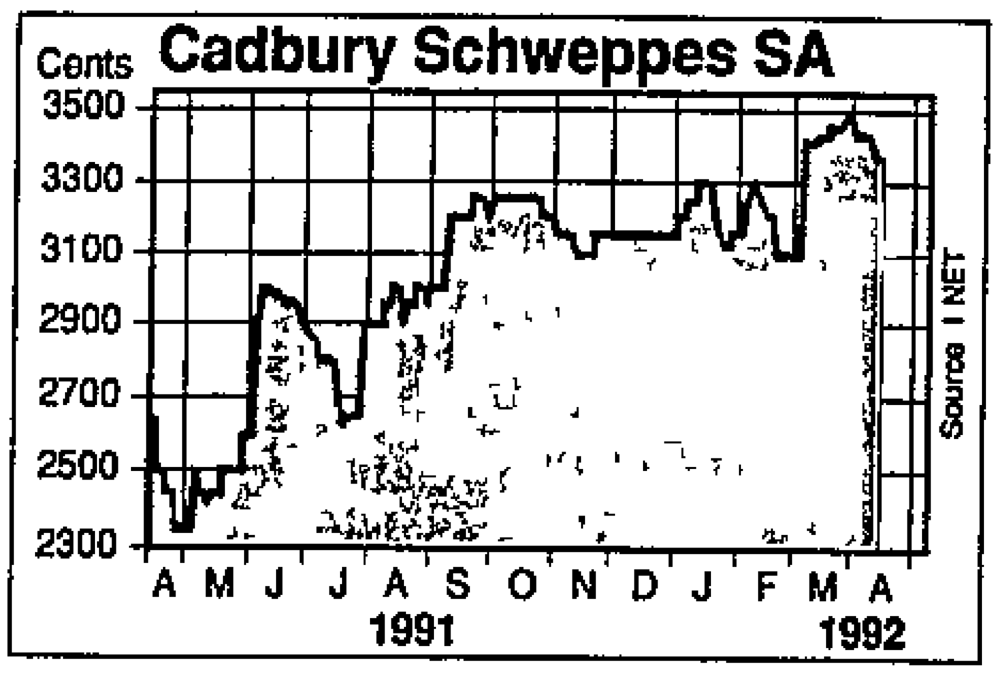
The operating margin recovered to 1988 and 1989 levels from the low of 8,8% in 1990 The lower margin that year can largely be attributed to the cost of rationalising Chapelat-Humphries and Cadbury's into one.

Group MD Peter Bester says that Cadswep bought sweets and bubble gum manufacturer Chapelat-Humphries to increase its exposure to the much broader and less import-sensitive sugar confectionery market This has enabled Cadbury's to reach a much broader market, particularly in rural areas

The overall volume of the confectionery division was up and market share increased A strike at a factory and several depots did not have a significant impact

Market share was lost, however, in Bromor Foods' key squash market, as it markets the premium brands Oros, Brookes and Roses Competition is likely to increase since Nestlé sold Lecol to Royal Foods at the beginning of the year

The margin was also helped by the relocation of a sugar confectionery factory in Swaziland, where it also makes squashes Sugar prices are lower in Swaziland, it derives good investment incentives and it can achieve better labour productivity



As usual, the 19% holding in SA's largest soft drink bottler Amalgamated Beverage Industries (ABI) made a valuable contribution, but managed operations were the main engine for growth Their earnings increased by 33,6%, while equity-accounted earnings from ABI and 49% of the Namibian speciality chocolate manufacturer Springer increased by a (still excellent) 17%

Cadbury Schweppes Plc will not follow the example of Blue Circle Plc and Pilkington Glass by disinvesting. Unlike the other two, it is performing well and expanding globally

In its 1991 results, also published recently, the group generated £253m from worldwide operations and invested £249m on acquisitions

Its earnings increased by 9,6%, even though it still derives about half its income from the recession-torn UK Nevertheless, Cadswep SA outperformed the worldwide group, even allowing for inflation

The SA market is among the most competitive in which the group operates As well as worldwide arch-rival Nestlé/Rowntree, there is a strong indigenous competitor in Durban's Beacon Sweets

Bester, while not complacent, thinks it unlikely that a multinational such as US-based Mars or Hershey (possibly in alliance with Anglovaal Industries, which sold its 16% stake in Cadswep last year) will enter the SA market in a big way There are high barriers to entry, as technology is expensive

Similarly, the bottler network, which bottles for Coca-Cola, Schweppes and Sparletta, has a stranglehold over the soft drink market Any challenger would have to put up with years of losses to penetrate these markets, he says "Not only is the cost of a bottling or chocolate manufacturing plant a high barrier to entry, the brands themselves command high loyalty "

Cash flow was strong Cash generated from operations was R77,2m, up 29,4%, and thanks to tighter control of working capital, cash retained from operations of R66,6m was well up

Chairman Alan Clark says that the board does not expect the recession to lift much and consumer confidence will take a long time to recover But he says that by continued tight control of costs, nurturing brand names and aggressive marketing Cadswep intends to achieve real earnings growth

At R33,50 Cadswep has a p e of 25,1 and dividend yield of 1,6% It was already well rated a year ago, so gains in the share price have been relatively modest If Cadswep can continue to produce results of this calibre, it is fairly priced

Stephen Cranston

GOLD FIELDS PROPERTY FM 24/4/92

Move into hotels

Activities: *Property holding and investment company with some mining investments*
Control: *Gold Fields of SA 44%*
Chairman: *M R Fuller-Good*
Capital structure: *10,2m ords Market capitalisation: R61,2m*
Share market: *Price 600c Yields 8,3% on dividend, 25,7% on earnings, p e ratio, 3,9; cover, 3,1 12-month high, 925c, low, 590c Trading volume last quarter, 114 000 shares*

Year to Dec 31	'88	'89	'90	'91
Taxed profit (Rm)	6,4	12,1	12,1	15,4
Earnings (c)	62,3	118,6	117,0	151
Dividends (c)	36	42	50	213*
Net worth (c)	548	713	853	828

* Includes special dividend in specie of 163c a share

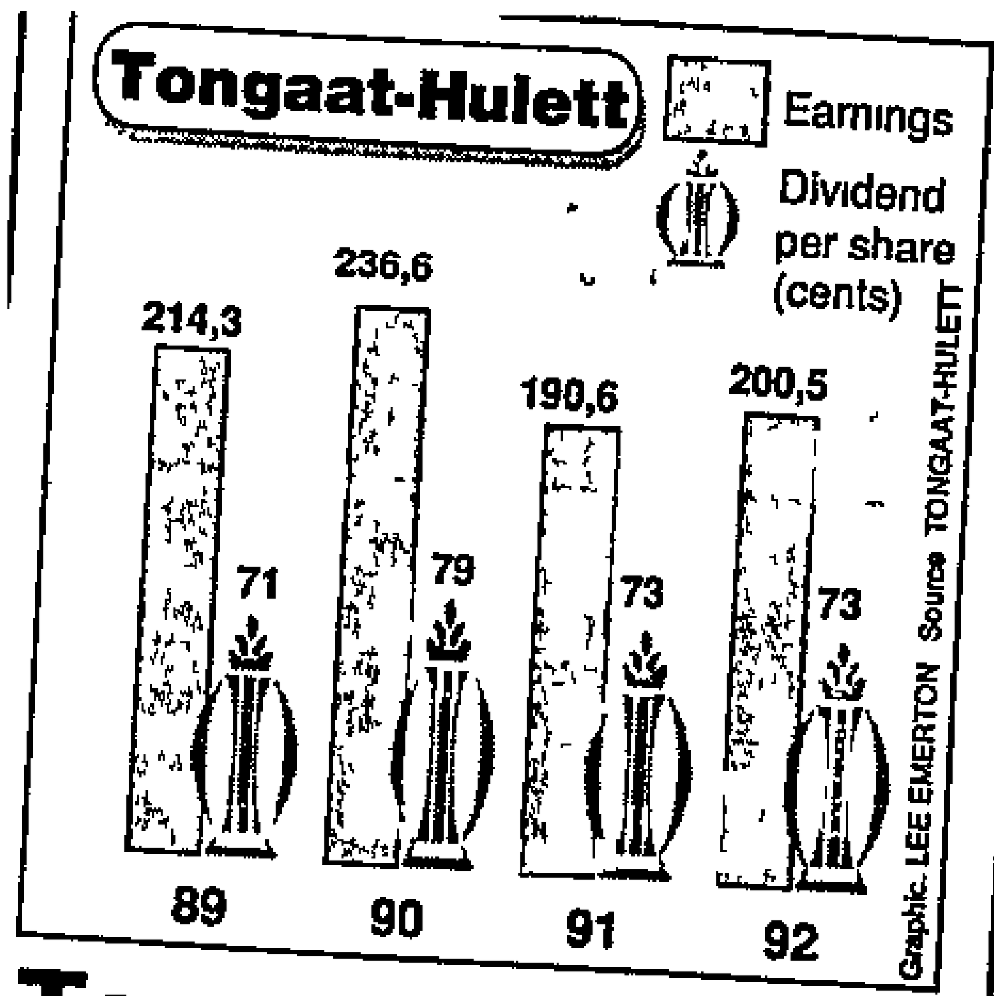
Shareholders got a windfall last year in the form of 2m Ergo shares distributed as a dividend in specie That, along with a short-lived optimistic flurry in the gold market, saw the share spike at 925c in August

The price is back to 600c, just above its 12-month low, and this time around looks fair value given the state of the gold and property markets and that no further windfalls are in sight GF Props received the Ergo shares, as well as 760 000 East Daggafontein, from the sale of dump material on the East Rand

This year will be tough as the group invests heavily ahead of expected economic recovery, while income from gold and prop-

contin-->

GF Props' Fuller-Good *betting on Midrand*



Tongaat forecasts radical changes

MICK ELLINGHAM (186)

TONGAAT-HULETT has disclosed a marked decrease in earnings for the year and says radical changes could take place within the group in the next nine months

The Natal-based group said operating profit for the year ended March 1992 was 13% down to R277,5m (1991. R317,4m).

Profit before taxation fell 18% to R173,9m (R212,5m)

The sugar, starch and sweetener, aluminium, textiles, building materials and food group said the results were on the back of difficult trading conditions and extremely competitive local and international markets. B/Day 30/4/92

An interim dividend of 50c a share was reported, which, with the interim of 23c, makes for a final dividend of 73c. This is unchanged compared with 1991.

Group MD Cedric Savage said. "The next six months will remain extremely difficult for most of our operations"

He said US management consultants Quantam Associates had been commissioned to examine the group's investment portfolio. While the re-examination should not materially affect the sugar division, there could be significant changes to other businesses in the group's six divisions, Savage said. 30/4/92

Task forces had been appointed to "enable group and divisional personnel to urgently examine operations which the

□ To Page 2

Tongaat

B/Day 30/4/92 (186)

□ From Page 1

group sees as either opportunities or as sources or concerns"

The work of Quantam and the task forces would continue throughout the year "Important decisions concerning the future of certain companies will be made in the next six to nine months," he said

Earnings a share increased by 5% to 200,5c from 190,6c Turnover increased 5% to R3,97bn (R3,79bn) There was a 2% reduction in deferred tax provision, which, with export incentives, reduced the tax charge by R45,1m

Extraordinary items related in the main to losses incurred from the sale of the Hebox textile operation last year

Directors said an "unacceptable loss" had taken place in Tongaat's textile division last year because of the serious effect of increased imports on SA fabric manufacturers They said the sugar division had performed well during the year, although the drought had meant reduced estimates for this year

Aluminium, starch and sweeteners all turned in increased earnings, but building materials continued to be affected by the depression and reported reduced earnings

The foods division produced disappointing results, with reduced consumer demand exacerbated by losses in the mushroom and distribution companies

'Another deal in Royal pipeline'

MARCIA KLEIN (186)

RECENT sharp rises in the share prices of Royal Foods (Royfood) and holding company Royal Group Holdings (Royhold) point to yet another major deal for the acquisitive group, analysts said last week. BT Day 4/5/92

They expect the deal — or possibly deals — to to substantially increase the size of the group Royal is expected to buy a food company which would be injected into Royfood.

Analysts said it was surprising that Royhold's share had risen higher than Royfood's if the deal was to be done through Royfood.

Royhold rose by 25c on Thursday to close at a high of 675c, while Royfood rose 20c to a high of 580c after touching a yearly low of 350c in June last year.

Speculation is that Royal could be looking at buying Del Monte Europe

Previously analysts have speculated that Royal was speaking to Mars, BSN and Pepsi with regard to a deal.

Economist blasts food price rise

186

The "incredible" rise of 29 percent in food prices over the past year bordered on national economic sabotage and had to be condemned in the strongest possible terms, Nick Barnardt, chief economist of the Amalgamated Banks of South Africa (ABSA), said in Johannesburg yesterday STAR 5/5/92

He was speaking at the Federated Hospitality Association of South Africa (Fedhasa) Transvaal congress.

Mr Barnardt said: "Raising food prices by 29 percent in the midst of rising poverty and unemployment, shrinking economy and a general disinflationary environment, simply exacerbates the recession and borders on national economic sabotage

"The parties involved are themselves paying a heavy price in the form of massive declines in food sales in recent months, and increasing retrenchment of staff in the food manufacturing and distribution chain"

He said it was of the utmost importance that participants in the food price chain began cooperating to reduce the food price inflation rate drastically within six months. — Sapa.

BiDay 7/5/92

Exports aid Macadams

186 DUMA GQUBULE

CAPE-based bakery and confectionery equipment manufacturer Macadams has benefited from a surge in exports to report a 176% increase in net income for the year to end-February

In spite of earnings of 7,6c a share (2,9c a share last year), the directors have decided not to declare a dividend for the third successive year, with a view to reducing gearing to a target of 50%

Gearing was reduced to 58% from 74%.

Macadams MD Raimund Pouliart said he was satisfied with progress during the year

On the year ahead he said "Given prevailing economic conditions, we do not see any major fluctuations in performance during the current year, but we do anticipate maintaining positive earnings."

With local demand steady, the company's exports doubled during the year under review to help lift turnover by 18,3% to R34,2m (R28,9m)

Improved margins were reflected in a 24,8% advance in operating income, which rose to R2,53m (R2,03m)

After a 17% drop in interest payments, net income came to R1,22m (R422 000)

This translated into earnings a share of 7,6c (2,9c)

Market expects changes in Royal group

MARCIA KLEIN

THE continued activity of Royal Group Holdings (Royhold) and Royal Foods (Royfood) shares on the JSE points to an imminent deal, market sources say.

They speculated yesterday that the deal, which might involve the acquisition of a European food company through Royfood, would be "huge" They said it could also involve the listing of a Royal company on a foreign stock exchange.

A Royal group spokesman said yesterday the group was continuously talking to other groups and looking at deals, and there was "nothing near fruition or anything concrete at this moment" (186)

He said if there was any imminent agreement, a cautionary announcement would be issued. B/Day 7/5/92

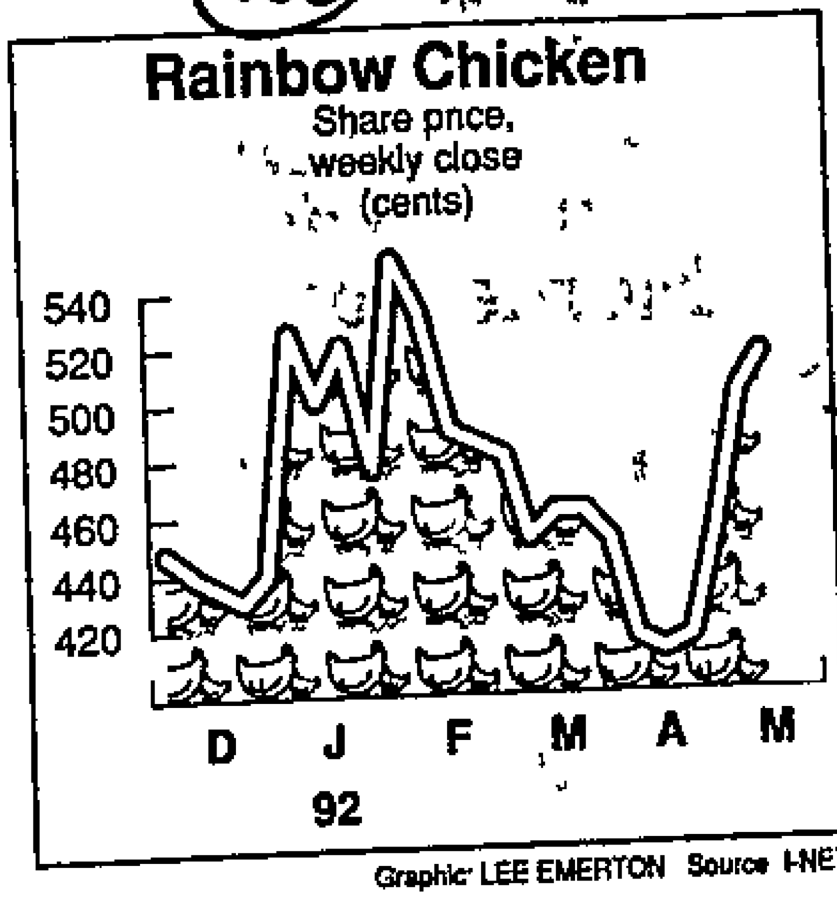
Nevertheless, market souces thought an agreement was imminent

Yesterday Royhold's share inched up to a new high of 710c after a large rise in the past week More than 1-million Royfood shares changed hands in deals worth R5,96m. Royfood closed at its high of 600c

Rainbow results head for growth

B/Day 8/5/92 (186)

MARCIA KLEIN



Graphic: LEE EMERTON Source I-NET

RAINBOW Chicken has reported poor results for the year to end-March but is on track to show a strong growth in earnings in the coming year.

Although the 12% drop in attributable income to R48,5m (R55,1m) shows a significant improvement on the R5,7m reported at the September interim stage, MD John Geoghegan said results were affected by "persistent excess production" and poor economic conditions.

Turnover, which nearly doubled to R1,5bn from R690,5m, reflects the inclusion of Bonny Bird and Epol sales for the first time, as well as a 15,9% rise in Rainbow's sales.

Operating profit rose 62% to R76,3m from R47,1m, but margins were lower due to the inclusion of Bonny Bird and Epol. Geoghegan said Rainbow's margins were only slightly down on the previous year.

He said Rainbow was making significant progress in turning around Bonny Bird, and it reported a profit of R17m after showing an operating loss of R13,2m in the previous year

After R9,4m interest was received in the previous year, Rainbow this year paid R27,2m interest as a result of "acquired debt, the amount owing to the vendors of Bonny Bird and the capital expenditure in respect of the Rustenburg feed mill".

Increased interest-bearing debt was used to fund the capital expansion programme Of the total debt of R254,6m, R9m was loans for the vendors of Bonny Bird, which incur interest at 6% below prime overdraft.

The utilisation of assessed losses and capital allowances saw Rainbow make no provision for tax.

Earnings decreased by 31% from 20c to 13,8c a share on additional shares in issue, and a dividend of 4,4c (4,3c) was declared.

Geoghegan said that in the first and last quarters, selling prices increased by only 9,5% due to poor economic conditions, relatively low meat prices and excess production.

He said selling prices would be relatively low in the first quarter as excess stocks were depleted, but prices should return to normal levels and were likely to be supported by increasesd in red meat pricesd.

"The ongoing rationalisation of Bonny Bird and the commissioning of the Rustenburg feed mill are expected to make an important contribution to earnings, so earnings should show strong growth in the next year," Geoghegan said.

This would be achieved despite the fact difficult economic conditions, exacerbated by the drought, would prevail for most of the year.

HL&H subdued by results of associates

B/Day 8/5/92. (186)

FOOD and timber group Hunt Leuchars & Hepburn (HL & H), in the Rembrandt stable, has felt the effects of reduced margins and subdued results from associates Rainbow Chicken and HL & H Timber in the year to end-March.

Attributable earnings edged up marginally from R117,6m to R118,6m, while earnings a share dropped 10,6% to 81,5c from 91,2c

CE Neil Morris said financial 1992, which had been "disappointing", was characterised by difficult trading conditions, but substantial development progress in HL & H's subsidiary and associate companies These placed the group well for future growth, and he expected an earnings increase in financial 1993

Morris said Transvaal Sugar had been licenced to build a new sugar mill, and Robertsons had made another acquisition in the atchar market.

The catering division's operations were expanded with the acquisition of Trimpak, and the group increased interests in Rainbow Chicken to 40,3%.

In the timber division,

MARCIA KLEIN

the export-based hardwood chipping project SilvaCel was on schedule. Production would begin in the first quarter of 1993.

Results for the year show that although turnover increased by 18% from R587,1m to R693,7m, lower international sugar prices and reduced consumer demand resulted in pressure on margins and a 4% rise in operating income from R117,8m to R121,9m.

Poor results from associates Rainbow Chicken and HL & H Timber are reflected in reduced dividends and interest received.

An increase in borrowings — to finance further investments in fixed assets and additional working capital — saw the interest bill rise by 28% to R31,9m Lower taxation reflected tax allowances on capex — mainly in Transvaal Sugar — and a reduced company tax rate.

Retained income from associates was reduced despite the increased shareholding in Rainbow

Morris said Robertsons increased its contribution to attributable income from 25% to 34%, while Transvaal Sugar's contribution was reduced from 30% to 26%. Rainbow's contribution increased from 14% to 18%, and HL & H Timber's declined from 31% to 22%.

The full year dividend was maintained at 32,5c a share following a final dividend declaration of 19c a share. Huntcor, whose only investment is its holding in HL&H, reported earnings of 163,6c (183,1c) a share and declared a final dividend of 38,3c

FOX FM 8/5/92 (186)

TONGAAT-HULETT FM 8/5/92

Semi-sweet blend (186)

The short-term view of Tongaat-Hulett's meagre 5% growth in earnings is not impressive Trading conditions are difficult and markets competitive, but surely the strength of a widely diversified group like this should be to capitalise and exploit growth areas during difficult times

Instead, latest preliminary results show its recurring weakness Three divisions — sugar, starch and sweeteners, and aluminium — have done relatively well, but the rest of the group has pulled down results

A longer-term view, though, is more comforting, as is the inherent strength of the balance sheet Most important, MD Cedric Savage is clearly serious about refocusing and maximising the potential of the six divisions and 28 separate businesses

US-based Quantum Associates has analysed the portfolio and made recommendations to the board that could result in drastic restructuring later in the year But Savage is already fine-tuning divisions and apparently putting increasing responsibility on divisional management to improve performances

He says three divisions — the underperforming building materials, textiles and foods — will, in the main, be subjected to deferred wage and salary increases for six months "to enable them to handle better the rapid increase in expenses in weak markets" and to give them time "to find solutions and create investors' confidence "

On the other hand, Savage says the group is investing in the sugar and aluminium divisions, "to be followed by starch and sweeteners " Obviously, money is spent only where concrete returns can be expected Now is clearly a challenging, and not too comfortable, time for middle management

Savage won't detail the recommendations before the board but says that all of the group's 28 businesses have been under the spotlight The fate of the Hebox textile operation, sold last year after incurring big losses, could be a foretaste of remedial medicine to come

The conservative tax policy paid off last year, with tax down more than two-thirds to R22,8m from a combination of a two-percentage-point cut in the deferred tax provision, export incentives and other allowances

Gearing has dropped to a comfortable 13% (1991. 19%) on reduced borrowings, though there is an element of cyclicality in the March year-end Savage says while average debt, at about R640m, is up slightly on last year, borrowings came down significantly in the last three months March is also the month when the SA Sugar Association buys up stocks For these reasons, interest, at R103,6m, is down only marginally on 1991

While sugar remains the core business, poor prospects at home and a depressed world price might lessen enthusiasm for the share But Savage expects to make headway in other divisions, and, at R23,15, the share price has not come far off its peak

The share continues to perform well relative to the market and with the consistent, if not sparkling, performance, it offers reasonable growth potential Changes in investment mix could make it more interesting

Shaun Harris

STUNTED GROWTH

Year to	Mar 31 '91	Mar 31 '92
Turnover (Bn)	3,80	3,98
Operating income (Rm)	317,4	277,5
Attributable (Rm)	142,7	150,1
Earnings (c)	190	200
Dividends (c)	73	73

Acquisition costs trim Rainbow's profits

STAR 8/5/92.

By Sven Lunsche (186)

Rainbow Chicken showed a slight drop in attributable profits for the year to end-March as the costs of incorporating Bonny Bird and Epol pushed up the interest burden significantly.

It also offset a remarkable recovery in the bottom-line from R6 million in the first six months of the year to R42,8 million in the second-half.

For the year as a whole attributable earnings decreased by 12 percent to R48,5 million (R55,1 million).

The decline accelerated to 31 percent at the per share level following on the June 1991 rights issue, while the total dividend was lifted slightly to 4,4c (4,3c)

The inclusion of Bonny Bird and Epol more than doubled group sales from R690 million to R1,51 billion, but depressed margins from 6,8 to 5,1 percent.

The group had to meet interest payments of R27,2 million, compared with a net interest income of R9,4 million previously, as a result of the acquired debt and the amount owing to the vendors of Bonny Bird.

MD John Geoghegan, however, says that gearing of 28,8 percent remains at reasonable levels, particularly as R90 million of the debt incurs interest at six percent below prime.

Despite the decline in earnings, Rainbow Chicken lifted its contribution to the bottom line of holding company **Hunt Leuchars and Hepburn** (HLH) from 14 to 18 percent.

HLH's turnover in the year to end-March increased by 18 percent to R693,7 million (R587,1 million) on steady sales performances by its two subsidiaries Robertsons and Transvaal Sugar.

Operating income, however, rose by only four percent to R121,9 million (R117,8 million) as lower international sugar prices and reduced consumer demand put pressure on trading margins.

Interest and dividends received from associate companies Rainbow and HLH Timber fell from R23,5 million to R20,6 million, while interest paid rose 28 percent as borrowings rose to finance further investments in fixed assets and additional working capital.

Attributable earnings were subsequently virtually unchanged at R118,6 million (R117,6 million) The total dividend was maintained at 32,5c a share.

HLH chief executive Neil Morris does not foresee a significant recovery in the economy in the current financial year, but expects the group to increase earnings.

Huntcor, which derives its income from its holding in HLH, reported a marginal decline in net earnings to R90,9 million (R91,3 million) but maintained a total dividend of 65,5c.

Macadams cooks up (186) a storm as exports double

MAG 9/5/92

MARC HASENFUSS
Business Staff

BAKERY supplies group Macadams has been cooking up a storm lately — doubling exports in its financial year to end February.

Furthermore, financial director Kevin McEvoy expects exports to top the R6 million mark during the current year

This whopping 70 percent increase in export turnover made Macadams an automatic choice as one of the finalists in the Weekend Argus-/Cape Chamber of Industries "Western Cape Exporter of the Year" competition

Not content with the steady local demand for bakery supplies, Macadams decided in late 1988 to secure lucrative export markets and thereby ensure exceptional profit growth.

This strategy is ongoing at the group Currently chief executive Raimund Pouliart and other directors are in Germany setting up an Exhibitor's Stand at the International Bakery Exhibition

Mr McEvoy pointed out that the Exhibition attracted bakery supply manufacturers from all over the world and that Macadams was the only participant from South Africa, and probably Africa.

He said Macadams had participated in various other exhibitions during the past year, including "Bake 91" at Earls Court, London and "Facim" in Maputo, Mozambique

"Also during the year agents have been appointed in the UK, Kenya, Mozambique, Angola and Zimbabwe"

These new agants join the group's other agents in Italy, Germany, Mauritius, Taiwan, Poland and Hungary

Macadams published their year end figures this week. Profits were more than doubled from R442 000 to R1,2 million — a clear indication of the success of new business gained through new export markets.

- The winner of the "Western Cape Exporter of the Year" competition will be announced on June 3 at the Mount Nelson Hotel.

Nestle sells dairy arm

S/ Times (Buss) 10/5/92

NESTLE is selling its refrigerated dairy division Chambourcy.

This follows the disposal of its Lecol beverage interests to Royal Beechnut. Nestle corporate affairs manager David Upshon says the group is focusing on market areas which offer the best growth potential — confectionery, instant drinks, milk powders and condensed milk.

"Nestle has been operating in SA for 76 years and it is our intention to continue expanding our operations and seek other areas of opportunity to fit in with our overall strategy,' says Mr Upshon.

186

Tiger's innocent

ST Times (Buss) 10/5/92 (186)

By JULIE WALKER

TIGER OATS' interim results to March seem to absolve it from blame for the rate of increase in food prices.

Executive chairman Robbie Williams says that 13% of the 14% turnover growth to R4,4-billion came from food. Sales showed a small volume growth

This indicates that food producer prices grew at well below the 16% or so overall inflation rate The food component in inflation is rising at faster than 25% a year

Canned-fruit producer Langeberg was a star performer, with a bumper peach crop of more than 50 000 tons New export markets are being developed with the lifting of sanctions and SA's fruit has always had a good name abroad.

But both Tiger and Rainbow failed to make much out of chickens.

Prices are flat, says Mr Williams, but he hopes that as employment and hence discretionary spending improve when SA comes out of the recession, broiler markets will recover.

Oceana Fishing improved because quota allocations were boosted in anchovy and lobster

Milling also shone and capital was invested in new plant and machinery at confectioner Beacon

Pharmaceutical companies Adcock Ingram and Logos featured, especially in prescription and critical-care business

Mr Williams attributes Tiger's solid showing to its breadth of investments. It is reaping dividends from money spent on upgrading of technology in the past five years.

The drought will aggravate business conditions in the second six months, but Mr Williams expects reasonable growth for the year.

Langeberg fillip for Tiger Oats

STAR 11/5/92

By Sven Lunsche (186)

A good performance by soon-to be listed Langeberg and strong export growth helped Barlow Rand subsidiary Tiger Oats to a modest 13 percent rise in interim attributable earnings.

In the six months to end-March Tiger Oats' turnover was up by 14 percent to R4,45 billion (R3,89 billion).

Income from investments more than doubled to R6,2 million, while the interest bill fell by 10 percent to R40 million.

The tax bill, however, rose by 16 percent to R98 million, limiting the increase at the taxed level to 14 percent at R185,6 million (R163 million), of which R154 million (R136,1 million) was attributable to ordinary shareholders.

Earnings per share firmed from 98c to 109c, while the interim dividend has been raised by 12 percent to 28c (25c).

Chairman Robbie Williams says he is satisfied with the results because the difficult business environment led to a slight reduction in margins.

Satisfactory results were achieved by most of the operating companies — particularly Langeberg, Adcock-Ingram, the milling operations and international export activities — as a result of tight controls.

"The group should show reasonable earnings growth, supported by the success of the recent R387 million rights issue," he adds.

Tiger Oats profits lag behind inflation

CT 11/5/92 (186)

Business Editor

TIGER OATS lifted after-tax profits for the six months to March by 14% to R185,6m, lagging behind the inflation rate as measured by the consumer price index (CPI).

Attributable profit rose by 13% to R154,4m and earnings at share level by 12% to 109c.

The interim dividend is 28c a share

Turnover rose by 14% to R4,4bn Operating profit was R317,9m (R289,7m) and pre-tax profit R281,8m (R246,5m)

The tax bill rose to R98,1m (R83,9m) but the interest bill fell to R40,4m (R44,9m).

The directors say trading conditions in the food sector remained difficult throughout the six months

"Good results were achieved by Langeberg and the milling operations, as well as by the group's international and export activities

"Disappointing results were recorded by the egg, broiler, bakery and oil operations."

In the pharmaceuticals division Adcock Ingram and Logos Pharmaceuticals "continued to perform well with satisfactory growth being achieved."

Discussing group prospects they say: "Business conditions will be aggravated by the drought and are not expected to improve in the second half. However, the group expects to show reasonable growth in earnings for the full year."

Tiger's balanced portfolio pays off

B/Day 11/5/92 (186)

MARCIA KLEIN

TIGER Oats's balanced portfolio of interests and its strong import and export businesses saw it report a 13% growth in attributable profit to R154,4m (R136,1m) in the six months to end-March

Earnings were 12% up at 109c a share following an increase in the number of shares in issue The interim dividend was up similarly to 28c a share

Chairman Robbie Williams said results, which reflected Tiger's diversified portfolio strength, were in line with expectations despite a reduction in margins

They also reflected Tiger's "investment policies of brand acquisition and development, as well as capital expenditure on new and upgraded plant and technologies over the past five years"

Turnover rose by 14% to R4,4bn from R3,9bn and pressure on margins, especially in its food interests, saw operating profit grow by 10% to R317,9m from R289,7m.

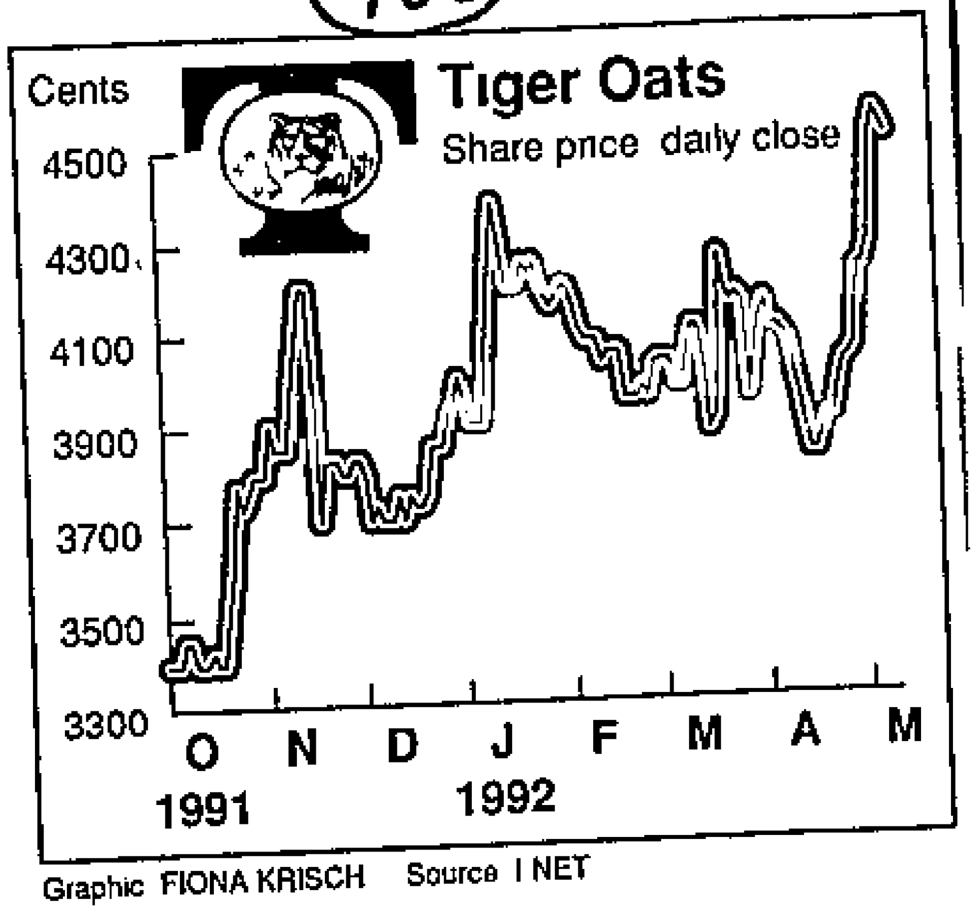
After a large increase in income from investments and a lower interest bill — resulting from tight asset management and the group's R370m rights issue — pre-tax profit was 14% up at R281,8m (R246,5m)

Williams said most of the operating companies had reported satisfactory results as a result of strong management and tight operating controls

The group's fishing interests increased their contribution to group profits after tax by 79% to R8,4m from 4,7m Williams said Oceana Fishing's results had shown a strong improvement following higher pelagic landings and cost savings arising from the group's restructuring

Pharmaceutical interests, whose contributions rose by 18% to R41,5m from 35,1m, reflected a continued good performance from Adcock Ingram and Logos Pharmaceuticals, especially in the prescription pharmaceutical and critical care divisions

Tiger Foods and other investments' contributions rose by 10% to R135,7m from R123,2m as trading conditions remained difficult throughout the period These interests increased their turnover by 13% and profit after tax by 10% with a general downward pressure on margins



Graphic FIONA KRISCH Source I NET

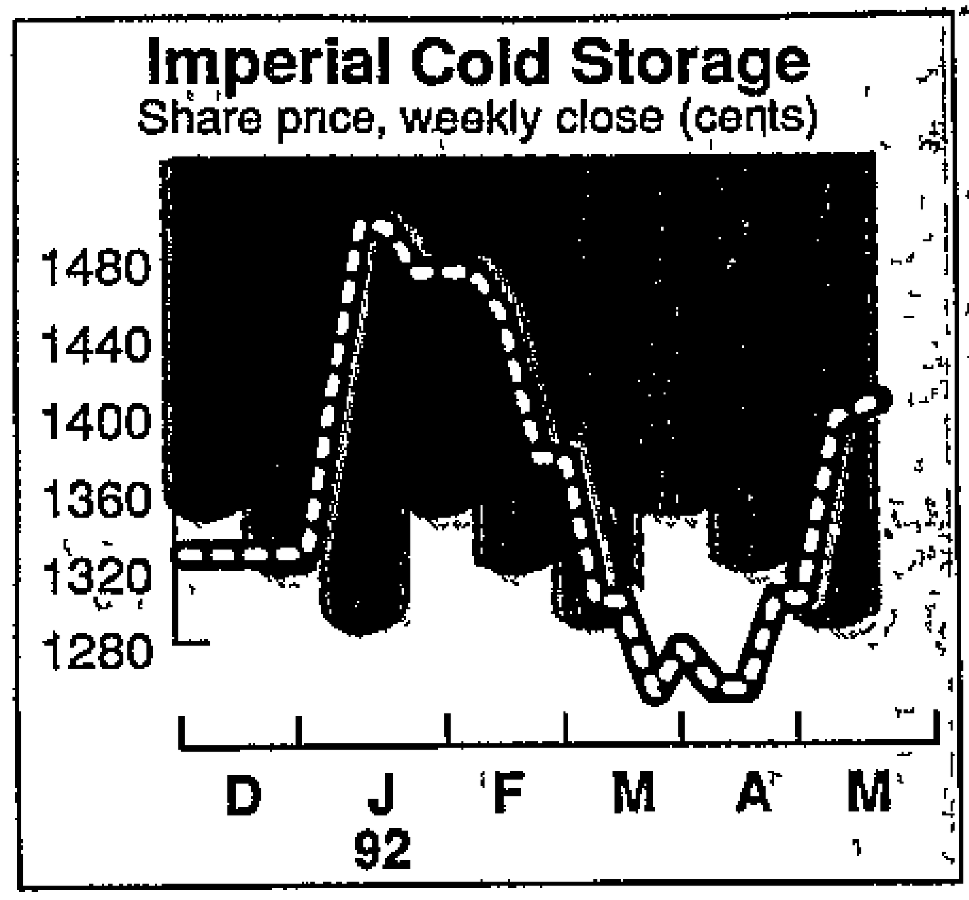
The milling operations, the international and export activities and Langeberg — which will be listed next month — did well. However, the egg, broiler, bakery and oil operations recorded disappointing results, Williams said.

Although business conditions would be aggravated by the drought in the second half, Tiger expected to show a "reasonable growth in earnings" in the full year.

Williams said Tiger had businesses overseas and would be expanding its investments in the US

Capex of R151,1m over the six months and further capital commitments of R411,2m reflected the group's commitment to keeping its facilities on a par with international standards The new maize and wheat mill in Maritzburg, which would be a significant low cost producer, would come on stream in September.

Williams said additional growth in the basic foods markets would come through "changing lifestyles and eating habits, as well as growth in urbanisation", and the group planned to meet these demands through its continued development of value added products



Graphic LEE EMERTON Source I NET

ICS maintains path to recovery

BIDay 12/5/92

(186)

MARCIA KLEIN

THE recovery of food group Imperial Cold Storage (ICS) in financial 1991 has continued into the current year, with earnings improving 29% to 81,1c from 63,1c a share in the six months to end-March

MD Nick Dennis said the Barlow Rand subsidiary had continued its improvement with good results from nearly all its divisions As turnover grew by only 8% to R1,17bn from R1,08bn, Dennis said the results were partly due to the success of a restructuring programme introduced 18 months ago

Operating profit before interest was up 33% to R24,8m (R18,6m), and operating margins improved to 2,1% (1,7%)

A dramatic reduction in the interest bill to R6,1m (R10,2m) resulted in a more than two-fold increase in operating profit to R18,7m (R8,4m) Profit after tax was 118% higher at R14,3m (R6,6m)

Total borrowings to total shareholders' funds stayed at 24% following "continued focus on capital expenditure and working capital management", and interest cover was improved to 7 times (2,5)

Attributable earnings rose by 29% to R30,8m (R24,0m), and the interim dividend of 17c a share was 21% higher than the 14c declared in the previous year

Dennis said although most of the group's divisions had shown an improvement, there were still problem areas

☐ To Page 2

passenger car, LCV and MCV markets in

event of a poor wheat season, the SA Agricultural Association said yesterday

ICS

BIDay 12/5/92

(186)

☐ From Page 1

The poultry division, housed in Festive, had reduced its losses and shown a significant improvement The meat division, which included Blue Ribbon, "held its own" in spite of difficult market conditions, and the dairy division's results had been satisfactory This included Dairy Belle and DairyMaid However; distribution division The Cold Chain continued to struggle, because of reduced volumes

Associated companies, which included Sea Harvest, Fedics, Bull Brand and Chandling International, had improved their contribution to profits by nearly 20%, with fishing company Sea Harvest performing particularly well

Dennis warned yesterday that a food-based company like ICS was particularly vulnerable to the effects of the drought, and the depletion of grazing, maize and oil seed crops had "severe implications"

He estimated that yellow maize imports with railage costs would push animal feed prices up 36% for inland users The effect on ICS's poultry division, where feeds made up 60% of costs, was obvious

Dennis said the red meat divisions would feel the effect of lower prices resulting from farmers being forced to sell off stock But, in time, higher auction prices would result from a reduction in the size of the national herd and the sharp increase in the cost of feed.

The introduction of further efficiencies in the meat industry would be affected by delays in deregulation

He said the drought has caused milk shortages Farmers had increased their prices by 19% since October and a further increase was expected

In spite of these factors, ICS expected to show an earnings increase for the year

The group's share price moved up 25% to close yesterday at 1 425c after touching a year low of 900c in September and a high of 1 500c earlier this year.

SA firms in bid for UK food group

MARCIA KLEIN (186)

A MULTIMILLION-rand offshore deal involving Anglo American Industrial Corporation (Amic), De Beers, Minorco, Del Monte Foods International and the Royal group of companies could be in the offing, market sources said yesterday.

There was strong speculation that the three-part deal would result in a change of control of Royal Foods

Sources said the transaction would see an Amic/De Beers/Minorco consortium gain control of UK-based Del Monte Foods International Del Monte Europe, which was sold by US canning company Del Monte in 1990 to a consortium and which has an association with Royal, would then be listed on the London Stock Exchange

Royal Foods would acquire Del Monte Foods International, change its name to Del Monte and list on the London Stock Exchange and the JSE Del Monte scrip would be used to buy the original business from the vendors, sources said

Speculation of a large deal, confirmed by Royal's cautionary announcement that negotiations were at an advanced stage for Royfood to acquire additional food interests, has seen significant movements in the group's share price.

Royal Holdings moved up 25c or 3,4% yesterday to a new high of 750c when 5 000 shares worth R37 500 changed hands in two deals Royal Corporation also moved up by 25c to close at a new high of 725c About 58 300 shares changed hands in 12 deals valued at R422 700 Royal Foods remained unchanged at a high of 675c, with a buyer at 675c and a seller at 725c

23/5/94 BDAY 3/10/63

Bread quality dips as price rises

STAR 13/5/92 (186)

Consumer Reporter

While the cost of brown and white bread had escalated "appallingly" in the past year, the quality of some bread had dropped, says the South African National Consumer Union

Expressing concern at bread costs, the union yesterday called on the Board of Trade and Industry to release its report into high food prices

Union chairman Lillibeth Moolman said brown bread, which was not taxable, had leapt in price by 27 percent since March last year

The average cost of white bread had increased by 26,1 percent during the same period

"It has also been found that certain bakeries' loaves do not have the prescribed standardised weight," she said.

Control tests were done by the SABS, which could take steps if the standard weight — 800 g — was not adhered to

"We would like consumers to put the loaf of bread on a scale and weigh it If this weight is not correct, inform the SABS," she said.

Royal spearheading R2,2-bn offshore deal

STAR 14/5/92

(186)

Finance Staff

Anglo American looks set to buy control of European food group Del Monte Europe (DME) via the Cape-based Royal Group.

Market sources said that a consortium of Anglo American Industrial Corporation (Amic), De Beers and Anglo's offshore arm Minorco would provide the financial backing for the deal.

There has been no official comment from any quarter but Finance Week reports today that Royal group is spearheading the R2,2 billion international deal.

It seems that Royal has already acquired control of Cape-based fruit-canning group Donald Cook for about R60 million pipping Barlow Rand subsidiary Langeberg.

Announcement of this deal has been delayed until the DME transaction has been finalised.

There has been considerable market speculation about a major deal for a number of months with strenghtened after Royal issued a cautionary statement last week.

It is unclear what stake of the enlarged Royal Food group will ultimately be held by chairman Viv Imerman and his family.

One estimate is that he will have an effective 40 percent but given the size of the deal it is difficult to see how he could hold on to this much, Finance Week says.

Should the deal go ahead, it will create an enormous fruit-canning and fruit juice group.

At some stage it will include Anglo's existing fruit interests which are held in Rhodes Fruit Farm and it will also include Donald Cook which has an established local and international infrastructure for fruit exports.

CGS Foods raises earnings

By Derek Tommey (186) STAR 14/5/92.

CG Smith Foods, which has a majority stake in Tiger Oats and a 70 percent interest in CG Smith Sugar, lifted earnings by 10 percent to 165,3c a share in the six months to March The interim dividend has been raised to 39c (37c) a share.

Turnover rose 12 percent to R6,3 billion and operating profit before intest by 11 percent to R441,7 million

Earnings attributable to shareholders rose 10 percent to R156,2 million

Providing a breakdown of earnings, the company says earnings from the food division (mainly Tiger Oats) increased from R149,5 million to R168,2 million.

Earnings from sugar rose six percent to R57,9 million, while earnings from fishing increased by 78,7 percent to R8,4 million and earnings from pharmaceuticals 18,2 percent to R41,5 million

Chairman Robbie Williams says margins remained under pressure.

CG Smith Sugar achieved satisfactory results, in line with those forecast in its recent prospectus.

CGS Sugar has not felt the full severity of the current drought owing to its wide geographical spread. Nonetheless the crop will be affected, Mr Williams says.

The financial performance of CG Smith, the holding company of CG Smith Food, Nampak and various textile and carpet groups, reflects those of its operating groups

Turnover in the six months was up 12 percent to R8,9 billion and earnings improved by 11 percent to R208,9 million

Earnings per share subsequently rose from 400,6c to 444,1c, while the interim dividend was raised from 111c to 117c a share.

Agricultural debt may soar to R20bn

B/Day 14/5/92.

GERALD REILLY

PRETORIA — Agriculture's total debt could soar to R20bn by the end of the year after the summer harvest, Co-operative Council chairman C G van Veijeren said yesterday.

Speaking at the biennial co-operative congress, he warned the agricultural economic situation was "very dark" and its recovery could only be long and painful.

Despite the efforts of co-operatives and state aid, many farmers had been unable to survive financially. Some co-operatives had even faltered and the current disastrous season would intensify this trend.

Poor economic growth, unbridled inflation and the rigid interest rate policy were placing a tremendous strain on farmers and their co-operatives.

The security situation in rural areas continued to worsen, as these areas became increasingly depopulated.

The inability of agriculture to absorb further production cost increases as well as the inability to recover them in product prices would affect the recovery of co-operatives and the rural areas.

Meanwhile, Sapa reports that government's decision to contribute to the preservation of breeding stock by means of interest subsidies was welcomed by the Meat Board yesterday.

The board said in Pretoria the interest rate on section 34 medium-term loans by the Land Bank for the purchase of breeding stock from drought-stricken areas was to be subsidised by 5% for a year, amounting to only 14% effective interest on such loans The board appealed to all meat producers to refrain from slaughtering valuable breeding stock.

It is reported from Cape Town that Agriculture Minister Kraai van Niekerk told Parliament yesterday more than 1 404-million tons of maize would be channelled through SA ports by June 30 for hunger relief in southern Africa. He said SA would receive 977 000 tons, Zimbabwe 407 683 tons and Zambia 20 000 tons

Mozambique, in turn, appealed to the world yesterday for massive food aid to save more than 3-million people from starvation, Sapa-Reuter reports from Maputo

Prime Minister Mario Machungo told foreign diplomats and aid agency representatives recent surveys indicated "an almost total crop loss in the centre and south of the country". It was foreseen that famine would wipe out one fifth of the country's 15-million people unless food aid arrived in time.

"The current drought could be the worst disaster in memory for Mozambique, threatening to reach incalculable dimensions and consequences," Machungo said

His appeal puts total needs at 1,3-million tons of food for the 12 months beginning May 1 1992 The total value of aid requested, including logistical support, seeds, farm tools and health assistance in addition to food, comes to $457,46m

☐ Water restrictions have been imposed throughout the Kruger National Park after the disclosure that most of the water in the reserve is being used for irrigation.

● Comment: Page 16

SABS reports malpractices

B/Day 14/5/92 (186)

MADDEN COLE

THE SA Bureau of Standards (SABS) has blamed consumer apathy for large-scale malpractices in the bakery and service station sectors, which could result in consumers being cheated out of millions of rands annually.

In his annual review released yesterday, SABS director-general J P du Plessis said a survey last year had discovered that 50% of the bakeries inspected produced under-weight bread, and 12% of all loaves failed to meet minimum weight requirements

The survey's results disclosed "a frightening lack of business ethics" in some sectors of the industry.

Although the bakeries had been warned and the matter publicised, they had continued these practices.

A random survey of petrol pumps showed that 10% of meters were inaccurate A survey of weighbridges in the PWV and Transvaal country areas showed "a disconcertingly high number of inaccurate instruments".

The SABS would recommend amendments to legislation to enable courts to impose more appropriate sentences. However, consumer organisations should urge consumers to report cases of short measure.

Subsidiaries contribute to lively performance

B/Day 14/5/92 186

MARCIA KLEIN

DIVERSIFIED holding company C G Smith, in the Barlow Rand stable, improved its earnings by 11% to 444,1c (400,6c) a share in the half year to end-March

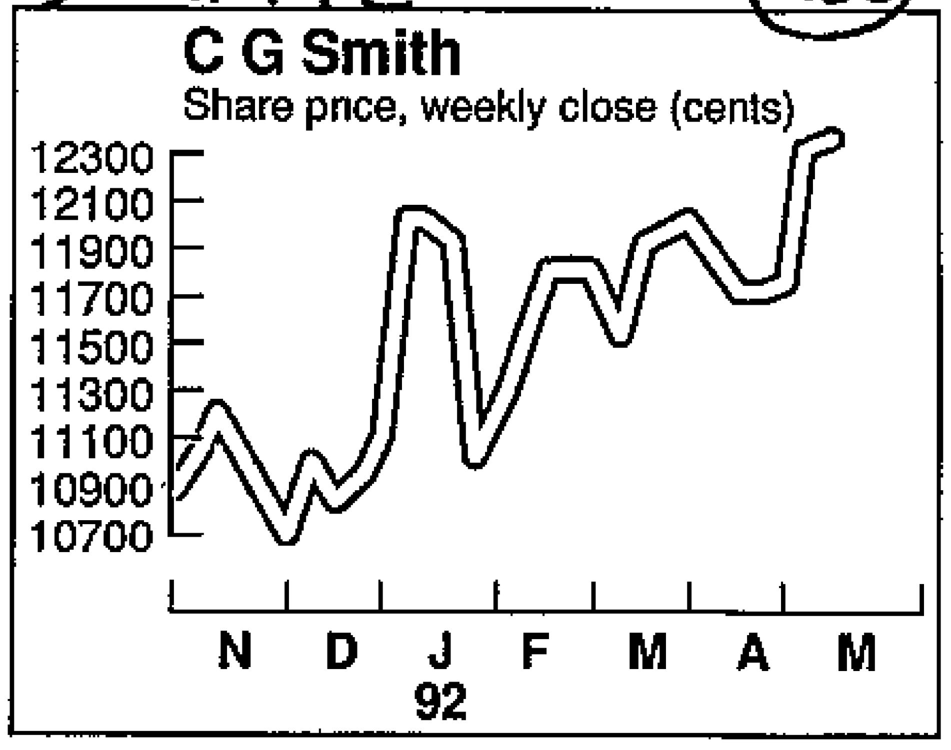
The company, which has substantial interests in C G Smith Foods, Nampak and Romatex, increased its turnover by 12% to R8,9bn (R7,9bn) and its operating profit by 14% to R712,4m (R627,3m)

Chairman Robbie Williams said most sectors of the group's portfolio were affected by the economic environment, but a number of subsidiaries had turned in "fine performances"

The contribution of carpets and textiles, housed in Romatex, improved from 1% to 2% of attributable earnings Food and pharmaceuticals' contribution was reduced from 62% to 61%, but the packaging and paper interests' contribution was maintained

C G Smith Foods, which holds the group's food and pharmaceutical interests, had increased its earnings by 10%

The 13% rise in the earnings of packaging and paper company Nampak was achieved through real growth in most of its divisions despite higher tax and financing costs The packaging division had performed particularly well, can-making Bevcan had increased market share and the corrugated division continued to improve, Williams said



Graphic LEE EMERTON Source I NET

The glass division showed an operating loss on the back of overcapacity and falling demand, and the paper manufacturing and tissue divisions suffered from over-supplied markets

Group attributable earnings grew by 11% to R203,9m (R188,2m) An interim dividend of 117c (110c) was declared

Williams expected improved earnings for the full year, but at a lower level than first six months

CG Smith Foods sees improvement

BDay 14/5/92

(186)

MARCIA KLEIN

A MIXED bag of results from its diverse portfolio saw C G Smith Foods (CGS Foods) increase earnings by 10% to 165,3c (150,8c) in the six months to end-March

CGS Foods, 81% held by C G Smith and ultimately held by the Barlow Rand group, has performed in line with 1991 year-end forecasts of increased earnings

The food, pharmaceutical and distribution group increased its turnover by 12% to R6,3bn from R5,6bn and its operating profit by 11% to R441,7m from R396,5m

A marginal rise in its interest bill and a significant increase in income from investments to R58,1m (R36,9m) enabled profit before tax to rise by 18,8% to R401,9m

Profit after tax improved by 16% to R273,7m from R236,1m, but a large reduction in the group's share of associate companies' retained profits saw attributable earnings grow by 10% to R156,2m (R142,5m)

A 5% higher interim dividend of 39c (37c) a share was declared

Chairman Robbie Williams said food and other investments maintained their 61% contribution to profit after tax, as did pharmaceuticals at 15%

The contribution of fishing interests grew from 2% to 3%, while sugar and related activities dropped from 22% to 21%

Recently listed C G Smith Sugar lifted its earnings 8% to R48,7m on the back of increased production and higher contributions from the chemical, warehousing and distribution divisions

Williams said although it had not felt the full severity of drought due to its geographical spread, its sugar crop would be adversely affected

Tiger Foods showed a 10% improvement in after-tax profit on a 13% turnover increase, reflecting downward pressure on margins

A good performance by Langeberg and milling, international and export operations were offset by a "disappointing" performances from the egg, broiler, bakery and oil operations

Imperial Cold Storage continued to reap the benefits of its rationalisation programme, and its 29% earnings rise reflected higher contributions from its dairy, meat and associate companies — particularly Sea Harvest

The poultry division also showed a significant improvement

Higher pelagic landings and savings in overheads following its restructuring enabled Oceana Fishing to produce a strong earnings rise.

Adcock Ingram and Logos Pharmaceuticals — now its only non-listed interest — benefited from good growth in their prescription pharmaceuticals and critical care divisions

Williams said the listing of C G Smith Sugar and the Tiger Oats rights issue had strengthened the balance sheet Gearing was down from 38% to 20%

He expected a reasonable earnings increase in the coming year in spite of the effect of drought on many CGS Foods subsidiaries

Food price conundrum

STAR 15/5/92

(186)

Deductions that the steep and escalating increase in food prices is due to lack of competition between "cartels" in the food industry have been repudiated by Peter Wrighton of the Premier Group, who spoke to PATRICK LAURENCE on a topic that deeply affects consumers' pockets.

ALLEGATIONS of price fixing and exploitation by "cartels" in the food industry have been sharply denied by Peter Wrighton, executive chairman of Premier Group

Mr Wrighton's riposte comes in response to assertions that the rocketing increase in official food prices is due to lack of competition between the huge food producers which control the industry

The Central Statistical Service (CSS) calculates the annual inflation rate for food at just less than 29 percent, or nearly double the general inflation rate. One economist declares that the position borders on "economic sabotage"

Labelling the situation "iniquitous," Robin McGregor, of McGregor Online, says, "Three groups produce over 75 percent of the South Africa's main food products — Premier Milling, Tiger Oats and, to a lesser degree, Fedfood"

Mr McGregor adds "It is naive or irresponsible to believe that cartels do not exist in South Africa when two, three or even four producers control over 75 percent of the market"

Mr Wrighton's response, made in an interview with The Star, consists broadly of two parts he challenges Mr McGregor's premise that three groups control 75 percent of the food market and he questions the accuracy of CCS statistics

He says six producers control 75 percent of the bakery industry Premier, Tiger, Sasko, Fedbake, Bokomo and Bakers The three biggest producers control half of the market Besides the "big six" there are "hundreds of individual bakers"

The market share of the biggest six major producers is 21 percent The smallest's share is 5 percent, Mr Wrighton says

The same position pertains in the maize industry Six, not three, producers control 75 percent of the market Premier, Tiger, Tongaat, Fedfood, Maizecor and Natal Co-op.

The market share of the "big six" ranges between 23 and 4,6 percent There are, however, more than 240 maize millers in the food industry

Mr McGregor calculates that over 12 years the price of bread rose by 553 percent and that of mealie meal by 490 percent

Premier's calculations from March 1980 to March 1992 give lower figures 315 percent for bread and between 404 and 448 percent for mealie meal, depending on whether the calculation is for the miller's retail price or the gross price

Mr Wrighton contends that Mr McGregor has not taken account of three factors in his computations for the rise in the price of bread the withdrawal of the bread subsidy in March 1991, the removal of retail price control at the same time and the imposition of tax on bread with the introduction of VAT in September last year

Mr Wrighton questions the accuracy of CSS figures, noting what he sees as a major anomaly a decline in the amount of food sold — down 17 percent in December last year — but a simultaneous rise in volume of sales of audio-visual items, including TVs

The first set of figures points to a situation of major economic distress, the second signifies boom conditions

Another discrepancy relates to the wide — and apparently widening — difference between the producer price index (PPI) and the consumer price index (CPI) 6,7 percent against 15,7 percent

Mr Wrighton remarks that the PPI can be quoted to defend major food producers against allegations of responsibility for the huge increase in the official inflation rate for food.

But, he reckons, they are both probably inaccurate the PPI is too low and the CPI too high

Taking a closer look at the basket of food items on which the CPI is calculated, Mr Wrighton notes that meat, fruit, nuts and vegetables account for nearly 70 percent of the inflation rate for food and that these foods are not sold to retailers by the food-producing giants

Premier's own calculations on a basket of its own food products points to an inflation rate of 15,8 percent for the 10 months ending January 1992 — one which is on a par with the average inflation rate and not nearly twice as high

Mr Wrighton challenges Mr McGregor's view that cartels and price-fixing occur or tend to occur when the number of producers diminishes, he argues that the reverse tends to happen as the remaining producers fight even harder to improve or retain their market share

"There is terribly fierce competition between the major food producers in South Africa," he says "There are some very big companies in the food business They market their products by cutting their prices I can guarantee that there is no arrangement between them" □

TIGER OATS/ICS FM 15/5/92

Feeding the nation (186)

Once again food, pharmaceutical and fishing giant **Tiger Oats** has increased earnings by about 13%, though the contribution from Tiger Foods was up only 10% to R135,7m This is well below official food inflation, which is running at 29% at retail level

This might imply that volumes have been slashed Certainly, according to chairman Robbie Williams, there is little real growth in even basic foods — increased profitability stems from increased efficiency Growth is coming from exports of tinned deciduous fruits and a marked improvement from Oceana Fishing, which had an increased anchovy and pilchard quota Its attributable earnings increased by 79% to R8,4m

Williams says that while much effort has centred on the development of brands, this does not mean that the orientation has moved towards luxury products The portfolio includes two powerful maize meal brands, Ace and Induna, and the less-known Crown Milling operations continue to show growth in both sales and attributable earnings

Tiger's core business remains feeding the nation and Williams argues that it is in the nature of the agricultural cycle that, at certain times, some products will be profitable and others not For example, in the interim period, performance of eggs, broilers, bread and edible oils was "disappointing"

The other main contributor to C G Smith Foods, **ICS**, continues to improve under recently appointed MD Nick Dennis, previously an executive director of Tiger Oats It increased its attributable profit by 29% to R31m on an increase in turnover of just 8% Interest payments were right down, increasing interest cover from 2,5 to seven times

ICS's poultry division, Festive, improved profitability, thanks to a reduction in surpluses plus improved internal operating efficiencies The meat division, which makes Renown products, performed satisfactorily, though the distribution division, The Cold Chain, suffered reduced volumes.

Both Tiger and ICS now have low gearing After the rights issue at the beginning of the year, Tiger's gearing has fallen to 25%, while ICS's remains 24%

Tiger's share price continues to test new

FM 15/5/92 (186)

TIGER'S PROGRESS

Six months to	Mar 31 '91	Sep 30 '91	Mar 31 '92
Turnover (Rbn)	3,89	4,09	4,45
Operating income (Rm)	290	308	318
Attributable (Rm)	136	153	154
Earnings (c)	98	109	109
Dividends (c)	25	46	28

highs At R45,75, it sits on a p e of 22,1 and dividend yield of 1,6% It remains ahead of archrival Premier — though the gap has narrowed, as Premier has a 19,1 p e — but behind fashionable speciality shares Cadbury Schweppes and Rainbow ICS is still some way behind in view of the dismal results it displayed until recently, though with a 2,6% dividend yield, it offers value Tiger remains a long-term hold *Stephen Cranston* kicking Van Tonder on the ground as several sources claimed.

Schmidt said last night he was happy with the decision, but declined to comment further.

● See Back Page

Food inflation claim contested

(186)

STAR 15/5/92

By Patrick Laurence

Peter Wrighton, executive chairman of the Premier Group, has challenged the official calculation that the price of food is rising at nearly twice the average inflation rate.

He calculates that the inflation rate for food is close to the general inflation figure of just less than 16 percent and not nearly 29 percent as put out by the Central Statistical Service.

In a wide-ranging interview, Mr Wrighton focuses on some of the anomalies in official figures, noting that, according to these calculations, spending on food is diminishing while the purchase of audio-visual products is increasing.

● Food price conundrum — Page 13

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HLH/RAINBOW CHICKEN FM 15/5/92

Tarnished mix

186

Hunt Leuchars & Hepburn (HLH)'s exposure to food and commodities hit it hard in the past financial year, with low world prices for sugar and reduced consumer spending seeing earnings decline in real terms

The investment mix, which has proved profitable in boom times, has lost its shine This is shown by a reasonable increase in turnover of 18% (1991 26%) but disastrous slowdown in operating profit growth to only 4% (23,5%) Margins are obviously under extreme pressure

Subsidiaries Robertsons and Transvaal Sugar seem to have performed as well as could be expected, particularly the former, which increased its contribution to group income to 34% But associates Rainbow Chicken (40%) and HL&H Timber Holdings (50%) let the side down

To make matters worse, HLH's marginal increase in earnings translates to an 11% drop in EPS because of the increased shares issued to fund its additional investment in Rainbow A year ago, HLH held a R223m

CHEAP CHICKENS

Year to March	†1991	1992
Turnover (Rbn)	0,69	1,51
Operating income (Rm)	47,1	76,3
Attributable (Rm)	55,1	48,5
Earnings (c)	20,0	13,8
Dividends (c)	4,3	4,4

† Proforma results, excluding the effects of the acquisition of Bonny Bird Farms and Epol

continue →

HLH EARNINGS DROP

Year to March	1991	1992
Turnover (Rm)	587	694
Operating income (Rm)	118	122
Attributable (Rm)	117,6	118,6
Earnings (c)	91,2	81,5
Dividends (c)	32,5	32,5

FM 15/5/92

rights issue to follow Rainbow's R252m issue Though Rainbow has shown good growth and returns long-term, the timing of HLH's increased investment now looks bad

Rainbow is having problems of its own digesting its full acquisition of Bonny Bird and 50% in Epol. While they helped swell turnover nearly threefold and saw a 62% increase in operating profit to R76,3m, margins were cut from 6,8% to 5,1% because of their traditionally lower margins (186)

Interest also went from net income of R9,4m in 1991 to a R27,2m cost as a result of Bonny Bird debt, as well as capital spending on the Rustenburg feed mill, due to open in June On a more cheerful note, Rainbow MD John Geoghegan notes that Bonny Bird's previous operating loss of R13,2m was turned into a profit of R17m

HLH CE Neil Morris says when the group acquired Bonny Bird it realised it would be hard to turn in a year and, therefore, expected the new business to have a major impact on performance "However, with the rationalisation opportunities which have taken place within Bonny Bird, we expect benefits to start coming through next year"

Geoghegan says excess production in the poultry industry severely depressed selling prices, average prices increasing by only 9,5% over the previous financial year He expects this situation, possibly made worse by drought, to continue throughout 1992 and into the first quarter of 1993

Thereafter prices should firm, supported by rising red meat prices resulting from a shortage caused by the drought Accordingly he expects strong earnings growth next year

Similarly Morris, while not optimistic about a recovery this year, says the outlook for HLH is positive and expects earnings to increase in financial 1994 *Shaun Harris*

Royal clinches R22m food group deal

MARCIA KLEIN

ROYAL Corporation (Roycorp) had acquired the SA operations of international food group Donald Cooks for about R22m cash, the group announced yesterday.

The deal, which is substantially below the R60m pegged previously by market sources, is believed to be the first part of a multimillion-rand deal with Del Monte Europe, which should be announced within the next two weeks. BDay - 19/5/92

Roycorp MD Doug Johnston said yesterday that the Donald Cooks acquisition would have little effect on the Royal group's results for the current year, but it held "immense long-term benefits".

In financial 1993, it should add 15c a share to subsidiary Royal Food's (Royfood) earnings and about 14c a share to those of Roycorp and holding company Royal Group Holdings (Royhold). In a full production year, the acquisition would add about 25c to Royfood's earnings and about 23,4c to its holding companies. (186)

Cooks' local interests include a deciduous fruit and frozen vegetable processing and vinegar manufacturing plant and an asparagus farming and canning plant. Up to 95% of its SA products are exported.

Johnston said these interests would complement Royfood and would allow for rationalisation. For instance, Cooks' technology would enable the group to pulp SA Preserving Company's (Sapco) 5 000 to 10 000 tons of fruit residue for fruit juice.

He said the relaxation of sanctions had brought with it a huge demand for SA fruit. "Cooks will augment our existing supply

□ To Page 2

Royal BDay 19/5/92

(186)

□ From Page 1

by 50% for peaches and 300% for apricots, enabling us significantly to expand our export flow to Del Monte in Europe."

There was also scope for expansion in the frozen vegetable market, and particularly in canned vegetables, with Del Monte Sapco and other fruit supplies are exported under the Del Monte label.

Chairman Vivian Imerman said that the Royal Group had "repeatedly demonstrated its ability to benefit from acquiring overseas groups that have, largely for political reasons, not operated to their full potential in SA"

The expected Del Monte deal is believed to involve the acquisition — by Anglo American Industrial Corporation, De Beers and Minorco — of Del Monte Europe through Royal. Del Monte, which would incorporate Royfood, would be listed on the London Stock Exchange and the JSE Royfood would be renamed Del Monte

Royal buys Donald Cook (186)

Royal Corporation has taken control of the South African operations of the internationally renowned Donald Cooks company for about R22 million in cash. STAR 19/5/92

Royal said the acquisition would have little effect on the group's current year's results, but was seen to hold immense long-term benefits.

An unlisted private company, Cooks' local interests comprise a deciduous fruit-and frozen vegetable operation and an asparagous farming and canning plant.

Cooks exports up to 95 percent of its South African products.

The deal should add about 15c a share to Royfood's earnings for fiscal August 1993 and about 14c to each of parents Roycorp and Roygold.

"Donald Cooks is a sleeping giant from which we can unlock substantial growth," says group chairman Vivian Imerman. — Sapa

Fedfood profit hit by higher taxation

186

B/Day 20/5/92

MARCIA KLEIN

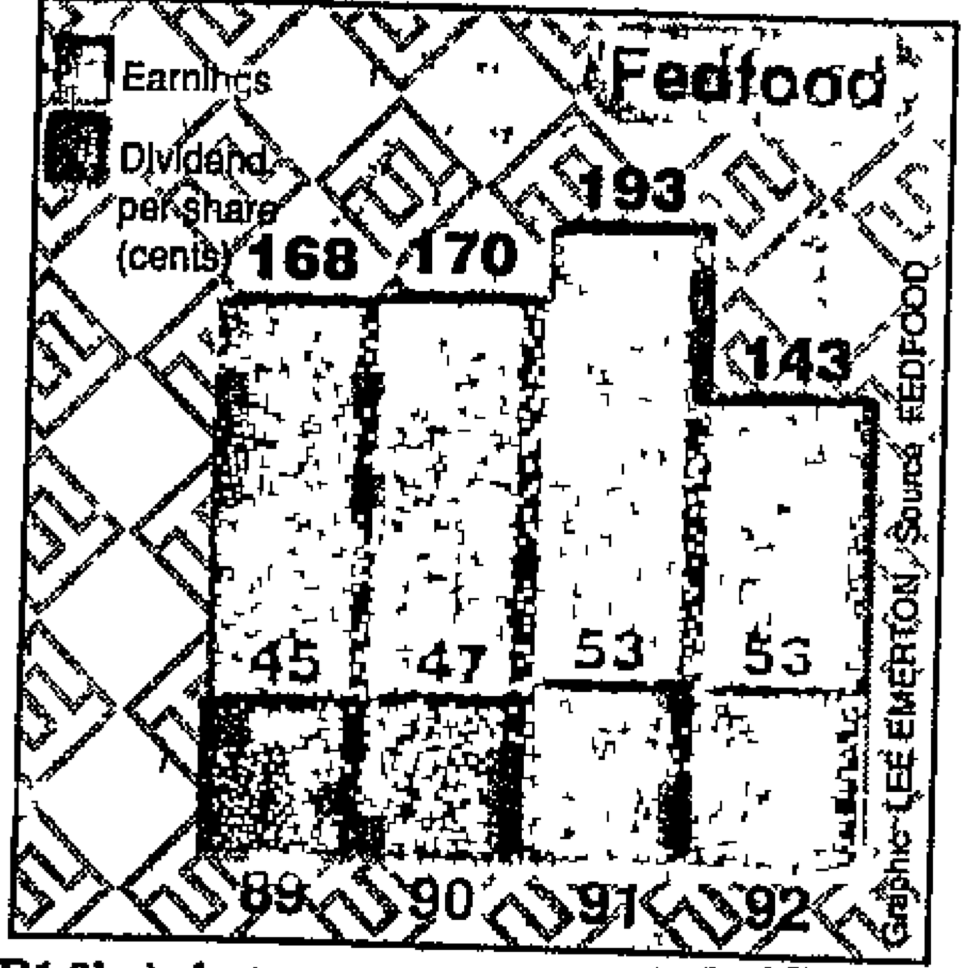
FEDFOOD's results for the 12 months to end-March, in which earnings fell 26% to 143c (193c) a share, reflect an improved performance hard hit by a rise in taxation

Reporting yesterday, Fedfood also announced that it would merge with Kanhym in a yet-to-be-named company with annual sales of about R2,5bn Kanhym shareholders would be offered 100 Fedfood shares for every 300 Kanhym shares. Kanhym would be delisted and Fedfood would serve as the listed vehicle for the transaction

Malbak, which holds a 70% interest in Kanhym in addition to a 60% interest in Fedfood, said it intended to rationalise its interests in the food industry under one listed company.

Fedfood's results, for the 12 months to end-March because of a change in the year-end to August in line with that of Malbak, also reflected the rationalisation and reorientation since Malbak took its 60% interest in November. This included decentralised management, a rationalisation of head office and the closure of the underperforming operations.

Turnover increased by 15% to R1,4bn



(R1,2bn) but margins were reduced by 0,8%, increasing operating income by 5% to R114m (R109m).

Finance costs were maintained at R28m, and income before tax grew by 6% to R86m with most of the divisions making sound contributions However, a 28% rise in taxation resulted in a 4% drop in profit after tax to R54m

Further losses in the group's equity por-

To Page 2

Fedfood

B/Day 20/5/92

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From Page 1

tion of non-consolidated results and outside shareholders' interest saw attributable earnings fall by 26% to R43m (R58m) Nevertheless, dividends were maintained at 53c a share

An extraordinary item of R22m includes provisions for the closure of fruit-processing operation Patoma (which showed a R17m loss by November) and other businesses Group CE Dirk Jacobs said the benefits of these moves would be realised fully in 1993, but would be noticeable in the current year

Frozen Foods, housed in Table Top and Harvestime, was affected by the drought Effective cost management resulted in another good performance from Simba, despite increased competition Nola did well, while Sunbake and Ruto, the group's baking and milling operations, compensated for lower local volumes through an export drive and cost control A cut in local fish quotas and poor catches in Chile affected fishing operation Marine Products

Jacobs said Fedfood had created a platform on which to grow vigorously He said negotiations with Heinz were "in the ninth round out of 10", and he hoped to make an announcement soon

Jacobs expected Fedfood to be affected by the low level of consumer spending, a traditionally slow period to August and higher grain prices, but there should be benefits from decentralisation, rationalisation and the closure of businesses

Jacobs expected increased earnings in the 12-month period to August and sustainable real growth in the following financial year He added that although the Kanhym/Fedfood merger appeared to be dilutory for Kanhym, Kanhym shareholders would get the full benefits of the merger through increased NAV and the future growth of the new group.

Fedfood and Kanhym to be merged

STAR 20/5/92

By Derek Tommey (186)

Malbak is to merge its two food companies, Fedfood and Kanhym, and create one of the biggest food groups in the country, with a turnover of R2,5 billion a year

The merger will remove conflicts of interest between the two groups and achieve cost savings for the benefit of both Fedfood and Kanhym shareholders

Kanhym shareholders are to be offered 100 Fedfood shares for every 300 Kanhym shares

Malbak has a 70 percent interest in Kanhym and a 60 percent interest in Fedfoods which announced last night earnings of 143c a share for the 12 months ended March and is paying unchanged dividends for this period totalling 53c

Fedfood, has been selected as the listed vehicle as this will minimise the costs of implementing the merger

Had the merger been effective in the Fedfood's 1991-92 financial year, Fedfood earnings would have risen from 143c to 159c a share, and its dividends would have been increased from 53c to 56c a share

Earnings attributable to Kanhym's shareholders would has dropped from 62c to 53c a share, while the dividends a share would have declined from 20c to 19c a share

However, as Kanhym's shareholders have received this 20c, the comparison is only of academic interest

What is important, said Mr Dirk Jacobs, group chief executive of Fedfood, is that while there appears to be a dilution of earnings for Kanhym shareholders this will be only temporary and would be more than offset by the benefits arising from the merger of the two companies

The attractions of the proposed merger are enhanced by the smooth fit between Fedfood and Kanhym, which do not overlap in any of their products or markets, and by the opportunities for growth inherent in the new group's expanded scope and enlarged resources

Mr Jacobs reports that Fedfoods, which which was acquired by Malbak late last year, has undergone substantial reorganisation and rationalisation, which should lead to real growth in 1993

The next few months should show the benefit of these moves, and will be fully manifest in the 1993 financial year

Fedfood's turnover in the 12 months ended March rose 15 percent to R11,4 billion, but reflecting pressure on margins, operating income rose significantly less - by 5 percent to R114 million.

Finance costs were unchanged but an increase in the rate of tax resulted in taxed profits dropping by 4 percent to R54 million However, a R7 million swing-around in discontinued operations and a R6 million swing in non-consolidated results, trimmed attributable earnings to R43 million (R56 million)

Unprofitable and since discontinued local operations and rationalisation costs reduced retained from R35 million to R5 million

Fedfood, Kanhym set for merger

186

CT 20/5/92

From MARCIA KLEIN

JOHANNESBURG — Fedfood's results for the 12 months to end-March, in which earnings fell 26% to 143c (193c) a share, reflect an improved performance hard hit by a rise in taxation

Reporting yesterday, Fedfood also announced that it would merge with Kanhym in a yet-to-be-named company with annual sales of about R2,5bn Kanhym shareholders would be offered 100 Fedfood shares for every 300 Kanhym shares Kanhym would be delisted and Fedfood would serve as the listed vehicle for the transaction

Malbak, which holds a 70% interest in Kanhym in addition to a 60% interest in Fedfood, said it intended to rationalise its interests in the food industry under one listed company

Fedfood's results, for the 12 months to end-March because of a change in the year-end to August in line with that of Malbak, also reflected the rationalisation and reorientation since Malbak took its 60% interest in November. This included decentralised management, a rationalisation of head office and the closure of the underperforming operations

Turnover increased by 15% to R1,4bn (R1,2bn) but margins were reduced by 0,8%, increasing operating income by 5% to R114m (R109m)

Finance costs were maintained at R28m, and income before tax grew by 6% to R86m with most of the divisions making sound contributions However, a 28% rise in taxation resulted in a 4% drop in profit after tax to R54m

Further losses in the group's equity portion of non-consolidated results and outside shareholders' interest saw attributable earnings fall by 26% to R43m (R58m) Nevertheless, dividends were maintained at 53c a share.

An extraordinary item of R22m includes provisions for the closure of fruit-processing operation Patoma (which showed a R17m loss by November) and other businesses Group CE Dirk Jacobs said the benefits of these moves would be realised fully in 1993

Jacobs said Fedfood had created a platform on which to grow vigorously He said negotiations with Heinz were "in the ninth round out of 10"

He added that although the Kanhym/Fedfood merger appeared to be dilutory for Kanhym, Kanhym shareholders would get the full benefits of the merger through increased NAV and the future growth of the new group

Drought set to hurt food manufacturers, retailers

B/Day 21/5/92

MARCIA KLEIN

DROUGHT conditions would seriously affect food manufacturers and retailers who were already experiencing extremely depressed trading conditions, various industry sources said yesterday

They said that the severity of the drought had not been fully realised, and consumers would ultimately suffer as a result of increased food prices

Food manufacturers who recently reported results to end-March, including Tiger Oats, C G Smith and Fedfood, warned that the drought was expected to have a significant effect on some of their operations over the next six months

Consumer Council public affairs manager Paul Roos said that if supply and demand ruled, as it should, prices would go up This was already evident in the prices of potatoes, and consumers could expect further increases in other products, especially fresh produce.

Barlow Rand vice-chairman and MD Derek Cooper warned on Tuesday that many of the group's interests were already feeling the effects of the drought

The food and packaging interests in particular could be severely affected over the next six months, he said

A Pick 'n Pay spokesman said that retail prices reflected the prices that the retailers had to pay their suppliers Therefore, he expected that retailers would be pressed to increase prices

He added that a bumper crop in the following year would not necessarily mean prices would come down

Although retailers would be faced with pressures to increase costs, some products, like canned fruit, should not be affected as the fruit was picked a season earlier

He said he expected the drought to affect dairy products, maize products, chicken and meat

A business consultant said the price of most fresh produce, including maize and wheat-based products, fruit and vegetables and meat, would increase

Of the vegetables grown, the dry land products — as opposed to those under irrigation — would be hardest hit

He said food companies were already hurt by tough trading conditions and the drought would aggravate this.

A market source said smaller traders who operated in the small or rural towns would be seriously affected Many of these towns "died" during a drought, and would not recover figure of earnings a share (import content

Good Langeberg results before listing

B/Day 22/5/92. (186)

LINDA ENSOR

CAPE TOWN — Langeberg Holdings, the soon-to-be listed canning subsidiary of Tiger Oats, produced a 42% increase in earnings in the six months to end-March.

A dividend of 20c was declared on earnings of 87,5c (61,6c) a share.

A major contributing factor to the good performance was the repositioning of the local division and an increase in local prices towards the middle of the last financial year.

Greater efficiencies in the manufacturing plants, improved control over costs and better financial disciplines also contributed to the enhanced profitability.

Margins strengthened to 12,2% (11,4%) which converted the 18,2% rise in turnover to R342,7m (R290m) into a 26% increase in operating income to R41,8m (R33,2m)

Accumulated tax losses mean Langeberg does not pay tax.

The drop in interest charges also assisted the growth in attributable income before extraordinary items to R35m (R24,6m)

"Domestic sales showed some improvement in real terms due to better stock availability," chairman Charles van Veijeren said

On the other hand, he said, export shipments had so far trailed those of last year.

"This resulted mainly from the lower opening stock of deciduous fruit, limiting early shipping volumes while pineapple concentrate shipments have slowed down as demand (and prices) declined from the peaks reached in 1991"

Van Veijeren said the deciduous crop exceeded expectations in terms of volume, but quality was uneven and production hampered by problems with the availability of cans

Pineapple volumes were unchanged but there were problems with quality and size

Poor retail sales were expected to continue for some time Van Veijeren said it would be difficult to maintain the increase in sales volumes achieved in the first half of the year

"Both deciduous and pineapple export volumes and income are, however, expected to increase over 1991's second half, and the company as a whole is expected to improve its profitability during this period"

All three operating divisions should contribute to a reasonably improved result this year

The listing of the group is scheduled for early June

At end-March, debt.equity stood at 73% (76%) and net asset value at 675,2c (558,7c).

Business Day SURVEY

*Rising food prices and recession have put the squeeze on caterers, but the opportunities offered by the privatisation of government catering, growing nutritional awareness and the emergence of the black market are positive signs. The contract catering market is dominated by three names: Fedics, Supervision Food Services and Hospitality. **DARIUS SANAI** reports.*

Tuck into Africa's biggest food show

B1Day 22/5/92

ONE of the most important events within the field of catering in SA is scheduled for June 21 to 24

This is when the first International Food and Equipment Exhibition takes place at Nasrec.

The exhibit, sponsored by Fedhasa, Catra and the SA Chefs Association, will combine three exhibitions under one roof.

These three exhibitions united as one event are Fabssa, the third International Food and Beverage Show of SA, Hotel and Catering, the sixth International Exhibition for Hotel and Catering furnishings (excluding food, beverages and food equipment), and Feesa, the third Food Equipment Exhibition of Southern Africa

Specialised Exhibitions organised the event, and PR Dee Reuvers says these three will form Africa's largest food and equipment event

Among the exhibitors will be Babingtons, Betafresh, Cirp Food Service and County Fair Foods

Dairymaid, E W Dicks, Guinness Brewing, Quickie Quencher, Senor Taco Fast Foods and Steven Smith Associates will also be there

Reuvers says 5 959 industry members visited Fabssa in 1990, of which 38% were directors, owners or general managers, and 36% were senior chefs or catering managers

From a survey of those who attended, interesting statistics emerged. All the food, beverage and retail managers who visited said they came "to meet new suppliers, reduce catering costs and source alternative products".

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Equipment

Over 70% of buyers said they came for this reason, and 47% of chefs and catering managers and 37% of directors and owners concurred.

Similarly, 68% of directors and owners said they had come primarily to look for new equipment or furnishings Among food and beverage managers, 66% concurred, as did 57% of buyers and 41% of chef and catering managers.

Reuvers says the 1992 event, with its combined appeal, is set to make even more of an impact than previous separate exhibitions.

OOD'S MIXED FLAVOURS

FM 22/5/92

Fedfood's swan song

186

Fedfood, of which control has passed from Federale Volksbeleggings to Malbak and is about to merge with Kanhym, has not ended its career on a high note

In the year to March, operating income rose by 5% to R114m Finance costs were constant at R28m, but the group was stung by a 28% hike in tax as the effective rate went from 31% to 37%, and EPS fell 26%

In what is becoming a Malbak trademark, asset management improved. Borrowings were cut by almost R60m to R206m and current assets fell by R45m to R367m. Gearing is down from 70% to 54%.

Fedfood has some quality assets But other divisions were disastrous. Notably fruit processor Patoma, which has lost R17m since it was acquired in 1990, was discontinued R6m from discontinued operations was taken above the line and R22m below the line for closure costs and goodwill

On June 1, Group CE Dirk Jacobs will unveil the structure of the merged Kanhym/Fedfood. He's adamant that the offer will be fair and reasonable to minorities in both

The share price has hit a new high of R21 as part of the rerating of food shares It sits on a p·e of 14,7 with a dividend yield of 2,5% Till the details of the merger are available it is difficult to value the share, but investors should hold

FOOD FAILURES

Year to Mar 31	1991	1992
Turnover (Rbn)	1,20	1,38
Operating income (Rm)	109	114
Attributable (Rm)	58	43
Earnings (c)	193	143
Dividends (c)	53	53

FM 22/5/92 186 **FOX**

□ Fashionable added-value group **Royal Foods** has acquired the local Donald Cook operation for R22m. Donald Cook was part of Union International, a cash-strapped food conglomerate owned by the Vestey family

Donald Cook is said to export some 95% of its local turnover, which will enhance Royal's rand hedge attractions

Royal MD Doug Johnston says the deal will raise Royal's output of peach products by 50% and of apricot products by 300% Perry & Associates partner Neil Ross says Donald Cook is a high quality asset which could provide even better returns on capital than Sapco, Royal's existing peach canner

The deal will have little impact on results this year but in a full year should add about 25c to Royfood's EPS and 23,4c to its holding companies' This suggests that Royal extracted good terms from the Vesteys

The rumoured purchase of Del Monte Europe by Amic, De Beers and Minorco through Royal is apparently off. *Stephen Cranston*

Drought slices Lebaka trade

(18b)

CT 22/5/92

Own Correspondent

LEBOWA Bakeries' (Lebaka) 14,6% earnings increase to 26,4c (23c) a share in the 12 months to end-March conceal the sharp decline in trading conditions over the second six months, because of the drought

The final results are well down on the 36,5% increase in earnings reported at the interim stage, but are in line with directors' forecasts at that stage They predicted then results would be closer to inflation than those reported in September

The company was bought last year by bakery group Sasko in a deal which the Lebowa government tried unsuccessfully to reverse Lebaka has changed its year-end to end-September, so the results are interim results for the 12 months to end-March

Turnover increased by 12,3% to R102,3m (R91,1m), and operating profit was 4,8% up at R16,5m (R15,8m)

Management fees dropped 94,7% to R76 000 (R1,4m). Directors said this did not directly influence profitability "as the company had to employ its own staff in replacement of the previous staff provided by the managing company"

After a 26,6% reduction in interest to R738 000 and increased investment income, net income before tax was 14,9% higher at R13,7m (R11,9m) Attributable earnings rose by 14,6% to R6,6m (R5,8m)

In line with a 2,5 times dividend cover, a 13,5% higher second interim dividend of 10,5c (9,25c) was declared

BUSIN

Africa's troubles slow Premier down

BDay 27/5/92

186

THE Premier Group, which is seeking to expand into black Africa, is finding that political unrest there is obstructing trade and slowing development.

Premier says an expected business boom after the lifting of economic sanctions against SA is being delayed as protests shake dictatorial rulers and governments battle guerrilla rivals

The food and pharmaceuticals group questions predictions that it and similar SA conglomerates will soon become the region's engine of economic growth

Payment and transport problems, corruption and a lack of investment have been worsened by civil disturbances, deputy chief executive Gordon Utian said.

"The politics is causing huge problems," he said

"The whole industrial cycle in Africa is not working One's got to be very, very careful about us being the engine of Africa. Africa needs investment more than trade"

The company, politically liberal with a history of contact with the ANC during its exile years, has seen its Africa trade take some hard knocks.

In Malawi, 15 wholesale outlets were looted and R1,5m in goods stolen in unrest earlier this month.

In Zaire, rioters looted and destroyed a subsidiary's wholesale cash-and-carry business in Kinshasa and Premier's retail network in Lubumbashi last year.

The rioting also put paid to a plan to take over milling operations run by Gecamines Development, the food arm of Zaire's state-owned copper group, Gecamines Exploitation

"Where we were poised to go into Zaire, we've now had to withdraw," Utian said.

He said a reshuffle of Mozambican government officials in December "put us out of business" as preferential tariffs negotiated with their predecessors were scrapped

Referring to problems in Angola, he said "This lack of infrastructure, lack of an ability to get something done, people on the ground, systems and operations that work — it's just not there

"In addition, as sanctions crumbled, individual SA traders were entering the scene, opportunists who climb into a situation to make a quick buck.

"There is an enormous amount of bribery," Utian said, adding that despotic African leaders still sought control of their economies and paid only lip service to capitalism.

Last year Premier split its Africa trade arm, Premier International — a small part of its total business — into trading and investment operations. The company's Metro trade arm now has 200 wholesale outlets in southern Africa

Company results do not isolate International's performance from other group activities but Utian said International probably had not traded profitably over the past two years despite a rise in SA trade with Africa generally.

SA trade with the continent, mainly with southern Africa, rose by a hefty 150% to R5,92bn in 1991 from R2,37bn in 1987, Safto said But exports to Africa are less than one-tenth of SA's total exports.

Utian said any rise depended on stability in black Africa and the lifting of sanctions against Pretoria to allow aid to be conducted through SA.

"What I'm hoping for is that when sanctions are taken off SA and you get donor countries and World Bank money coming back here, we will be able to start an investment chain up into Africa.

"We are going to have to start investing in Africa if Africa is going to return to normality," he said. — Reuter.

Troubled Africa has little to offer Premier

186 STAR 28/5/92

The Premier Group, which runs one of the largest trading networks in Southern Africa, has begun to question rosy predictions that it and similar conglomerates will soon become the region's engine of economic growth

Payment and transport problems, corruption and a lack of investment in countries to the north have been worsened by civil disturbances, deputy chief executive Gordon Utian said in a recent interview

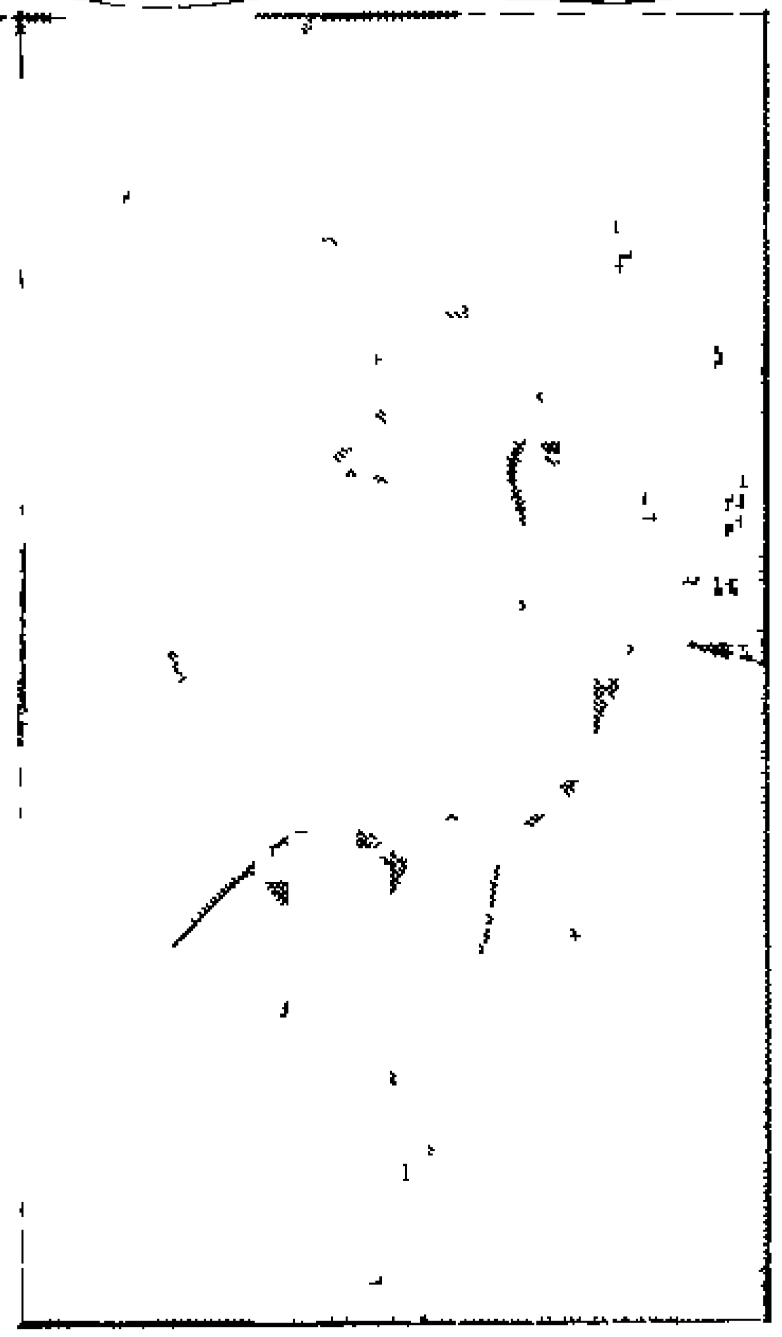
"The politics are causing huge problems," he said "The whole industrial cycle in Africa is not working at the moment You can't sell goods to Africa because they can't pay for them

"One's got to be very, very careful about us being the engine of Africa Africa needs investment more than trade — if you can create that consumer power and get the whole thing working again, there's a big reward for the successful guy"

The company has seen its Africa trade take some hard knocks

In Malawi, 15 wholesale stores were looted and $600 000 of goods stolen in unrest in early May

In Zaire, rioters looted and destroyed a subsidiary's wholesale cash and carry business in Kinshasa and Premier's retail store network in Lubumbashi last year



Gordon Utian . Industrial cycle in Africa not working at the moment

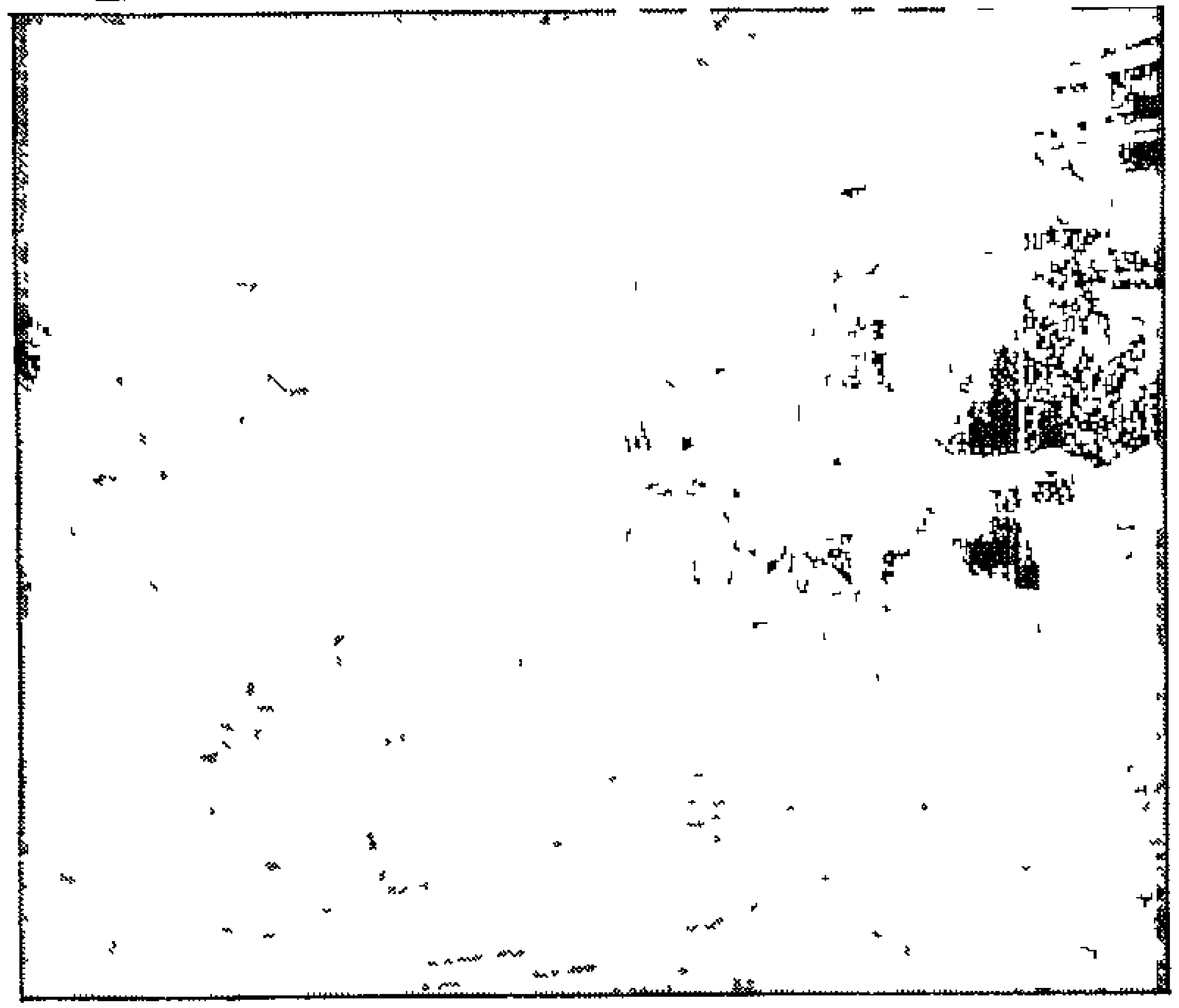
Mr Utian said a reshuffle of Mozambique government officials in December "put us out of business" as preferential tariffs negotiated with their predecessors were scrapped

Referring to problems in Angola, he said "The lack of infrastructure, lack of an ability to get something done, people on the ground, systems and operations that work — it's just not there"

In addition, as sanctions crumbled, individual South African traders were entering the scene — "opportunists who climb into a situation like this to make a quick buck

"There is an enormous amount of bribery," Mr Utian said, adding that despotic African leaders still sought control of their economies and paid only lip service to capitalism

"Zaire was a typical case You never knew where your money was going There was always somebody who had to be looked after It puts a ceiling on the kind of business Premier can do, compared with the trader who's prepared to go and do things on his own He doesn't have a board of directors to come back to"



One of the looted stores in Kinshasa after the riots in 1991

Last year Premier split its Africa trade arm, Premier International — a small part of its total business — into trading and investment operations The company's Metro trade arm now has 200 wholesale outlets in Southern Africa

Company results do not isolate International's performance from other group activities, but Mr Utian said International probably had not traded profitably over the past two years despite a rise in South African trade with Africa generally

South African trade with the continent, mainly with Southern Africa, rose by a hefty 150 percent to R5,92 billion in 1991 from R2,37 billion in 1987, says the South African Foreign Trade Organisation (Safto)

Trade has always been heavily in South Africa's favour South Africa is Mozambique's largest supplier of goods and provided 37, 23 and 20 percent, respectively, of Malawian, Zambian and Zimbabwean imports in 1990

But exports to Africa are less than one-tenth of South Africa's total exports Mr Utian said any rise depended on stability in black Africa and the lifting of sanctions to allow aid to be conducted through South Africa

"The challenge is getting these different African countries to start investing — joint ventures, joint projects, using aid, using overseas firms who see opportunity.

"What I'm hoping for is that when sanctions are taken off South Africa and you get donor countries and World Bank money coming back here, we will be able to start an investment chain up into Africa

"We are going to have to start investing in Africa if Africa is going to return to normality," he said — Sapa-Reuter

LANGEBERG (186) FM 29/5/92

Tasty morsel

For a company due to be listed next week, the interim results place a delicious cherry firmly on the top of what looks to be a tasty bowl of investment morsel. Following an 18% increase in turnover for the six months, meaningful efficiencies were generated at operating level to cause a jump of 25,9% in operating income. Margin rose to 12,2% (1991: 11,4%).

MD Ray Brown says that domestic sales showed some improvement in real terms due to better stock availability but points out that export shipments were unable to match the same period last year (Langeberg exports about 85% of its production) This resulted from the lower opening stock of deciduous fruit, which limited early shipping volumes.

cont →

The good results should not be read as suggesting that Langeberg is bucking the general decline in consumer demand At retail level, says Brown, sales remain poor and this is expected to continue He adds that sales gains realised in the first half may be difficult to sustain in the second.

FRUITFUL TIME

Six months to	Mar '91	Sep '91	Mar '92
Turnover (Rm)	290,0	355,8	342,7
Operating income (Rm)	33,2	46,2	41,8
Attributable (Rm)	24,6	37,7	35,0
EPS (c)	61,6	94,1	87,5
Dividends (c)	—	45	20

But while exports were not as high as hoped for, both deciduous and pineapple volumes are expected to increase over 1991's second half and "the company is expected to improve (second-half) profitability"

Lower finance charges

Thanks to lower finance charges, attributable earnings rose by no less than 42% and EPS similarly Langeberg pays almost no tax because of the large tax shields available to an exporter and because of its past co-op status. Its financial structure is strong and in the past two years it has shown signs of becoming stronger as interest-bearing debt has been reduced. Debt:equity is about 27%

As the stifling international sanctions blanket is lifted, Langeberg should find ready markets for its excellent products. Koo and All Gold are but two of its famous brand names. This means hard currency earnings, an inflation hedge and big potential

It now remains to be seen at what price the share will trade. Principal shareholders are Tiger 56,2%; co-op shareholders 30%; and minorities 13,7% While there will inevitably be some profit taking by some, co-op and minority shareholders, the likelihood is that the shares will remain in firm hands and the price should harden

Gerald Hirshon

KANHYM/FEDFOOD

Palatable merger

Assuming that the JSE approves and that there are no hitches at the shareholders' meeting, Kanhym will disappear from the JSE boards within weeks

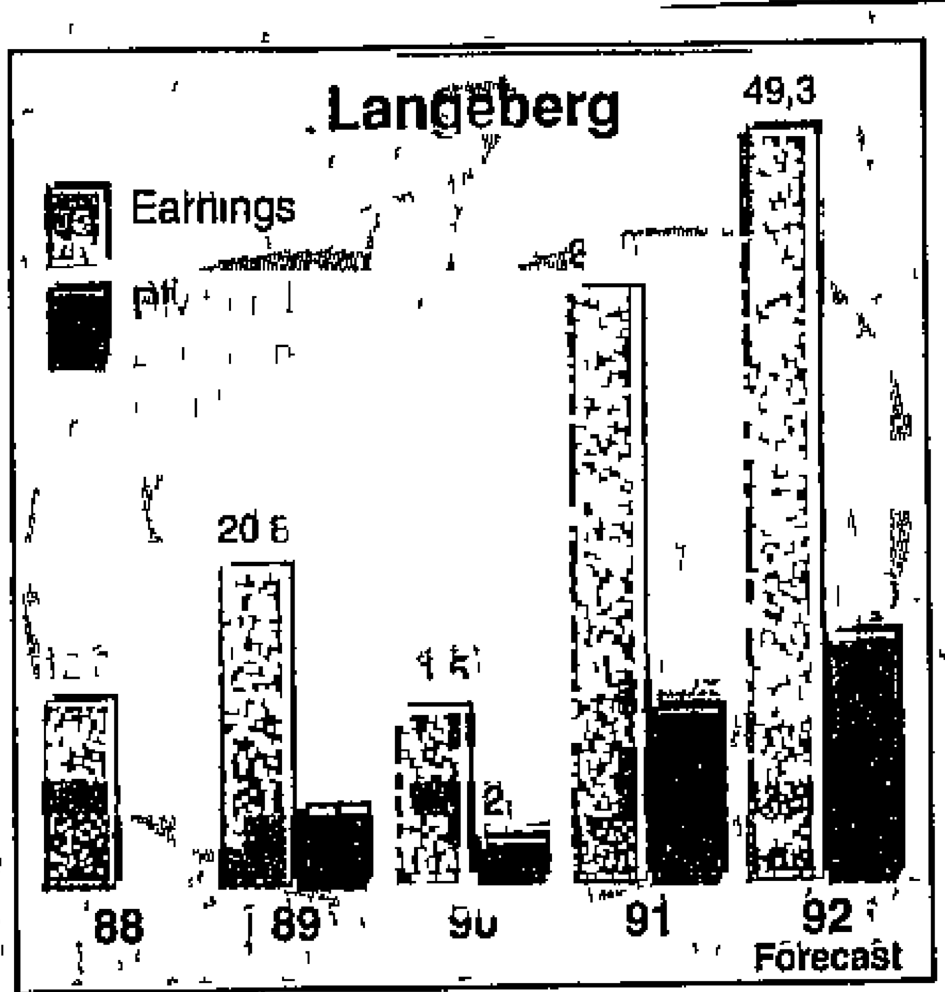
Kanhym CE Dirk Jacobs believes the offer to minorities is fair and reasonable and says this conclusion is supported by Rand Merchant Bank and Standard Merchant Bank (SMB) SMB argues that Fedfood and Kanhym are both solid groups. Fedfood's results have been pedestrian but it includes some good companies and products such as Simba, Nola and Bobtail

Kanhym shareholders are being offered 100 Fedfood shares for every 300 Kanhym shares The enlarged Fedfood will be renamed Neither Jacobs nor his bankers expect opposition from shareholders

The announcement says that had the merger been effective for the year to March 31, Fedfood's EPS would have increased by 11% and DPS by 6% Kanhym's EPS would have fallen by 15% and DPS by 5% Tangible NAV of Fedfood would have fallen by 3% and Kanhym's risen by 6%

In practice, Kanhym and Fedfood have already merged as Jacobs is CE of both Kanhym specialised in meat products, while Fedfood's strengths have been in salty snacks, frozen vegetables and wheat and maize-based products Frozen meat operations, which include the Table Top and Enterprise products, have been rationalised into one business operating from Olifantsfontein

Stephen Cranston



Graphics RUBY-GAY MARTIN Source LANGEBERG

Langeberg expects a rise in earnings

(186)

MADDEN COLE

CAPE-based Langeberg Holdings, which comes to the market on Monday, has forecast a 26,7% increase in earnings to 49,3c (38,9c) a share for the financial year ending September 30 BDay 29/5/92

The food processing and canning conglomerate's listing is the first on the Johannesburg Stock Exchange since March.

The listing does not involve the injection of new capital but is designed to give farmers and management, who make up the minority shareholders, an opportunity to make a capital gain Langeberg is 56% held by Tiger Oats and 30% by Langeberg Co-operative Other co-operatives have smaller, but significant stakes

In its prelisting statement today, directors said profits after taxation should not be less than R78,8m, on an anticipated turnover of R777,9m. The final dividend was expected to increase 41,6% to 16c a share (11,3c) based on the 160-million shares in issue. Dividend cover was forecast at 3,1 times (3,5)

The statement added that, based on the audited results of the last financial year adjusted on a pro forma basis for the capitalisation issue, the net asset value a share was 151,9c.

The local division was expected to increase its contribution to group profits as there had been an increase in local sales in spite of the recession

With the firm trend in the market and the worldwide shortage of canned pineapples, the pineapple division was expect-

☐ To Page 2

Langeberg

BDay 29/5/92 (186)

☐ From Page

ed to maintain profits The company also expected to receive a normal crop in tonnage

The deciduous division's planned expansion should improve efficiencies and enable the division to increase profitability.

The ending of SA's political and economic isolation should allow Langeberg to become a more significant player in the global deciduous markets and be in a position to compete in higher margin markets, previously closed to the company.

Langeberg, with nine factories in SA, had a substantial local market share, and exported a variety of canned fruit to Europe and the Far East amoun[illegible] to more than R25m a year.

Product ranges included brands as KOO, All Gold, Silverleaf, Naturl[illegible] old Reef and Helderberg

Canned vegetables made up t[illegible] ngle most important category, re[illegible] ating about 52% of sales volume F[illegible] epresented 16%, with products such [illegible] anned soups, jams, sauces and juices [illegible] unting for the remaining 32% of sale[illegible] ume

Langeberg's largest export [illegible] ket for canned deciduous fruit was [illegible] (22%), followed by Germany (18%)

Tongaat-Hullet buys ailing mill

(186)

MEREDITH JENSEN

TONGAAT-HULETT has bought the ailing Entumeni Sugar Mill for R4m as part of a joint rescue plan with the SA Sugar Association (Sasa). B/Day 25/5/92.

The takeover followed months of uncertainty for nearly 2 000 employees and small cane growers in the area whose jobs were threatened.

Tongaat-Hulett spokesman Ron Phillips said "The closing of Entumeni would have meant a lot of people losing their jobs in the mill itself and the surrounding areas."

He said the purchase resulted from the company's policy of supporting and developing small cane growers.

Industry sources said the Entumeni mill needed to process more cane to be viable, yet had been unable to meet its financial commitments.

Tongaat-Hulett's purchase was conditional to assistance being secured from the sugar industry as well as the development of more cane supplies in the area. "The whole of the sugar industry is contributing to the plan. The industry has put up some funding towards the rescue," said Sasa executive director Peter Nourse.

Tongaat-Hulett executive chairman Dick Ridgway said "The most important consequence of the takeover will be to ensure that small growers and quota growers at Entumeni will continue in cane production, and a large proportion of the mill staff will be re-employed."

STAR 1/6/92

Brenmill doubles earnings

Finance Staff (186)

Brenner Mills more than doubled earnings a share to 16,4c (7,2c) in the year to end-February though ot showed no increase in turnover

Chairman and joint managing director Arnold Brenner says that as a result of tighter control of working capital, a strong positive cash flow and a reduction of R480 000 in net interest paid, the group ended the year with substantial cash resources

A final dividend of 5,25c is being paid, making a total of 8c (3,75c).

Brenner reverses decline by doubling earnings

B/Day 1/6/92

DUMA GQUBULE

186

BRENNER MILLS (Brenmill) has more than doubled its earnings in the year to end-February, reversing a three-year decline in profits

The maize meal, malt and animal feeds manufacturer declared a dividend of 5,25c on earnings of 16,4c (1991 7,2c) a share

Chairman and joint MD Arnold Brenner said all the group's mills had showed improved results, notwithstanding the fact that there was no overall increase in turnover

The unchanged turnover figure was not disclosed, but operating profit increased by 123% to R7,2m (R3,2m) Attributable earnings increased by a similar amount to R3,8m (R1,69m)

Brenner said the increase in profits and tighter control over working capital resulted in a strong cash flow Bank and cash balances increased to R6,2m from only R7 800 in the previous year The strong cash flows resulted in a drop in interest payments to R280 000 (R756 000)

In the group's previous annual report, it was said that investigations prompted by a sharp drop in margins had uncovered irregularities by senior executives Brenner said it was hoped these investigations, which had been referred to the police, would be completed in the near future

Anglo shows its might in recessionary times

STAR 2/6/92

By Derek Tommey

South Africa's biggest mining house, Anglo American, has reported a 20 percent increase in attributable earnings in the year to March from 604c to 724c a share.

The final dividend has been raised by 6,25 percent from 240c to 255c, making a total payment of 345c a share — an increase of 6,2 percent on the 325c paid last year.

Anglo chairman Julian Ogilvie Thompson said yesterday the group was pleased with the results.

"When seen against the background of quiet world economies and poor commodity prices, the results are a testament to the strength of the group and its diversity, both geographically and commodity-wise."

Shares

As a result of the world recession, investment income rose only 8,4 percent to R1,65 billion, while trading income dropped 1,6 percent to R507 million.

But the profit from the sale of shares — encouraged by certain tax concessions — increased more than fourfold, rising from R47 million to R222 million.

This was after it had been deemed prudent to transfer another R500 million profit from the sale of shares to reserves.

Net pre-tax income rose 14,8 percent to R2 452 million, while net taxed income was 20,2 percent higher at R2,2 billion.

Mr Ogilvie Thompson said Anglo did not make dividend forecasts. But the increase in the 1992 dividend indicated that the group believed next year's earnings were going to be satisfactory, or it would have been more cautious than it had.

He was optimistic about the economic outlook for South Africa.

He said the country had been through a most extraordinary decade and been hit by five major happenings, four of which could not be repeated in the next decade.

The four happenings were:

- The slump in the gold price;
- The war in Angola, which probably was a bigger drain on the economy than was realised at the time;
- Government handling of fiscal and monetary policy. The present Government had a clearer picture of how fiscal and monetary policy ought to be conducted;
- The foreign debt crisis.

If South Africa had good rains in the coming year, the economy could improve by 1,5 percent.

And if the world no longer required South Africa to devote two to 2,5 percent of gross domestic product to repaying foreign loans, and supplied aid and investment, South Africa might enjoy at least a 3,5 percent and possibly a five percent growth rate.

"This is something quite different from what any of us have seen for a decade. We are rather hopeful and optimistic that things could be a lot better in this decade."

Referring to the political situation, he said that all sides realised they had to work out some solution and had to come back to negotiations.

The sides were not too far apart when they had reached the latest road block. "We expected negotiations to progress in fits and starts," he said.

The group liked to think that gold was bouncing along the bottom.

A major point was whether the major private holders were going to be net buyers or net sellers.

"Our own view is that given the fundamental factors of production and demand, it would be silly for central banks to sell gold because the price must go up."

He said retail sales of diamonds were expected to improve this year.

Tight

Coal prices were fairly tight and there was no great scope in the immediate future for substantial increases.

The steel and alloy business may have reached the bottom, he said.

Leslie Boyd, a deputy chairman, said there had been a definite pick-up in orders in the stainless steel business.

This had given the group greater confidence to go ahead with the Columbus project.

Mr Ogilvie Thompson said that if South Africa wanted to invest in big projects, it would need big companies. South Africa needed more larger groups rather than fewer.

Anglo American was spending less on gold prospecting as it had large ore reserves that would be economical at about R40 000 a kilogram, and some that could be brought into production in the R35 000 to R40 000 range.

Dr Ramphele joins board

Deputy vice-Chancellor of the University of Cape Town, Dr Mamphela Ramphele, has been appointed a non-executive director of the Anglo American Corporation.

Dr Ramphele has been involved over the last year in Anglo's efforts to define affordable and effective programmes of poverty alleviation.

She holds a doctorate in social anthropology, and has received honorary doctorates from South African and American universities as well as research awards.

Malbak sets up R2,5-bn food group

STAR 2/6/92

By Stephen Cranston (186)

Foodcorp, a R2,5 billion food giant created by the merger of Fedfood and Kanhym, was launched at a function in Johannesburg yesterday.

Group chief executive Dirk Jacobs said this new group would contribute a quarter of the income of the Malbak conglomerate.

"It represents a crucial component of the group's intensified focus on the consumer market," he said.

Well-known brand names such as Table Top, Enterprise, Simba and Bobtail are in the stable.

Mr Jacobs noted that the Malbak formula had been successfully applied at Kanhym and had also been brought to bear on Fedfood since its acquisition late last year.

The downsizing of ongoing operations and rationalisation had already produced a saving of R24,75 million at Fedfood, which, over a 12-month period, would translate into a 27c, or 17 percent, improvement in Foodcorp's earnings per share.

Mr Jacobs said Foodcorp would be strong on branded products and on low production costs.

He said that 60 percent of Foodcorp's products carried "strong" brand names and said that Heinz would soon be closing a deal with the group.

Mr Jacobs said this would bring a major international group into the SA food industry, which is dominated by Tiger and Premier.

Malbak chairman Grant Thomas will be chairman of the new group, Dave Kennealy, the former Malbak financial director is operations director, and Gert Schoonrad, the former MD of Table Top, is international director.

In my view . . .

A daily commentary on current economic affairs by writers of the Star

ANC blueprint sadly lacking in specifics

STAR 2/6/92.

By John Spira

The long-awaited ANC economic blueprint has seen the light of day. Perhaps it shouldn't come as a surprise that the document spells out precious little into which commentators can dig their teeth.

The best that can be said is that it doesn't contain anything wildly radical. The worst is that it's so woolly that virtually any interpretation can be placed on the proposals contained therein.

A "mixed economy", for example, can mean anything from one percent free market to 99 percent free market; anti-trust legislation is likewise a matter of infinite degree. Then there's a whole lot of nebulous rhetoric about a differentiated approach to trade barriers, an investigation into fiscal structures and "just" compensation to be paid to enterprises which are nationalised.

Not a lot in the way of specifics — which is, one can argue, good political strategy.

Against such a background, it would be churlish to point a finger at the absence of substance.

Strong censure is, however, warranted over the gap the ANC could have taken but didn't. Critics of the Nationalist government have been vehement in castigating Pretoria for its inability to appreciate the need to offer attractive incentives to prospective foreign investors.

Instead of recognising such a heaven-sent opportunity — to upstage the government and acknowledge the vital role that foreign investment could play in revitalising the economy — the ANC has gone and rejected special treatment for foreign investors.

In my view, a strategy statement so lacking in perspicacity robs the document of any credibility it might have enjoyed.

Had the ANC done its homework, it would have appreciated the job-creation capacity and the technology inflow that investment from abroad brings in its wake.

The homework would have revealed that global investment capital is in short supply — which is why such capital is being actively wooed by countries which understand its capacity for promoting prosperity.

Back, then, to the drawing board, Mr Mandela — which would be time much better spent than issuing ultimatums the results of which would be to drag the economy deeper into the quicksand.

Langeberg listing livens up JSE trading

LANGEBERG Holdings, which made its debut on the JSE's food sector yesterday, exceeded an expected listing price of between R6,50 and R7 to open at R8 a share.

In heavy trading on a quiet market, 642 000 shares valued at R5,4m were traded in 68 deals.

The share price quickly climbed to a R9,25 high. B/Day 2/6/92.

However, after a sell off in the afternoon the price dropped to a R7,75 low before rising slightly to close at R8.

MADDEN COLE (186)

The food processing and canning conglomerate has forecast a 26,7% increase in earnings to 49,3c (38,9c) a share for the financial year ending September 30.

This is based on the directors' estimate that taxed profit of at least R78,8m will be achieved in the current financial year.

Langeberg is 56% held by Tiger Oats and 30% by Langeberg Co-operative. Other co-operatives have smaller stakes.

The last new listing was in March.

Increases of up to 45 pc feared

Warning of food price 'disaster'

186 [redacted] STAR 3/6/92

Staff Reporters

A "national disaster" is looming as food prices continue to soar, a prominent figure in the food manufacturing industry warned last night.

Foodcorp chief executive Dirk Jacobs predicted that the prices of some staple foods, including bread, maize meal, sorghum and edible oils, could increase by an additional 19 to 45 percent this year

In a telephone interview from Cape Town, he said· "The price of some basic foodstuffs will escalate to the point where the average person will not be able to buy them. This could lead to a national disaster."

Foodcorp is a holding company which controls Simba-Quix, Enterprise Foods, Table Top frozen foods, Ruto Mills and bakeries throughout the Transvaal. It was formed on Monday by the merger of Malbak food subsidiaries Fedfood and Kanhym

Mr Jacobs said the increases would be mainly the result of an expected increase in the cost of raw materials of between 30 and 40 percent, since many basic foodstuffs would have to be imported this year because of the drought

As a result, the price of

Dirk Jacobs ... increase in the price of bread is also expected.

maize meal could increase by a further 20 percent, sorghum by just over 45 percent and oil seed by about 30 percent.

A further bread price rise was also expected, Mr Jacobs said. It was feared that this year's wheat crop would not meet expectations, and the Wheat Board had already intimated that a million tons would have to be imported.

Those people who had previously been self-sufficient in agriculture, but had been forced off the land by the drought, would be particularly vulnerable.

"People living in squatter camps now have to get their food from shops But how do you do that without money?" Mr Jacobs asked.

"People with empty stomachs and hungry children get desperate and may turn to violence and crime in an effort to survive," he said "This could lead to an explosive political situation."

Consumer Union chairman Lillibeth Moolman said the real problem lay with the drought, which was beyond everyone's control It meant that prices were increasing and inflation remained high, while wages were not increasing at a similar rate.

But she said the Government should subsidise some costs, particularly of transporting imported grains inland from the coast

"The transportation costs can increase the costs of grains by about one-third," Mrs Moolman said "This is where the Government can step in and subsidise the price."

Sheila Lord, a Housewives League vice-president, said while drought inevitably increased prices, she suspected collusion in some cases

"Why do bakeries all charge the same price? Why are they not vying with other companies in an attempt to sell more? All bread is the same price, but you never find that with something like a can of beans.

"Obviously we are going to see some increases from the drought, but I hope people don't jump on the bandwagon and increase prices unless absolutely necessary"

STAR 3/6/92

Langeberg off to good start

Finance Staff (186)

The listing of Langeberg Holdings, which made its debut on the JSE's food sector on Monday, is "vindication of the principle that privatisation works and works well", says MD Ray Brown

Mr Brown said yesterday he was delighted with the results of the listing, which indicated considerable confidence in the strength of Langeberg

Premier expected to show 15% rise in 1991 earnings

BDay 4/6/92

MARCIA KLEIN

(186)

THE Premier Group was expected to show a healthy 15% rise in earnings a share when it reported its results next week, analysts said.

They said this would reflect fully diluted annualised earnings as the group would be reporting for the 13 months to end-April and would have additional share capital in issue.

This result would be on the back of a 20% growth in its core food division, turnaround results in Twins Pharmaceuticals, Gresham and Metro Cash and Carry (Metcash), and solid results from Clicks.

They said it was difficult to forecast results due to major changes in the group's structure, its increased stakes in Metcash, Score Supermarkets and Clicks, and to changes in the year-end of Premier and many of its subsidiaries. Some analysts forecast earnings increases of 9% and 17%.

Results so far from its listed subsidiaries show that Twins' income was given a 51% boost. But CNA Gallo's earnings were 5% down, so it would make no contribution to increased profit.

The group's international activities remain a wild card, with some analysts saying there will be a substantial increase in earnings and others predicting a large drop.

Premier would also have the benefit of cash, paid in instalments, following the sale of 50% of Bonny Bird to Rainbow Chicken. This would be reflected in an improvement in finance costs in the food division. This sale, as well as the disposal of its 50% of Epol Animal Feeds, reflected Premier's strategy o selling underperforming assets.

While the staple side of the food division would show a good performance, oil and margarine products would show the effect of a difficult year. Although the food division remained a major contributor, its contribution to turnover would show a significant decline.

Its contribution to the bottom line would drop to around 53%, way below its level a few years ago.

An analyst said there had previously been some doubt on the wisdom of the huge Metcash acquisition, but it seemed that Premier had managed to turn it around, and it would show the start of regaining market share. Metcash showed a R53,2m loss in June 1991, and had turned around to show attributable income of R2,3m in the 18 weeks to end-October

TOP COMPANIES

The 1992 *Top Companies* survey, the largest yet with more than 380 pages, will be published with the *FM* on June 26.

FOODCORP FM 5/6/92

Still hungry

186

A joint decision to call off discussions temporarily with international food conglomerate Heinz suggests Foodcorp, the Kanhym and Fedfood merged entity, may have more attractive options in the pipeline Analysts reckon Mars may be a contender, speculation not denied by CE Dirk Jacobs.

He would not comment further on the discontinuation "in deference to Heinz, which chose Foodcorp for sole discussions"

Jacobs is negotiating with a number of other international food groups keen to set up a base in SA "I hope to have the pick of the crop" But talks with Pepsico are dead

Foodcorp shareholders are set to increase their wealth significantly if Jacobs achieves either the returns set by parent Malbak or his personal goals The industrial holding company expects underlying operations to earn at least 25% on average funds employed while Jacobs reckons he can achieve over 30%, medium term

Average funds employed for the 12 months to August 1992 will be about R775m, comprising R600m permanent capital and R175m interest-bearing debt, excluding the R95m Rusfurn prefs

Jacobs hopes for a 21% return for the year to August (he expects trading profits of R165m), though this increases to 25% if R25m rationalisation and closure costs at Fedfood are excluded He reckons he can achieve 30% through making Fedfood's assets sweat. He notes Fedfood's PBT increased only R12m between 1989 and 1991 despite a R193m jump in funds employed

As only R80m of this is accounted for by increased fixed assets he rationalises R110m was tied up in excess working capital Of this, R50m has already been cut by tighter management (he checks divisional bank overdrafts daily), leaving a further R60m to be squeezed He also wants a higher return from the R80m extra fixed assets

Retained profits of roughly R53m for the year to August are likely to offset any reduction in working capital, implying average funds employed in the 1993 financial year should be roughly similar to 1992's R775m, again ignoring the prefs 186

Illustrating the potential, a 25% return gives 1993 trading profits of R194m, or R233m at 30% Though he is unlikely to make 30% so soon, the above gives shareholders an indication (in 1993 money terms) of what could be in store medium term

EPS of roughly 188c and 216c are predicted for 1992 and 1993 despite the drought, which is expected to narrow margins in the staple food operations, roughly 40% of group activity

Though dividend policy has not yet been declared, Jacobs believes cover of four makes sense with current high interest rates. He adds that cover will not be increased at the expense of a lower payout, probably accepting that Malbak's cash flow will be dented

A forward p·e of under 12 compares favourably with major competitors Premier's and Tiger's 20 and 21 *William Gilfillan*

Are only the share holders getting fat?

186 ARG 6/6/92

CLAIRE GEBHARDT
Weekend Argus Reporter

ANOTHER food giant, Foodcorp, was born amid fanfare this week

A bullish advertisement in newspapers had group chief executive Mr Dirk Jacobs promising that the Fedfood/Khanhym giant had a hungry management and "a healthy appetite for further growth from this impressive base".

Scarcely two days later, Mr Jabocs was issuing dire warnings that the cost of raw materials in basic foodstuffs was going to soar by as much as 45 percent Many would no longer be able to afford to eat, he said

The national furore that followed raised angry questions about whether shareholders were being promised a more profitable future at the expense of consumers

It is all very well to line shareholders' pockets with rationalisation, but what about the possibility of mass action and what about the unemployed, asked one concerned caller.

Mr Jacobs was asked whether his statements were not contradictory. If volumes were to decline drastically would prices not have to be pushed up dramatically to compensate?

Was his statement intended to send a message to shareholders?

The merger also means an emphasis on branded products where margins are inevitably higher. Was this what the country needed?

Foodcorp's subsidiaries include Simba Snacks, Table Top and Harvestime frozen foods, Ruto Mills, Sunbake Bakery, edible oil Nola, Marine Products, chicken producer Mielie-Kip, continental-style meat Herti, Kanhym fresh meats, Enterprise, Karoo-Oochse and Hanni Leathers.

Mr Jacobs said he had no control over the drought and had been referring merely to raw material price increases, not his own

"One shouldn't shoot the messenger when there are bad tidings."

However, he said, shareholders would benefit from the merger because the group would shed the fat it had built up over a long period.

Would there be benefits for the consumer from lower unit costs?

Mr Jacobs said the consumer was in dire straits: Bread consumption had declined by 7,5 percent and people were not trading down or buying maize meal. They were eating less.

But, manufacturers were not profiteering. The drought had pushed up costs to such an extent that manufacturers were having to absorb cost increases rather than pass them on.

He said the move towards branded products was not an attempt to push [illegible]margins. "The consumer can choose whether or not to buy a branded product However, the black consumer is very brand conscious."

Fedfood's 1991 annual report emphasises the commercial value of strong brands

Branding means the group's products often will be preferred to lower-priced products even in economically difficult times, it says.

"They also enhance the wealth of the group to the benefit of every stakeholder."

Rage against high food prices continued this week.

Cosatu said the implications of Foodcorp's statement were a "national scandal" and that to attribute price increases to the drought was indefensible. Government, wholesalers and retailers were to blame

Fraud tears sugar baron family apart

Yvonne Hulett (right), wife of John Hulett, with former Miss SA Penny Coelen at the 1988 launch of their book, Penny Coelen and Yvonne Hulett on Beauty

By ROY RUDDEN

A FOUR-YEAR feud involving leading members of the "royal family" of Natal's sugar barons, the Huletts, ended with a court ruling this week.

The Appellate Division found that Mr Brett Hulett had fraudulently induced family and close friends to sell shares and loan accounts on which he knew he would immediately make a huge profit.

The ruling reversed a 1990 Supreme Court verdict, which had absolved Mr Hulett of wrongdoing, and has split him from friends and relatives with whom he had shared decades of holidays and parties 186

The row started in 1988, when Mr Hulett persuaded his cousin Mr John Hulett and three family friends, Miss Paula Townsend, Mrs Angela Fowlds and Mrs Sally Maingard, to sell their shares in Stanger Quarries to his own family trust for R700 000

S/Times 7/6/92

Loved

The women are daughters of Mr David Townsend, who, with Mr John Hulett, has been a fast friend of Mr Brett Hulett since their schooldays The men had played sport together, taken joint holidays and shared each another's family occasions

Mr Justice GG Hoexter ruled in the Appeal Court that major factors in their decision to sell their holdings to Mr Brett Hulett were this friendship, the fact that he had told them he "loved the quarry", which was on his farm and which he wanted for himself, and that there was no thought of other potential purchasers

Meanwhile, at the time of the negotiations, Mr Brett Hulett had the clear, undisclosed intention of selling the quarry to a third party, with whom he was already negotiating, for a higher price, the appeal judge found

Mr John Hulett and the three women, collectively holding 60 percent of the shares in the quarry, sold

□ To Page 2

P, the DP and the ANC and Privileg

Pik sticks on federal model

S/Times 7/6/92.

By MIKE ROBERTSON
Political Correspondent

THE ANC has told the government it will not renege on agreements reached at Codesa over a six-month period — but little else was achieved at a closed-door meeting this week aimed at averting civil protest in July.

The ANC, represented by secretary general Cyril Ramaphosa and negotiation committee members Mohamed Valli Moosa and Joe Slovo, and the government, represented by Acting President Pik Botha, Constitutional Development Minister Roelf Meyer, his predecessor, Gerrit Viljoen, and Law and Order Minister Hernus Kriel, met at the Presidency in Pretoria on Tuesday this week.

Government members said Mr Botha had bluntly told the ANC the government insisted a new South African constitution be based on a federal model which made provision for power sharing at all levels.

ANC members said their negotiators had made it clear they were not even prepared to discuss these concepts before clarity had been reached on the election of a body to draw up a constitution and the manner in which it would operate.

Participants said the meeting was generally cordial They agreed to meet again next week to discuss.

- Time frames for the implementation of Codesa decisions;
- The functioning of structures that would be appointed to oversee elections for an interim government,
- Regional and local government in the transition,
- Deadlock breaking mechanisms

Mr Botha said after the talks it was his impression the ANC was not reneging on agreements already reached at Codesa

Positive

Another top government member said this was confirmed by an agreement reached by Codesa's management committee that working groups, which had already achieved substantial agreement, should be mandated to finalise outstanding matters

He said the meeting with the ANC had been positive in that the government had been able to clarify its position on regionalism and power sharing

The source said the government had made it clear it would insist on Codesa agreeing that the new constitution should contain important elements of a federal model

Mr Moosa said the statements made by Mr Botha and by President FW de Klerk while abroad in Japan were an attempt to cloud the real reason for the deadlock

Voters

The ANC believed the government was not prepared to allow a democratically elected body to draft a new constitution.

He said Codesa could not decide on important constitutional matters, such as federalism, as many of its participants had no support base.

The voters of the country, he said, should be allowed to elect the people who would make decisions on these crucial issues

Mr Moosa said the ANC agreed that a final constitution should be decided by a special majority But that majority should not be so high as to allow the minority to dictate the contents of a new constitution

DP calls for judge to hear CCB evidence

S/Times 7/6/92.

By MIKE ROBERTSON
Political Correspondent

DEMOCRATIC Party finance spokesman Jasper Walsh has called on the government to appoint a judicial commission of inquiry to hear evidence from Civil Co-operation Bureau members

However, he supported a decision by the chairman of Parliament's public accounts committee, Dr Francois Jacobsz, to refuse to allow CCB members to appear before the committee, "as it was not the right forum"

Mr Walsh said he had spoken to former CCB managing director Joe Verster

"There is obvious concern on the part of the CCB members that they are being blamed for things such as the murder of David Webster and the Goniwe killings They claim they were not involved

"Now that the CCB has been disbanded and accused of acting beyond their instructions its members will continue to be convenient scapegoats for allegations, such as those about the murder of activists. That suspicion will continue until the full truth emerges about their operations"

Mr Walsh was not happy with the decision by new Defence Minister Gene Louw to refer all outstanding matters relating to the CCB to Ombudsman Mr Justice Piet van der Walt.

CCB members and SADF representatives were scheduled to meet Mr Justice van der Walt yesterday

Mr Walsh said the matter should not be resolved behind closed doors and called for an open public inquiry

He said he was particularly concerned by an allegation made by Mr Verster this week that SADF General Eddie Webb had ordered CCB files to be removed

A recent report by the auditor-general said CCB members had R3 million of pension fund money in their possession They also controlled an overseas account which contained R800 000

Fraud splits sugar barons

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□ From Page 1

their shares to the Brett Hulett Family Trust, in which they had held 30 percent.

The trust had then sold its total shareholding to Attest Finance (Pty) Ltd for R2-million. Attest sold the shares to Baystone Sales,

The appellants contended they would not have sold to the trust had they known of the Baystone interest and had claimed damages in the Natal Supreme Court for the loss they suffered.

Mr Justice PW Thirion absolved Mr Brett Hulett in 1990 after finding "it had not been proved the shares were sold to the trust because of a fraudulent misrepresentation"

However, Mr Justice Hoexter said it was common cause that at the time Mr Hulett was clinching the R2-million deal, he was fraudulently misrepresenting to the appellants that, if they sold their shares to him, he would retain them in order to exercise control over the company and continue running the quarry business.

The appeal judge quoted a report from the manager of the Stanger branch of First National (Mr Brett Hulett's bank) to his general manager which said, regarding an overdraft application related to the deal. "He is negotiating a deal (behind his co-directors' backs) to sell the company and land to Murray and Roberts for R2-million"

In assessing the close relationship which had existed between the defendant and the appellants, the appeal judge recorded that Mr John Hulett's wife, former top model Yvonne, was godmother to Brett's daughter, and that Brett and his wife were godparents to John's son.

The Townsends were not related to the Huletts by blood but in his evidence, the appeal judge recalled, Mr John Hulett had said that "Townsend's family and our families were very, very close"

The appeal judge said Mr David Townsend had testified "The defendant and I have been best friends for the last 40-odd years We have been on holiday together, we had houses at the beach together, alongside each other; the defendant proposed a toast at my eldest daughter's wedding"

Damages of R250 205 were awarded to Mr John Hulett, R84 890 each to Miss Townsend and Mrs Maingard, and R80 423 to Mrs Fowlds The claimants were represented by Mr David Gordon, SC, and the defendant by Mr Peter Olsen

Foodcorp and Heinz call off the bout

ST Times [BUSS] 7/6/92 (186)

DIRK JACOBS, group chief executive of Foodcorp, regretfully told members of the Investment Analysts Society this week that negotiations with foreign food giant Heinz had been suspended

"A bout takes 10 rounds, and we started the 10th," he said. "But we have temporarily discontinued discussions."

Mr Jacobs was reluctant to give reasons. Political turmoil seems to be the most obvious.

But Mr Jacobs told the audience that he was talking to many people abroad.

In his extensive travels this year with Foodcorp chairman and Malbak boss Grant Thomas, Mr Jacobs has been encouraged by the number of food companies viewing SA as a point of entry to the rest of the sub-continent.

FOODCORP

"They see this as a good market to invest, or to reinvest in, and they want to avoid the pitfalls of going in blind We must present them with an opportunity to come in on our terms.

"There will be some success and some disappointment, but we are getting in first so as to get the pick of the crop.' He added that technological ties were important — to prevent waste through reinventing the wheel.

Equally interesting was his spotting of Kanhym and Fedfood goods originally sold to Europe on the shelves of Middle-Eastern supermarkets.

"We could have sold it direct if we had had a dedicated exporting team. For this reason we have engaged expert negotiator Gert Schoonraad to develop our international business."

Foodcorp will have four broad divisions falling under operations chief Dave Kenealy Grain-based food and edible oils houses Nola and Ruto-Sunbake. Snacks comprises Simba products. Protein resources is Marine, Hanni and agribusiness such as meat and chicken, and prepared foods looks after Enterprise and Table Top

Foodcorp's interests are strong brands and major market players. From shop cabinets alone, Table Top and Harvestime have 56% of the frozen vegetable markets. Table Top and Enterprise between them have 48% of burgers.

Simba dominates with 60% of the snack market and 30% of nuts ("we overtook Star this year"). Enterprise is strong in chilled meats

On the ethnic beverage side Mnanti beer powder has 80% of the market and No 1 accounts for half of mague sales.

Mr Jacobs advised the audience not to scoff at Nola's 4% of the cooking oil market. In that cut-throat business the larger players are in financial difficulties whereas Nola is making money

Touching on the drought, Mr Jacobs said that the pace of urbanisation would accelerate this year because so little had been grown to feed rural people whose subsistence depended on growing and selling their surplus for other supplies

FOODCORP

"There are a lot of hungry people out there. They will have to buy food from the shops, but I don't know how they are going to pay for it.

"I expect raw material costs for producing basic foodstuffs to increase by more than 30% It will be a challenge managing margins, more so with staples"

Foodcorp is among the lowest-cost producers, a factor Mr Jacobs said would be increasingly important.

In the merger, 100 Fedfood shares will be issued for every 300 Kanhym, which will be delisted.

Since October's warnings to shareholders about the rationalisation of Sankorp's investments, Kanhym's shares have jumped by 90% to 775c and Fedfood's by 25% to R22,75.

The merger results in a group with historical turnover of R2,5-billion and attributable income of R80-million — more than a quarter of Malbak's bottom line.

FOODCORP

Pulling the two together will erase some of the cyclicality associated with Kanhym in particular Cost savings should amount to a taxed R13-million a year.

Mr Jacobs said the group was now of sufficient substance to make it attractive as a potential partner for foreigners.

Foodcorp had room to improve its returns on funds employed — Malbak's requirement is 25%-plus and Foodcorp notionally achieved only 20% in the year to August 1991

Mr Jacobs also had a few things to say about the social and political fronts.

His group's thrust is to look after the needs of its employees through training and the delegating of decision making right down to the shop-floor

"When an employee comes and tells you his people need a creche, listen to him and do something about it. That way, it will be seen that you are helping in the right places and for the correct reason."

He added that foreign investment would come "if only the politicians would stop messing around while the country's burning"

He said the risk was high, given the financial reward, even for domestic investment.

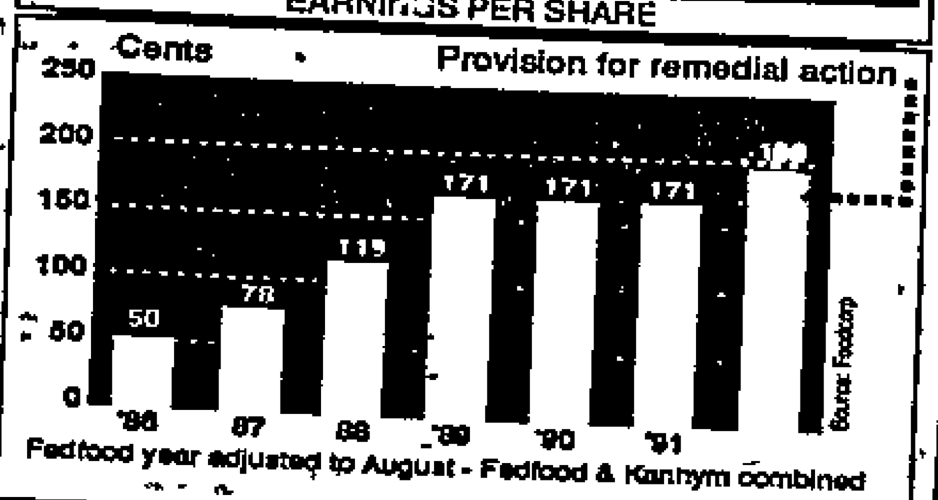
In the short time before the August yearend, Foodcorp will show growth. It will be followed by real growth in the year to August 1993, says Mr Jacobs.

Society chairman Bob Phipps concluded that Foodcorp looked quite cheap at lower than 15 times earnings.

Mr Jacobs said he had a large incentive to make it work — his job

> FOODCORP — the offspring of the merger between Fedfood and Kanhym in the Malbak fold — is a descriptive if not imaginative name. When some of the options are considered, it does take on more appeal.
>
> KanFood was put forward but rejected for its narrow-range connotations. FedHym, some wag said, combined the worst of the Boere and the Jews. MalKos (literally, mad food) was not bilingual enough to sound appropriate.
>
> And the new logo? Foodcorp managing director Dirk Jacobs says anyone who cannot see a plate of steaming food is hopeless Overheard at the Foodcorp launch on Monday "Where there's smoke, there's toast."

FOODCORP
EARNINGS PER SHARE



Fedfood year adjusted to August - Fedfood & Kanhym combined

DIRK JACOBS. A no 1 incentive to make it work — My job

Anglo American chief looking to better times

ST Times [BUSS] 7/6/92

DIAGONAL STREET by Julie Walker

THE timeous release of results by Anglo American Corporation, coinciding neatly with a flurry in precious-metal prices, helped push the share price above R125 again this week.

The year's trading range has been from R132,50 in January to R110 at the end of April.

Anglo's news conference was well attended by foreign reporters keen on socio-political issues.

Chairman Julian Ogilvie Thompson spoke eloquently for almost an hour without giving too much away He promised a comprehensive analysis at the end of the month when the annual report and chairman's statement were released.

The group's attributable income grew by a fifth to R1,68-billion in the year to March 31, but a more telling indication was the 6% rise in dividend to 345c a share.

Mr Ogilvie Thompson said it was a testament to the group's strength across mining, industrial, commercial and geographical boundaries.

Mr Ogilvie Thomspon found the proposed mass-action campaign, intended by its perpetrators to hasten a political settlement, to be unwise, unreasonable and unhelpful.

"There was a stage when we all had some sympathy with stay-aways by those denied full and fair rights. But now they are counter-productive, making life more difficult and might lead to even further reductions in employment.

"There is bound to be a degree of intimidation in making these stayaways effective. I leave it to your imaginations to fill in the gaps on where it comes from, but it is quite contrary to the principle of democratic freedom.

"I like to think that all sides know a solution will be reached and that they will all have to come back to negotiate something."

Mr Ogilvie Thompson hoped for better times after a decade in which four extraordinary items occurred. Gold's 10-year decline might be arrested; the costly Angolan war was over; there was a clearer understanding by the authorities of monetary and fiscal policy with the worst of the debt crisis now behind, and it was a relatively dry decade.

If SA's growth rate could be lifted to 5% a year and its population growth rate reined in, things could be different in the next decade.

On the gold price, he referred to Gold Fields Mineral Services' Gold '92, which he interpreted as mildly bullish.

"How the central banks will deal with gold is unknown, but it would seem silly of them to sell it if they know that by keeping it, the gold price will go up"

He expected diamonds to pick up a little.

He said stainless-steel orders had already improved.

Anglo-Saxon countries appeared to be emerging from the recession and America might be following.

There was no new word on the next phase of the Columbus stainless-steel project, but it was used as an opportunity to demonstrate that big was not always evil. The multibillion-rand proposal was too big for any one of SA's groups, so co-operation had been achieved.

Rather than unbundling SA's corporations, Mr Ogilvie Thompson sketched a case where SA needed more larger players if it was to compete globally, being a relatively small nation.

He referred to an article in the Economist highlighting power concentration in other small countries, such as the Netherlands, Switzerland and Spain, where the top 10 companies accounted for almost half of those nations' market capitalisation.

Mr Ogilvie Thompson saw no need to be defensive about Anglo American's holdings in the media. He knew of no other country where the major shareholders of newspaper groups permitted a greater degree of independent journalism than did Anglo

Anglo American saw fit to squirrel away R500-million of the R630-million surplus realised on the sale of large holdings in First National Bank and Gencor The chairman welcomed clarity on the tax position where investments held for five years could be sold, saying it would improve stock-market liquidity — "very desirable"

Funny, I could have sworn those two deals were done off the market.

● Mamphela Ramphele, Vice-Chancellor of the University of Cape Town, has joined the Anglo American board She comes armed with credentials in medical and public services and is an authority on poverty alleviation

Profitable turnaround at Premier's revitalised Metro

STAR 9/6/92 (186)

By Stephen Cranston

In its first year as a subsidiary of Premier, Metro Cash 'n Carry produced considerably improved results

Carlos dos Santos, appointed MD shortly after the Premier takeover in May, yesterday announced a turnaround from a 79,4c loss per share in the year to June 1990 to a 17,3c profit in the ten months to April.

Metro has declared a dividend of 6c, which is good news for shareholders who did not receive a payout in the year to June 1991. Dividend cover is 2,8 times

The year-end was changed to fall in with the rest of the Premier group

Metro now incorporates the cash-and-carry operations of the old Metro and Trador, which previously formed part of the Score group.

Mr Dos Santos says that 31 stores were closed during the year, mainly in areas which could not support both a Trador and a Metro outlet.

Two trading names, Cashmart and Frasers Cash 'n Carry, were discontinued.

Turnover was scarcely changed at R4,1 billion, but Mr Dos Santos says that turnover has been maintained in real terms on the remaining store base

Metro now has 182 cash-and-carry outlets countrywide, five Trade Centres in the larger metropolitan areas and 11 building materials cash-and-carry operations known as Metbuild.

Mr Dos Santos says that Trade Centre is performing well under new boss Colin Scott, who was acquired along with his Stax leisure goods and hi-fi chain

The loss-making conventional wholesaler, Frasers Greenstein & Rosen, was disposed of during the year.

Metro's balance sheet has improved significantly Thanks to an R87 million rights issue and an injection of cash resources from Premier, shareholders' funds increased from R75 million to R270 million

Total cash resources increased from R5 million to R250 million and net borrowings of R161 million were turned into cash resources of R227 million.

Below the line, Metro enjoyed extraordinary income of R5,6 million from the surplus over book value on the disposal of property and the bringing back to account of excess provisions provided the previous year.

Premier hits back

186

'Steep rise in food prices not our fault'

By Derek Tommey

STAR 11/6/92

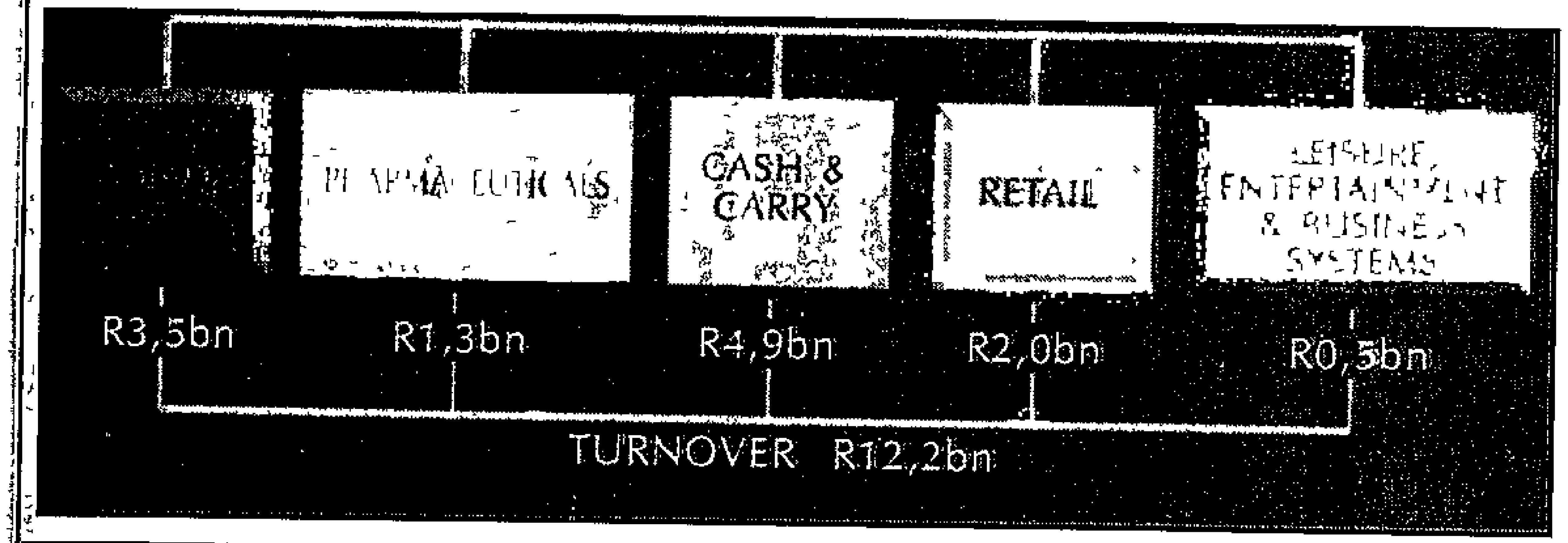
Peter Wrighton, head of the Premier group, has hit back at critics who have accused his company and the other major food manufacturers of being responsible for the recent reported steep increase in food prices

He says that an analysis of factors behind the increase in food prices shows that criticism of Premier is unfounded and calls for the Board of Trade and Industry to release the results of its investigation into food prices

"This was ordered as a matter of urgency by the Minister of Finance more than a year ago and might throw some unbiased light on the matter," he says

He refutes allegations that there is a monopoly in the food industry

Claims that three companies control over 75 percent of the maize-milling and bakery industries are just not true, he says



Group turnover in 1992 was R12,2 billion

In both industries at least six major companies are operating and these comprise about 75 percent of the market There are hundreds of other companies competing for the balance

However, because those companies on the JSE have high profiles they tend to draw criticism But the industry includes multinational companies as well as large co—ops whose figures are not publicly reported

He says Premier had little to do with the reported 28,9 percent food price inflation in March

Premier is mainly a manufacturer and its price increases are measured by the producer price index (PPI) This showed an increase of 9,1 percent in the year to March, which compares with a 15,7 percent rise in the consumer price index (CPI)

Mr Wrighton believes the PPI under-recorded the increase in the price of processed foodstuffs, as Premier's own food price index rose 14,3 percent

But at the same time he believes that the reported increase in the CPI food index was much too high

Food prices at Premier's associate company, the wholesaler Metro Cash 'n Carry, showed an average increase of 11 percent on both cost and selling prices between March 1991 and March 1992, he says

The main reason for the jump in the CPI food price index in March was a 41,5 percent increase in the average price of meat, vegetables, fruit and nuts

If the various weights of products used in the dex are taken into account, this means that 20,2 percent of the 28,9 percent food price inflation came from meat, fruit, nuts and vegetables and only 9,1 percent from all other food items

Mr Wrighton says the enormous changes in the Government's fiscal policies in the past 12 years, which have contributed to the substantial increases in the inflation rate of basic food staples, should not be overlooked

First subsidies were withdrawn, then GST was imposed on about 50 percent of food products

This was followed by VAT, from which only bread and maize meal are exempt

If these changes are excluded, the wholesale selling price of maize meal increased by 402 percent over this period and that of brown bread by 315 percent — well below the overall CPI rate of 424 percent, he says

LETTERS

Food price hysteria is biased

B/Day 11/6/92.

186

PETER WRIGHTON

THE Central Statistical Service (CSS) has published figures during the year which indicate that food inflation is running well ahead of the CPI For example, in March 1992 the food price inflation rate was claimed to be 28,9% with the overall CPI increase being 15,7%.

These high food inflation statistics have led to near hysteria in the media, with articles alleging that this state of affairs is mainly due to monopolistic conditions in the food manufacturing industry It is important to put the record straight on this issue because Premier has always endeavoured to act responsibly and sensitively to consumer needs

Premier, which operates mainly in the manufacturing sector of the food industry, falls within the ambit of the PPI where the manufacturing food inflation rate for March 1992 was only 9,1%, which was well below the 15,7% recorded by the CPI.

While the published PPI rate may be too low, judging by Premier's own basket of food products whose price increased by 14,3% over the same period, the food CPI rate certainly appears to be too high This is borne out by an extensive study undertaken by Metro Cash and Carry across all major categories and which, comparing cost and selling prices in March 1991 and March 1992, revealed no change in gross profit margins and an average escalation of only about 11% in both cost and selling prices

A more detailed analysis of the CPI figures for March 1992 shows that food prices at retail level increased by 28,9% overall, but that the meat, vegetables, fruit and nuts components — which comprise nearly 50% of the weighting — increased by 41,5%, while the balance of food products increased by 17,4%.

Put a different way, 70% of the food inflation came from meat, fruit and nuts and vegetables and only 30% from the balance The Premier Group falls almost entirely into the latter category and has, therefore, if anything, contributed to containing inflationary increases

The statistical methodology used by the authorities in a country like SA where a large percentage of the population exists at, or under, the bread line, is somewhat suspect if it is meant to give an indication of the inflation in the goods and services actually purchased by the consumer over time

It is fairly certain that substantial increases in the price of one category such as meat, fruit or vegetables, will result in substitution by other products which have not increased in price, so altering the weighting of the overall basket

Turning to the claims in the media that monopolistic conditions exist in the food industry because, it is alleged, three companies control over 75% of the staple maize milling and bakery industries — this is just not true. In both industries there are at least six major companies which comprise about 75% of the market.

☐ WRIGHTON

There are hundreds of others competing for the balance

In addition, the food industry in SA includes in its ranks certain giant multinational companies as well as powerful large co-operatives whose figures are not publicly reported

It should also not be overlooked that during the past 12 years, enormous changes have taken place in government fiscal policy which have contributed to the substantial increases in the inflation rate of basic food staples.

During this period subsidies were withdrawn, then GST was imposed on about 50% of food products, followed by the introduction of VAT where only brown bread and maize meal were exempt If a calculation is made excluding these changes, the wholesale selling price of maize meal has increased by 402% over this period and brown bread by 315%, which is well below the inflation rate of 424% for the period

We look forward to the release of the Board of Trade and Industry investigation which was ordered as a matter of urgency by the Finance Minister more than a year ago and which might throw some unbiased light on the matter

☐ **This statement by Premier Group chairman Wrighton accompanied the release of the group's annual results yesterday.**

Healthy earnings rise for Premier

B/Day 11/6/92

(186)

MARCIA KLEIN

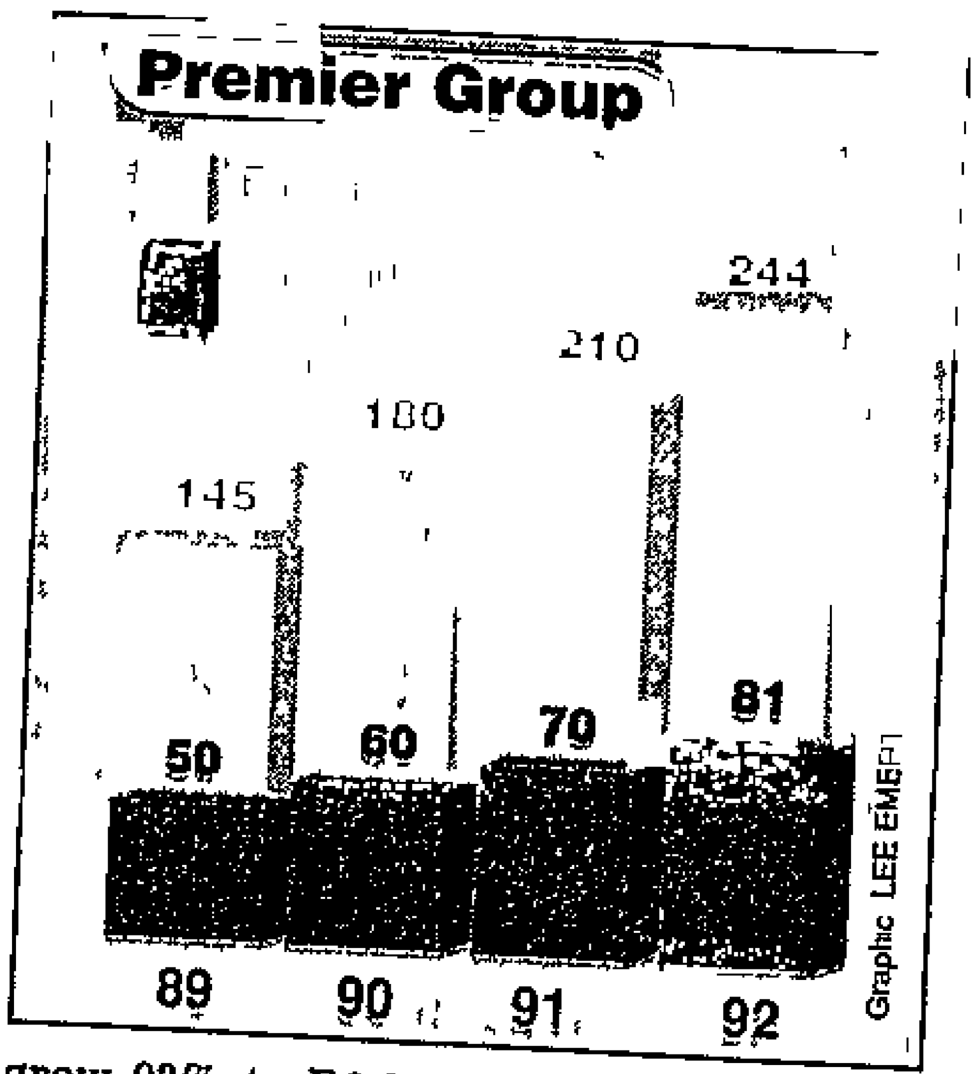
THE Premier Group's annualised earnings rose a healthy 16% to 264c (210c) a share to end-April in a year characterised by major acquisitions and disposals

Announcing the results yesterday CE Peter Wrighton said Premier was in a strong position and should be able to achieve satisfactory growth in earnings in the coming year But he warned the drought would make itself felt on Premier's profit

Results for the past 12 months, which reflected a change in year-end from March to April, showed that attributable earnings grew by 24% to R190m (annualised) from R153,6m, or to R205,8m for the 13-month trading period

Wrighton said certain features of the results could not be meaningfully compared as the acquisition of controlling interests in Metro Cash and Carry, Score Supermarkets and Clicks Stores had a major effect on turnover and on the balance sheet The group also disposed of 50% of Bonny Bird Farms and 50% of the Epol Animal Feeds division

Turnover for the 13-month period was R10,6bn On an annualised basis, turnover grew 93% to R9,8m from R5,1bn



Wrighton said turnover in comparable operations grew 13% on an annualised basis This did not take into account acquisitions or disposals or the fact that CNA Gallo was now being equity accounted

Trading profit (annualised) was 12% up at R420,1m An operating margin of 4,2% reflecdts an improved margin of 7,1% pri-

☐ To Page 2

Premier

B/Day 11/6/92

(186)

☐ From Page 1

or to the acquisitions and a 2% margin of the new acquisitions

Wrighton said one of the highlights of the past year was that interest was down by 29% to R58m on an annualised basis and by 23% for the 13 months He said Premier had exceeded its target of five times interest cover for the first time, with interest cover of 7,3 (4,6) times Pre-tax profit rose 24% to R362,1m from R293,2m, and after paying tax and taking dividend and equity accounted earnings into account, profit was 15% up at R52m.

Wrighton said borrowings were reduced to R160,5m from R347,6m, and gearing improved to 10,6% from 24,6% This, as well as R80m cash on hand, would allow the group to invest in further expansion over the next year.

Total dividends for the year of 88c a share included a final dividend of 49c a share as well as an additional adjustment dividend of 7c a share of which 5c was declared at the interim stage

About 60% of the group's earnings were derived from its core food business. Although food would remain the core business, Wrighton expected the contribution of the cash and carry operations (currently 9,2% of earnings and 40% of turnover) to improve over the years

Wrighton said Premier Food's disposal of underperforming assets had contributed significantly to its solid performance

In the pharmaceutical division, which contributed 15,5% to attributable earnings, Twins Pharmaceuticals' earnings had improved on the back of a rationalisation programme and the elimination of borrowings. But Gresham's results were affected by pressure on margins and a substantial write off of abnormal bad debts

Metro Cash and Carry and Score Supermarkets showed impressive turnarounds, Clicks Stores showed a satisfactory increase in earnings, and CNA Gallo reported a small reduction in earnings following a downturn in consumer spending

● See Page 6

Action over prices urged

BDay 11/6/92

KATHRYN STRACHAN

PROTEST action was planned at yesterday's summit of the co-ordinating committee on VAT to highlight the effects of the tax and rocketing food prices

Organisations associated with the committee had planned a programme of marches and demonstrations, but a date was still to be decided

Convenor Bernie Fanaroff said summit delegates endorsed demands to be put to government and to food manufacturers and retailers The committee expected to meet Finance Minister Derek Keys later in the month and would discuss the zero rating of basic foods and basic services, and the reduction and stabilisation of food prices

The starvation facing many was not caused only by the drought, but also by escalating food prices and distribution problems Businesses were taking advantage of the drought to raise their prices, the summit accused

It attacked government's nutrition development programme and put forward proposals to be presented to government

Fanaroff also claimed the National Health Department lacked the managerial expertise to run the programme effectively, and accused it of using poverty relief for political ends by providing money to SADF front organisations

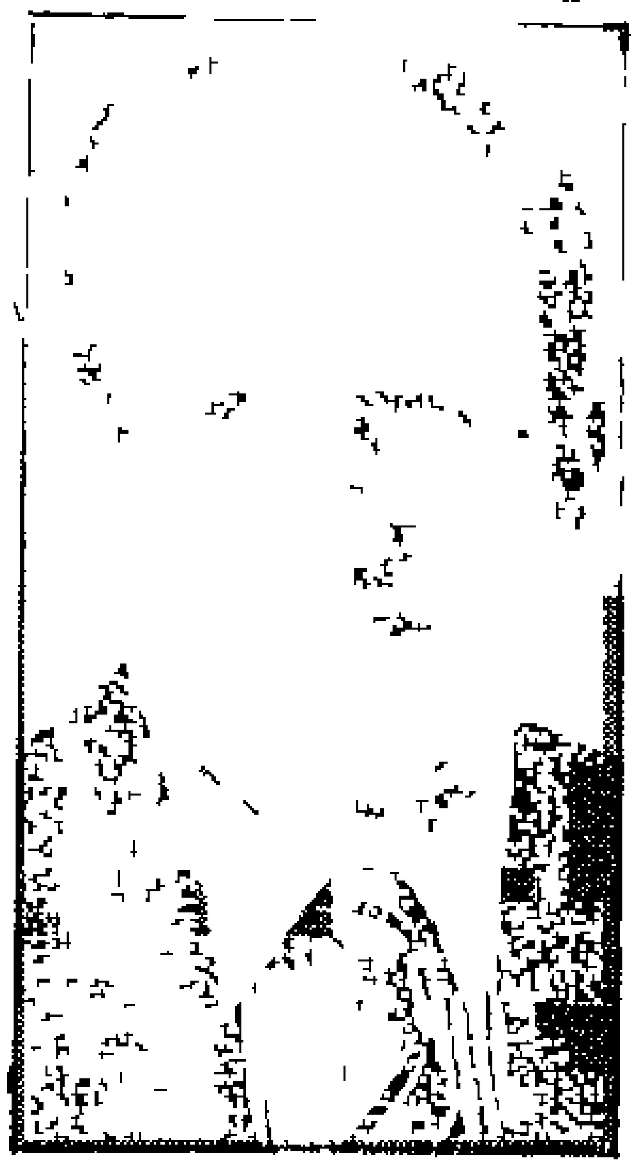
786

Strong performance at Premier

STAR 11/6/92

180

By Stephen Cranston



Peter Wrighton .. group debt down.

The new-look Premier Group, which has consolidated Metro Cash 'n Carry, Score Supermarkets and Clicks Stores into its results, announced an annualised increase of 16 percent in earnings per share

Premier's year-end was changed from March to April from this year to end the distortions created by the moveable nature of the Easter holiday

EPS has increased from 210c to 264c and the DPS from 70c to 88c

On an annualised basis EPS has increased from 102c in 1988 to 244c in 1992

The dividend per share has increased from 43c to 81c over the same period And in the process the gearing has fallen from 24,6 percent to 10,6 percent

Premier's turnover has increased substantially from R5,1 billion to R10,6 billion

Attributable earnings increased from R154 million to R206 million and the total assets from R2,7 billion to R3,5 billion

Turnover more than doubled even though CNA Gallo is no longer consolidated and half of Epol animal feeds and Bonny Bird — though not Epol pet foods — was sold to Rainbow chicken

MD Peter Wrighton says that the group is relieved that debt has been reduced from R348 million to R161 million

Shareholders' funds have increased from R1762 million to R1677 million

Mr Wrighton said that the disposal of the underperforming animal feed and chicken interests contributed significantly to the division's solid performance

Twins which is now managed by Phil Nortier, although one of the twins, Abe Krok, is still on the board, had much improved results

Mr Wrighton said the performance of the three listed retail facilities Metro, Score and Clicks was excellent.

Gresham Industries, though, had a poor year

BUSINESS BAROMETER

W/Mail 12/6 - 18/6/92

Premier profits again (186)

THE Premier Group announced a 24 percent increase (annualised) in bottom-line profits in the year to end-April, compared with the 1991 year This was on a 93 percent increase in turnover to around R10-billion, again annualised because the year end has been moved to end-April from March Turnover was boosted by the acquisition of Metro Cash and Carry, Score Supermarkets and Clicks Stores

Keeping the wheel rolling

C/Press
14/6/92

(186)

By ZB MOLEFE

WHEN Tiger Oats, one of the country's biggest food companies, says it does not want to reinvent the wheel when it comes to black business training, its a statement anchored in hard reality.

And who better to take this message across than Tiger's community relations development consultant Elias Moeng?

"The reason is simple," says Moeng, "in our talks with a number of black business chambers countrywide we constantly meet the complaint that big white business does not put its money where its mouth is."

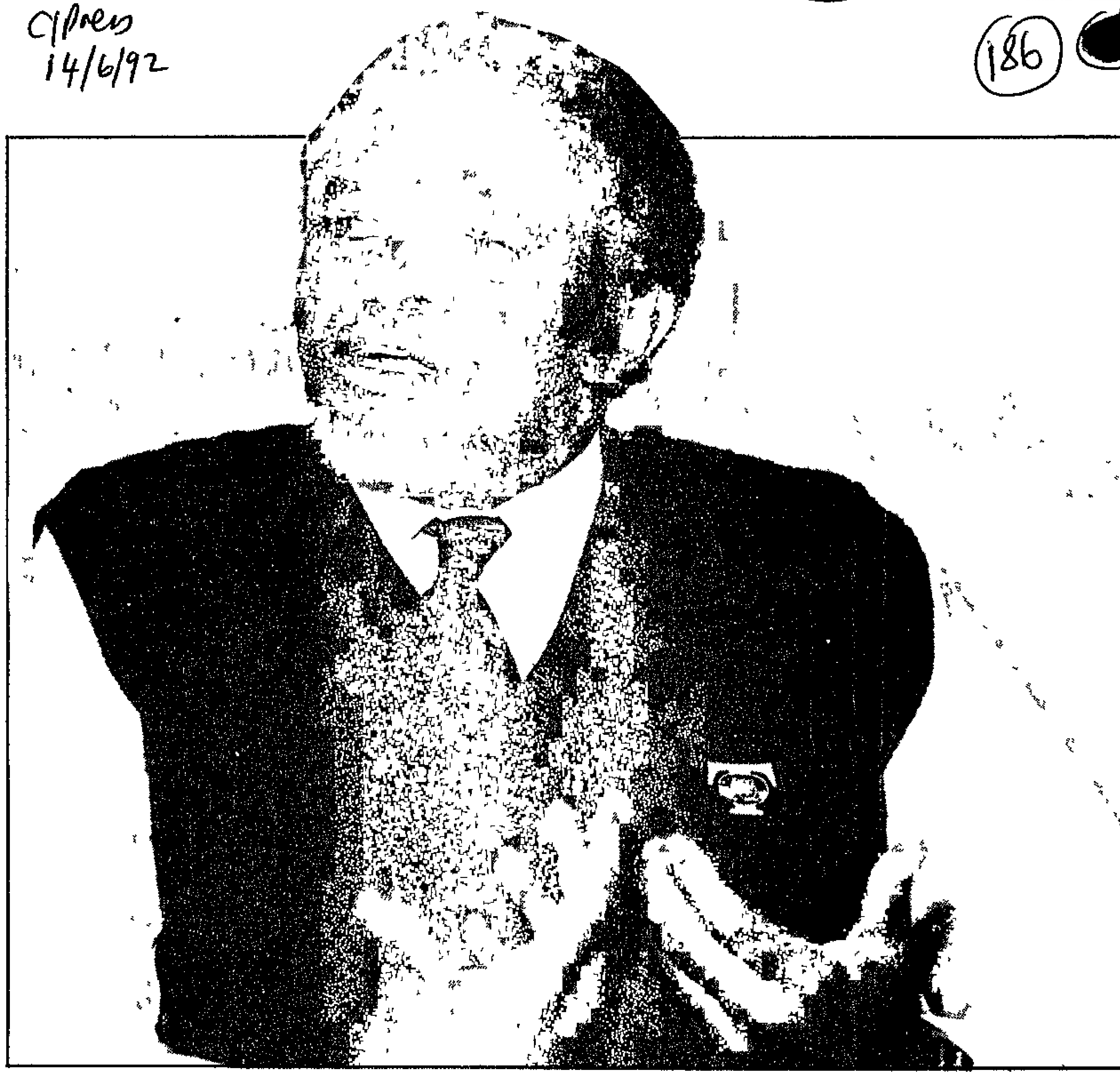
What Moeng means is that most black businesses feel established business does not go beyond occasionally helping out with money for small mundane business problems.

"The constant complaint from black business is that established business is not keen to dirty its hands. All established business seems to be keen on doing is to write cheques in the hope that black business problems will go away. It is our philosophy in Tiger Oats not to be in the cheque-writing business," Moeng continues.

The picture becomes clearer. What Tiger Oats has done is to look at black business training, particularly in business skills which will arm black business people for the future post-apartheid SA.

This is to be a business world where competition is the name of the game, and in which the ill-prepared will not survive.

Township businesses in particular will find themselves the little people in a battle for survival against Goliaths. In this battle they must make sure that they are the Davids, he says.



JET JUNGLE . . . Tiger Oats' community relations development consultant Elias Moeng is a man with a plan of action for township business training. ■ Pic: ANDRIES MCINEKA

Moeng is quick to point out that black business training is not something new. What he and Tiger Oats will be doing is nothing out of this world.

Their training will be based on the well-travelled but effective road of empowerment.

Of course, he does not hide the fact that although his company will be taking the plunge, it will do so with its back well covered.

Since last year Tiger Oats has been poring over the problems that plague black business. The company has paid attention to what solid research from places such as Unisa's School of Business has been saying.

"We found that training, distribution and finance is the bugbear of black business. In short, we want to encourage black business entrepreneurship," Moeng points out.

Moeng also explained how his company will put its training scheme into operation. It is called the Ace Business School (ABS). But any resemblance to your conventional school ends there because the ABS will take a few innovative approaches.

For instance, the ABS will be a mobile operation. Moeng points out that this training approach was adopted after his company discovered that in the main, the township business person can ill afford to be away from his business at any given time.

"We shall take the training to traders in the townships. But, I must warn that we will not come to the traders with ready-made programmes," added Moeng.

Training will be conducted on an on-the-job basis.

Moeng is a University of the North history and psychology major and former teacher who worked his way through a number of important industrial relations jobs with Eskom and Nestlé before coming to Tiger Oats.

Keeping the wheel rolling

Cl/Pres 14/6/92

(186)

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He keeps good account of himself

Cl/Pres 14/6/92

By LEN KALANE

SOWETO Chamber of Commerce treasurer Mokgothu Samuel Noge is by all accounts a money-minded character

He hasn't done anything in his working life that doesn't entail monetary deals

He is now on his own, running a bookkeeping outlet at the Orlando West industrial park where his main task is to teach other Soweto traders how to make a profit.

"Many Soweto traders count their wealth by the money they have in their pockets They can't distinguish between profit and the initial capital they have put into the business My job is to teach about profit, making more money and so on," said the bespectacled Noge whose first job way back in 1962 was that of a general office clerk at a banking institution

He has come a long way to where he is today Leaving the bank he went on to join a dairy products factory where he worked for a year as a sales representative

For the next 11 years Noge ventured into the unknown. He tried hawking and moved from factory to factory selling clothing The June 16 students riots affected his business which he ultimately abandoned in 1979

He went back to the corporate world and worked as an internal auditor for an engineering company dealing in heavy equipment. In 1980 he switched jobs to be a bookkeeper for a chemical company

"Business people started visiting me over weekends asking me to do their books for them I then realised there was a need for a bookkeeper operating in Soweto for Soweto traders," said Noge

GOING BY THE BOOK ... Mokgothu Samuel Noge runs the only formal bookkeeping business in Soweto. ■ Pic: TLADI KHUELE

This was to give birth to the Noge and Associates firm of Bookkeepers which he started in 1983 He joined the Soweto Chamber of Commerce in 1986

Some of the traders in the chamber are his clients and he does all their books for them.

In fact Noge is the only known bookkeeper running a formal business in Soweto

It didn't take very long for the chamber to realise his ability and appoint him as treasurer of the organisation. A month ago he was again appointed treasurer of the Southern Transvaal African Chamber of Commerce (Soutacoc) of which the Soweto Chamber of Commerce is an affiliate

Noge, the man riding the crest of the wave, is also a member of the Association of Black Accountants of SA He is also a member of the Institute of Accounts Technicians

If you're talking money, Noge is your man

Look to the Far East for the future

AN INCREASED num- sponse in the form of a turer had confirmed its shown a keen interest in

Control Boards may go soon — report

REVOLUTIONARY changes should be made to the agricultural and food industries in SA to break the spiral of food price increases, according to the Board of Trade and Tariffs.

The BTT this week presented a potentially far-reaching report on food prices which took 10 months to compile.

A primary proposal is that the statutory powers of control boards should be removed as they are major obstacles to efficient production in the food and agricultural sectors.

Powers removed

Dr Nic Swart of the BTT said on SABC-TV on Thursday night that the BTT's recommendation could mean the end of control boards. (186)

"We recommended that the compulsory powers of control boards be removed." C/Press

A four-pronged plan of action was proposed by the report. 14/6/92.

- The first step was a broad deregulation of agriculture, from governmental through to municipal level.

The BTT believed anything that obstructed competition or an entry to a food market should be done away with. Consumers should be allowed to buy any product they liked direct from farmers.

Adjusting tariffs

- The report also called for a greater role to be played in the price equation by food brought in from abroad.

This meant adjusting customs tariffs to ensure that healthy competition between local producers and importers was encouraged.

- The country's health and hygiene regulations were also too high for a developing country the report said.

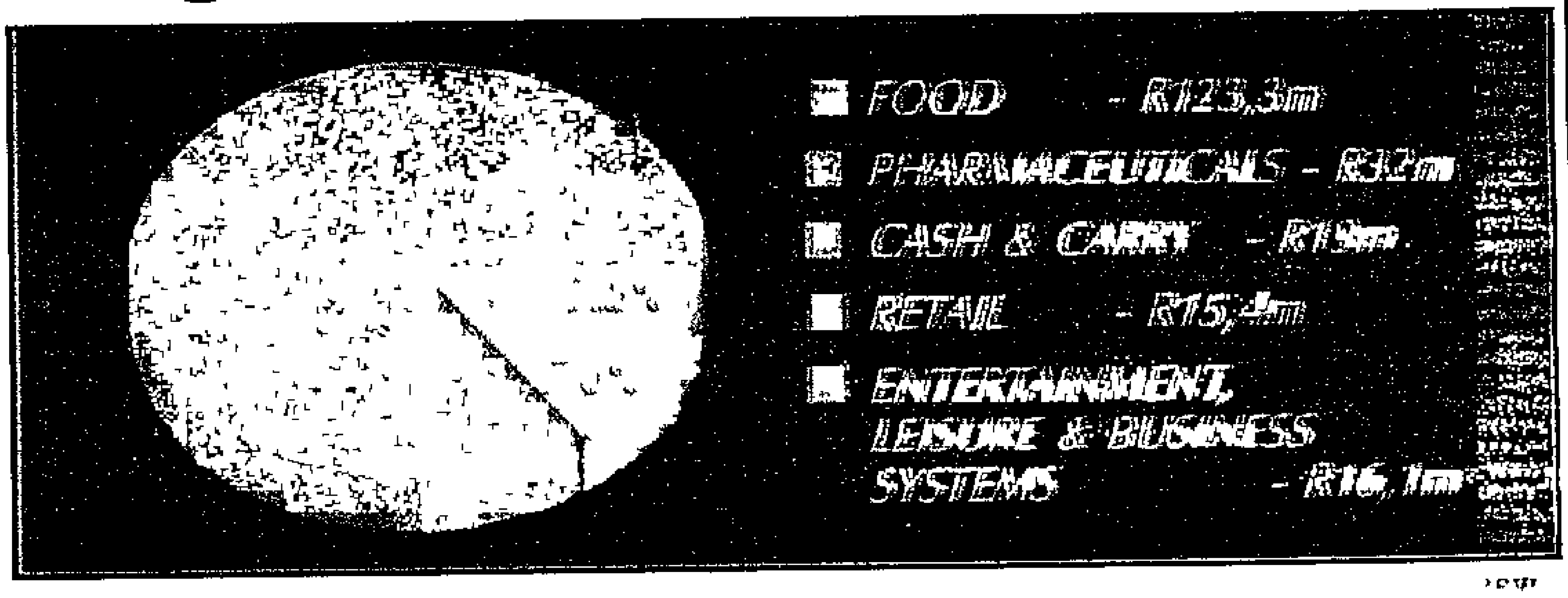
For instance, if consumers were prepared to buy fifth grade vegetables or non-pasteurised milk they should be able to.

- The last step was the review of the control boards — Sapa

Political comment and newsbills by K Sibiya, headlines and sub-editing by S James, both of 2 Herb St, New Doornfontein, Jhb.

Premier strengthens distribution chain

By Leigh Hassall (186)



Premier's attributable earnings totalled R205,8 million.

STAR 16/6/92

From maize meal to fish paste to camera spools, Premier has ensured a direct link for its products into the consumers' shopping basket

The Premier conglomerate, largely a manufacturer of food and pharmaceuticals, has through a series of strategic acquisitions strengthened its distribution chain

It has achieved a degree of vertical integration by entrenching itself deeper into the wholesale and retail markets

With the recent acquisition of the controlling interests in Metro Cash and Carry, Score Supermarkets and Clicks Stores, it has captured all the links in the selling chain of its products

The group says in its 1991 annual report that it regards the effective distribution of its products as of paramount importance and the Metro Cash and Carry acquisition will greatly improve its distribution capacity

It expects these new acquisitions to have a positive impact on its earnings from next year onwards

The 1992 results to end-March, released last week, show a creditable 24 percent annualised increase in attributable earnings off a 13 percent annualised increase in turnover on the operations before acquisitions

The 1992 turnover profile shows 85 percent coming from food, 11 percent from pharmaceuticals and four percent from entertainment (largely its holding in CNA Gallo)

The attributable earnings pie reflects the contributions as 77 percent food, 16 percent pharmaceuticals and seven percent from entertainment and other

In the 1991 annual report, chairman Peter Wrighton elucidated the group's two-fold strategy of selling off under-performing assets and to reduce borrowings

The group has certainly achieved its aims this year as the low-return Bonny Bird broiler operations was sold, as well as a 50 percent interest in Epol foods

Gearing has fallen considerably in the past five years

In 1988 gearing was a high 52 percent which was halved to 25 percent in 1991 and halved again in 1992 to a comfortable 11 percent

Commenting on the group's performance, Syd Vianello, analyst at Ed Hern, Rudolph says "Since focusing on a narrower product range Premier appears to be running their business far more efficiently than their major competitors"

The share price has risen continuously since January this year and the R44,50 quoted yesterday is a fair reflection of its value

As the Premier report says, it is focused on the manufacture and distribution of food and pharmaceuticals and will be in a strong position to benefit from the increased social spending expected in the new South Africa

Food sector tackles inflation

LINDA ENSOR 186

CAPE TOWN — A major conference involving key players in the food industry is being planned to thrash out a strategy to combat food price inflation

The intention is to present a comprehensive plan of action to Trade and Industry Minister Derek Keys.

Pick 'n Pay chairman Raymond Ackerman said representatives from agricultural control boards, food retailers, food manufacturers and government statisticians would be invited to the conference which would take place within the next six weeks. BDay 17/6/92

Premier Group chairman Peter Wrighton, who is also involved in organising the conference, said there was a general feeling in the industry that something should be done about food price inflation. The conference would aim to be as broadly representative of food producers, manufacturers and distributors as possible.

Wrighton stressed that it was in the interests of all parties to keep food prices down to increase consumption But there was a need to establish the factual position about food prices as he suspected that the methodology used by government statisticians did not reflect the purchasing patterns of the population

Ackerman believed the issue of high tariff barriers against cheap food imports in a situation of national shortage should also be addressed

He said the agricultural boards, instead of applying the fixed local price to import-

☐ To Page 2

Food sector

BDay 17/6/92. 186

☐ From Page 1

ed goods, should allow retailers to import food, such as meat and maize, at the lowest possible price when there were shortages

While there were too many agricultural boards, some inefficient, Ackerman did not think that they were solely responsible for high food prices He felt some boards were necessary to keep farmers on the land

The meeting would also examine the impact of food exports on local prices and the real level of food price inflation

Ackerman said the official food price inflation rate of about 28% was "totally incorrect" Pick 'n Pay's figure was about 14%

The government figure was fuelling wage inflation as trade unions justified their wage demands by pointing to official figures

Choice brings down losses

BD 17/6/92 MICK ELLINGHAM (186)

DCM-listed Choice Holdings has disclosed a net after-tax loss of R24 000 for the year ended February 1992 on the back of a 13% increase in turnover This follows a R1,3m loss in 1991

The company — which processes and distributes meat products and other foodstuffs — reported attributable losses of R290 000 resulting in a loss per share of 72c Last year the company's attributable loss was R1,8m which resulted in a 1500c loss per share.

Choice MD Johnny Limberopoulos said "The year's results were affected by the continuing difficult trading conditions"

He said the company's improved results were a result of the rationalisation which had occurred during the year.

Da Gama hopes tied to lower imports

BDay 17/6/92

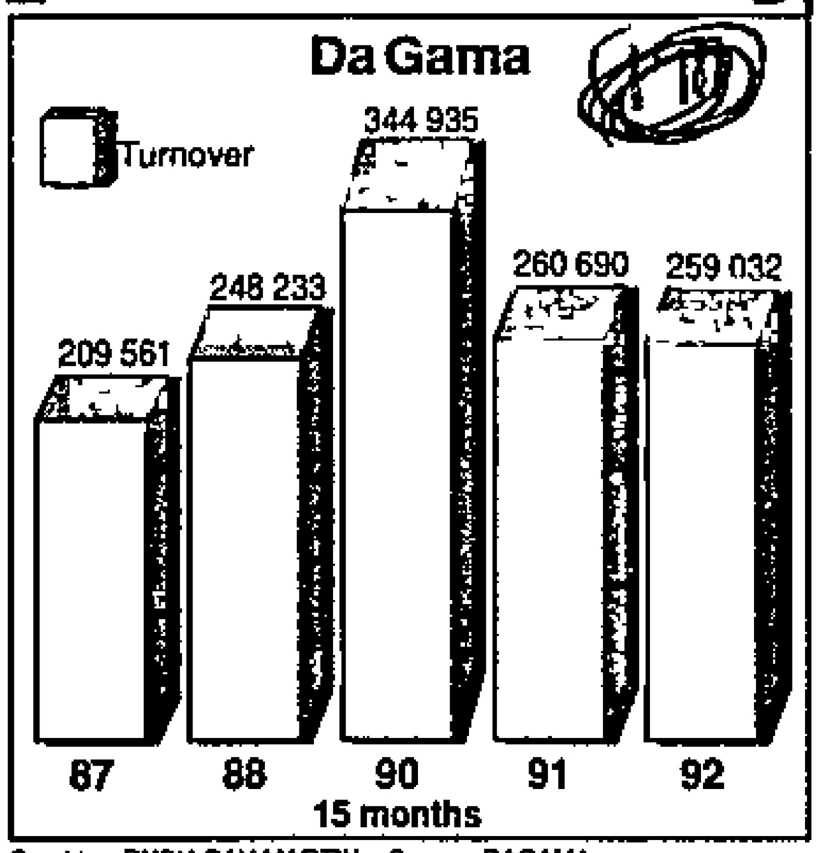
DUMA GQUBULE

TEXTILE manufacturing company Da Gama is hoping to maintain its earnings in the coming financial year But this will be a difficult task if competition from imports increases and the economy continues to shrink, CE Harry Pearce says in the company's 1992 annual review.

In the year to end-March the SAB subsidiary reported a 29% decline in attributable earnings to R30m, or 58,9c a share The total payout came to 25,5c (1991 36c) a share

Chairman Laurie van der Watt said wide-ranging action was needed to bring about a significant reduction in the level of imports and help revitalise the local textile manufacturing industry.

He said imports had climbed to new levels during the past year. Imported fabrics now accounted for 40% of the SA market, again illustrating that import duties in place during the past year were



Graphics RUBY-GAY MARTIN Source DAGAMA

insufficient to protect the local industry against cheap imports from subsidised manufacturers in foreign countries

He said it was heartening that steps in this direction were now being taken The government had decided to implement certain short-term measures concerning the importation of a wide range of textiles and clothing

Van der Watt said the new tariff rates, which were gazetted at the beginning of May, were being studied But it was unlikely that they would benefit trading until the second half of the year.

Pearce said Da Gama's future performance would be positively affected if recently introduced duty levels resulted in a material reduction in imports

Looking ahead, Pearce said improving cash management and stock turn would be a major element in Da Gama's plans for the coming year In the year to end-March working capital had increased by R29m, of which R24m had could be attributed to higher stocks

Sales in the second half of the year did not materialise to the extent expected and, as a result, the investment in inventory rose to higher than normal levels

Management focus in the coming year would be to reduce stock levels to more sustainable standards.

Export zones report out

Business Day Reporter

AN IDC report on the establishment of export processing zones has found that local and regional development authorities and the private sector should be allowed to develop them.

BDay 17/6/92

Released yesterday, it recommended the authorities and private sector should have freedom to develop the zones with state financial assistance The report was commissioned by the Trade and Industry Department.

Director-general Stef Naudé said the zones could be achieved by offering customs-free import facilities, creating a favourable business climate and limiting regulatory restrictions and bureaucracy

"The IDC defines an export processing zone as a demarcated geographical area specialising in the manufacture of export products," Naudé said

The IDC also said EPZ's served a dual purpose, namely to create employment opportunities and to earn foreign currency by exporting manufactured goods.

Fruit farming group positive about results

BDay 17/6/92

LINDA ENSOR

CAPE TOWN — Deciduous fruit farming group W B Holdings was reasonably optimistic about results for the year to end-December, 1992, chairman Robert Silverman said at its AGM yesterday

Predictions were difficult because fruit exports were en route to Europe and the company did not know what prices they would fetch Silverman said profits and dividends would not be less than last year when earnings increased by 28% to 57,92c (45,26c)

In the latest annual report Silverman said opening prices were higher than in 1991 due to Chilean and New Zealand fruit crops being lower than expected. Also, the European carry-over stocks of apples and pears from 1991 were lower than usual and this had placed pressure on the marketplace.

Although fruit volumes were higher this year, the quantity available for export did not rise commensurately due to the high quality product demanded by the export market

"The total crop of the group's farms is about 17% up on 1991 but unfortunately a large proportion of the fruit is rather small and not exportable," Silverman said

He said at the AGM that another problem was SA's high inflation compared to the low rate overseas which made it difficult to keep pace with costs in what was a labour intensive industry.

New plantings had been progressively undertaken, he added. In the annual report Silverman said increased water allocations from the Theewaterskloof Dam meant W B Holdings could develop an additional 200ha of orchards instead of the 100ha planned

Choice brings down losses

BDay 17/6/92

MICK ELLINGHAM

DCM-listed Choice Holdings has disclosed a net after-tax loss of R24 000 for the year ended February 1992 on the back of a 13% increase in turnover This follows a R1,3m loss in 1991

The company — which processes and distributes meat products and other foodstuffs — reported attributable losses of R290 000 resulting in a loss per share of 72c Last year the company's attributable loss was R1,8m which resulted in a 1500c loss per share

Choice MD Johnny Limberopoulos said "The year's results were affected by the continuing difficult trading conditions"

He said the company's improved results were a result of the rationalisation which had occurred during the year

Hout Bay is entitled to keep and retain what it has This Government does nothing It sits back and allows things to slide, also in Hout Bay For that reason the CP will get up every time and fight for the people of Hout Bay, because except for the CP, they do not have people who fight for them

*The MINISTER OF LOCAL GOVERNMENT AND NATIONAL HOUSING Mr Speaker, the hon member for Overvaal's credibility has grown immeasurably here The CP sent in their HNP advance guard here and we had to deal with a CP-HNP mentality that has no answers to the problems of South Africa [Interjections]

When one talks to them about squatting their policy is not intellectually justifiable, and it does not even stimulate one intellectually [Interjections]

That hon member says one should keep what one has I paid a few visits in that area yesterday and I discovered exactly what is happening there

In brief our policy in respect of urbanization is the following Unlike in the past, we will not locate Black people as far as possible from their place of work I spoke to everyone in the Hout Bay squatter camp that I could get hold of yesterday [Interjections] They had work there [Interjections] They were working at various places Those people need places to work and live Therefore we try to ensure people's stability in smaller packages near their places of work [Interjections]

Secondly, local communities must make provision for the informal housing needs in their country as well

Thirdly, I should like to give hon members the assurance that it is unreasonable and not the standpoint of this House to locate people as far as possible from their places of work [Interjections]

There is no way that we can wish these people away and we shall continue to hold talks with the people with established rights as well as those that work in the area but simply do not have accommodation there, as I suggested when I originally put my standpoint

Debate concluded

*Mr SPEAKER Order! Before I put the next interpellation, I should like to appeal to hon members not all to take part so boisterously in these short debates Only the hon members whose names are on my list of speakers should participate, and the other hon members should give them a proper opportunity to state their case in the short time at their disposal

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Escalation in food prices: steps

2 Mr D H M GIBSON asked the Minister of Trade and Industry 186

(1) Whether he intends taking any steps to halt the alarming escalation in food prices, if not, why not, if so, what steps,

(2) whether he will make a statement on the matter?

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The DEPUTY MINISTER OF TRADE AND INDUSTRY Mr Speaker, the Government is very aware of the seriousness and sensitivity of rising food prices For this reason continuous consultation takes place with the hon the Minister of Agriculture Proof of this is the request by the two hon Ministers to the Board on Tariffs and Trade to investigate this escalation The preliminary report on this investigation was made public on 11 June As soon as the board completes this assignment and submits its final report and recommendations to the Government, the Government will be in a position to make decisions

Other steps taken by the Government are the following The systematic removal of import control on agricultural products and food and the institution of tariff measures instead, a complex process that has international complications through Gatt, the financing of the Consumer Council by the Department of Trade and Industry, which investigates complaints of consumers, the establishment of the Competition Board, which acts on either complaints received, or investigates cases of restriction of competition such as collusion or monopolistic situations on its own initiative, the establishment of Vatwatch, financed by the Department of Finance, which serves as a watchdog to prevent consumer exploitation due to the commencement of VAT, the support of research and development at the CSIR on problems in the food industry, and investigation into ways and means of increasing the competition in, and the competitiveness of,

industry in general The reform of tariff policy is an example of that 186

The Government wants to give the assurance that it regards the question of food prices as serious and very sensitive and that it will be treated with vigour and responsibility

With regard to the second question, after studying the final report of the Board on Tariffs and Trade when it comes to hand, together with other reports which may have a bearing on the subject, the hon the Minister will make a statement on the whole matter The recently released report is a provisional one made available for comment and as a discussion document

We are aware of the tremendous difference in escalation of prices between the farm gate and the shop shelf It is the divergence between the rates of increase of these two different prices—in other words, the divergence between PPI and CPI—which was the subject of this investigation [Time expired]

Mr D H M GIBSON Mr Speaker, the hon the Deputy Minister's boss has made himself notorious in the eyes of South African taxpayers by telling them that they are not particularly highly taxed I expected the hon the Minister to come today and perhaps tell consumers that they are wrong and that food prices are not too high Instead of that, the hon the Minister has chosen to sit quiet and send the hon the Deputy Minister into the firing line Instead of savaging the hon the Minister, I have to be a little kinder to the man who is only half responsible for the situation

I did not hear anything from the hon the Deputy Minister which makes me believe that food prices will come down soon One day after I gave notice of this interpellation, the long-awaited report of the Board on Tariffs and Trade was suddenly released There is now a flurry of activity and announcements because the Government has at last realised that the consumers have had enough

The long-suffering consumers want to know when they can expect action They are tired of inquiries, reports, ministerial musings and complications They are even more tired of the never-ending inflation and the inexorable rise in food prices Consumers believe that they are being ripped off when they hear that food prices may increase by as much as 45% this year Most of them believe that it is not the farmers and the primary producers who are the culprits The real exploiters are further up the food chain, and these include the control boards, the packaging companies and the supermarkets which always claim to be the consumer's friend

While they are making that claim they manage to mark up meat by 103% at Woolworths 105% at Pick 'n Pay and 108% at OK Hyperama I am indebted to the *Sunday Star* of 16 February for those figures Right now one can go and buy potatoes at the market for R21 to R24 a pocket, and go to the supermarket and pay between R35 and R37 for those same potatoes

Those are not the friends of the consumers The excuse is always that inflation is causing the increase in the prices, instead of the other way around This Government has dedicated itself to stopping inflation, and this must be one of the longest-running shows in town, because nothing ever happens

The economic restructuring that South Africa needs to place it on a satisfactory growth path cannot happen while double-digit inflation flourishes It requires the best efforts of both Government and business working together to take decisive action to ensure that inflation is slowed or stopped When this happens, the food price escalation will also stop

*Mr D G H NOLTE Mr Speaker, the CP is especially concerned about the increasing gap between the price of the farmers' product and the price of food to the consumer Statistics at the end of March 1992 confirmed the fact that at 28,9%, food prices increased far more rapidly than the general inflation rate of 15,7% and the farmers' product price of 11,9%

Furthermore, it is also known that the farmer's share in the final consumer price of food is low, approximately 39,4% and that it is continuously decreasing The question is therefore, if the farmers do not receive the money, where does it go?

Hence the investigation by the Board of Trade and Industry, the first draft report and recommendations of which were made public last Friday The report's basic recommendation that the statutory powers of agricultural marketing boards should be taken away to promote competition, still does not answer the basic question of where does the money of the increasing gap is going and what the solutions are

According to the report only approximately 29% of the increasing gap can be attributed to the fact that some boards restrict competition What about the other factors to which approximately 71% of the blame can be attributed but in respect of which no recommendations were made?

The following are examples from the report itself Firstly, one of the most important causes is general inflation pressure which comprises approximately 40% of the cause which according to the report can *inter alia* be attributed to overspending by the State Secondly, wages and trade union action are not in line with productivity Thirdly, industries are being overprotected in the name of self-sufficiency In the fourth instance six large food companies provide more than 60% of the processed food products They are part of the big conglomerates in the country and their share prices increased more rapidly than those of the other industries In the fifth instance the gap increased especially after the introduction of VAT in 1991, especially also as a result of the taxability of food which can therefore be linked directly to State policy [Time expired]

The DEPUTY MINISTER OF TRADE AND INDUSTRY Mr Chairman, the hon member for Yeoville said he would let me off lightly with his savage attack Of course, the classic comment on being attacked savagely is that it feels like being savaged by a sheep [Interjections] I thank him for his gentleness [Interjections]

The hon member for Delmas referred to the report of the Board of Trade and Tariffs in which there is an attempt to make an analysis of the divergence between the producer-price index and the consumer-price index It is interesting to note that the media have run away with this report and interpreted this divergence as being solely the result of control boards

They correctly pointed out, however, that food inflation is a part of inflation in general I do not intend to become involved in an argument on macro-economic policy at this stage It also points out that 2% of that divergence was due to an increase in wages, and also due to an increase in so-called shrinkage in the retail chain Shrinkage means theft, mainly on the part of the employees of those retail chains

It goes further and says that 0,2% is due to the fact that price subsidies on food have been removed It says that 0 3% is due to the fact that certain controls have been removed It goes further and says that 1% is unidentifiable

The popular notion, however, is that control boards are the great evil I have to state that it was in the [Time expired]

Mr E K MOORCROFT Mr Speaker, five years ago, here in Cape Town, I was shocked to see, for the first time in my life, a person scrounging for food in a garbage can That sort of thing, I thought, only took place in Ethiopia or Bangladesh Today, however, the sight of hungry people scrounging in garbage cans has become commonplace One can see it during any lunch-time on a walk up Government Avenue

It is but one of the many symptoms which indicate the cruel poverty in which increasing numbers of underprivileged people in this country are beginning to live As my colleague the hon member for Yeoville has pointed out, we do not have to look very far for at least one of the causes of poverty, and that is the ever-increasing spiral in the cost of basic foodstuffs

The hon Deputy Minister has a knowledge of France and will be aware of the political consequences of shortages of affordable food He will know what happened to Marie Antoinette when, on being informed that there was a shortage of bread, advised her subjects to eat cake instead

The first thing the hon the Minister should do, as my hon colleague has suggested, is to study carefully the recently tabled report of the Department of Trade and Industry He should seek ways of decreasing the ever-increasing gap between producer and consumer prices highlighted in that report One of the best ways of doing that is to improve the climate for free choice Both producer and consumer must have free access to markets of their choice The State should make it possible for this choice to be exercised [Time expired]

Mr D H M GIBSON Mr Speaker, the hon the Deputy Minister's reference to sheep was enough to make the consumer's mouth water, because there are many of them who have not been close to that expensive meat for a long time

I was talking about the hon the Minister himself, and I believe he has enormous clout in Govern-

ment, as well as in business, because of his background I also believe that he should be using the influence he has with the business community to start turning South Africa around I believe that the hon the Minister is uniquely placed to persuade both the Government and big business to co-operate One suggestion is that they refuse to grant wage increases larger than 10% for this year Then they must start limiting price increases whether administered by the Government or decided upon by business, to no more than 10%

This would be a contribution to breaking the back of inflation and would give the consumer hope of a fair deal in the future

The DEPUTY MINISTER OF TRADE AND INDUSTRY Mr Speaker, I think the hon member for Yeoville came very close to proposing a wages-and-prices policy [Interjections] I believe that this is an experiment that has been tried elsewhere, especially in the United Kingdom and it has failed miserably [Interjections] I believe that the one option that is not open to us in solving this problem is price control This is something which only serves to distort the economy, to create a situation in which people are producing products for which there is no demand

However, we are looking at ways and means of breaking this inflation spiral in food prices We believe that there must be increased competition We believe we must go further down the road of deregulation, especially with regard to health and hygiene standards I believe we must look at all measures that inhibit trading

I believe that the new Businesses Act goes a long way towards enabling the informal sector also to play its part in the distribution of food

We are looking very carefully at the renewal and reform of the whole issue of customs tariffs and import control The hon the Minister of Agriculture and our Department will also be looking very carefully at the possibility of increasing imports on basic foodstuffs in order to prevent this spiral, but under the very strict proviso that it does not serve to disrupt the agricultural community and the rural economy of South Africa

As hon members may have seen in the newspapers, the hon the Minister has appointed a special committee under the chairmanship of prof Kassier to investigate the role of marketing control boards in South Africa [Time expired]

Debate concluded

QUESTIONS

†Indicates translated version

For oral reply

General Affairs

State President

Total cost of overseas visits

*1 Mr D P DU PLESSIS asked the State President †

What was the total cost of the overseas visits undertaken by him and his entourage (a) in 1991 and (b) during the period 1 January 1992 up to the latest specified date for which information is available?

B780E

The STATE PRESIDENT

(a) R2 790 357

(b) R2 614 724

These amounts are based on the latest available information and reflect the expenditure for all components which were involved in the overseas visits, namely

(1) The State President's Office

(2) The Department of Foreign Affairs

(3) The security component, as provided by the National Intelligence Service

Second Interim Report: Goldstone Commission

*2 Mr L FUCHS asked the State President

(1) When was the Second Interim Report of the Commission of Inquiry Regarding the Prevention of Public Violence and Intimidation (the Goldstone Commission) received by him,

(2) whether this report was released immediately after being so received, of not, (a) why not and (b) on what date was it released?

B801E

Cont

Marketing boards defended

Food prices: Minister raps private sector

BDay 18/6/92

LINDA ENSOR

CAPE TOWN — The private sector must accept part of the blame for escalating food prices, Agriculture Minister Kraai van Niekerk said yesterday.

Reacting strongly to the Board on Tariffs and Trade's (BTT) preliminary report on the causes of food price inflation, Van Niekerk described the report as inadequate He took issue with its emphasis on the marketing boards' contribution to rising food prices

Van Niekerk said concentration in the food processing and distribution sectors were partly responsible for fuelling food price inflation and this concentration had to be countered if the marketing of agricultural products was to be deregulated

He said the BTT had been instructed to continue its investigation and to work with the Competition Board to look into the concentration in these sectors

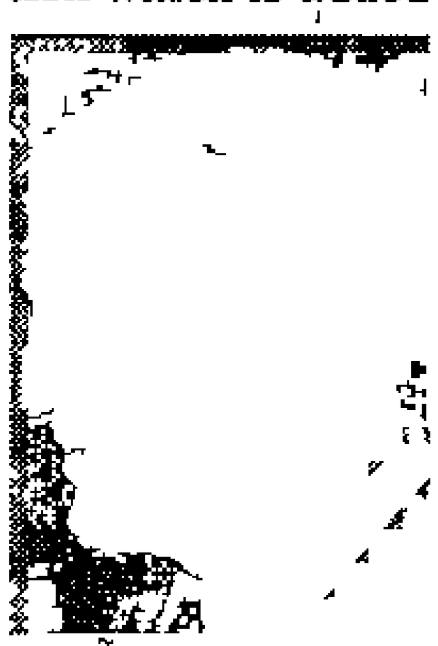
Van Niekerk expressed surprise that while he and a former Trade and Industry Minister had commissioned the report, he had not been given a chance to examine it before it was released

He said the report left many questions unanswered and did not fully take into account the negative effects of the drought and VAT on food prices

Proper credit was not given to the measure of deregulation and change achieved in the marketing of agricultural products

Van Niekerk said the share of the producer (including the direct influence of the marketing boards) in the consumer rand was a mere 45%, and the declining internal terms of trade for agriculture justified part of the increased producer price

"The influence of the marketing boards can, however, not be held responsible for the remaining 55% portion which is added to the price of agricultural products by the private sector. On the contrary, the facts point to a softening influence by marketing boards on consumer prices with the increases in the prices of bread, and cheese a good example of what happened when price control under the Marketing Act was lifted."



VAN NIEKERK

Van Niekerk said the suggestion that the boards' statutory powers be abolished to achieve cheaper food prices — as recommended in the report — was an oversimplification of the matter He added that a reliance on food imports would negatively

To Page 2

Food prices

BDay 18/6/92.

From Page 1

effect the balance of payments, food security and employment opportunities

Van Niekerk said a policy committee under his jurisdiction, and representing a broad spectrum of interested parties, is to be formed to devise a marketing strategy for agricultural products and to examine the future role of marketing boards

This committee would evaluate the input from the committee chaired by Stellenbosch University professor Eckart Kassier which would examine the value of the Marketing Act for the agricultural industry and its vertical and horizontal effect on food prices

Sapa reports Agricultural Board co-ordinating committee chairman S J J van Rensburg said yesterday the BTT had been guilty of gross generalisations in its proposals that virtually all statutory powers for marketing boards be abolished

Many of the findings and recommendations had been formulated with a preconceived and biased view of doing away with any form of statutory control, Van Rensburg said

He found it regrettable that an official report was party to casting a reflection on all forms of statutory marketing, which in the past had stood the producer and consumer in good stead Boards accepted the need for greater market orientation, and current and past action proved their commitment in this regard

Cadbury's beats Beacon in chocolate war

BDay 18/6/92

MARCIA KLEIN

CADBURY'S has won the chocolate war against Beacon It claimed Beacon was using wrapping similar to that of Cadbury's on its new range of chocolate bars

The Advertising Standards Authority (ASA) confirmed yesterday that its advertising properties committee, which met this week, had ruled against Beacon in terms of the ASA code

It had ruled that the Beacon wrappers were too close to Cadbury's packaging The ASA yesterday asked Beacon to remove or amend its packaging within three months

The removal of Beacon's products from supermarket and cafe shelves and the redesign and repackaging of chocolates could be extremely expensive for Beacon, industry analysts said.

The launch of Beacon's new chocolate bars has been accompanied by extensive advertising, including a TV commercial featuring a Swiss chocolatier whose nose grows as he lies that the Beacon chocolate is not as good as Swiss chocolate.

It was not clear if Beacon would appeal against the ruling A Beacon spokesman said the company would not comment, pending further discussions with the ASA

The ASA move followed earlier complaints by Cadbury's, through its advertising agency Partnership, that the Beacon packs showed a strong resemblance to those of Cadbury's

The packs had been allowed to appear on the shelves since the complaint last month, pending the ASA decision.

It was believed that the new Beacon chocolate bars, which had now been on sale for the past month, had made some inroads into Cadbury's market share

BUSINESS

Free the markets, urges BTT

w/mail 19/6 - 25/6/92.

[redacted]en (186)[redacted]

Agricultural control boards are not the only villains of the food price spiral. Deregulation and breaking down of concentrations are needed, the recent government report found. By **REG RUMNEY**

THE long-awaited government study of food prices comes down heavily in favour of deregulation. Its stance is strongly against intervention, such as control boards represent, and in favour of free market solutions

The Board on Tariffs and Trade (BTT), which undertook the study, issued a preliminary report last week.

As reasons for persistent food price inflation above the rate of general inflation the board rounded up some of the usual suspects.

It mentions wage increases which outpaced productivity improvements, hijackings, removal of subsidies, indirect taxes like Value-Added Tax on food, regulation and marketing board-administered schemes to drain off excess food production.

The board found it impossible to identify specific culprits abusing special privileges. But it did find concentration at agricultural board and processing levels

"The fact that cost increases can be readily passed on to the consumer seems to indicate a lack of effective competition in certain areas "

The report clears farmers themselves, and it does not make any arguments for breaking up as being at the root of the concentration. "It is at the intermediate levels of crop purchase and storage, primary processing and wholesale distribution that concentration tends to be greatest.

"Significantly, it is also at this level that intervention is most common. In the BTT's opinion this intervention increases concentration more often that it disperses it."

The BTT goes on to say that *concentration stemming from control boards contributed to further upstream concentration.*

In the course of its investigation the board has taken a close look at profit margins and returns in various parts of the food chain But it urges circumspection about this statistical evidence, arguing that conclusions on efficiency, exploitation, or fairness cannot be arrived at by studying statistics alone

This could be aimed at among others arguments put forward by the big retailers that their low margins showed they were not exploiting the consumer.

The board notes elsewhere the declining productivity of workers in food retailing, compared to wage rises. It also notes "The co-operatives do virtually all the wheat storage. Only two companies distribute refined sugar. Seventy percent of maize milling is done by six major companies About 85 percent of all dairy processing is done by seven major players. Approximately 63 percent of all fresh vegetables are sold on the 15 national markets "

The report does not single out the retail chains or the processors. It merely advocates removing barriers to competition,and identifies a wide variety of such barriers for consideration.

The board believes import tariffs should replace quotas to allow competition from food imports, and that eventually tariffs should only be used against dumping.

It recommends replacing minimum standards with a clear marking of quality and grade

It urges that the scope of the Competition Board be broadened to that of an "ombudsman" to which anyone could appeal to remove competition-inhibiting laws, including health regulations.

Several issues are not fully dealt with, such as the effect of VAT and whether the official food price inflation figure correctly reflects what is happening to food prices, but the board promises to look at these as well.

●See PAGE 18

Minister 'naive' about food prices

STAR 19/6/92 (186) (30) (244) (5)

By Shirley Woodgate

The private sector has labelled as "naive and misleading" claims by the Minister of Agriculture that concentration in the food processing and distribution sectors are partly to blame for soaring food prices.

Defending the marketing boards, Dr Kraai van Niekerk said on Wednesday that the private sector had to take some of the blame for spiralling food costs.

According to Housewives League president Jean Tatham, government figures showed an increase of nearly 30 percent in food prices between April 1991 and April this year.

Econometrix spokesman Tony Teine said all players in the entire supply chain carried the blame for increasing costs and, logically, all were trying to secure the greatest margin possible

"If the food sector were completely decontrolled, this situation would continue with each one trying to optimise his position.

"My worry about the piecemeal deregulation of certain areas of the economy is that the areas not deregulated would begin to enjoy huge leverage in negotiating prices because of the protection that regulation implies," Mr Teine said

"While everyone tries to get the maximum out of the economic system, the presence of additional middlemen such as control boards means there are more players than necessary trying to optimise their positions. This must add to the cost chain.

"The ultimate answer is to deregulate on a broad front," he said.

Pick 'n Pay food director Sean Summers regretted that the minister had resorted to "finger-pointing without getting to the root of the problem".

Calling for the removal of current restrictive tariffs, he said in-house monitoring had proved that the highest levels of price increases occurred in the cost of agricultural-type products

"As a broad principle, it is essential to keep the farmers on the land But with the present drought, there is no logic in protecting non-existent crops by selling imported foodstuffs like maize and wheat at artificially high prices set by the control boards.

"The major task facing the nation is to feed the people Therefore the need is to import these foodstuffs at the lowest possible levels, without protecting structures and status quos as currently happens," he said

Pick 'n Pay had initiated talks which would include leaders of the various sectors of the industry, the Government and the control boards

OK Bazaars food marketing director Mervyn Kraitzick said the minister should distinguish between manufacturing and production, and retailing

There was no question that monopolies and oligopolies which dictated prices existed in the manufacturing and production sector

1 000 clothing workers fired

(184)

ARGT 19/6/92

SHARON SOROUR and JOHN VILJOEN
Staff Reporters

WESTERN Cape clothing employers today dismissed about 1 000 workers who took part in a march yesterday to protest against the industry's wage offer

Employers refused to give workers permission to attend the march, which they said was "an illegal industrial action" and "grossly irresponsible"

The march caused a half-day shutdown at hundreds of Peninsula factories and production was disrupted, said Cape Clothing Manufacturers' Association executive director Mr Peter Cragg.

Employers warned workers before the march they would face disciplinary action if they "deserted" their posts.

Mr Cragg said the march was a breach of the agreement between workers and employers and constituted an illegal industrial action.

The workers gathered at the S A Clothing and Textile Workers' Union headquarters at Industria House in Salt River today

Union media officer Mr Shahied Teladia said the union was meeting the association to discuss various issues of the wage dispute, and the "dismissals will be addressed".

Mr Teladia said more than five factories had dismissed workers, including Dermar

Dermar managing director Mr Chris Belchers said about 200, or 40 percent of the factory's workforce was dismissed today after disregarding warnings not to take part in the march.

● See page 4

PREMIER FM 19/6/92

Showing benefits of the acquisitions

(186)

Though the Metro acquisition left many sceptics in its wake, Premier's results for the 13 months to end-April suggest the move was shrewd Apart from Metro's (earlier-than-budgeted) contribution to Premier's EPS, the deal ensures the food conglomerate has a large and extensive distribution channel available

Premier's results were also bolstered by the hike in profit from Twins In fact, despite a good performance from the food division, its bottom line contribution decreased to 60% (1991. 68%) This was largely because of Twins' greatly improved contribution and the harnessing of Metro

Chairman Peter Wrighton notes that selling 50% of Epol Animal Feeds and the poultry business created a false perception of Premier moving away from food In reality, he says, the group was simply cleaning up its underperforming operations

Premier's balance sheet has been strengthened and management is now set to invest further in the food operations Wrighton adds that a joint venture with an international operator is a strong possibility Apart from this, the lion's share of the R250m capex set aside this year is for food operations The Vereeniging wheat mill capacity is to be doubled, while a dry pet food plant is planned at Isando

Food, pharmaceuticals and cash-and-carry activities are expected to account for roughly 90% of earnings in the medium term, with food remaining the core activity, constituting roughly 60% of the total and the remaining two each contributing about 15% Other contributors will include CNA Gallo and Clicks, which has applied to government to dispense pharmaceuticals through its outlets Though Premier's distribution outlets serve the group's manufacturing operations, Wrighton stresses all business units trade on at arm's length

Based on these results, Premier's acquisitions are working On an annualised basis, EPS increased 16% to 244c while gearing fell to 10% (1991.25%), despite an outlay of R350m on acquisitions and capex Total debt dropped by R187m, to R160,5m

Wrighton notes the improving cash generation at Metro, the elimination of Twins' debt, and proceeds from the disposal of food's underperforming operations contributed equally to this

Premier's Wrighton . *a false perception*

All operations in the food division increased their contributions On an annualised basis, milling and baking lifted trading profits to R138m (R122m), edible oils to R35m (R26m), while fishing raised its contribution 7% to R16m Pelagic fishing was tough in the first half of the 1992 year as quotas were cut once again, though recently they have been increased Wrighton says investment in new plant at edible oils has paid off, indicated by the 35% hike in trading profit

Referring to possible joint ventures with global operators, Wrighton believes it unlikely anyone will move into the local market before an interim government is in place State legislation now penalises US companies from setting up ventures in SA ahead of an interim government.

Metro's earnings are expected to surge this year And, as they will be included in Premier's results for the full year, analysts predict real EPS growth despite the drought and political uncertainties. On the other hand, both basic foods and pharmaceuticals are politically sensitive areas, possibly restricting longer-term margin growth

The rerating of the share since the restructuring in 1989 has been striking At R42, the p.e is 16,95 and the yield 2% That compares with Tiger's p e of 20,18 and 1,7% yield, so the latter still trades at a premium, but the gap could continue to narrow. *William Gilfillan*

STRATEGY WORKING

Year to	Mar 31 '91	Apr 30 '92	† '92
Turnover (Rm)	5 094	10 638	9 820
Operating income (Rm)	375	455	420
Attributable (Rm)	154	206	190
Earnings (c)	210	264	244
Dividends (c)	70	88	—

† Annualised

SAGE GROUP FM 19/6/92

Clearing the decks

The reconstruction of the Sage group has been a while in coming — having been held up by the formation of Absa — but, if all

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goes as planned, it will solve the structural problems and improve the value of the listed vehicle

That vehicle would be Sage Financial Services (SFS) rather than Sage Holdings SFS currently holds the major operating interests and the directors say it is most closely identified with the core activities in the life assurance and related fields

Chairman Louis Shill cites several other reasons for using SFS as a single listed vehicle It has a strong capital base, there is an "interesting" convertible preference share structure, the gap between the intrinsic value and the market value is the lowest among the group's companies And using Sage Holdings would probably have been impractical due to its gearing

Sage Holdings and Sage Property are to become unlisted subsidiaries of SFS, which will be renamed Sage Group Making SFS the central company was probably logical, considering the nature of the problems to be addressed (*FM* August 16 1991) The restructuring is expected to make it easier to dispose of much of the estimated R400m portfolio of noncore investments

Proceeds are to be used to substantially reduce or eliminate gearing The benefit would be felt in reduced financing costs and in that charges would no longer have to be carried by a holding company that relies largely on dividend receipts for its cash

For the group, high investment holding costs would be avoided and cash flow would improve The present structure is financially inefficient In the 1991 financial year, for example, Sage Holdings paid R17,2m in ordinary dividends, far more than the R4,9m earned that year at the company level — even though earnings of R29,5m were posted in the consolidated accounts

That illustrates how financial stringency was restraining cash at lower levels Borrowings in the top company absorbed what came up because most of the debt is in Sage Holdings, not in underlying operations

As a more liberal dividend policy will become possible, the 1992 results include an additional special dividend of 10c declared from accumulated reserves The total payout was increased 16,7% to 70c — up by 14,5% on undiluted EPS The R56m provision made earlier against the exposure in the US has been written off in full

Decks have thus been cleared Assets due to be sold have not been named but it seems that everything that does not fall into the core areas of life assurance and property could go

Heading noncore interests is the R300m-plus stake in Absa Shill says any changes here will not necessarily mean the end of

cont →

FOOD INDUSTRY REPORT

Between the cup and the lip

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The control boards have finally been targeted for some official censure

FM 19/6/92

About time, too The Board of Tariffs & Trade (BTT)'s long-awaited report on food pricing has prompted powerful calls for the abolition of the 22 control boards which administer various schemes in terms of the Marketing Act The boards are responsible for a huge quantum of food price inflation — despite having been created to smooth out wrinkles in the market (*Leaders* June 12)

Questions have also been raised about the need for a Marketing Act at all Freer imports of food products are mooted — and unnecessarily high health and hygiene standards have been pinpointed as another factor that pushes up costs

Reform won't happen easily

Firstly, this is a "preliminary" report, which the BTT calls a "discussion document" It will not be implemented immediately Food committee co-ordinator (and board deputy chairman) Helgaard Muller says the final report should surface only by September "at the earliest."

Meanwhile, deputy director-general of Agriculture Chris Blignaut is appointing a

Jacobs

Summers

committee of academics (mostly agricultural economists) to investigate the Act "We want them to start work by August 1 at the latest and to report within three months," he says So prices will go up for a while yet

The committee's brief will be to look at the "practical" side of changes to marketing schemes and regulations It will talk to the various boards and investigate the huge differences in the various marketing schemes administered under the Act These vary from

☐ Restrictive single-channel, fixed-price systems such as the wheat and maize schemes,

☐ Surplus removal floor-price schemes backed by producer levies, such as the heavily over-regulated meat scheme, to

☐ Fairly "liberal" operations such as the surplus removal sorghum scheme and the market-driven, highly successful export schemes administered by semi-privatised bodies like Unifruco (deciduous fruit) and the Citrus Exchange marketing co-operative

If this latter "practical" report is completed by November 1 and *if* it recommends amendments to the Marketing Act, earliest implementation would be during the 1993 parliamentary session Until then, another, yet-to-be-appointed board committee, heav-

Cont →

THIS WEEK'S *FM*

This week's issue of the *FM* has been delayed because of political events coinciding with our printing deadline.

P.T.O.

Keys calls top-level meeting on food prices

B/Day 23/6/92

(186)

SHARON WOOD

FINANCE Minister Derek Keys has called a top-level meeting in Pretoria this morning with leading food retailers and manufacturers to investigate soaring food prices

Private sector delegates attending the meeting include Pick 'n Pay food director Sean Summers, Premier CE Peter Wrighton, Tiger Oats executive director Hamish McBain and Shoprite/Checkers MD Whitey Basson Department of Trade and Industry director-general Stef Naude and Board on Tariffs and Trade (BTT) CEO Ruel Heyns will represent the public sector Central Statistical Service head Treurnicht du Toit is also expected to attend

The Finance Department and private sector representatives would not comment yesterday on the aim of the meeting

Sources said the meeting reflected Keys's serious attitude to inflation

The meeting would probably be used to discuss and decide on an agenda to combat spiralling food prices Summers said the Minister had called the meeting in reaction to the calls by Pick 'n Pay and Premier for a food price summit in August.

That meeting is scheduled to take place before the release of the full BTT food price investigation, expected in September

Meanwhile, Sapa reports that the SA Agricultural Union (SAAU) yesterday informed the BTT chairman in writing of its objection to the board's recently released discussion document on food prices

GERALD REILLY reports that SAAU president Boet Fourie said the report would be discussed urgently with the SAAU's affiliates at a commodity conference in Pretoria on Saturday

The SAAU has told the BTT that the discussion document's findings and recommendations either contradicated the information available or used it selectively Many important findings were ignored in the recommendations, it claims

The document was also strongly biased against statutory marketing arrangements and marketing boards

Royal Group sets its sweet sights on Mars

BDay 24/6/92.

MARCIA KLEIN (186)

WHILE the market was busy speculating that the Royal Group was about to conclude a major deal in Europe, Royal appeared to have set its sights on Mars

Sources said yesterday Royal Foods was busy clinching a joint venture agreement with the world's major confectionery manufacturer Mars, whose brands include Mars, Snickers, M & M and Milky Way

In terms of the deal, a manufacturing facility would be established locally, and this would enable Mars' products to be price competitive, a source said

The plant would be run by Royfood, but some of the manufacturing facilities would probably be provided by Mars Royfood would be responsible for distribution, and Mars would do all its own marketing using its worldwide advertising agency

An analyst said Mars would want a minimum turnover of R300m (at today's prices) within three to five years

He said Mars executives and marketing people had been coming to SA for the past two years, and had undertaken extensive research

A source said Mars believed its brand names, which were world leaders, could break into the top 10 brands in the SA market Snickers had been the largest brand in the US since 1973, and Mars, M & M and Milky Way were among the top 10 US brands

The deal involving Royal, Del Monte Europe and Amic is also believed to be nearing completion

In terms of the deal, Del Monte Europe would take over Royfood Thereafter, Royfood minorities would be made a cash offer of between 800c and 850c a share

It was believed that Royfood had agreed not to accept the offer The new company, which would be listed in London, would be called Del Monte Royal, a source said.

Food meeting 'a good start'

B/Day 24/6/92

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GERALD REILLY
and SHARON WOOD

PRETORIA — Leading food retailers and manufacturers met Finance Minister Derek Keys yesterday as part of an effort to get to the root of the dispute over food price inflation.

The meeting is seen as a preliminary to a conference on the issue to be held in August

Tiger Oats executive director Hamish McBain said yesterday's meeting was a sucessful start to a series of meetings seen by the industry and Keys as essential if the dispute over government's food price inflation figure was to be resolved

It was encouraging that the minister had no political axe to grind, McBain said

"Because of the initiative in calling yesterday's meeting, the logjam on interpreting food inflation figures is beginning to move Things are beginning to happen," he said.

Pick 'n Pay food director Sean Summers said Keys had intimated the food price issue was a matter for the private sector

Keys was concerned with inflation, but did not expect to give a direct input

The Finance Department would not comment on the meeting

Pick 'n Pay chairman Raymond Ackerman said of the food summit: "It will not be a talk shop, but will come up with a 10-point plan to bring down food prices"

One of the issues that would be addressed would be research into bringing in food imports at a cheaper price "At the moment they are coming in at a cheaper price, but we are paying a higher price," he said.

Tariffs on farmers' fertilisers and equipment and the commodity boards would also be discussed "The intention is to try and get goods to flow more easily with the employment of free market mechanisms," Ackerman said.

The summit would also look VAT and at inflation statistics, which were believed to be incorrect, he said

"Central Statistical Service head Treurnicht du Toit attended the meeting and was receptive to discussing changes with us," Ackerman said

However, Du Toit said he was not aware of any plans to investigate the validity of the consumer price index

"We are using standard, internationally accepted procedures and there are no problems with these," Du Toit said "You cannot compare apples and pears and that is what some private sector organisations are doing," he said

Board on Tariffs and Trade deputy-director Helgard Muller said the two major issues being looked at now by the BTT were the gap between the food price inflation estimate of Pick 'n Pay and other private sector organisations (14% to 15%) and the CSS's 28%

The other major issue was the impact of VAT on food price levels

STEPHANE BOTHMA reports that the Vat Coordinating Committee (VCC) would meet with Keys tomorrow to urgently ask for the zero rating of foods and the reduction and stabilisation of bread and maize prices, VCC chairman Bernie Fanaroff said yesterday

The VCC would also discuss the zero rating electricity and water, medicines and medical services, Fanaroff said in a statement

Beauty and the champ. Former World Boxing Organisation lightweight champion DINGAAN THOBELA and Miss South Africa 1989, MICHELLE BRUCE, added some colour at the launch of the 1992 Bread Week in Johannesburg.

Sales of good old bread slipping

Sowetan 25/6/92

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By PEARL MAJOLA

WHEN fresh it is crusty yet spongy, its smell says eat me, and indeed, as you spread butter it is irresistible and is very nutritious.

Sadly, good old bread is losing its appeal.

The probable reasons vary from the price hike since deregulation to misconceptions about its nutritional value.

One thing sure is sales are dropping.

However, the Wheat Board is prepared to stick it out with the traditional breakfast food.

Yesterday the second annual Bread Week began after a launch of the awareness campaign by the Board in Johannesburg last week.

"Whatever the reason, South Africans are simply not eating enough bread," said the Board's chief liaison officer, Mr Johan Erasmus.

"It is imperative, therefore, to reinforce the goodness perception of bread and to restore it to its rightful place as one of the important staple foods in the daily diet," he said.

Any of the following reasons, Erasmus said, could be the cause for the drop in sales:

- The unfavourable economic conditions.
- The fact that the bread price has risen between 35 and 45 percent since the introduction of deregulation in 1991
- Or people are simply eating less bread because of the general decline in disposable income.

A consumer competition with prizes worth R60 000 is just one of the innovative events developed by the Board as part of the awareness campaign

"A publicity campaign offers a platform from which bakers and millers can launch intensified campaigns in an effort to boost bread sales," Erasmus explained.

"There is no doubt that an ongoing promotional campaign, coupled with an increase in bread consumption, will enhance future wheat production. This in turn will place the industry on a much stronger footing, able to compete favourably with other products in the staple food market, particularly on price," he added.

Karla Faya Tucker, scheduled for execution at the Texas State Prison on Tuesday, uses sign language to perform a song at the prison recently. Tucker was convicted in the 1984 murder of a 26-year-old Houston man. If executed, she will be the first woman to be

Drought batters 70 000 jobs

By Sven Lünsche STAR 26/6/92 (186)

The devastating drought will severely dent economic growth this year and force 70 000 workers out of jobs in the agricultural and related sectors

Using econometric models, the Reserve Bank estimates in its latest Quarterly Bulletin that agricultural production could decline by 14 percent this year.

However, the Bank warns that the damage caused by the drought will not only be limited to the agricultural sector but extend to secondary food-processing industries and suppliers to the sector.

"A decline of 14 percent in agricultural production will lower the real GDP by about 1,8 percentage points, or roughly R4,55 billion, which represents a direct impact of one percentage point and an indirect impact of 0,8 percentage point."

Turning to the impact on employment, the Reserve Bank says that up to 50 000 jobs could be lost in the agricultural sector this year and up to 20 000 jobs in related sectors.

"Taking the farm labourers' dependants into account, up to 250 000 people will be forced to find another livelihood unless special assistance is made available to farmers"

The Bank calculates that inflation could be 0,8 percent higher because of lower production, although most food prices would probably rise faster. Meat prices tended to rise at a slower rate and could even decline, the Bank adds.

The drought will also have a adverse effect on the balance of payments as South Africa will be forced to import agricultural goods which it previously exported.

The Bank estimates that food valued at up to R500 million would have to be imported while the direct and indirect losses in export revenue could amount to R700 million — a net negative effect of R1,2 billion on the current account

● Mozambique is going through its worst drought in a century, the deputy head of the International Committee of the Red Cross relief division, Markus Dolder, said in Geneva yesterday.

Mr Dolder, returning from Maputo, said "We were shocked by some parts of the country where the population is subsisting on berries and roots because the entire food crop was lost"

The Star Africa News Service reports that the drought is forcing peasant families to abandon their homes in the Massinga district. The exodus could swell the numbers of refugees in cities

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FOOD PRICES

FM 26/6/92 (186)

A sharper spotlight

Finance Minister Derek Keys's call for a top-level meeting of food processors and retailers in Pretoria underlines the seriousness with which government now views the escalation of food prices

Keys's action follows last week's announcement by Agriculture Minister Kraai van Niekerk that a departmental "policy committee" would look into the future of the marketing boards Van Niekerk's committee will study, among other things, the findings of a committee chaired by Stellenbosch University professor Eckard Kassier which is investigating the future of the enabling Marketing Act Kassier says he is still awaiting his "written appointment" and, therefore, cannot comment

But the recent Board on Tariffs & Trade report on the food chain price mechanism (*Leaders* June 19) leaves little doubt that State interventionism has much to do with the problem

The Sunnyside Group deregulation lobby maintains that "there are over a thousand regulations governing the red meat industry The effect has been to severely curtail competition, add unnecessary links to the marketing process, increase consumer prices and reduce the availability and the per capita consumption of red meat"

Even attempts to deregulate the red meat industry have been criticised as disguised attempts at reregulation which would entrench producer control of the industry (*Business & Technology* June 12)

Sunnyside co-ordinator Gwynne Main maintains the statutory powers of control boards should be replaced with "contractual" powers and the boards should become "open, voluntary bodies"

McGregor's Online Information chairman Robin McGregor says the BTT food report falls far short of expectations "The report commences with the identification of the six main (food) chains chosen for special investigation — red meat, maize, dairy, vegetable, broiler and wheat But, instead of then tackling these chains individually and in detail, the report becomes vaguely academic and merely scratches the surface of potential problem areas"

McGregor says a proper investigation would include a look at

☐ Whether there is sufficient competition among the suppliers of farmers' inputs, whether farmers are competent, and whether inefficient farmers are being protected,

☐ The standard of distribution, storage and marketing of agricultural products and whether there are alternative channels which would provide a better price for farmers or a lower price for buyers,

☐ Whether there is vertical integration between processors, distributors, wholesalers and retailers which would allow prices "to be shuffled up or down the line,"

☐ What the packaging industry contributes to the price structure, and

☐ The efficiency of retailing

The BTT report provided a fairly comprehensive list of State interventions in agriculture which lead to a distorted food price chain

These include

☐ Low-interest funds channelled to fulltime *bona fide* farmers by the Land Bank which may have influenced "over-investment and over-production, resulting in suppressed farm commodity prices and farmers relying too heavily on debt while farm prices increased" This may also have "prevented farmers from diversifying into downstream processing and other value-added activities,"

☐ Land Bank and control board policies that stimulated the development of co-operatives, "some of which now enjoy virtual monopolies in the primary handling and distribution of selected farm commodities" And, where members are heavily reliant on seasonal credit from the Land Bank advanced through their co-operatives, "the freedom of individual farmers to buy from or sell to other parties may be inhibited,"

☐ The establishment of 22 agricultural control boards (in terms of the Marketing Act) "to intervene in one way or another in markets downstream of the farmer and to stabilise prices" They try to "mould the markets in which each commodity is traded by channelling it through appointed agents and/or by intervening with fixed prices, price supports or price pooling arrangements,"

☐ Giving statutory marketing powers to the SA Sugar Association and the KWV (wine) in terms of the Marketing Act or through separate Acts of parliament which allow them to restrict competition,

☐ Siting most multi-species abattoirs of the nationalised Abattoir Corp in consumption rather than production areas which could result in them "finding it difficult to compete in a completely free market,"

☐ Allowing SA's municipally-serviced fresh produce markets to operate under rules circumscribed by the Commission for Fresh Produce Agents, and

☐ Endorsing minimum health and hygiene standards imposed by the Department of Health and other statutory bodies which "may discriminate against smaller companies and individuals and effectively act as barriers to entry" ■

Union war could force plant to close

DIRK HARTFORD (186)

LANGEBERG Food's plant in Benoni, which employs 900 people, could close because of a war between the minority Inkatha-linked United Workers' Union of SA (Uwusa) and Cosatu's Food and Allied Workers' Union (Fawu)

The conflict — which has led to the killing of 10 Langeberg Food workers in less than a year — claimed another two lives yesterday BDay 26/6/92

A Fawu member and a bus driver were shot dead and four others wounded in an attack on the bus taking workers to the factory The attackers were in a minibus and fired AK-47s

Two weeks ago a Fawu shop steward was shot dead at the factory gate. He had been due to give evidence in a court case relating to the murder of five Fawu members in August last year

Later that day an Uwusa member was hacked to death in the factory, which has 750 Fawu members and 40 Uwusa members.

Langeberg MD Ray Brown declined to comment on the possible closure

He said management had been trying to solve the problem by getting the parties to sign an accord along the lines of the national peace accord.

Although the company dealt only with majority unions, Uwusa had approached Langeberg for recognition

Fawu assistant general secretary Mike Madlala said he had strong reservations about the peace accord as the "killings just carry on"

Meanwhile Anglovaal's Mooi River Textiles, which closed for three weeks after inter-union conflict involving Uwusa and Cosatu's SA Clothing and Textile Workers' Union, opened again this week with 90% attendance.

An Anglovaal spokesman said violence in and around the plant had increased dramatically after Uwusa began organising in early 1991 At that stage Sactwu was the majority union among the 1 100 weekly paid workers

In a series of incidents, workers were

☐ To Page 2

Union war

BDay 26/6/92 (186)

murdered inside and outside the plant. On one occasion gunmen in balaclavas walked into the company's canteen and sprayed it with AK-47 fire.

The spokesman said within a year the company, which had been profitable, was into a serious loss situation and anarchy reigned in the factory.

After the closure, representations were made by a range of organisations — including the unions — and individuals to reopen the factory as between 20 000 and 40 000 people in the area were directly dependent on wages earned there

Things were going well, the spokesman said. Uwusa was now the majority union in the plant.

Concern as Govt puts out tender for banned DDT

STAR 27/6/92 (186)

JULIENNE DU TOIT

THE Government has put out a tender for 213 tons of DDT insecticide, a banned substance in South Africa and most other countries.

Although it is banned, the banning notice makes provision for its use in malaria control, as long as it is not used outdoors where it can harm the environment.

But according to a recent thesis done through the University of Potchefstroom, it has been detected in the environment, and in the breast milk of mothers living in the areas sprayed.

Since the 1950s the insecticide, which stays in the food chain almost indefinitely and causes cancer and deaths in certain animals, has been used against malaria-carrying mosquitoes in South Africa.

It is sprayed in the mud huts of people living in northern Natal and KwaZulu and northern Natal by authorities linked to the Department of National Health. "DDT has never killed a single person," said Dr Edmund Hartwig, specialist scientist at the Department of National Health.

He said it was essential to use DDT because it was the best alternative and, if it was not used, the incidence of malaria would shoot up.

High levels in breast milk

But Dr Henk Bouwman at the University of Potchefstroom has just done research on DDT levels in humans and nature in KwaZulu, and has found very high levels in breast milk and babies' blood serum, and lower levels in the region's fish.

He acknowledged that no human had ever died of DDT poisoning since no one could ingest enough of it. And it did not cause cancer in humans

But it does cause liver damage in children and adults very similar to that caused by alcohol And the effects on babies, whose neurological functions are not fully developed, has not been studied.

DDT is used because it is cheap and because it breaks down extremely slowly. This is bad news for the environment, because it persists in the food chain and becomes more and more concentrated as it passes through the different animals, until there is a lethal dosage and predators start dying

According to Hartwig, DDT is the only substance effective in mud huts, because all other insecticides soak in, while DDT eventually crystallises out of the mud.

But new research, being done overseas and in Natal by the Medical Research Council, is showing that synthetic pyrethroids could be the answer.

Operation rooibos, beans and tomatoes (186)

By Justin Pearce SOUTH 27/6-1/7/92

AMID RUMOURS about the dumping of dairy products, Operation Hunger received a donation last week of 15 tons of rooibos tea, R240 000 worth of green beans and 49 728 tins of tomato paste.

Regional director Mrs Elna Trautmann said the donations were not basic foodstuffs, but the donors had set an example which other producers could heed.

The tea was donated by the Rooibos Tea Board, and tinned goods by Langeberg Foods.

Proponents of dumping claim that giving away surplus food decreases profits, and allows unscrupulous people to sell the food for their own gain.

Trautmann said the recent donations demonstrated that giving away surplus food need not upset the market.

"The people we are feeding are too poor to cause an imbalance in any market. These people are so desperate they will definitely drink the milk and not sell it."

Part of the foodstuffs was distributed from a depot in Philippi to 136 community oranisations The rest will be delivered to organisations in the Western Cape, Southern Cape and Namaqualand.

Happy hybrid of the Kudu-Impala mating

S/Times 28/6/92 (BUSS)

PROSPECTS for the hybrid born of the corporate marriage of Kudu to Impala look better than they would have been if the granite companies had continued to go it alone

A shake-out in the hard-rock business has been inevitable since Gencor paid a fortune for rights to Pioneer in Transkei This led to a deal with leading producer Keeley

That union perhaps stirred Anglo American into action in the growing business of granite production. It holds 35% of German group Destag, owner of unlisted Impala Granite

Listed Kudu, which according to managing director Peet du Toit is bigger than Impala in terms of production but not in reserves, has effectively been merged with Impala in a deal at 65c a share The deal leaves Kudu controlling shareholders with 34% of the enlarged Kudu Destag with 50% and Kudu's minority with the rest.

Keeley and Kudu account for 85% of SA's granite output. They and most other producers belong to the recently formed SA Granite Association (Saga) which is funded by levies

'Saga s aim is to increase SA s 13% share of the world's granite market," says Mr Du Toit. Promotion of materials, perhaps to leading architects, will be undertaken

Another of its less widely publicised objectives is to arrange co operation between producers on pricing Almost every other granite-producing country issues price lists and producers are allowed to discount — within bounds.

PEET DU TOIT Everybody in Europe wants granite in the kitchen

Mr Du Toit says SA producers have taken a beating in the past 18 months A price war in this long recession has been the biggest problem.

SA exports grew from 590 000 tons of stone in 1989 to 650 000 last year, but revenue has fallen sharply So have granite share prices

Mr Du Toit says Saga is not about price fixing "There won't be huge export growth this year, but we expect to maintain our market share in a much more profitable way"

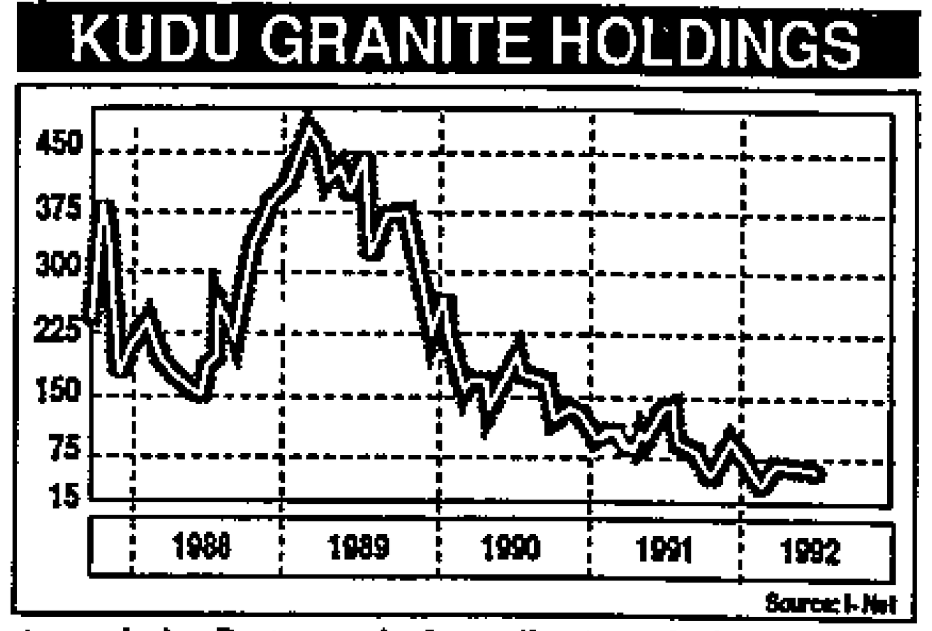
Both Kudu and Impala are large producers of classic Rustenburg grey material and of complementary grades. Kudu quarries light and medium, whereas Impala sells dark and super-dark for which Far-Eastern demand is strong

"Impala's eastern connections open up a new market for our other materials."

Impala has much larger reserves than does Kudu, and one of the spin-offs of the marriage is the likely first bite at any granite deposits uncovered on Anglo American s extensive properties

The market for coloured stones is booming

"Everybody in Europe wants granite kitchens and furniture," says Mr Du Toit from behind his polished grey stone desk. Destag, which started life as a tombstone maker 100 years ago, operates in several countries beyond the batch in Southern Africa. Its distribution system will help Kudu by making available more samples and material at stone masons depositories around the world



Destag has a 16% interest in a Zimbabwean black granite deposit Zimbabwean stone has spoiled things for SA s Belfast black operations The Zimbabwean stone can be extracted in huge blocks, something the Belfast deposits do not allow Belfast used to be high-value stone, but has lost some of its edge.

Impala's proximity to the Aurora deposit of platinum-black stone could bring forward its reopening Kudu paid R9 million for the abortive entrant to the market, only to close it at no return.

Incidentally Impala allegedly turned down the undeveloped Aurora deposit at R250 000

Impala's Anglo American link has given rise to the use of geologists on its quarries They have improved the mapping and planning operations and hence extraction efficiencies.

"On Rustenburg deposits you need high volume to compete — it s like a supermarket," says Mr Du Toit.

Impala chief executive Volker Schultz is to manage the Southern African operations and Mr Du Toit will handle the domestic business

Kudu's boss believes the deal is good for shareholders. The price will not move much above 65c until the marriage is consummated and the product shows its worth. But the downside is strictly limited.

Last laugh for Premier

S/Times (BUSS) 28/6/92 (186)

WHEN Premier Group chairman Peter Wrighton heard the stunning words 'Heinz? What s that? from an employee, he realised that international brand names do not necessarily mean much to South Africans.

'Sure, we had lunch with Tony O Reilly (the Heinz boss) when he was last here But we are interested in a deal only if there s enough in it for us"

He also admits to talks with the international Kraft General Foods, but describes the matter as sensitive

Mr Wrighton and deputy chairman Gordon Utian gave a presentation to the Investment Analysts Society in Johannesburg on Monday — 11 months to the day after 1991's talk at which the rationale for the Metcash takeover was first aired

There was a view that Premier had bitten off more than it could chew in tackling the struggling mixed bag of retail and wholesale operations in Metcash. However, Premier has had the last laugh

In the 13 months to April this year, the group's turnover nearly doubled to R10,6-billion. Distribution accounted for R4 billion and food R3-billion pharmaceuticals and retail each topping R1,2-billion.

Mr Wrighton underlines the importance of distribution. The group has 40 warehouses, 200 Metro outlets and more than 1 000 operations served by 48 000 employees

Brands and margin are the focal points. Premier aims to provide real growth in earnings of 5% a year over five years. In the past five years it achieved a compound return of 29% against inflation's 15%

The highlights of 1992 were lower gearing arising from sales of underperformers in food, elimination of debt in Twins pharmaceuticals and cash generation through tighter controls in Metro Interest was well down as a result.

Mr Wrighton advises against underestimating the value of industrial peace in a strife-torn nation

'We have had virtually no work stoppages apart from community action since introducing participative and other progressive human resource practices

Although the drought will have a devastating effect on the country Mr Wrighton does not expect Premier to be too badly affected

Imported grain ought to be landed at lower cost than normally paid for SA purchases Provided that the State's cut on resale is not too high Premier will benefit from the imports.

Because of resistance to yellow-maize products, a shift to bread, of which the group is the nation s largest supplier is expected.

Poverty-relief boxes of staples are being distributed through Premier s infrastructure in a venture involving the Food and Allied Workers Union It is also a job creation scheme.

Mr Wrighton estimates the rate of food inflation in the coming year at between 12% and 20% far lower than other commentators forecast.

The profit margin in Premier Foods is only 6,1% — hardly the stuff inflation figures are made of

Mr Wrighton responded cryptically to a question from an Afrikaans stockbroker about whether Premier would give or sell equity to black organisations and dilute the interests of existing shareholders

PETER WRIGHTON Heinz lunch

"I personally believe that SA has, perhaps unfortunately, not seen an act of business statesmanship since Harry Oppenheimer made General Mining available to Sanlam to allow Afrikaners into the mainstream of SA business"

The liberal leaning Premier promotes on merit and has significant numbers of blacks in management. The equivalent of 8% of attributable income was spent on training advancement and the community last year

The shares are R41,50, R4 off their peak of three weeks ago, but are holding up in a rickety market. Prospects look attractive, given a certain economic stability

DIAGONAL STREET by Julie Walker

Pep-up for Checkers

S/Times (BUSS) 28/6/92

PEP chairman Christo Wiese prefers to look at the group's takeover of Checkers from the point of view of 145 good leases — not the 25 bad ones.

Mr Wiese says everybody knows about the five really bad ones — at Rosebank (Johannesburg), the Atrium and Galleria in Cape Town, Brickhill Road (Durban) and Brackenfell (Cape). Another 20 are poor

Pep's takeover of Checkers holding company Tradegro from Sankorp depended on the Brackenfell lease being bought off

Managing director Whitey Basson says that not only did Pep buy demoralised management, Checkers had an even more demoralised major shareholder Overheads were out of control, and the agreements with trade unions among the most onerous in the business.

On the plus side, Pep bought 145 stores with historically good leases in prime areas.

Checkers has excellent administrative systems, a reasonable shrinkage record and, most of all, R3,5-billion of turnover

Mr Basson says Pep bought Shoprite in 1979 for R1-million when its sales were R11-million and pre-tax profit R600 000 Shoprite's sales now top R1 billion and profit R23-million.

Two years ago Pep bought Grand Bazaars, which although ailing initially, achieved record results in the year to February 1992. These two successes have equipped Pep with the tools to turn Checkers to right.

The Checkers-Shoprite joint advertising venture will save R30-million. Once the recall factor of the Checkers brand name with Shoprite is impregnated, at least 40 Checkers shops will be converted to Shoprite

Where this has been implemented, store turnover has grown by 40% Staff morale has improved and Mr Basson is confident that the trade unions will help in restoring profitability

Mr Wiese hopes Checkers will make a small profit this year It should make a satisfactory contribution to group profits by 1994. He says Pepkor would not have bought Checkers from Sankorp if it did not believe it had the skills to turn it around.

No easy gateway to Africa for SA

[redacted] (186) C/Pres 28/6/92

MONEY TALK

GLIB talk by local and overseas politicians that South Africa is to become the economic engine which will pull Africa out of its present economic depression, is gradually being tested in the real world of business.

The results are disheartening.

Political turmoil, a lack of infrastructure and systems – ranging from government departments to road and railway systems that simply don't work – are frustrating efforts by SA businessmen to increase trade in Africa.

Nonetheless trade with the rest of Africa has risen by 150% since 1987.

Top company Premier Group – South Africa's second largest food group with substantial pharmaceutical interests – says it is experiencing great difficulties in doing business with Africa now that sanctions are disappearing.

Political unrest, in many instances caused by efforts to get rid of dictators, are causing instability which often makes economic growth impossible.

Premier deputy chief executive Gordon Utian says that the whole industrial cycle in Africa is not working "One has got to be very, very careful about us being the engine of Africa. Africa needs investment more than trade."

Premier has suffered massive losses in central Africa in recent times as a result of political disturbances. In Malawi 15 wholesale stores owned by Premier were looted of about R1,5-million in goods stolen recently, while in Zaire its large wholesale cash-and-carry operation in the capital Kinshasa was razed to the ground after being looted. In Lubumbashi Premier's retail network was looted during an uprising against the Mobutu government.

In Mozambique difficulties occurred after a reshuffle of government officials. Preferential tariffs which were negotiated between Premier and the previous officials were simply scrapped by the newcomers.

Utian said in Angola serious problems were encountered because of a "lack of infrastructure, of an ability to get something done, people on the ground, systems and operations that work – it's just not there"

An "enormous amount of bribery" added to the difficulties.

Utian hoped that future aid from donor countries and the World Bank would be channelled through South Africa. An investment chain could then be started up into Africa.

"We are going to have to invest in Africa if Africa is to return to normality," he claims

(186) CT 29/6/92

Skin disease in canning industry

Staff Reporter

MANY canning-factory workers in the Western Cape are suffering from chronic skin diseases, says a report in the latest edition of the South African Medical Journal (SAMJ).

The leading Cape Town doctors who wrote the report state that skin diseases are an important cause of absenteeism and loss of productivity in the industry.

The survey revealed that there was strong evidence that the main cause of skin disorders in the industry was chronic exposure to the mild alkali solutions on the canning lines.

The Food Workers' Medical Benefit Fund and the Industrial Health Research Group undertook a study of dermatitis among 686 woman workers in a canning factory in the Western Cape.

The study demonstrated the presence of dermatoses — an inflamation of the skin — as an occupation-related hazard in a canning-factory workforce.

In addition, the subjects indicated that these skin diseases are chronic, recurrent and very distressing. A fairly large proportion of workers rely on self-bought medication for treatment, presumably as a result of inadequacy or unavailability of existing forms of treatment, the survey found.

Dr L B Krause said yesterday evidence suggested that the main cause of skin disorders in the industry was chronic exposure to mild alkali solutions. Prevention and treatment of skin diseases would have to focus on the correct use of protective equipment in which the use of gloves was crucial.

'No collusion on bread'

PRETORIA — The Competition Board said yesterday it could not find any indication of price collusion between bakeries when bread prices rose early in June

The board had decided to investigate the issue after reports of possible price collusion. BDay 1/7/92

Referring to "misleading advertising", the board said that soon after the bread price rise was announced, advertisements in the daily press indicated a certain chain store would absorb the increase itself for as long as possible

The increase was in fact borne not by the chain but by the bakeries, the board said.

Prior to deregulation of the baking industry, the profit margin on a loaf was fixed at 4c.

"Retailers have now increased this margin, and margins of 20% to 25% are believed to be commonplace," the board said in a statement.

It was alleged that bread distributed in distant areas, including townships — particularly at weekends — sold for up to R2,50 a loaf. — Sapa.

(186) FM 3/7/92

RAY BROWN (186) FM 3/7/92

Tiger at Langeberg

Most businessmen dream of having almost no competition but in reality it's not such an enviable position Ask Ray Brown, MD of Tiger's newly listed canning operation, Langeberg Apart from successfully running the business, he sees his greatest challenge as "keeping the guys in a competitive mode when there's no significant competition "

Complacency, he says, is a threat that needs to be guarded against at all times Langeberg dominates the local canning sector even though 85% of its canned fruit is exported

The company started as a farmers' co-operative in 1940 and remained largely unchanged until 1988 when the need for a large capital injection brought in Tiger as a majority partner Two years later, Brown (48), who headed Tiger's group trade marketing, rice and sorghum divisions based in Johannesburg, was sent to Cape Town to take over Langeberg and turn it around The goal, set in 1988, was to go for a listing by June 1992

Though Brown has settled in well, he admits the different culture at Langeberg, compared with Tiger's head office, took some getting used to

Langeberg was — and remains — a co-operative that must look after the interests of its members, some of whom were not so keen on the changes that have taken place over the past few years Brown's toughest task on arrival two years ago was to shift the Langeberg culture to a more customer-focused business based on service quality and profit

At the same time, the interests of the farmers had to be catered for Brown says the farmers have been receptive to change and considerable success has been achieved "Everyone benefits from a successful company, even those who may have objected to Langeberg taking the private enterprise route They have also become wealthy through their shares and dividends "

Brown is now concentrating on the future The lifting of sanctions has opened new export opportunities, but many cannot be exploited right away simply because there is no fruit available A major challenge is to increase production

Brown's entry into the fruit industry is not entirely alien Much of his career has been spent in agriculture-related businesses within the Tiger group

He was born in Port Elizabeth, matriculated at Pearson High School and was awarded his CTA after studying at the University of PE After qualifying as a CA he worked in London as a management consultant with Price Waterhouse To relax, he plays golf and tennis Every Christmas he heads back to his roots in the eastern Cape for a holiday at Morgan Bay "That's when I indulge myself and forget about business " ■

Brown *in competitive mode*

Boland aims to strengthen capital base

LINDA ENSOR

CAPE TOWN — Boland Bank aims to strengthen its capital base by creating 200-million redeemable cumulative non-participating par value preference shares which will be issued at intervals as determined by the bank's capital needs.

In the bank's annual report, released yesterday, chairman Pietman Hugo said the proposal to increase the authorised share capital would be submitted to shareholders at the July 23 AGM.

He said the bank's capital base needed strengthening to comply with the phasing-in requirements of the Deposit Taking Institutions Act. Boland would focus on consolidation and credit risk management in the current financial year Last year, earnings increased to 141,3c (126,4c) due mainly to substantial increases in commercial banking, commission services and treasury incomes These services were expanded to offset the limitation of financing growth to 6%

Emphasis was given to promoting cheque accounts and broadening the bank's electronic card base

Drastic measures were taken to manage risk. Hugo said there had been a sharp increase in bad debts last year

The bank's total assets at the last year-end amounted to R3,5bn (R3,3bn)

Hugo said SA's short term economic growth prospects were unfavourable

Rainbow forecasts strong performance improvement

BIDay 3/7/92 (186)

MARCIA KLEIN

RAINBOW Chicken had a bad year to end-March, but has forecast a strong improvement in earnings in financial 1993

Rainbow, SA's major chicken producer, reported a 12% drop in earnings to R48,5m to end-March on the back of overproduction and poor economic conditions

MD John Geoghegan said in the annual report that selling prices were particularly low in the first and last quarters

In spite of the results, the newly acquired Bonny Bird had turned around from a R13,2m loss in 1991 to a R17m profit in 1992 Geoghegan said that Rainbow had excellent resources, a sound financial structure and a clearly focused strategic direction, and its earnings should show a strong improvement in the coming year

Geoghegan said the past year had been extremely difficult, and Rainbow had the additional task of managing its acquisitions — Bonny Bird Farms and Epol It also bought the remaining 50% of Hyflite Breeders for R6,75m cash

There had been little volume growth due to the recession, the drought and the introduction of VAT on Rainbow's products, which were previously exempt from GST

Overproduction and a low level of demand resulted in significant sales promotions While volume growth in the fast food and major retail chains sectors had been strong, volumes were reduced in the mining contract, small retail and other outlets

Geoghegan expected the selling prices of chicken to be low in the first quarter while excess stocks were being depleted But there would be a significant recovery in the second half "due to the balancing of supply and demand for poultry products and a rising meat price"

The rationalisation of Bonny Bird and the commissioning of the new Rustenburg feedmill would also make a contribution to earnings In this light, he has forecast a strong improvement in earnings

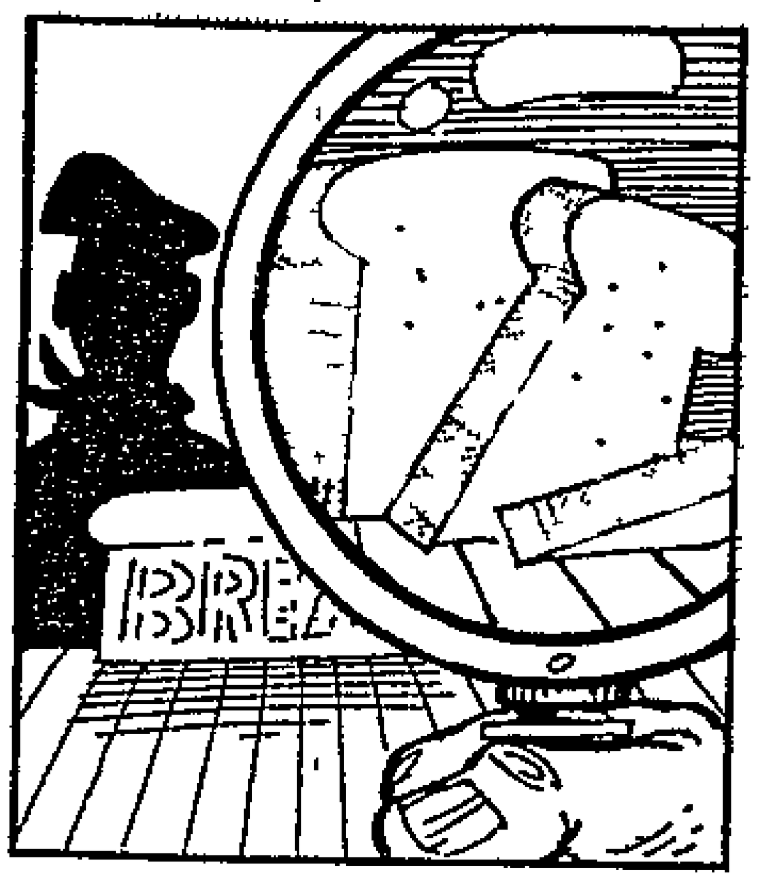
Geoghegan said improved mortality, feed conversion and body mass in Bonny Bird had contributed to keeping the cost of production increase to less than 10% for the year

Geoghegan said reduced demand and margins in the animal feed industry had led to the closure of certain Epol competitors To accomodate future demand, Epol had expanded one factory and built a new plant Geoghegan expected little growth in sales volumes and a marginal improvement in earnings in this division

Which side of bakers' bread is buttered?

(186)

w/ Mail 3/7-9/7/92



The Competition Board has cleared the baking industry of collusion on bread-price rises. Whether its conclusion is correct or not, the report has huge holes, argues **REG RUMNEY**

3/7-9/7/92

"People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices"
- Adam Smith, Wealth of Nations

During the course of its investigation into bread-price increases, the Competition Board discovered no evidence of collusion by bakers

Cynical industry-watchers will not be surprised. the board has investigated a number of industries over the years with little result

After probing the country's quite open cement cartel some years ago, for instance, the board decided to leave it alone. The acquisition of Bonny Bird by Rainbow Chickens gave Rainbow 58 percent of the broiler market, but this was okayed by the board. In each case, the board had cogent reasons for not being able to act.

It did recommend that the acquisition of hosiery company Arwa by the FSI group should not go ahead as this would result in a monopoly, but it was overruled by the government.

The surprise that greeted those decisions is bound to be repeated. Pick 'n Pay's food director, Sean Summers, asks how the board reached its conclusion on the baking industry when three suppliers to his group raise their bread prices by exactly the same amount on the same day.

In terms of the narrow legalistic approach the board is constrained to follow, it is probably quite correct· there is no proof of collusion among bakers to set bread prices

Board chairman Pierre Brooks explains that the investigation was initiated with the idea of getting hard evidence of collusion to present to the attorney general for criminal prosecution. "That didn't materialise," he says

Nevertheless, what the board did discover during its investigation makes disturbing reading

It found that 228 bakeries, including the big groups, belong to the Chamber of Baking. The chamber, among other functions, has a costing committee which calculates each year the average production cost of a standard loaf of bread, based on the actual cost of a representative number of bakeries The calculation, according to the board, provides members with a standard against which they can compare their own results

"The role of the cost determination by the chamber in the decision-making process of the baking groups is not decisive or important in the determination of selling prices. Bakeries mentioned that this cost is calculated on a national basis and that it is regarded as 'interesting' by them," states the report

The board also found that five groups dominate the baking business Three of them — Premier Milling, Tiger Foods and Sasko — each hold about 25 percent of the bread market All are vertically integrated: they mill flour as well as baking and distributing the bread

This economic concentration, vertical integration and information sharing lead to suspicions of the kind of "conspiracy against the public" quoted from Adam Smith, the father of free-market economics, at the beginning of this article.

How, then, did the Competition Board come to the conclusion that there was no price collusion among bakers?

Well, says Brooks, the board concluded that if there had been collusion, bakers would have been able to raise their prices much more than they did. There is no evidence, he says, that they are making exorbitant profits, on the contrary, their margins are being squeezed by the supermarkets which, for a one cent price difference, send business to a competing baker.

Brooks adds, however that the board will be taking a closer look at the way the Chamber of Baking determines costs

The report asserts that since the deregulation of the bread industry, the profit margin of the retailers, which used to be set at four cents a loaf, has risen and "alleged margins of 20 percent to 25 percent are believed to be commonplace" But Pick 'n Pay's Summers flatly denies this "We still make two cents a loaf — maximum," he says, adding that often supermarkets sell at cost or below

More damaging to the board's case is Summers' assertion that 80 percent of bread is not sold through supermarkets but by corner cafes and small shops The report confirms this "The estimated share of the chain stores in the total bread market amounts to between 15 percent and 20 percent on a national basis, and is higher if only urban areas are taken as a basis"

Despite noting that the chain stores have only up to 20 percent of the market. the report goes on. "Chain stores therefore fulfil an important role in the marketing of bread and are *apparently* in a position to force bakeries to act in a certain way" (The italics are mine nowhere in the report is there an explanation of how the chain stores put pressure on the three major bakers which, with around 75 percent of the market, should have much bigger clout)

It is true that, as the board notes, the miller-bakers' two big input costs, fuel and wheat, are the same for all bakers The fuel price is set by the government, the wheat price by the Wheat Board Agricultural boards were recently identified by the Board of Tariffs and Trade's study of food prices as a hindrance to the operation of the market; this is a good example of how a control board can influence pricing further along the chain of distribution

Moreover, Brooks is correct to point out that profits alone do not indicate exploitation and that financial indicators such as return on assets also need to be looked at The board, says Brooks, has employed a chartered account to do these exercises

The phrasing of the conclusion of the report is interesting "Deregulation of the bread industry took place about a year ago and has resulted in a competitive market On the one hand there is a number of large suppliers, none of whom dominates the market, and on the other hand a number of large buyers that exert pressure on suppliers regarding prices and terms. This will not ipso facto prevent collusion among the suppliers. However, based on this investigation, it would appear that there was no collusion on the latest price increase"

So, at the same time the market is competitive and collusion is possible And the remark that no supplier dominates the market does not negate the possibility that acting together the big suppliers might dominate the market, which amounts to the same thing

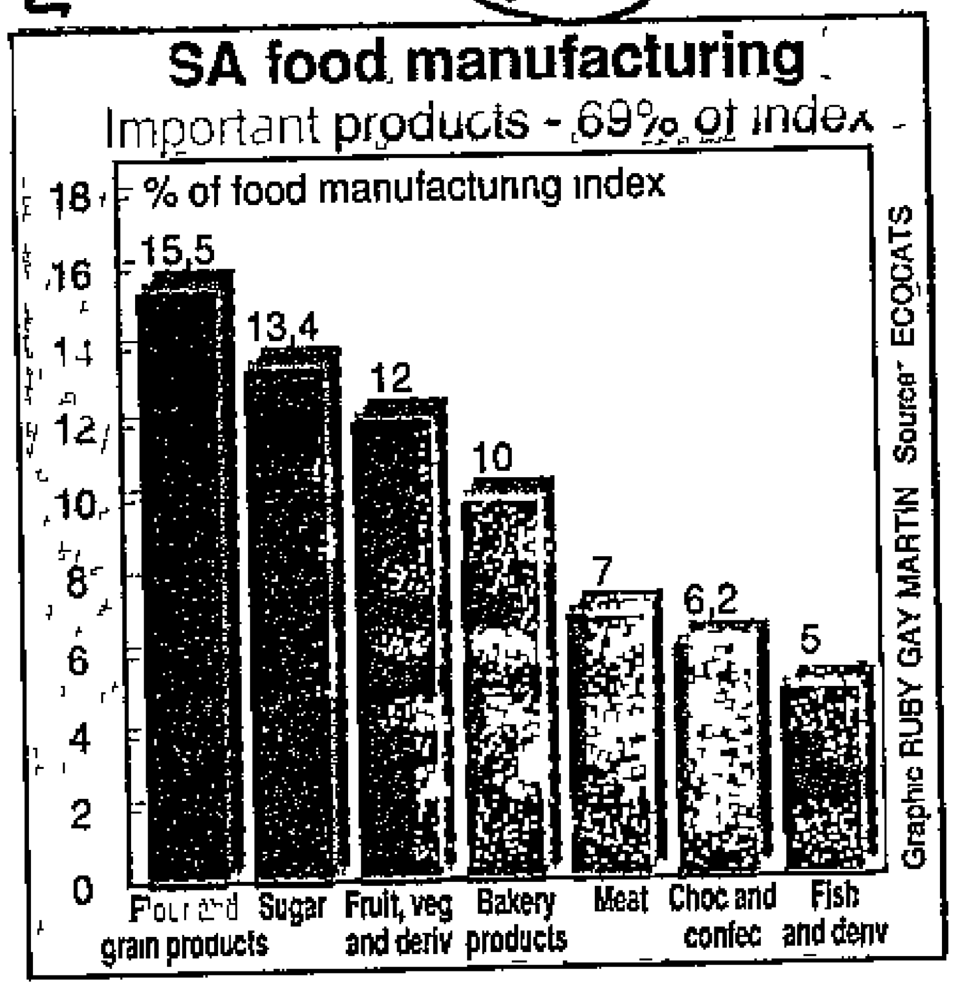
In 1986, Stef Naude, then chairman of the Competition Board, promised that the government would come down hard on collusive practices Among those mentioned as being in the board's "firing line" were the liquor, baking, building, cement, chemical, elevator, engineering, flour, paint, newspaper, cigarette and travel industries

Six years and numerous reports later, the silence resounds. Either Naude was wrong or there is something wrong with the mechanisms for finding and acting against practices that impair the efficiency of the free market

Food industry likely to outperform indices

B Day 6/7/92 (186)

MARCIA KLEIN



SA's food industry, worth about R20bn a year in retail sales, would continue to outperform the overall and industrial indices, Frankel Max Pollack Vinderine analyst Teigue Payne said in a food sector report

According to the report, agricultural production of food was worth about R20bn, exports were worth R4,5bn and imports R1,7bn, although maize imports following the drought could double this figure

By value, blacks accounted for about 44% of total food consumption

Food manufacturers had reported that overall food sales had hardly grown in 1991 While sales of staples had been reasonably firm, sales of many value-added products had dropped by as much as 10%, reflecting the recessionary conditions and the tendency to buy down

While consumption growth of many value-added food products was negative due to lack of economic growth, there would be a broader trend towards value added foods in the future

Payne said that in the 1980s, food manufacturing grew faster than GDP but slower than the population growth In future, food consumption would be underpinned by population growth, urbanisation and redistribution

SA's political future would be a key determinant in food consumption, and manufactured food growth could be expected to average between 2% and 4%, he said

High inflation in consumer prices of food remained a major problem Payne said a major cause could be too many food outlets of large retail chains in white areas, and this had led to much lower real sales per square metre In terms of manufacturing, price competition was difficult given the domination of most staples markets by a few companies

He said although food shares had recently reached high levels, there would be a further upward movement in the short and medium terms

Drought casts a shadow over food and timber group

B/Day 6/7/92 (186)

MARCIA KLEIN

FOOD and timber group Hunt Leuchars & Hepburn (HL & H) expected to achieve earnings growth in financial 1993, but directors warned shareholders of the drought's severe effects on its various investments.

Chairman Dave Marlow and CE Neil Morris said in the Rembrandt-controlled group's annual review that SA's political and economic climate had not been conducive to maximising corporate returns. Against this background, HL & H's 1% growth in attributable income to R118,6m on an 18% turnover rise to R693,7m in the year to end-March was "reasonable"

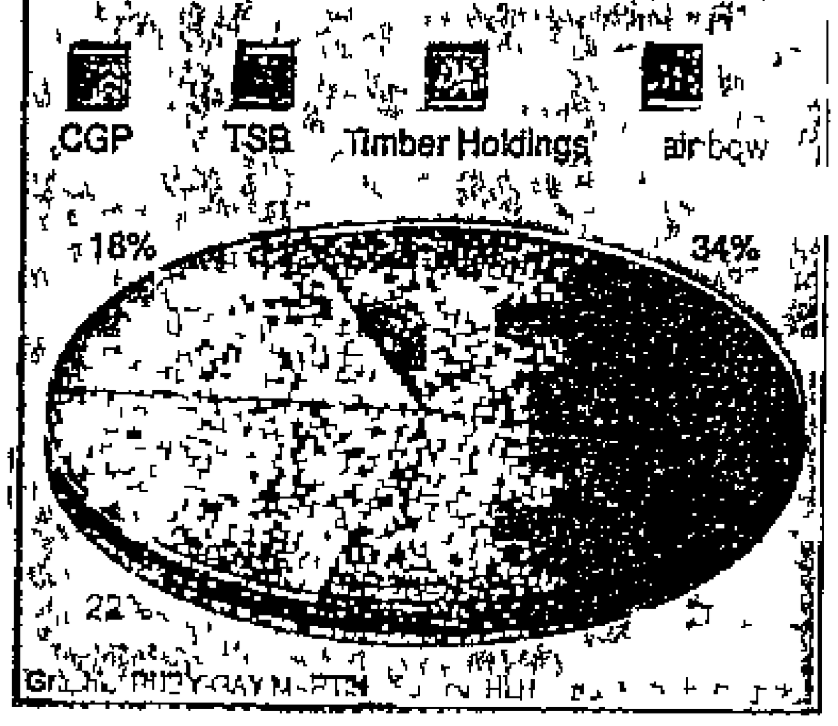
They said significant developments had taken place in the group's portfolio over the year, and this had laid the foundation for growth

HL & H had increased its investment in Rainbow Chicken from 25% to 40,3%. It formed SilvaCel to focus on exporting chipped timber

Robertsons continued to expand its core business, made acquisitions and focused on its international links, and Transvaal Sugar (TSB) obtained the right to construct a new sugar mill

Directors said the performance of

Hunt Leuchars and Hepburn
% contribution to attributable income



the group's companies and latest developments would position it strongly locally and internationally

They said HL & H did not expect any significant economic recovery, and foreign investment was likely to be modest until greater political certainty was achieved, so the next year would be one of slow recovery

Earnings would increase but the group was concerned about the effect of the drought on many operations

The CGP Investments division, trading as Robertsons, had shown real earnings growth in "its strongest performance to date" The division had shown an annual compound sales growth of more than 25% over the past three years Exports to southern and central Africa would grow substantially in 1993

The division had acquired Trimpak for R3,1m and Fedfood's atchar activities for R7,2m, giving it a major share of the atchar market

TSB had performed well in spite of pressure on international sugar prices and the drought

Once TSB's new mill was in production, it would produce almost 16% of SA's sugar

HL & H Timber Holdings had been affected by depressed conditions in the mining and construction industries, and it produced its first earnings decline in more than a decade

HL & H Mining Timber showed earnings growth (at a lower level), but the performance of softwood operation HL & H Timber Processors was "most disappointing", they said

The division had invested significantly on developing its raw material resources The first project arising from this strategy was SilvaCel, which would produce chipped timber fibre for export This operation would represent a quarter of the group's total assets and could contribute significantly to future earnings

Strikers stage sleep-in at I & J's canteen

Striking Irvin and Johnson factory workers in Springs have been sleeping-in at the company canteen since last Monday after a demand for a 30 percent across-the-board increase was refused. STAR 9/7/92

Food and Allied Workers' Union spokesman Clifford Mdlalo said the sleep-in would continue until worker demands were met (186)

Mr Mdlalo said a conciliation board had failed to resolve the dispute

Irvin and Johnson personnel manager Hank de Beer said the company had offered the strikers a 15,5 percent wage increase against their demands for a 26,3 percent rise

"The present situation is that the union and the company have resumed negotiations on wages," Mr de Beer said — East Rand Bureau

TONGAAT-HULETT FM 17/7/92.

Taking the initiative (186)

Activities: *Manufactures a diverse range of goods, namely sugar, building materials, foods, aluminium, textiles, starch and sweeteners*
Control: *Amic 22,9%, Anglo American 20,4%*
Chairman: *C J Saunders, MD C M L Savage*
Capital structure: *75m ords Market capitalisation R1,63bn*
Share market: *Price 2 175c Yields 3,4% on dividend, 9,2% on earnings, p e ratio 10,8, cover, 2,7 12-month high, 2 450c, low, 1 675c Trading volume last quarter, 1,7m shares*

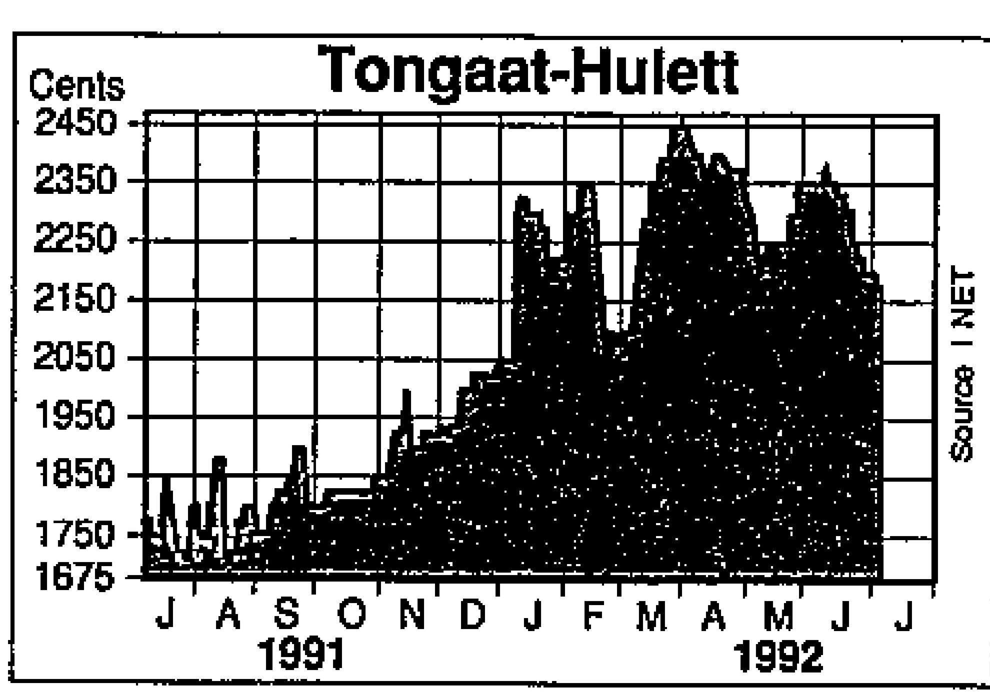
Year to Mar 31	**'89**	**'90**	**'91**	**'92**
ST debt (Rm)	56,7	87,5	105	57,7
LT debt (Rm)	121	238	272	203
Debt equity ratio	0,11	0,20	0,22	0 13
Shareholders interest	0,64	0,61	0,59	0,61
Int & leasing cover	4,4	3,9	2,8	0,7
Return on cap (%)	14,0	14,1	11,1	9,8
Turnover (Rm)	3,16	3,71	3,80	3,97
Pre-int profit (Rm)	328	374	317	281
Pre-int margin (%)	10,4	10,1	8,4	7,4
Earnings (c)	214,3	236,6	190,6	200,7
Dividends (c)	71	79	73	73
Net worth (c)	1 998	2 133	2 261	2 312

The cyclical nature of Tongaat-Hulett's diversified, consumer-orientated divisions has largely been the cause of its uneven earnings since the merger which formed the Natal-based group 10 years ago This see-saw effect is behind the pedestrian 5,3% increase in earnings to end-March, with contributions from three of the six divisions up, two down and one about level (see graph)

Management is well aware of this problem What has changed, especially since Cedric Savage took the driving seat as group MD, is a move towards more active asset management and a focus on squeezing out better returns — or disposing of underperformers

The sale of denim producer Hebox Textiles late last year, resulting in an extraordinary loss of R74,8m, was the first big step in Tongaat-Hulett's programme of refocusing its business mix More could come, with chairman Chris Saunders warning that "additional disposals of operations, which are underperforming or peripheral to our core activities, are likely"

This is one of four broad strategies to improve group profitability and it comes after internal assessments and an analysis by US-based Quantum Associates Saunders says the group will also reinvest in its core



Tongaat-Hulett's Saunders
additional disposals are likely

activities Besides increased capital spending (R167m for the coming year, compared to financial 1992's R93m), this includes possible acquisitions

At this stage, neither Saunders nor Savage is giving any details on future acquisitions or disposals, except to say they are possible But it's not hard to guess that potential disposals could be in foods, building materials and possibly textiles, while the stalwart sugar division, starch and sweeteners, and aluminium will get the lion's share of spending

The other two strategies are further reductions in costs, with the axe likely to fall on the foods, building materials and textiles divisions, and what Saunders calls unlocking asset values

The last could be significant Tongaat-Hulett owns more than 50 000 ha in Natal, some close to prime residential areas The property development arm, Moreland Estates Ltd, added R3,2m to the bottom line from the development and sale of 11 ha at Umhlanga

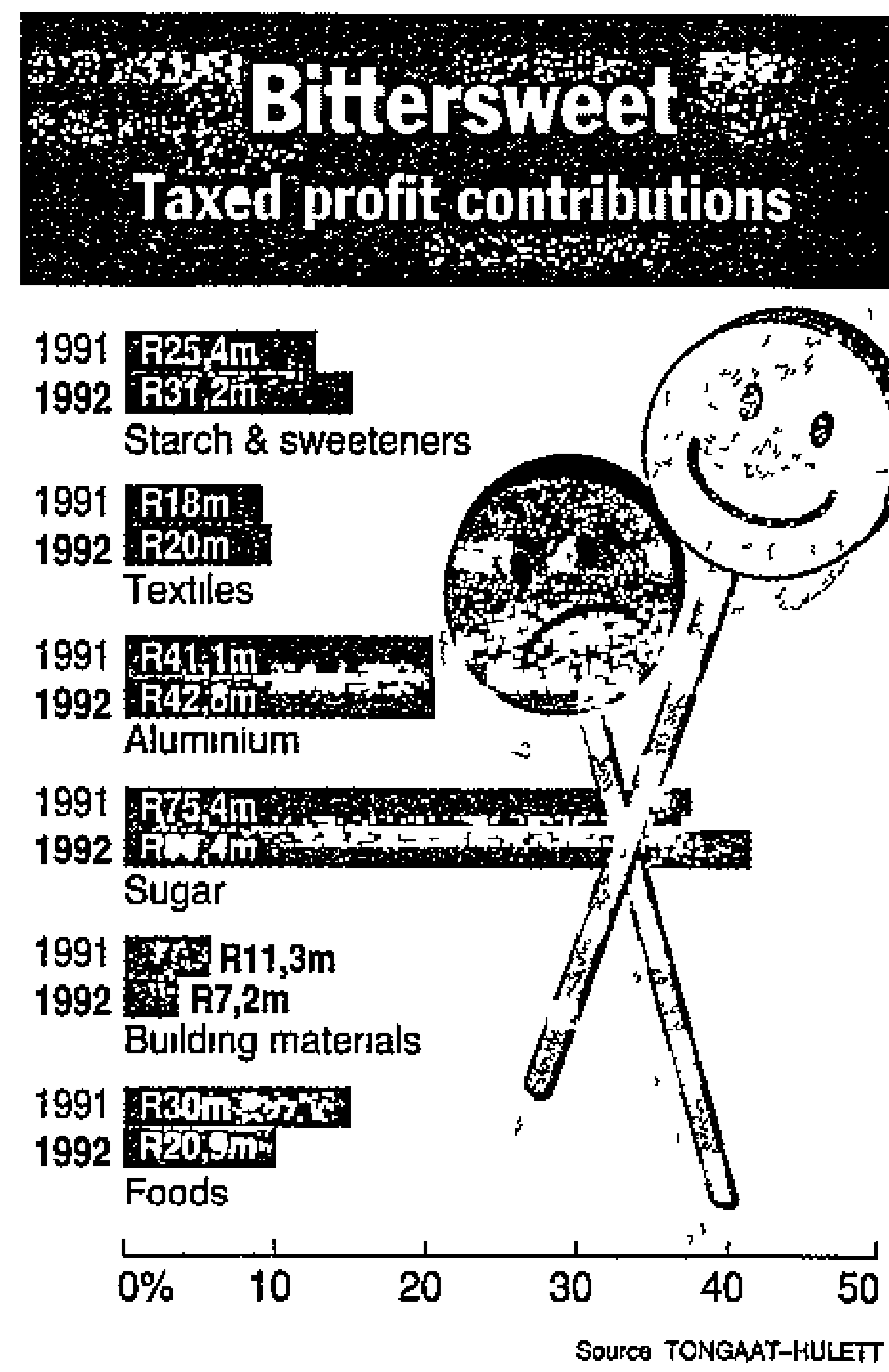
Besides the value of selling land not strategically important for cane growing, the move is probably also politically expedient, with the possibility that a future government could cast its eyes at undeveloped land for social development

It may take some time before results from the new thrust are seen, or it is shown whether it proves possible for Tongaat-Hulett to remove the cyclical nature from its earnings What seems laudable, however, is that the group has taken the initiative after closely examining itself, rather than complacently cruising along as it has tended to do in the past

That could have been easy to do given the traditional strength of Tongaat-Hulett's balance sheet, which is looking even stronger this year True to its conservative style, the group forecast that borrowings would reduce to about R350m by the year-end In fact, they stand at R260m, 31% down on last year After deducting the cash holding of R28m, net borrowings are R232m, which has helped to reduce gearing to 13% from last year's 22%

Profit before tax and interest has been under considerable pressure but export and farming allowances, as well as deferred tax benefits, reduced the effective tax rate to just 14,8%, leaving a taxed profit of R151m, 5,2% up on the previous year

After a surge earlier this year to 2 450c,



the share price has eased slightly to its present level where it trades at a 6,3% discount to net worth While not cheap, it appears to be relatively good value, considering that the group is a low-risk investment with good growth potential if structural changes start paying off

Shaun Harris

Royals back in the good books

SI Times (Buss) 19/7/92

186

THE JSE WEEK

By JULIE WALKER

ROYAL companies regained favour after losing ground in the time between warnings to shareholders

Talk is that the Del Monte deal has been signed and will be announced shortly. The vehicle to back, it appears, is Royal Foods.

Royfood rose from 675c at the start of the week to close at 775c. Royal added 100c to 725c and Royhold 50c to 750c.

There is a whisper that the group might concentrate solely on food and sell out of Roychem.

Tiger Oats took a knock to R38 after looking overpriced at R44, but recovered R2.

There was a bookover of 1,1-million Curfin at 630c on Thursday, Momentum selling out of a portfolio Syfrets was reportedly the buyer. Curfin was 770c in June.

A deal of 229 000 Pep was booked at R11,75 on Friday

The market rebounded on Wednesday on technical elements after eight days of falls. The United Nations debate, Cosatu's possible softening stance on strikes and a merrier gold price all played a part in stemming the market's slide.

Gold was buoyed by fears about reduced Russian production and about the disruption of SA supply. Speculative buying of platinum on similar grounds rubbed off on gold. It held above $350/oz nearly all week, rising close to $357 late on Friday.

Kloof rallied as investors digested the implications of the deal with Venters and Libanon. Using Friday afternoon's prices Libanon at 245c looked the cheapest way into Kloof at 2 875c.

Lonrho put on more than 20% to 620c in spite of concern about debt and management.

De Beers came under pressure when it ought to have been cushioned by a generally weak finrand. Its high liquidity counts against it in bearish times — eveyone knows he can buy it back at any time.

There was a stampede in the gilt market, rates dropping by amounts not seen for years. Rates have eased more than 60 points in recent weeks.

Although foreigners have been sellers, SA buyers have grazed stock at a good price. The SA gilt market is a haven in equity-market disruptions.

Premier positioned to capitalise on new SA

(186)

BDAY 20/7/92

GAVIN DU VENAGE

PREMIER has positioned itself to take advantage of additional spending that may flow from the new SA

Chairman and CE Peter Wrighton said in the group's annual report that after substantial restructuring over the past year, Premier was essentially a grocery and pharmaceutical manufacturing and distribution group

It had targeted mainly C and D income groups which Wrighton expected would be the main beneficiaries of additional spending in a future SA.

With a better redistribution of resources in a post-apartheid climate, consumers at the lower end of the economic scale would have more disposable income, and here trade in staples stood to benefit.

Wrighton said Premier, with its new structure, strong balance sheet and a commitment to invest in human resources, would achieve above-average growth for shareholders when the economy turned

In the short term, the group should also show satisfactory growth in spite of the prevailing political, trading and economic climate, he said

Divisional performances in the year to April underlined the effects of restructuring Food accounted for 31% of total sales and 45% of trading profit While wholesaling was the biggest contributor to sales, it accounted for 28% of trading profit

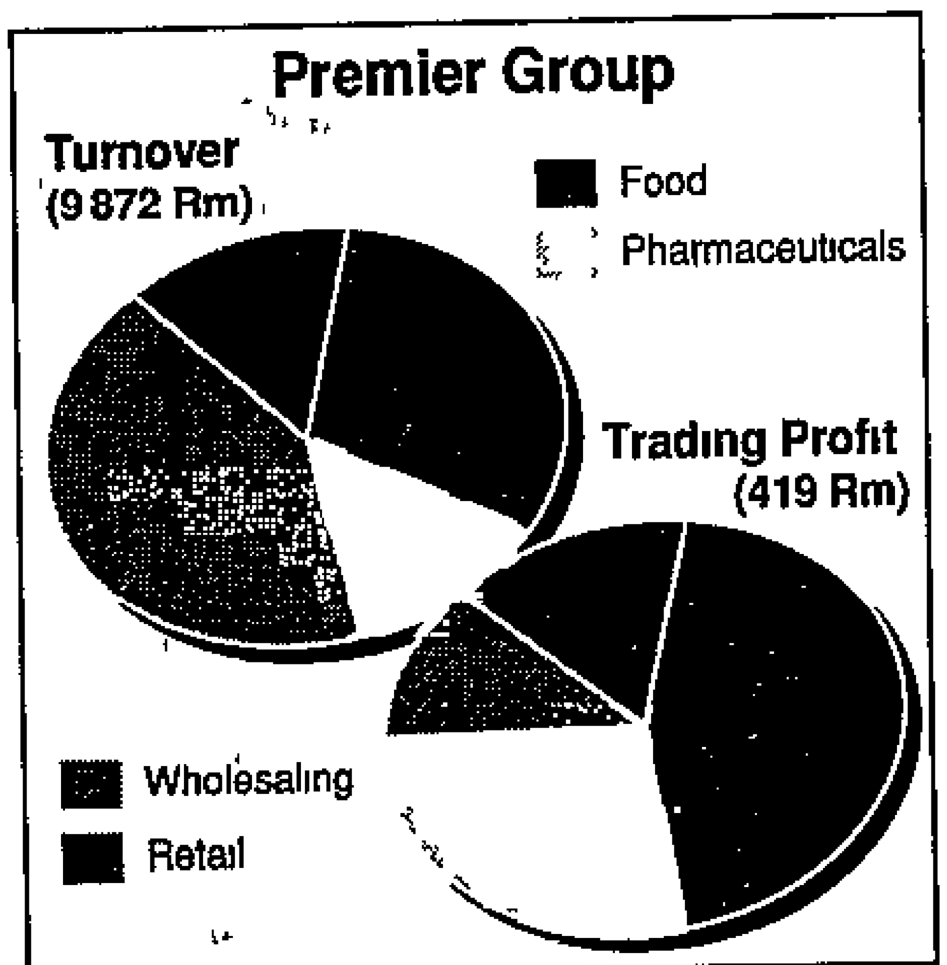
Pharmaceuticals was the second most important revenue generator, contributing 28% of group trading profit although its sales amounted to only 12% of Premier's R10,6bn turnover The retailing division accounted for 15% of total trading profit, which almost touched R500m, and a similar percentage of sales

On the high rate of food inflation, Wrighton said about 70% of food price increases came from meat, fruit, vegetables and nuts, and only 30% from manufactured foods, the area in which Premier was active

He rejected media reports that monopolistic conditions existed in the food industry, and said at least six major companies competed for 75% of the staple maize milling and baking industries

The SA food industry included certain major multinational companies as well as powerful co-operatives whose figures were not publicly reported, said Wrighton, and consequently negative attention was focused on JSE-listed companies

He also blamed "enormous changes" in government fiscal policy over the past 12 years which had contributed to substantial increases in food staples



Graphic RUBY-GAY MARTIN Source PREMIER GROUP

Royal shares jump 3,25% on rumour of Del Monte deal

BDay 20/7/92

MEREDITH JENSEN

(186)

ROYAL Corporation's shares jumped 3,5% on Friday to close at R7,25 amid renewed speculation of a deal with Del Monte Europe

Analysts said investors were responding to a cautionary announcement issued by Royal Corporation, subsidiary Royal Foods and parent company Royal Holdings

Marketplace rumours during the past few months suggested the Royal group, with financial backing from Anglo American, had initiated a R2,2bn deal to take control of Del Monte It appeared that Royal Foods intended to issue shares to Anglo to raise the capital to buy Del Monte The deal could see Anglo gain control of Royal Foods and might result in the delisting of Royal chemical subsidiary Roychem

Royal executive chairman Vivian Imerman was unavailable for comment yesterday as he was abroad

An Anglo American spokesman said "It is not our policy to comment on market rumours"

In 1990 Royal acquired effective control of the SA Preserving Company (Sapco) from Del Monte International, which was subsequently broken up Del Monte Europe became its most significant division. Sapco continued to supply Del Monte with 60% of its canned fruit At the time, Imerman was given right of first refusal to acquire Del Monte Europe in the event of a change of control

Earlier this year Royal bought Donald Cook's, a Cape Town-based producer of deciduous fruit and vegetables The deal boosted Royal Foods' fruit supply by more than 50% and provided it with an entry into fruit pulping and juice markets

"If the deal goes through, it will create a fruit juice and canning conglomerate combining the assets of Royal Foods, Donald Cook's and Anglo's extensive interests in Rhodes Fruit Farm

Eskom to spend R200m on cleaning up power stations

BDay 2/7/92

MEREDITH JENSEN

ESKOM will spend R200m over the next few years to clean up air pollutants emitted from Duvha and Majuba, two of its power stations in the Transvaal

Duvha power station in Witbank had consistently exceeded the pollution limits set by the Health Department's Chief Air Pollution Control Officer (Capco), an Eskom spokesman said

The clean-up contract for Duvha, awarded to Johannesburg-based BBT Flakt, called for the replacement of electrostatic precipitators with bag filters. The filters would collect the fine ash particles which accumulated as a result of burning coal

Duvha deputy manager Roy Bailey said Eskom had opted initially to test the bag filters at its flagship power station because of mechanical problems with precipitators, which made it difficult to maintain acceptable emissions

Duvha was expected to be fitted with three units, the first of which would be completed in early 1993. An individual unit would contain four compartments for dust, each equipped with 6 000 filter bags. They would reduce emitted particles to less than 50 milligrams a cubic metre.

Eskom manager for boiler plant engineering John Begg said the company planned to spend an additional R100m on bag filters for its planned Majuba power station, to be built in a few years time.

Begg said all of Eskom's 10 fossil-fired power stations were receiving attention to rectify emission problems.

Prof Dieter Holm of the International Solar Energy Society said yesterday pollution levels in the PWV area were six times greater than internationally acceptable levels

GAVIN DU VENAGE reports that Holm, who returned recently from the world environment forum in Rio de Janeiro, where he was appointed the society's African representative, said the cost of SA's cheap coal-fired energy was paid for in the long term through excessive air pollution.

Holm said society studies had shown that by 2020 about 36%-45% of world energy needs would come from renewable resources.

Tastic gets interdict against strikers

186

BDay 2/7/92

SUSAN RUSSELL

TASTIC Rice obtained an interdict in the Rand Supreme Court yesterday against about 200 striking workers allegedly involved in acts of sabotage and intimidation against the company and other employees

The workers, who voted to go on strike on June 4 after wage negotiations broke down, are all members of the Food and Allied Workers' Union.

Judge J Lazarus granted an order prohibiting striking workers, except two shop stewards and three other workers at a time, from coming within 250m of the company's Industria premises.

They were also interdicted from unlawfully interfering with or obstructing the normal operation of Tastic's business and from intimidating, assaulting or harassing other employees.

The union did not oppose granting of the interdict

Tastic's human resources manager Peter Lawrence Latta said in one incident the braking air-pipes of four transport trucks were found to have been severed

Hot summer helps boost Cadswep's performance

BDAY 29/7/92.

186

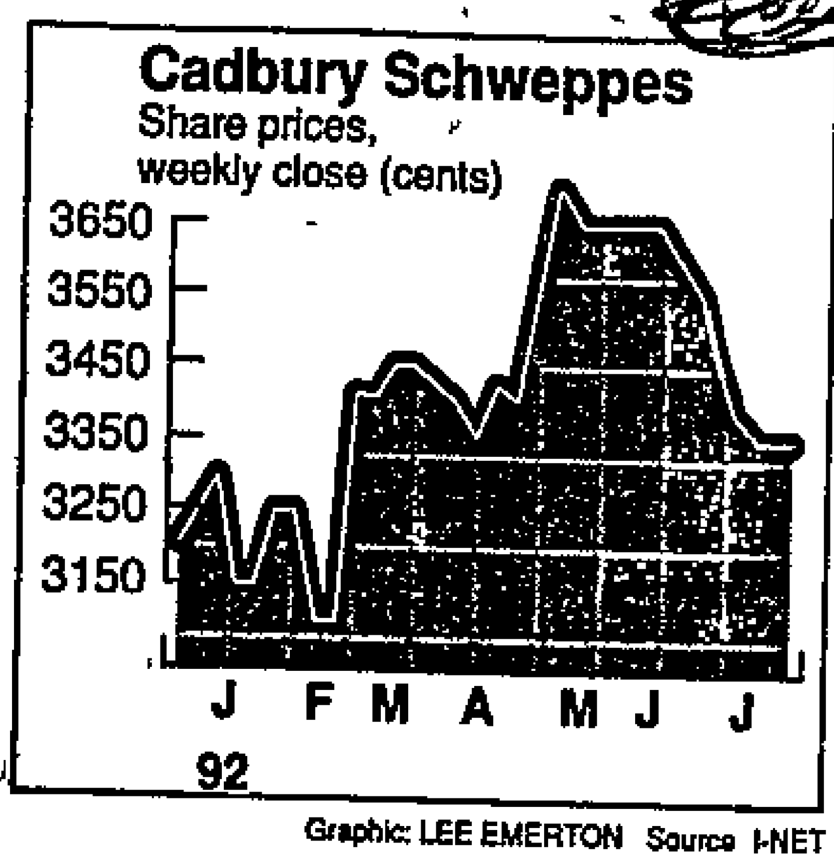
DUMA GQUBULE

A HOT summer which boosted soft drink sales has helped Cadbury Schweppes (Cadswep) report a better than expected 29% increase in attributable earnings in the six months to end June.

The soft drinks and confectionery group increased its earnings to 61,2c (47,8c) a share. An interim dividend of 15c (12c) a share was declared

CE Peter Bester said strong sales volume growth in the group's soft drinks businesses had been the main reason for the good performance. But a recent deterioration in trading conditions had made it unlikely that earnings growth for the full year would match the achievement of the first half.

Turnover advanced 23,6% to R296,5m (R240m) despite price increases below the rate of inflation. Operating profit rose by a similar percentage to R26,3m (R21,6m). A 50% increase in financing costs saw pre-tax profits increase by 14% to R19,5m (R17,1m).



Graphic: LEE EMERTON Source I-NET

A lower tax rate and a 47% increase in earnings from associated companies (soft drinks company ABI and Namibian chocolate manufacturer Springer) resulted in a 29% increase in attributable earnings to R21,5m (R16,7m).

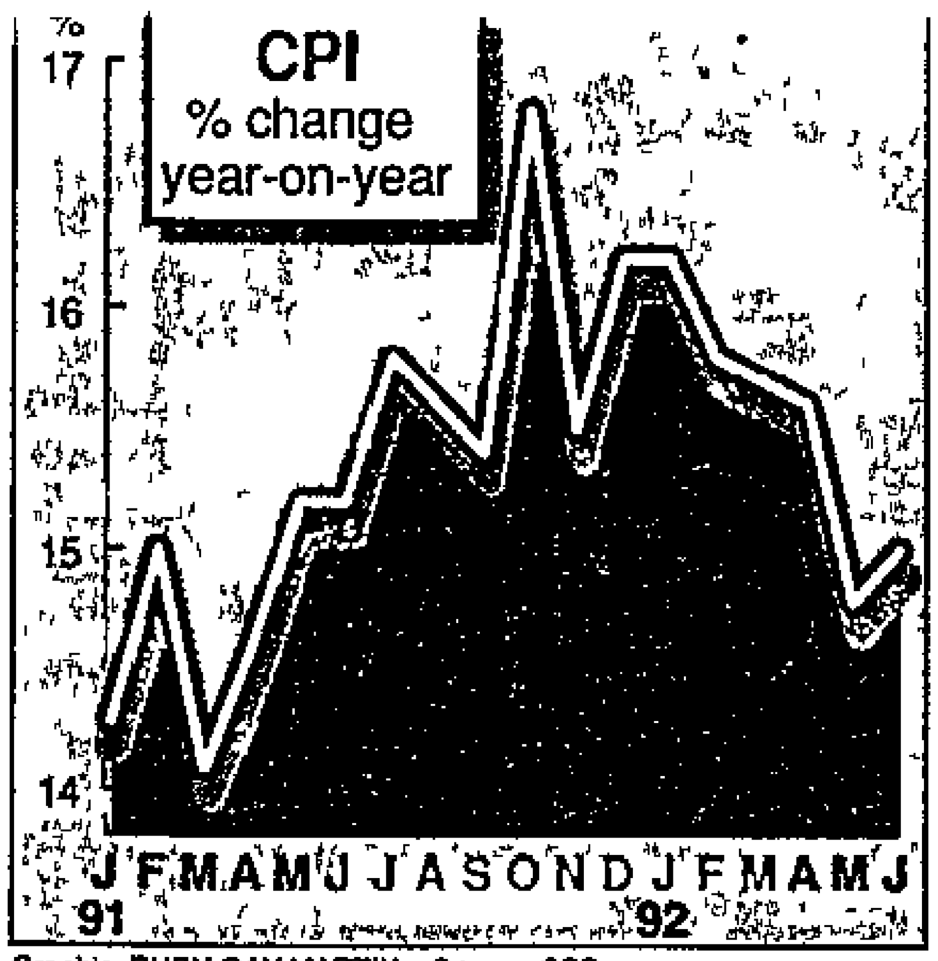
Bester said the Schweppes division had achieved good growth in volumes. But downtrading from carbonated drinks to cheaper squashes and soft drink concentrates had been a notable feature As a result Bromor Foods, which operated in these markets, had increased sales dramatically

A better product mix and the effect of continued focus on internal efficiencies had added to the contribution from the excellent sales.

He said the group's sugar confectionery interests had done reasonably well But chocolate market volumes had shown a significant decrease as a result of weak trading conditions, intense competitor pressure and the unusually warm weather.

Bester said the sharp increase in financing costs had been due to the group's expansion programme. However, he expected borrowings to peak this year (with gearing of about 40% at year-end) and fall to lower levels next year on completion of current expansion programmes.

Financial director John Buchanan said the group was expecting to extract further value, in the form of improved internal operating efficiencies, from recent acquisitions Chapelat Humphries and Bromor Foods



Graphic RUBY-GAY MARTIN Source. CSS

Food prices give CPI a bad taste

BDAY 29/7/92

186

HILARY GUSH

FOOD inflation, climbing to an 11-year high in June, continued to lead increases in consumer prices and overall inflation edged up to 15,1% from May's 14,8%, Central Statistical Service (CSS) figures released yesterday showed.

CSS data indicated a 29,3% increase in food prices in the year to June from 27,8% in May The rise was attributed to large increases in the price of vegetables and fruit — a result of the protracted drought

Excluding food, consumer inflation remained unchanged at May's 11,5%

Vegetable prices soared 83,2% in the 12 months to June after rising at an annual 74,1% in May. Fruit and nuts prices surged 42,3% in the year, but fell 3,7% in the month to June. Meat prices were up 27,2%.

Metropolitan Life chief economist Chris Visser said the figure was "more or less what the market had expected — food inflation was still the major problem".

He expected the overall inflation rate to fall next month when lower bond rates came into effect Bond repayments account for half of the housing price index

PAUL RICHARDSON reports that a Bank rate cut of at least 1% is expected before October. But Reserve Bank Gover-

□ To Page 2

CPI

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□ From Page 1

nor Chris Stals says a cut will only be considered "once the effects of VAT on inflation had been calculated in October".

The latest consumer inflation figure indicated that the Bank's approach to inflation was correct and no change in the Bank's current monetary policy was foreseen, Stals said yesterday

Visser said weakness of the domestic economy and spare capacity in industry meant there was virtually no demand-pull inflation

He added that the "tax bump" would be smoothed out by October when the effect of the October 1991 introduction of VAT would drop out of the CPI. Excluding VAT, inflation ran at 13,7% in the year to June which was up on May's 13,4%.

The fuel price, which had already increased by 9c a litre this year, was concerning Government had put up wholesale and retail margins three times in the last year, but under-recovery of the National Energy Council's equalisation fund signalled a looming fuel price hike.

This would have a multiplier effect on other prices, he said

Absa chief economist Adam Jacobs said despite the disappointing monthly increase in consumer inflation, the underlying trend was still downward Although unpredictable food prices made forecasting difficult, he expected a sharp decline in inflation by the fourth quarter.

The absence of excess monetary demand meant the country was living within its means and the rand, on balance, was stable and interest rates were coming down

GERALD REILLY reports that Consumer Council director Jan Cronjé stressed yesterday the urgency of identifying the causes of food price inflation

A Board of Tariffs and Trade (BTT) spokesman said the second phase of the probe into food price escalation would start as soon as comment on the first phase report had been evaluated

The second stage would involve a deeper and more detailed look at all links in the food price chain The BTT was aware of the urgency of completing the probe

Drought (186) gives boost to Cadswep

By Sven Lünsche STAR 29/7/92

The drought might hurt the rest of the country but it certainly benefited confectionary and drinks group Cadbury Schweppes (Cadswep).

The extended hot summer sharply boosted drinks sales at the Bromor, Schweppes and ABI divisions and lifted group turnover by 23,6 percent to R296,5 million (R239,9 million).

The growth in drink sales was in sharp contrast to generally weaker consumer demand, which hit Cadswep's confectionary division.

Cost controls

The directors comment that while average selling prices were below the rate of inflation, improved sales and tight cost controls lifted operating profit by 21,6 percent to R26,3 million (R21,6 million).

While the group's expansion lifted financing costs by 50,4 percent to R6,7 million (R4,5 million), associated companies' earnings were up by 47,1 percent to R7,3 million (R5 million).

This left attributable income 28,7 percent higher at R21,5 million (R16,7 million), equal to earnings a share of 61,2c (47,8c).

The interim dividend is up by 25 percent from 12c to 15c.

The directors warn, however, that trading conditions have deteriorated recently and a repeat of the interim earnings growth is unlikely for the full financial year.

PREMIER GROUP

Changed profit profile

(186) FM 31/7/92

Activities: *Food; pharmaceuticals; wholesaling, retailing and entertainment, and other activities*
Control: *JCI 30,0%; Liberty Life 30,0%*
Chairman and CE: *P G A Wrighton, Deputy CE: G M Utian*
Capital structure: *79,3m ords Market capitalisation R3,2bn*
Share market: *Price: 4 050c Yields 2,0% on dividend, 6,0% on earnings, p e ratio, 16,3, cover, 3,0 12-month high, 4 550c, low, 2 800c Trading volume last quarter, 334 000 shares*

Year to April 30	†'89	'90	'91	*'92
ST debt (Rm)	144,8	69,3	123,4	—
LT debt (Rm)	320,9	212,2	215,7	160,5
Debt equity ratio	0,53	0,23	0,27	0,05
Shareholders' interest	0,53	0,52	0,50	0,43
Int & leasing cover	3,60	3,65	3,76	5,9
Return on cap (%)	14,1	14,2	14,8	11,8
Turnover (Rm)	4 150	4 342	5 094	9 820
Pre-int profit (Rm)	287	336	375	420
Pre-int margin (%)	6,9	7,7	7,4	4,3
Earnings (c)	145	180	210	244
Dividends (c)	50	60	70	81
Net worth (c)	1 000	1 343	1 310	1 404

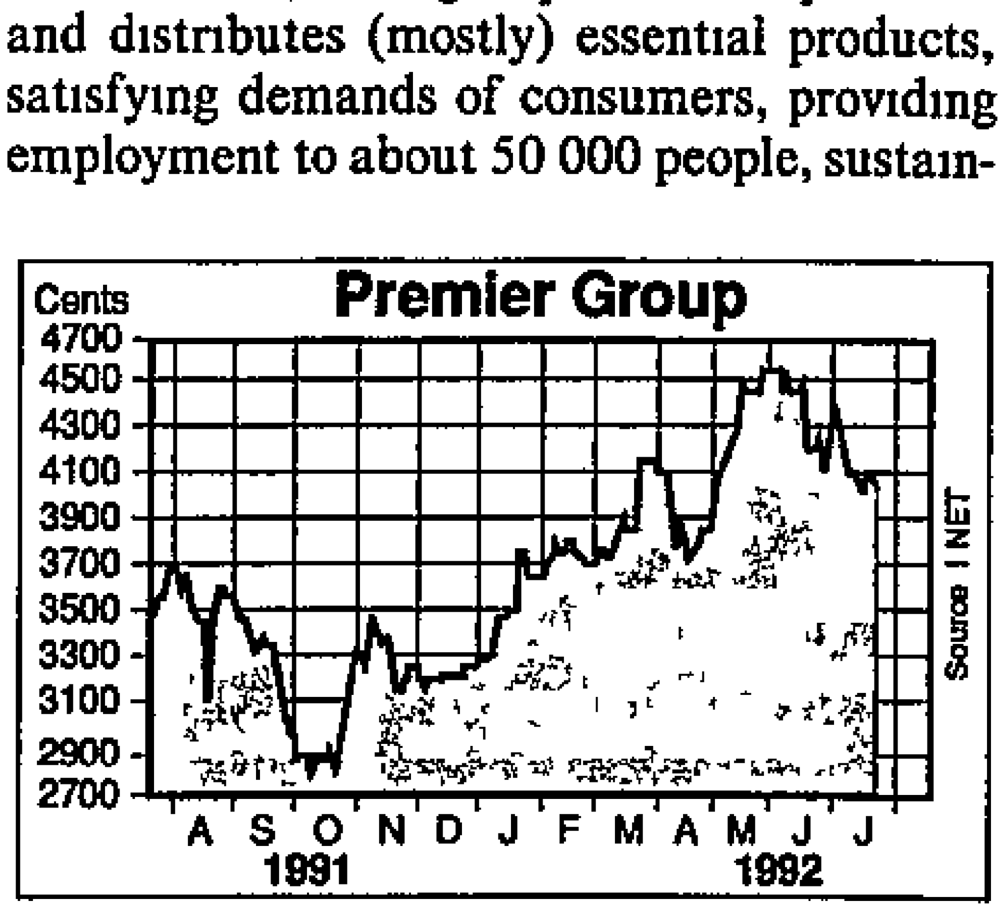
† Adjusted for restructuring and divestment of SA Breweries interest * Annualised

Liberty chairman Donny Gordon described 1992 as a watershed year for his insurance empire and this could apply equally to Premier Group, after major changes last year Premier sold its underperforming poultry and animal feed businesses and acquired controlling stakes in Metro Cash & Carry, Score Supermarkets and Clicks Stores

It is now essentially a grocery and pharmaceutical manufacturing and distribution (wholesale and retail) group of companies, targeted mainly at the lower income groups, making it an obvious beneficiary of higher disposable income of these groups

Probably no less important in this period of socio-political turmoil, Premier and its associates experienced very few work stoppages or strikes, if community-based actions are excluded

Providing a good example of the merits of a profit-driven operation in a competitive environment, the group efficiently makes and distributes (mostly) essential products, satisfying demands of consumers, providing employment to about 50 000 people, sustaining many more dependants, while providing the fiscus with R317m in direct and indirect taxes



Premier's Wrighton
well positioned for the future

Raw material and services costs came to R9,1bn, indirectly providing many more people with jobs and money. Shareholders received dividends of R70m

Comparison of the results against 1991 figures is problematic for two reasons: last year's acquisitions and disposals and the decision to equity account the 33% holding in CNA Gallo, jointly controlled with Argus Group, and the 50% holding in Epol, jointly controlled with Rainbow Chicken

Chairman Peter Wrighton notes the turnover of these two organisations, which were included in the 1991 results, amounted to R1,17bn Turnover in ongoing operations, excluding the acquisitions, grew 13%

Wrighton says food, pharmaceuticals and cash-and-carry activities are expected to account for roughly 90% of earnings in the medium term, food remaining the core activity, constituting about 60% of the total and the other two each providing about 15%

These figures differ significantly from the trading profit breakdown, where the contribution from pharmaceutical manufacturing activities, held through Twins Pharmaceuticals, is larger, as this is before the minorities' deduction Pharmaceutical manufacturing's trading profit contribution, at R106m, was second only to milling and baking's R138m last year The two provided marginally under 60% of group trading profit

This is material, as some commentators argue Premier's growth will be restricted as margins will have to be kept narrow in the politically sensitive areas of basic foods and pharmaceuticals

Margins in the pharmaceutical activities jumped to 24% (1991. 16,7%), seemingly impervious to the debate on medicine and medical costs, though much of the improvement resulted from the clean-up or discontinuation of underperforming assets

Margins in milling and baking dropped slightly to 6,7% from 6,8%, despite the exclusion last year of the underperforming poultry and animal feeds businesses, partly indicating the beneficial effect (to the consumer) of deregulation Wrighton says the depressed economy impacted adversely on value-added products, some of which are in milling and baking

Twins, restructured and brought under new management in 1991, lifted earnings by 51%, mostly through efficiencies and tight control over working capital, partially explaining Premier's lower gearing While deputy CE Gordon Utian expects good growth in 1993, longer-term growth must be constrained by restrictions on margin growth and limited scope for further working capital

WHERE IT CAME FROM

	Turnover		Trading Profit	
	Rm			
	1991	1992	1991	1992
Food				
Milling and Baking	1 805	2 063	122	138
Edible Oils and Derivatives	681	890	26	35
Fishing	107	124	15	16
Total	2 593	3 077	163	189
Pharmaceuticals				
Manufacturing	497	442	83	106
Distribution	729	823	15	12
Total	1 226	1 265	98	118
Wholesaling				
Cash and Carry	3 387	4 075	(13)	46
General Wholesaling	84	86	3	4
Total	3 471	4 161	(10)	50
Retail				
Clicks Stores	644	837	48	53
Score Supermarkets	510	512	(13)	8
Other	20	20	1	1
Total	1 174	1 369	36	62

P.T.O.

FM 31/7/92 (195)

improvement Twins will become more material to Premier if it buys out the Krok family's stake.

Clicks Stores, with R53m, was the next largest profit contributor, though this will change if Metro widens its trading margin as forecast Though Clicks' margin has weakened, things will improve if government grants the application for a licence to dispense medicines.

Acquisition of Metro has changed the profit profile significantly It gives Premier a cash-generating business, increasing growth opportunities Behind nearly all high-growth groups is strong cash generation ability.

Metro's strong cash generation last year was derived from the cash nature of the business and tight control over working capital Again, opportunity to improve working capital further is limited, but cash generation should remain good

An increase in Metro's margin above 1,5% this year (1,1%), giving a R73,2m trading profit for the 12-month period, means Premier's trading profit will be dominated by milling and baking, Twins and Metro Other operations will be marginal, apart from the edible oils and derivatives

Assuming Metro's management meets the medium-term target of a 2% margin, Premier should be able to sustain profit growth over time Metro's widening margin should enable Premier to achieve real EPS growth again this year

The share has fallen about 10% over the past few months The 16,6 p.e is lower than Tiger's 18,1, reflecting Tiger's increased exposure to value-added products and its stake in blue chip pharmaceutical group Adcock Ingram *William Gilfillan*

CADBURY SCHWEPPES (182)

Concentrated profit (186)

Cadbury Schweppes' bubbling 24% increase in sales over the first half is not entirely due to You Know Who, though Schweppes performed well and enjoyed higher volumes

Instead it was a strong recovery by squash and concentrates producer Bromor, which lost market share the previous year and still faces tough competition from brands like Royal Foods' Lecol Bromor pushed up sales volumes in the soft drinks sector and contributed to Cadbury's strong results

This saw operating profit rise 22% through increased volumes and cost control, despite management saying that average soft drink prices were kept below inflation

But earnings could lose some fizz in the second half Financial director John Buchanan says some exceptional factors contributed to the first-half performance and he does not expect earnings growth to match 28% in the second half

One factor was the long, hot summer which kept soft drink sales strong despite consumers trading down from the more expensive brands to squashes and concentrates "This is largely a soft drink performance that will not be repeated in the winter months," says Buchanan

Weak trading conditions in the competitive chocolate market saw volumes decline, affecting the performance of the confectionery division

Cadbury benefited from its strategic market penetration, with its less expensive products from recently acquired Chapelat-Humphries taking up the consumer movement to the cheaper end of the market

The 50% increase in financing costs to R6,7m sits uncomfortably on the income statement but Buchanan says the group is nearing the end of its capital expansion programme, with borrowings expected to peak in the current financial year

While trading conditions have recently deteriorated, and with the market unpredictable for the rest of the year, earnings growth might fall in the second half. But that is not likely to have much effect on Cadbury's share price The share remains well rated and is fair value

Shaun Harris

STILL SWEET (186)

Six months to	Jun '91	Dec '91	Jun '92
Turnover (Rm)	240	370	297
Operating inc (Rm)	21,6	39,0	26,3
Attributable (Rm)	16,7	30,1	21,6
Earnings (c)	47,8	85,8	61,2
Dividends (c)	12	42	15

FM 31/7/92 (182) (186)

Rainbow cuts profit forecast

(3) poultry (186)

MARCIA KLEIN

RAINBOW Chicken, which traded at a loss in the first quarter of financial 1993, has cut its profit forecast for the year.

In its 1992 annual review, Rainbow had said it expected "a strong improvement in earnings a share in the next year".

But chairman Desmond Loch Davis said at the AGM yesterday it was unlikely that earnings for the year to end-March would be higher than those of the previous year if adverse economic and political circumstances continued. Results to end-March showed attributable profit of R48,5m and earnings of 13,8c a share.

Loch Davis said that when Rainbow published its results in May, it had expected sales prices to be relatively low in the first quarter on the back of high industry stocks and poor consumer demand. But these prices had been "much lower than anticipated and were at times even lower than the cost of production". B10A4

Sales prices did increase significantly in July and Rainbow expected to trade profitably in the second quarter. However, it was "unlikely that this will be sufficient to recoup the losses by September 30 when the group's half year ends". 6/8/92

Despite the gloomy outlook, he said future demand for protein would increase on the back of the population growth and higher private consumption expenditure.

Rainbow was aiming to increase its share of the protein market via low cost production, national distribution and strong national brands.

Irregularities impose a heavy burden on Crown

BDAY 10/8/92.

186

MARCIA KLEIN

AN R18,2m abnormal loss arising from financial irregularities saw Crown Food Holdings report a R16,1m accumulated loss in the year to end-June

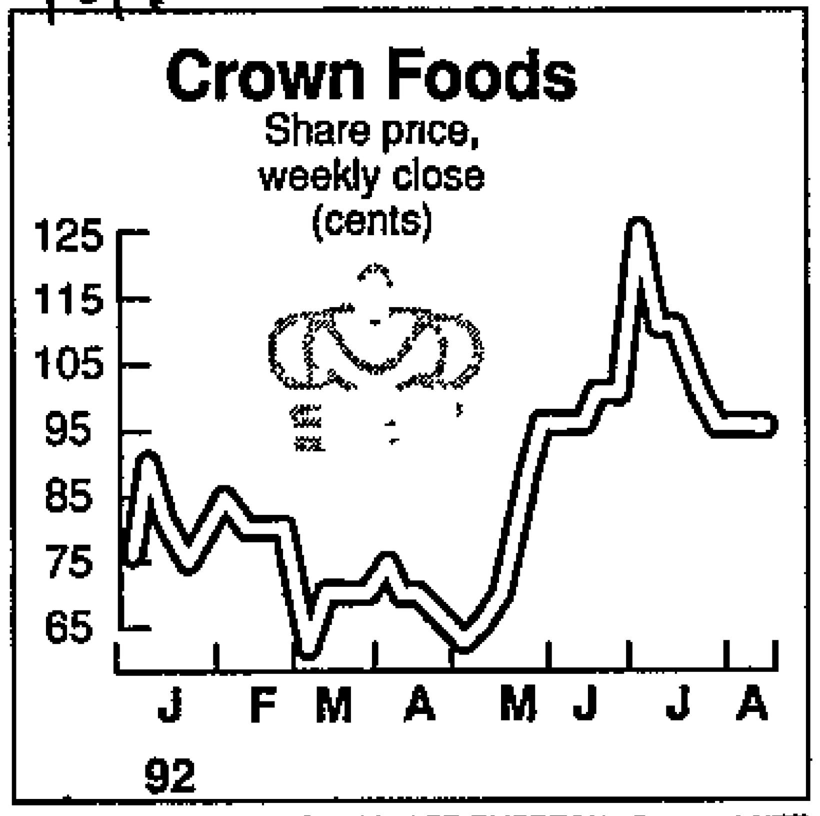
The catering equipment and spice supplier was bought by Bidvest from Murray & Roberts in March for nearly R11m less than the R23m original asking price. The irregularities were discovered during negotiations.

Chairman Brian Joffe said at the weekend that Bidvest could have walked away from the acquisition after the discovery But Crown's catering equipment division Vulcan was sound and well-managed, and there was also good long-term potential in the rest of its business, housed in Crown Mills.

An R11m interest-free loan from the vendor — repayable at end-February — would be financed by a rights offer for the same amount, to be held later this month

Joffe said the offer would strengthen the Crown Food balance sheet, and gearing would decline to 39,8% from 136,9% after taking into account the repayment of the loan.

No dividend was paid "in view of the irregularities and pending rights issue".



Graphic: LEE EMERTON Source I NET

No comparative figures were given as the abnormal loss arose over a number of years, Joffe said. The irregularities were under investigation, and criminal and civil proceedings were likely.

During the year Crown acquired National Spice Works — a major competitor of its Crown Mills division — for R9,7m. Crown Mills and National Spice had been merged to form Crown National, which had grown into SA's major supplier of spices, seasonings, additives and condiments to the butchery and meat processing industries

Joffe said the merger had resulted in a loss of some market penetration, and Crown National would embark on a major move to satisfy its customers The casings factory, which had been central to the irregularities, had been shut down.

Crown also bought heavy-duty industrial catering and kitchenware company President Trading for R4,2m — a substantial discount to net asset value — on July 1 President and Vulcan would remain as competitors, Joffe said

He said Vulcan "has a greater manufacturing bias and we hope to source certain formerly imported items supplied by President from Vulcan, improving economies of scale in the Vulcan factory and our competitiveness in the market"

Joffe said the merger of Crown Mills and National Spice, the continued good performance of Vulcan, the acquisition of President and the imminent Crown rights offer placed it well to "recover from the devastating effects of the abnormal loss".

Crown's R138,4m turnover indicated it had a major market share. He expected turnover of R200m in the coming year

Joffe said earnings a share should exceed the forecast 13,2c

STAR 10/8/92

Blow for Crown Food

By Stephen Cranston

186

Crown Food Holdings suffered a R16,1 million loss in the year to June, caused by an R18,2 million abnormal loss arising from irregularities uncovered by Bidvest prior to its taking control of Crown in March

The irregularities, which occurred in the Crown Mills division, are still under investigation, says operations director Dave Rosevear

He believes the group is well-placed to recover from the devastation.

The Crown Mills and National Spice businesses were merged during the year and the Vulcan division has continued to produce commendable results, he says

The National Spice management has been given the task of overcoming the Crown Mills problems

Mr Rosevear says Bidvest could have walked away from the acquisition of Crown from Murray & Roberts.

"But the soundness of the Vulcan business and the long-term potential of the rest of the business persuaded us to hang in," he says.

Murray & Roberts has given Crown an interest-free loan of R11 million repayable next February.

During the year Vulcan acquired President, which makes and catering equipment, for R4,1 million, a R1,5 million discount on the realisable asset value.

Mr Rosevear says that Vulcan has a greater manufacturing bias and that certain formerly imported items supplied by President will be manufactured by Vulcan, which should provide economies of scale and price competitiveness.

A renounceable rights offer of 20 new Crown shares for every 100 existing shares closes on August 21.

Mr Rosevear says the rights offer will strengthen the Crown Foods balance sheet considerably

Gearing will decline from 132,7 percent to 37,5 percent.

Mr Rosevear says that earning per share for the year to June 1993 will be at least 13,2c

Royal Foods acquires Utico's Fresh-Up

B/DAY 11/8/92.

MARCIA KLEIN (186)

ROYAL Foods, food arm of Royal Corp, has bought Utico's Fresh-Up Juice division for an undisclosed sum

In a joint announcement, Royal and tobacco and snacks group Utico said the deal would be effective from October 1

The deal adds a new beverage interest to Royal's ever-increasing portfolio In February it announced that Royfood company Royal Beech Nut had acquired from the Nestlé group its Lecol beverage interests for an undisclosed sum

At the time the group was looking at export markets, especially those which Lecol had lost because of SA's political profile

Bidvest beats recession as income rises by 54%

(186)

BIDA1 12/8/92

MARCIA KLEIN

THE Bidvest Group shrugged off the recession to produce a 53,8% rise in attributable income to R27,1m from R17,6m in the year to end-June.

Chairman Brian Joffe said results included four months' trading of the recently acquired Crown Foods group and a full-year result from towel, clothing and linen rental company Steiner Services Comparative figures included the results of Steiner for two months

The group, whose other major interests include food and allied products distributor Cater Plus and paper and packaging group Afcom, increased its turnover by 44,8% to R596m from R411,7m Operating income was up by 69,8% at R60,1m from R35,4m, and the operating margin improved to 10,1% from 8,6%

A large rise in finance charges to R20,3m from R8,4m largely reflects the cost of financing the Steiner acquisition

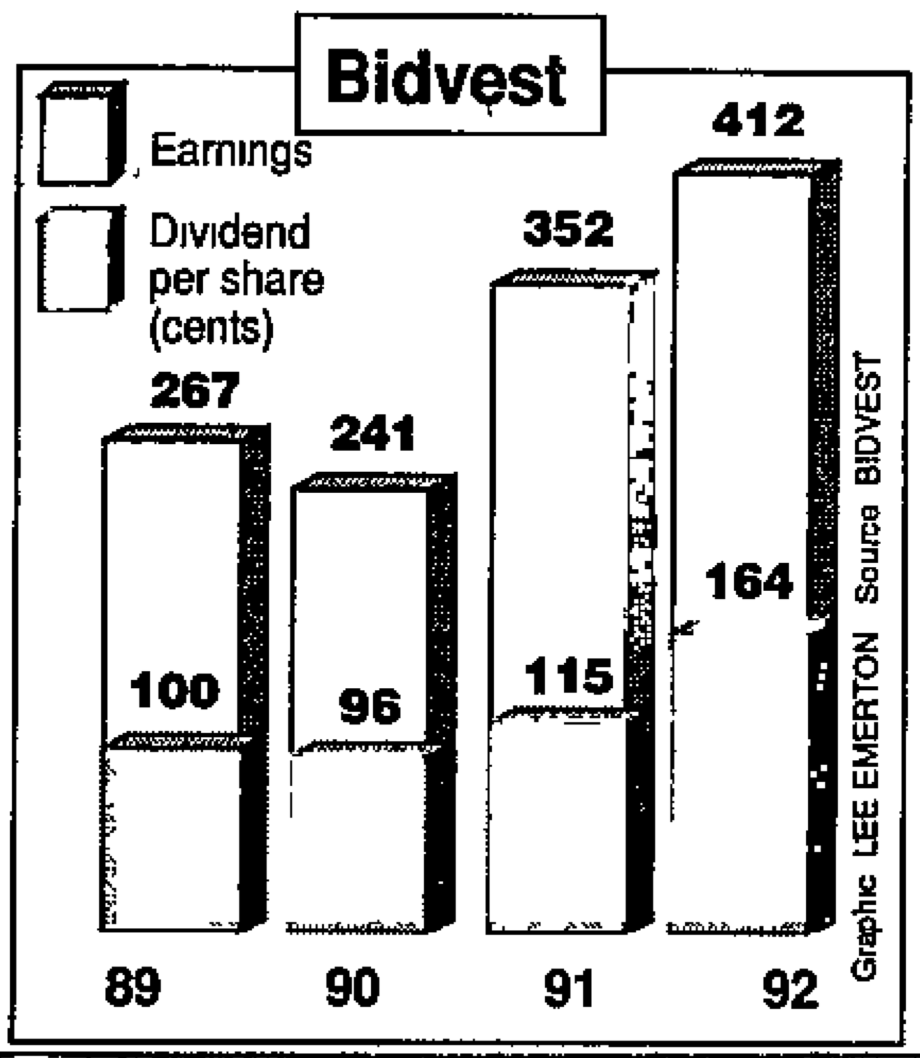
On the balance sheet significant rises in net current assets and in long-term liabilities reflected the fact that the current liability of R57,5m owing to the seller of Steiner was settled and funded by long-term debt, Joffe said Interest cover was reduced to 4,9 times from 9,3 times Taxation of R11,2m was less than the corporate tax rate due to exempt income, tax losses export incentives and allowances.

After outside shareholders, attributable income was 53,8% up on the previous year But diluted earnings on more shares in issue rose by 12,8% to 300c (266c)

A final dividend of 84c a share brought the full-year dividend up by 42,6% to 164c a share. Cover was maintained at 2,5 times.

Joffe said results reflected management's efforts "to manage assets more effectively and to keep a tight rein on costs".

Holding company Bid Corporation declared a final dividend of 44c a share to bring the full-year dividend to 84c (60c)



Premier gets the added value and cost mix right

186

S/Times (BUSS) 16/8/92 16/8/92

TO add value or not to add value? That was the question facing food processors in recent years.

The mealie-meal and bread staples markets had long been claimed by major millers and bakers — Tiger, Premier and Fedfood (as it then was).

The choice most of the food companies made — Tiger, Fedfood and Hunt Leuchars & Hepburn among them — was to take the value-added route. This was qualified in most cases by an appreciation of and adjustment for the realities of a South African market which would become increasingly African.

Thus Tiger refers to "appropriate value added"; HLH regards its formulation and marketing of Robertsons spices as so well tailored to African conditions that outsiders would great difficulty in competing.

These companies, especially Tiger, thrived on value-added foods. In the late 1980s, for instance, Tiger's real profit from food activities rose strongly.

This made all the food companies more convinced that value adding was the route to follow. All, that is, except Premier.

Premier's management was decidedly more chary, pointing out that value added was also cost added.

Premier's view is that adding value — and cost — must be done carefully if the C and D income groups are, or will be, the main consumers. From experience in Africa, Premier believes that staples and their derivatives will be an area of strong consumption growth, boosted by social spending.

It believes demand for value-added products will continue to come from a thin, affluent strata of society.

Management says it is optimistic about SA's future, but recognises racial and income distribution patterns

So Premier does have some value-added producers, but they are markedly fewer proportionally than its competitors. Where Premier does agree with its competitors is in branding Its staples and value-added products are all strongly branded.

The wisdom of Premier's view was doubted by many analysts and other food companies. This was partly because a policy of not adding value puts close limits on a food company. Staples are all very well, but where would a food company grow from there?

In Premier's case, the answer came with the acquisition of Metro Cash & Carry, as well as Score-Clicks, in mid-1991.

Premier's explanation for the acquisitions was that this was its value adding — moving down the value chain from its existing businesses in food manufacturing to wholesaling and retailing. It said it had retained its focus because the new businesses concentrated on the C and D income groups.

Many food companies and analysts, this one included, were sceptical. They said Premier had lost its way.

The first answer to the sceptics is now well known. In Metcash's 10-month to the end of April 1992, an operating loss of R14,7-million in the previous full year to the end of June 1991 was transformed into a R45,9-million profit. Attributable earnings reverted from a loss of R54-million to a profit of R32-million.

Equally impressive was that net cash flow turned from a negative R67-million in the previous full year to a positive R250-million, including disposal of discontinued stock

This cash flow helped to reduce Premier group's gearing to base-ment levels in spite of the size of acquisition's made in the same year The effective price of about R250-million (including share issues) Premier had paid for its 69% stake in Metcash was fully funded in one year by the cash inflow

The market, as well as Premier's management, was surprised by the strength and speed of Metcash's turnaround.

Besides Metcash, Premier's food division results were also strong considering the recession. The division's turnover rose by 19% to R3-billion and its trading profit 16% to R189-million.

There are still many questions about Premier's strategies. For instance, what would happen if law and order returned to the townships and other food companies tried to circumvent the cash-and-carry business, in which Metcash is dominant, to sell direct to township traders?

In that event, wouldn't Pick 'n Pay, Shoprite-Checkers and Spar move into wholesaling in the townships in a big way, perhaps through franchise operations?

Throughout their histories, food wholesaling and retailing companies have been restricted to white areas although they knew that their growth lay in black markets.

When economic growth returns, won't "aspirational buying" ensure strong growth in sales of value-added foods against limited growth of staples?

Premier management believes that cash and carry is fundamentally an efficient method of distribution which manufacturers will continue to support. It believes that major shopping centres are unlikely to be built in townships

Franchises distribution will increase in the townships Metcash already has a strong and growing franchise business through Lucky 7

Premier believes Metcash's skills are advanced enough to expand beyond SA and even beyond Africa It now has three stores in Portugal.

What is certain about Premier is that in the current economic slump at least it has proved right to stay with staples and basic foods. With poverty deepening every day, most consumers are scaling down to staples as never before.

For instance, previously when underproduction of white maize forced millers like Premier to mix unpopular yellow mealies with white, consumers turned up their noses and sales were weak.

Now, it is reported, sales of the yellow mix, milling of which has been necessitated by the drought, are strong. Price has become the dominant factor in most consumers' buying decisions.

Another certainty is that the acquisition and rehabilitation of Metcash has been a success. It has been returned to the cash-positive state that well-run cash-and-carry operations should enjoy.

Metcash's cash inflows are fine dry powder which can be felt with the hand They will be handy in facing anything competitors of the future might present Premier with

Premier's share price, which has strengthened in spite of the weaking economy, is likely to continue to do well

● Teigue Payne is a consultant at Frankel, Max Pollak, Vinderine Inc

THE WEEK AHEAD by Simon Willson

Food prices isolated as inflation's last hurdle

B/DAY 17/8/92

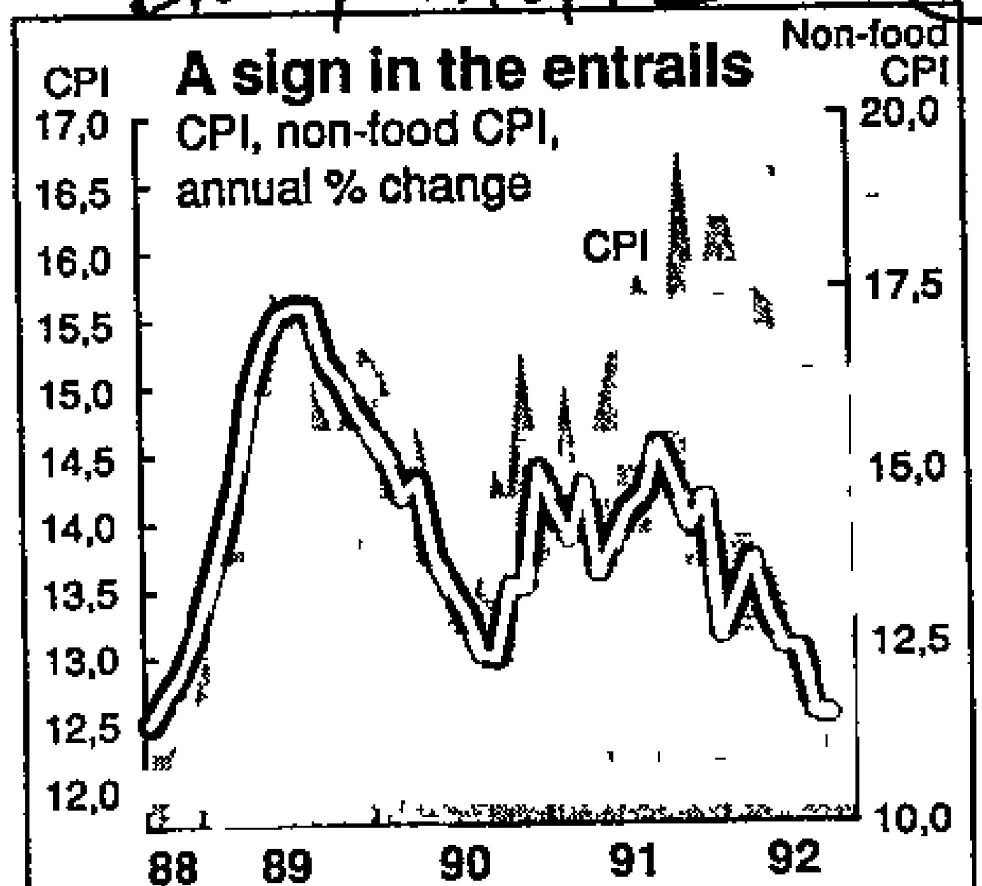
DISSECTION is a gruesome and painstaking process, but it offers probably the most enlightening way to preview the July inflation data which could be published at the end of the week

Inflation edged up in June to 15,1% from 14,8% in the year to May, but this apparently endless straddling of the 15% level need not yet cause a rending of garments in government or business circles

Although inflation stood at an almost identical 14,9% in the month, nearly three years ago, when interest rates were raised to their last cyclical peak (Bank rate to 18%, prime to 21%) specifically to bring inflation down, there are disinflationary forces at work now that were dormant then

The uptick in inflation in June was prompted by a fresh 11-year peak in food inflation Food prices surged 29,3% in the 12 months to June and are now, more than ever, the country's main inflationary problem But therein lies cause for hope. Non-food inflation is slowing

It is only by dissecting the consumer price index (CPI) data that underlying trends such as the sustained dip in non-food inflation can be exposed The relevant parts of the CPI's entrails are revealed in full, gory detail in the chart, and the story they tell is quite encouraging



Graphic RUBY GAY MARTIN Sources I NET SANLAM

Non-food inflation is at a four-year low It steadied at this low of 11,5% in June, and should ease again in the July data as the mortgage rate cuts effective from July 1 are reflected in the housing component of the CPI

Food is therefore left even more isolated in the CPI as the last inflationary obstacle But food price increases are stubbornly high for cost-push reasons, not demand-pull ones Three years of deflation have successfully coshed nearly all the demand out of the nation's consumers, to the point at which food sales volumes themselves are falling — a sign of national distress if ever there was one

But no amount of credit squeezing will rein in food inflation Only a return of rain over the interior in the coming growing season, and the VAT effect falling out of the CPI in the fourth quarter, or giving food a VAT zero-rating as recommended last week by the Food Logistics Forum, will do that In the meantime, all the consumer can do is wait while inflation straddles 15% for a couple more months

Internationally, President George Bush could do with some favourable US economic statistics as he sits out the Republican Party's national convention, which starts in Houston today. He can expect better housing starts tomorrow and a smaller trade deficit on Wednesday, but not much else

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July housing starts are published tomorrow, and should rebound from a 3,2% fall to 1,2-million units in June Starts should by now be responding to the numerous mortgage rate cuts of the past year The US trade deficit jumped to a 18-month high of $7,38bn in May from April's $7,06bn, mainly on a fall in exports and a rise in the oil deficit Crude prices eased in the second half of June, which means the oil factor is probably neutral in the June trade balance. Better agricultural exports should help to narrow the deficit

UK second-quarter GDP is due out on Wednesday, and looks unlikely to herald an end to Britain's longest postwar recession Earlier this year the Conservative election victory looked set to spark a recovery in confidence and, subsequently, growth too But UK private consumption is unlikely to have broken out of its seven-quarter falling trend in the three months to June, and another quarterly GDP drop looks in prospect — although a small one

UK July retail sales are also published on Wednesday, but Britain's high streets are barely ticking over Sales are basically flat, and have been for 18 months, while falling consumer credit shows a reluctance to change the trend June sales were down 0,2% and July's look static

In Japan the markets will be awaiting the latest instalment in a lengthening horror story the vanishing of the country's money supply growth The Japanese M2 aggregates for July are released on Friday and look poised to set another new record low at a growth rate even smaller than the 0,9% posted in June The June low marked the first time annual M2 growth had dipped below 1%, and was the third consecutive record low in as many months

As the Japanese economy slows, applications for credit to the major banks are more than a fifth down on a year ago The banks are less amenable to credit extension anyway, since the Tokyo stock market slide has eroded their capital bases Expectations for Friday's figure are centring on 0,5%, with many analysts resigned to seeing the rate go negative before the end of the year

—MEDIA SPOT

New line of ice cream launched

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GAVIN DU VENAGE

DAIRY MAID has taken on the unusual marketing challenge of launching an ice cream brand in winter, priced above rival products and in the middle of a recession.

BDAY 18/8/92.

But project leader Elru Meyer says he is confident the move is a safe one.

"Traditionally people buy ice cream in summer and chocolate in winter, and we wanted to smooth out these seasonal fluctuations," he said.

The product is an ice cream blended with chocolate, but Dairy Maid took the concept further by combining it with two well-known brand names.

Because the product is new in SA, Dairy Maid swung a deal with Cadbury to use the Crunchie and Tempo labels, creating an ice cream that looks like its chocolate counterpart.

"We needed a name consumers could identify with," Meyer said.

Two new brands were also developed, the Nukker and Classic, and Dairy Maid would concentrate on promoting these when the product had a firm place in the market. Cadbury would also take part in the campaign to push its own brand name.

FOOD PRICES FM 21/8/92 (186)

How much is too much?

Hopes of an immediate solution to the mounting food price uproar faded quickly last week when delegates at the country's first forum to examine the issue took refuge behind VAT and the alleged inconsistencies of government's inflation statistics

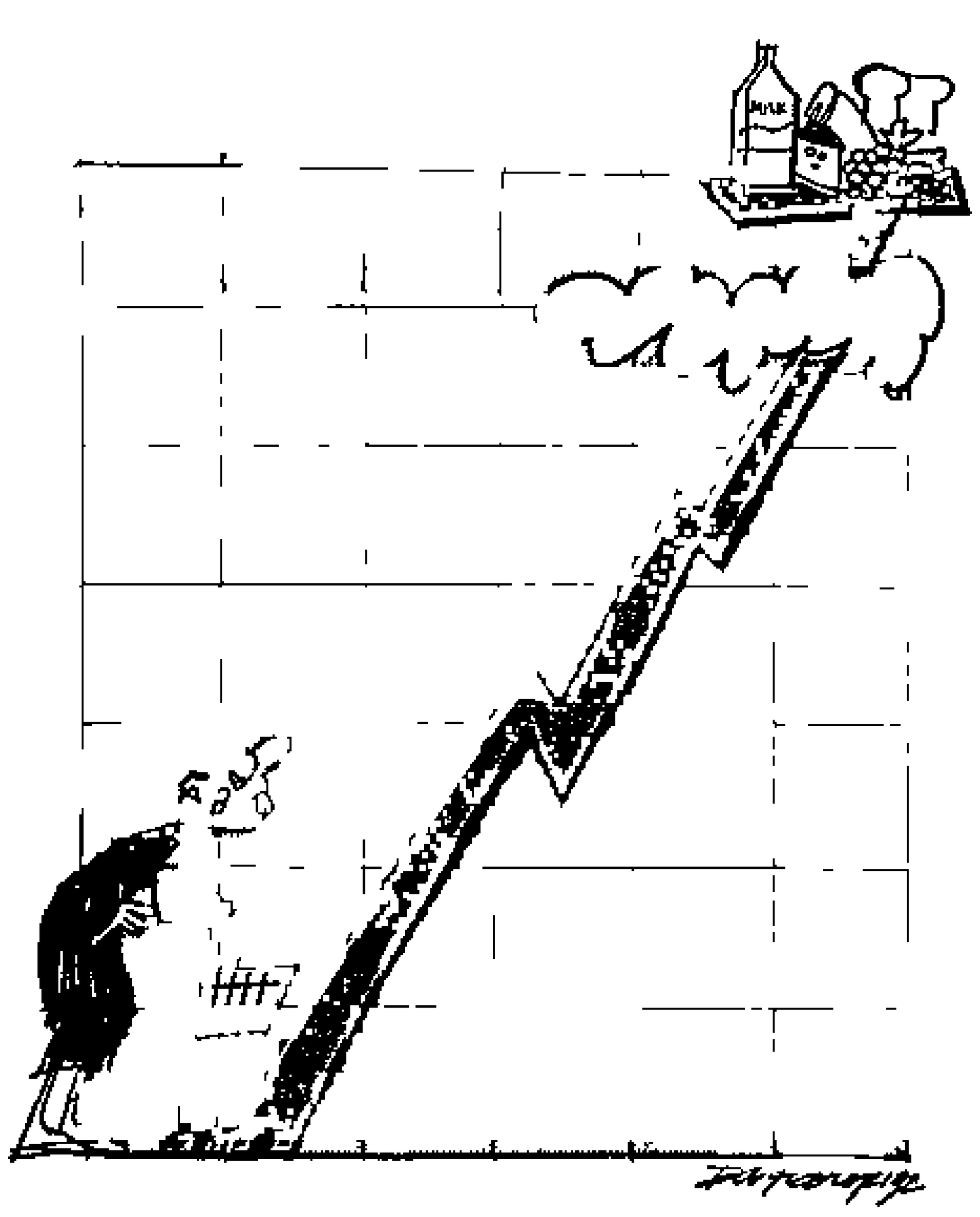
Farmers, manufacturers, wholesalers, distributors, retailers, control boards, agricultural co-operatives and consumer bodies were represented at the Food Logistics Forum, at Midrand, which was the result of the outcry after the Central Statistical Service announced in May that annual food inflation had hit 28,4%

At that point, Premier Group chairman Peter Wrighton spoke to Finance Minister Derek Keys, who suggested the industry's operators should get together and study the situation Wrighton spoke to other leaders in the industry and a working committee was formed to organise the conference, which drew 92 delegates from across the food chain The public and press were excluded "Some of the delegates were apprehensive about speaking openly and frankly in front of the press," Wrighton says

Both consumers and the food industry hoped that the problems would be isolated, analysed and cured in the glaring spotlight of free discussion, under the chairmanship of Mr Justice Cecil Margo, but the situation appears to be more complex than ever

The forum listed 22 key areas that need investigation Ten are to be "actioned immediately " Delegates agreed that VAT, introduced last September, is the chief culprit behind recent food inflation and that a task force would investigate the issue and approach government to negotiate the zero-rating of basic foodstuffs

"Difficulties with CSS inflation statistics" is seen as the second-greatest problem Last year the service goofed more than once on its monthly statistics and its accuracy was once again questioned by delegates, who were sceptical of the terrifying 29,3% year-on-year figure released for June's food inflation



"We're not attacking them," Wrighton says, "but we think we will have to go into them more carefully "

The forum recently commissioned consultants Louis Heyl & Associates to do an independent study of three of the major food retailers The investigation found annual food inflation at these three supermarket-chains to be 15%, with VAT adding another six points, boosting their overall food inflation figure to 21%

"If the CSS figures are correct, it means that the rest of the market, which is made up of smaller retailers and the informal sector, must have inflated prices around 38%," Wrighton says As a result, the industry has to get to grips with the CPI figures and a second working group is being formed to deal with this

CSS head Treurnicht du Toit says changing the weighting of the CSS basket would not make much difference to the final figure

Break down CPI

Delegates agreed that the food CPI needs a subdivision which would separate the chain stores from the other retailers, but this would be a problem in the short term because of limited resources, Du Toit says, stressing that the industry does not have "any problem with CSS methodology "

Industry officials agree, but say what is needed is a more sensitive measurement mechanism

The industry also plans to look at using the revenue from import duties and profits from food imports to lower the cost of food "This revenue, which exceeds R600m a year, is going straight into government coffers at the moment," Wrighton says

The forum debated whether there should be a recommended price on basic foodstuffs such as bread as a self-regulatory mechanism "We really want the smaller trader to take a smaller margin but a larger turnover," Wrighton says

Task forces are also being formed to investigate other problem areas, which include

☐ The economic costs of transition, such as strikes, shrinkage and falling productivity,

☐ The status and function of the marketing boards and how they could be restructured to protect farmers but become more market-orientated,

☐ The issues of retailer/manufacturer relations and the thorny question of economic concentration,

☐ The gap between what farmers are paid for their produce and the price the manufacturer pays,

☐ What causes inflation and to what extent interest rates and electricity, water and effluent utilities are affecting food costs, and

☐ The efficiency of the food distribution chain

The task forces will comprise representatives from all sectors of the food industry, with a pool of talents and backgrounds in each group Media representatives could also be invited to join them, Wrighton says

Meanwhile, food prices remain high and consumers will have to tighten their belts a little more and wait for the task forces to report back to the steering committee Report-backs are due in three months ■

LIGHT BULBS

Dark days for consumers

The local light-bulb industry completed a two-year effort this month to keep imported bulbs out of the country The result has been predictable prices have jumped by up to 60% in the past year and consumers increasingly complain of poorer quality

In the past two years, the industry has helped to persuade government to hike import duties sharply, clamp down on import permits and implement stringent SA Bureau of Standards specifications Cheaper imported bulbs have been all but banned

This month, the bureau gazetted yet another regulation — the type of fuse used must now be shown on all bulbs It claims its requirements are aimed only at ensuring safety and says it's received a host of complaints in recent years about bulbs without fuses, which may explode at the end of their life spans

The rule, however, appears to be a clear case of a nontariff trade barrier Importers say the requirement is unheard of elsewhere in the world and that foreign manufacturers are unlikely to go to the trouble of stamping the fuse type only on bulbs shipped to SA The bureau won't even accept the information on the package So importers fear that the move is, in effect, a blanket prohibition on all bulb imports

Shaun Toner, MD of wholesaler and importer Dynamic Distributors, says "The local manufacturers can't make their products at a price that can compete with imports They are simply trying to eliminate the competition "

He adds that the manufacturers' campaign started two years ago when government dropped the 15% surcharge on goods from eastern Europe This paved the way for

HUNT LEUCHARS & HEPBURN (186) FM 21/8/92

Poorer profit harvest

Activities: *Produces, manufactures and distributes timber and food products*
Control: *Rembrandt via Huntcor's 76,6%*
Chairman: *D Marlow, MD. N I Morris*
Capital structure: *149,3m ords Market capitalisation R1,87bn*
Share market: *Price 1 250c Yields 2,5% on dividend, 6,5% on earnings, p.e ratio, 15,3; cover, 2,5 12-month high, 1 800c, low, 1 250c Trading volume last quarter, 1,2m shares*

Year to March 31	'89	'90	'91	'92
ST debt (Rm)	16,7	26,7	17,3	19,5
LT debt (Rm)	41,3	24,4	84	97,7
Debt equity ratio	n/a	0,06	0 11	0,10
Shareholders' interest	0,86	0,82	0,77	0,80
Int & leasing cover	17,3	n/a	6,1	4,7
Return on cap (%)	15,5	12,5	13,1	9,9
Turnover (Rm)	371	464	587	694
Pre-int profit (Rm)	99,9	114,7	141,3	140,5
Pre-int margin (%)	20,4	20,6	20,1	18,2
Earnings (c)	66,8	81,4	91,2	81,5
Dividends (c)	24,0	28,8	32,5	32,5
Net worth (c)	498	582	617	731

Expected poor performances from Hunt Leuchars & Hepburn's sugar and broiler interests will hamper group earnings this year, MD Neil Morris predicts He says earnings will be very significantly down at the interim stage.

Transvaal Sugar (TSB), 100%-held, has been badly affected by the drought, particularly as the company usually relies on three perennial rivers for irrigation, of which two had dried up by February, usually the highest rainfall month At Rainbow Chicken a chronic excess supply, largely the result of a poor Christmas season, means the leading broiler operator resorted to selling below cost in the 1992 first quarter to reduce stocks, resulting in a substantial loss for the quarter, says Morris

However, HLH's largest contributor, 100%-owned CGP Investments, trading as Robertsons, continues to perform well, helping to cushion the expected earnings decline CGP, contributing a third of HLH's 1992 earnings, has enjoyed historical real earnings growth of 10%-15%, though Morris cautions this target will be difficult to maintain in present economic conditions

Food activities, including such brands as Knorr, Bovril, Marmite, Maizena and Robertson Spices, account for about 70% of CGP's business, with household products, including Rattex and Doom, making up the remainder Morris rationalises CGP is largely immune from recessions as flavour enhancers, such as its stock cubes and spices, constitute a major part of its business Demand for flavour enhancers rises as consumers buy poorer quality meat with their lower disposable incomes. CGP's 1992 earnings grew 35% on the previous year

HLH's Morris ... *earnings will be down*

Earnings at TSB, the second largest profit contributor, with 26% of last year's group profit, are predicted to be down more than a quarter this year, due to declines in both volumes and quality

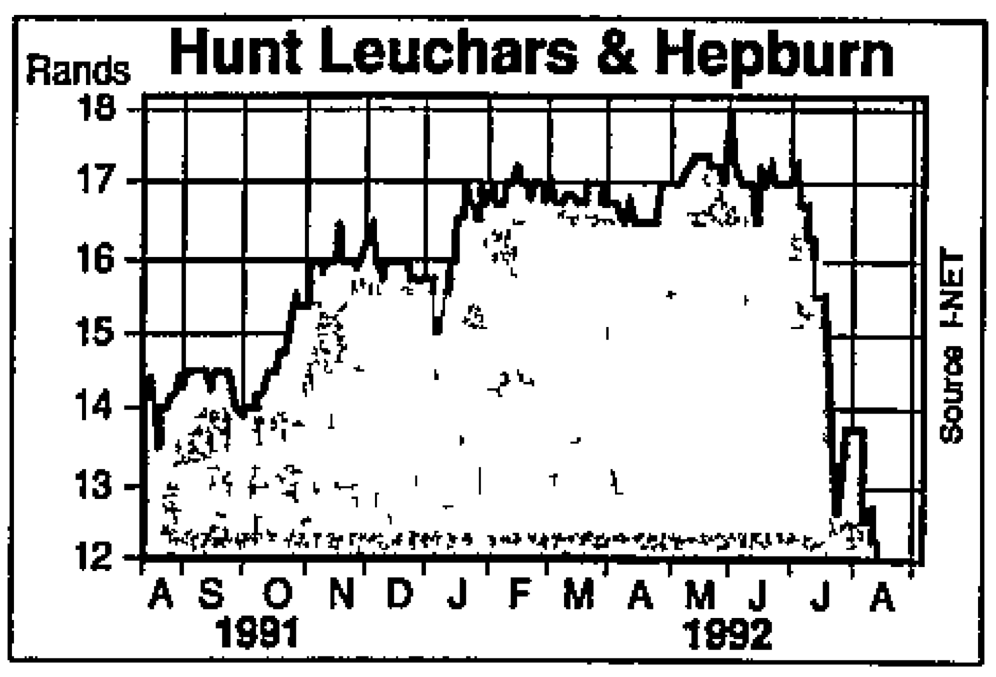
Though TSB has been awarded a licence to build a sugar mill in the eastern Transvaal, Morris says the group is waiting for an announcement from government relating to the construction of the nearby Driekoppies Dam before starting TSB applied for the licence on condition the dam was built to irrigate new sugar cane crops An announcement is expected in the next few months Earnings contributions from the R400m mill are not expected for at least three years

Mining timber, historically accounting for about four-fifths of activity, remains the cornerstone of the Timber Holdings division, despite the significant restructuring and downgrading at mining timber operations Management had predicted a downturn in the mining industry well ahead of the event Morris reckons the Timber Holdings division, contributing 22% of 1992 profit, should achieve double-digit earnings growth this year Timber Holdings, held 50% with Anglo American Corp, is equity accounted

On Rainbow, Morris stresses HLH has no management control of the broiler operator, adding his group has no regrets about its chicken investment Morris says Rainbow will record a loss for the first half, due to the first quarter's loss As production is being cut in line with demand, a profit is expected in the second half, though he adds it is unlikely 1992's earnings will be achieved this year

The market has discounted HLH's woes, indicated by the 30% fall in its share price during the past two months, though it has recovered marginally, presumably on acceptance the underlying operations are sound long term

William Gilfillan



RAINBOW FM 21/8/92

Bending to the market

Activities: *Integrated chicken producer*
Control: *Hunt Leuchars & Hepburn 40,3%.*
Chairman: *D J Loch Davis, MD J B Geoghehan*
Capital structure: *368,5m ords Market capitalisation R1,29bn*
Share market: *Price 350c Yields 1,3% on dividend, 3,9% on earnings, p e ratio, 25,4, cover, 3,1 12-month high, 550c, low, 320c Trading volume last quarter, 1,9m shares.*

Year to March 31	'89	'90	'91	'92
ST debt (Rm)	—	—	316	211
LT debt (Rm)	—	—	144	44
Debt equity ratio	—	—	0,83	0,31
Shareholders' interest	0,80	0,81	0,45	0,63
Return on cap (%)	12,1	8,8	2,5	5,7
Turnover (Rm)	554	635	523	1 511
Pre-int profit (Rm)	81,4	65,0	30,2	76,3
Pre-int margin (%)	14,7	10,2	5,8	5,1
Earnings (c)	26,8	31,3	13,0	13,8
Dividends (c)	7,5	10,7	4,3	4,4
Net worth (c)	195	216	187	216

On fundamentals, Rainbow Chicken should perform well, chicken satisfies the needs of lower-income groups, providing them with protein at affordable prices, while the upper-income groups are consuming more white meat because of their dietary quests But recently things have gone badly wrong for Rainbow, best indicated by last week's unusual announcement that significant losses were incurred in fiscal 1992's first quarter, making it unlikely 1992's earnings level will be achieved this year

EPS dropped 31% in 1992, a year described by MD John Geoghehan as exremely difficult, as management had to cope with the recession and challenge of managing Bonny Bird Farms, acquired from Premier Foods It became a subsidiary at the beginning of the 1992 fiscal year

Aside from EPS, comparison of the results with the previous year is problematic as Rainbow funded the acquired 100% of Bon-

continued

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Aside from EPS, comparison of the results with the previous year is problematic as Rainbow funded the acquired 100% of Bonny Bird and 50% of Epol (including management control) by a rights offer of 93,5m ordinary shares, raising R247,9m

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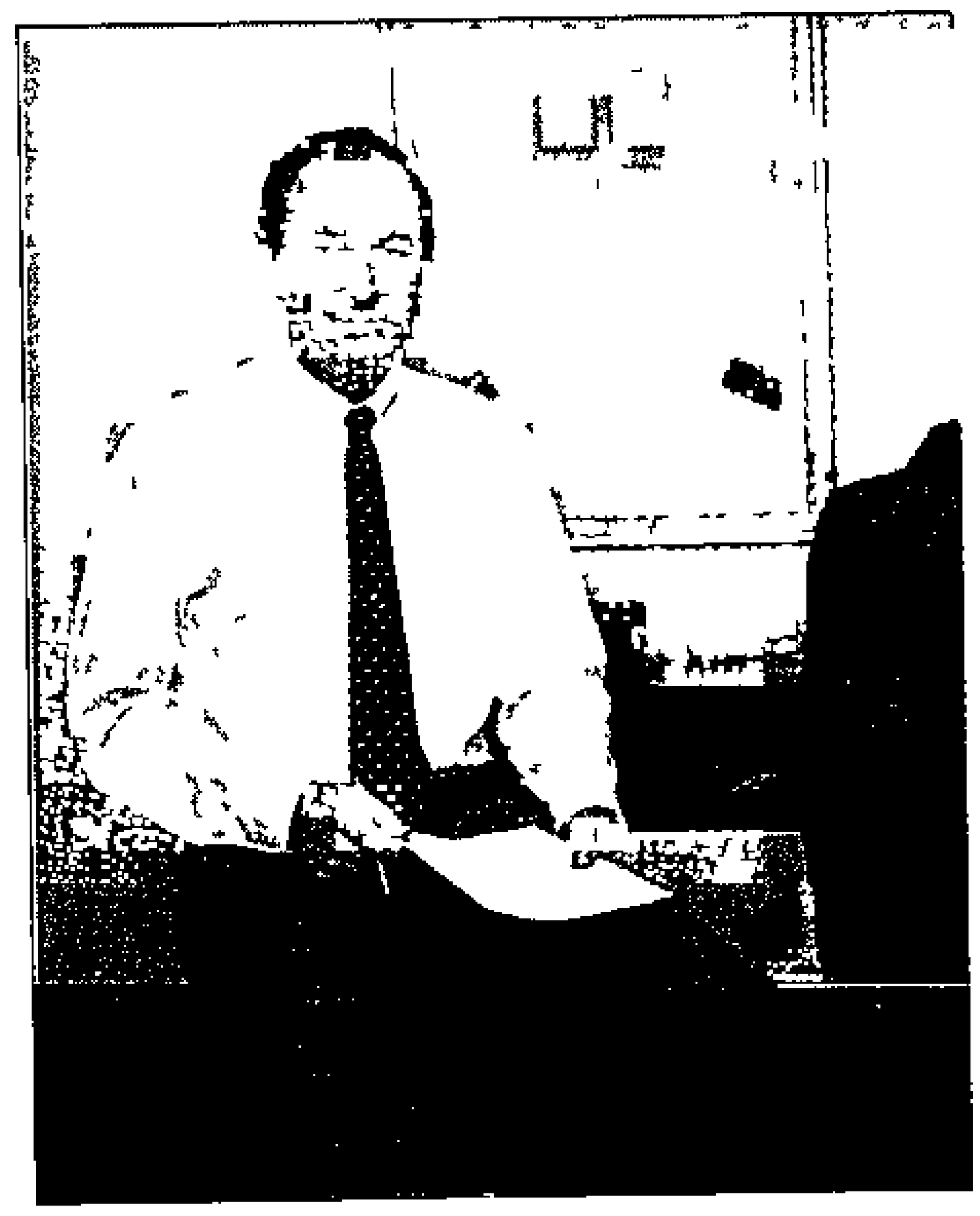


Rainbow's Geoghehan
an extremely difficult year

Historically, Rainbow has been production driven, as significant growth in the chicken industry, around 7% a year, allowed for it Of this increase, three percentage points resulted from demographic growth, with the shortfall remainder derived from consumers' switching from red meat to cheaper white meat The problem came after the growth tapered off, while Rainbow's production grew unabated, with excess capacity worsened by last year's poor Christmas season Prices dropped significantly, with the result that Rainbow sold chickens below cost during the first quarter of this year

Rainbow has never had a marketing director, though the imminent appointment of such a man probably reflects acceptance by Rainbow management that the world has changed, and one will no longer be able to rely solely on industry growth

The growth in 1992 turnover is largely explained by the inclusion of Bonny Bird and Epol sales for the first time, though the Rainbow division achieved 15,9% turnover growth

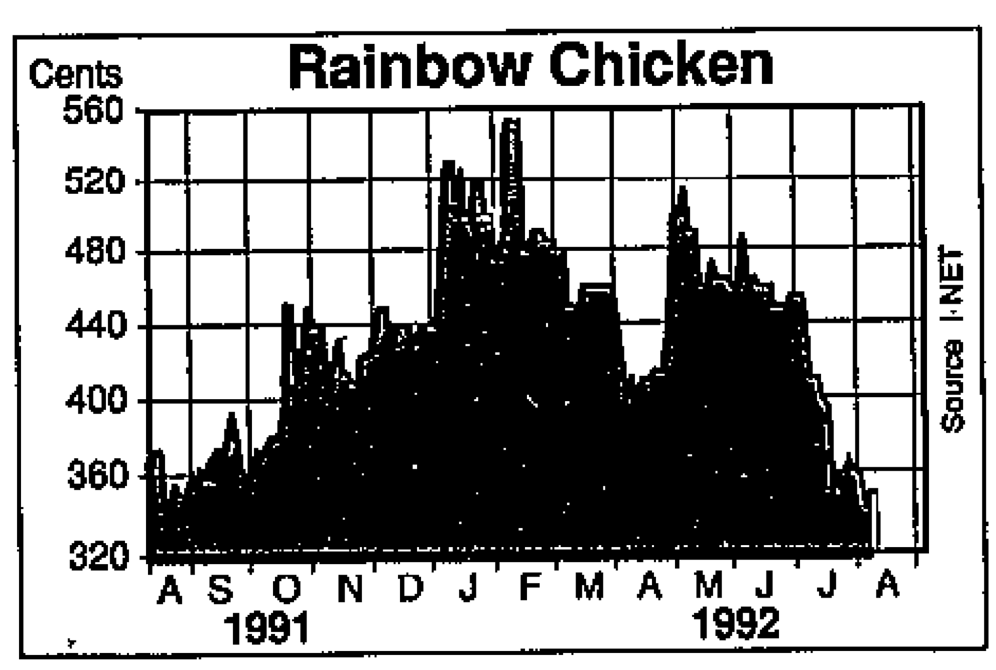
The decline in trading margin is primarily due to the inclusion of Bonny Bird, which had lower margins than the Rainbow division, and Epol, which operates in a traditionally lower-margin industry Significant progress was made in turning Bonny Bird around, indicated by 1992's R17m profit against a R13,2m loss previous year

Bottom-line results were also hit by the turnaround in interest charges, swinging from the previous year's net income of R9,4m to an expense of R27,2m

Geoghehan says this resulted from acquired debt, the amount owed to Premier Group for Bonny Bird and R103m in capital expenditure, of which R44,8m went to the Rustenburg feedmill, R10,5m was used to increase the processing capacity at Hammarsdale, and R7,6m has been spent on upgrading refrigeration and by-product facilities at the three Rainbow processing sites Continuous expansion of the breeding, hatchery and broiler facilities at Rustenburg totalled R9,2m

Gearing, though, has dropped markedly due to the increased equity, after the rights issue, and lower debt

A pick up in consumer demand will reduce the excess production capacity and widen margins, which will boost EPS However, Rainbow faces another complication as the drought means farmers are having to slaughter cattle because of the shortage of grazing, so softening prices of red meat *William Gilfillan*



BIDVEST FM 21/8/92

Pulling together

(186)

Brian Joffe's entrepreneurial flair continues to reap rewards for Bidvest shareholders At a time most companies are struggling to hold profits, the group recorded 17% EPS growth

Unlike a number of holding companies often reliant on a few underlying operations for a large slice of group trading profit, three of Bidvest's four divisions made significant contributions to 1992's R60m total trading profit.

SHOWING FLAIR

Year to June 30	1991	1992
Turnover (Rm)	412	596
Pre-tax profit (Rm)	35	60
Attributable (Rm)	18	27
Earnings (c)	352	412
Dividends (c)	115	164

The unlisted Steiner division accounts for roughly R22m of this — Cater Plus, also unlisted, around R20m — and listed Afcom R16m As the fourth division, listed Crown Foods, was acquired earlier this year, its contribution of only R2m relates to the four-month period from March 1

The Steiner acquisition, effective from May 1 1991, has substantially changed the portfolio Joffe, Bidvest's chairman, believes the acquisition has been well vindicated, particularly given the strong synergistic benefits between this towel and workwear rental operation and the Cater Plus division, which distributes food to the catering industry Clients for both businesses include corporates, hotels and restaurants.

Synergy seems to be a strong reason for deals the purchase of Crown Foods, now topical through the discovery of significant financial irregularities, was justified using synergy arguments, Crown's catering equipment and spice operations complemented

FM 21/8/92 (186)

Bidvest's industrial catering equipment and spice activities, previously held in Cater Plus The Crown acquisition is to proceed despite the financial irregularities discovered ... a due diligence test, though at a substan-[illegible]lly reduced price

Afcom, a maker and distributor of fasteners used largely in the packaging and building industries, is anomalous to the group's other activities, indicating Joffe could go for any deal where he feels the numbers make sense, rather than sticking to the knitting, so to speak

Though the share has recently dropped in line with the market, the 8,4 p e is probably fair As the group will be a strong beneficiary of any tourism upturn, increased activity in this area will probably warrant a higher rating

William Gilfillan

Langeberg's Messina move

CANNING and food processing company Langeberg is to move its tomato production from Hoedspruit and Siyabusa in the Transvaal to a new facility at Messina

Langeberg said yesterday it had invested R18m to develop tomato processing activities in the far northern Transvaal town "The investment will create capacity for future growth and improve profitability," it said in a statement BDAY 27/8/92 (186)

Present production facilities were no longer viable "because relatively little tomato growing now takes place in these areas". Over the years much of the tomato production had shifted to Messina

The new plant is expected to be in operation by April 1993 — Sapa

I&J lifts profit and market share

BDay 28/8/92 (186)

LINDA ENSOR

CAPE TOWN — Anglovaal's fishing and frozen food group Irvin & Johnson (I & J) gained market share in the year to end-June despite tough market conditions, producing an earnings growth of 10% on a turnover rise of 16% to R1,64bn (R1,4bn).

A three times covered dividend of 86c (78c) was declared on earnings of 258,4c (235,2c) a share, calculated on the weighted average number of shares in issue.

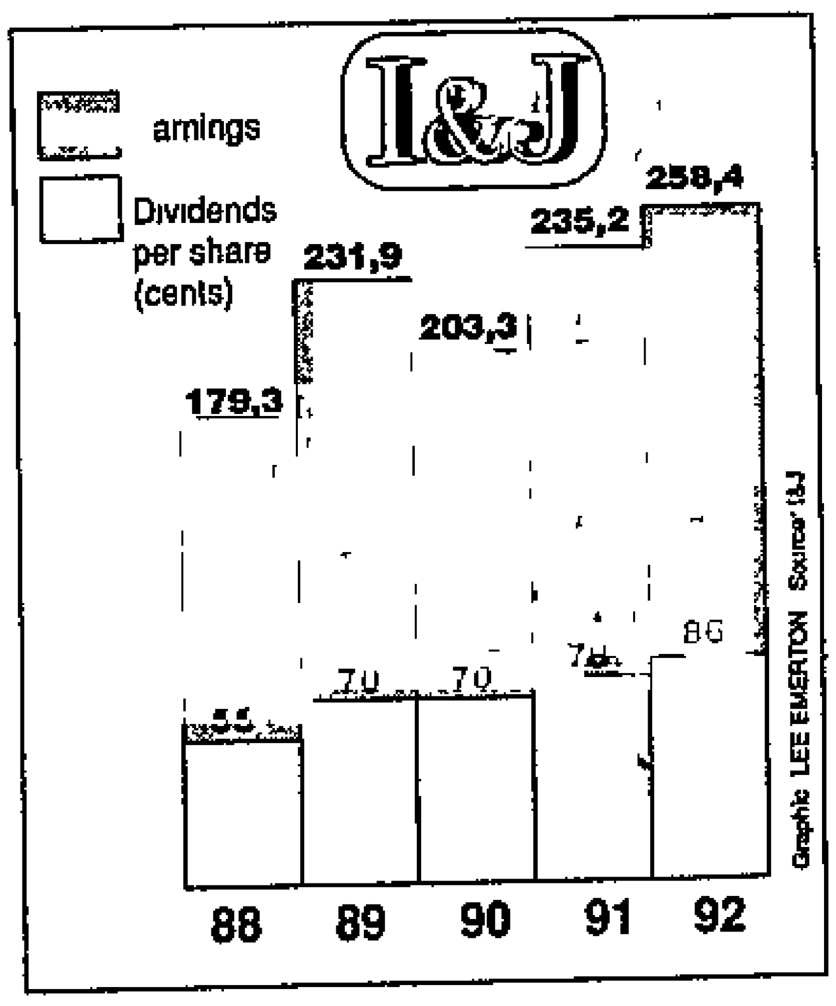
Pre-tax profit received a boost of R7,2m in interest earned from the investment of R98,2m from the debenture issue to raise funds for future growth

Chairman Jan Robbertze said the tonnage of fish sold rose by 6,4% while prices increased by an average of 8,9% An attempt was made to curtail price increases by enhancing business efficiencies

I & J gained market share for its frozen food products despite difficult conditions. No growth was recorded in the retail sector but I & J increased volumes by 5%. The food service sector declined by 3% in real terms for the first time in many years but I & J's volumes remained static

I & J financial director John Morrison said consumer spending had declined but the drought had forced people to resort to frozen vegetables He said if it were not for the drought, frozen food volumes would have declined Fish quotas were the same as last year and were fully caught but secondary catches were lower than last year Morrison said the group continued to benefit from the switch by consumers to fish from meat.

Margins slipped to 6,6% (6,9%) resulting in a 10,5% growth in operating profit to R107,4m (R97m) Income from investments rose sharply by 70%, mainly from interest income from the R98m figure, but this gain



was diluted by the 94% hike in finance charges related to the payment of debenture interest.

Attributable earnings increased by 10% to R74m (R67,2m). Long term debt was cut to R14,8m (R24m) and short term interest bearing debt to R9,5m (R20,3m) both of which contributed to the fall in debt equity to 7% (14,4%)

Robbertze said the recessionary conditions were expected to persist for much of the coming year and would be exacerbated by the drought

"The current year will be difficult but the company has planned to maintain profit growth"

Capital expenditure last year amounted to R65,7m (R46,94m) and included the reconstruction of two freezer trawlers Subsequent to year-end two large factory freezer trawlers were acquired for R30m. I & J plans to build a new potato products factory to add to its existing capacity and has acquired a site for this purpose Morrison said separate borrowings might be used for this purpose

Capex of a further R54m (R32m) as at the June-end had been authorised of which R3,2m had not yet been contractually committed Also planned for this year is a R25m sales and distribution warehouse in Durban

FM 28/8/92 (186)

BRENNER MILLS FM 28/8/92

Wheels turning again (186)

After three successive years of declining earnings, the millwheel is turning again at Brenmill Though turnover did not increase, operating profit almost doubled and debt was repaid.

Chairman Arnold Brenner is pleased to see Brenmill in such a liquid position under difficult trading conditions In the first full year of contributions from each of the mills and with the stricter control on credit to customers, cash flow improved strongly.

Brenmill's R4m bank overdraft was converted to a R6m cash balance and the current ratio improved from 2,1 to 2,4 Brenner declines to forecast earnings for this year but hopes earnings will at least be maintained.

A conservative approach has been taken towards acquisitions in the past and a potential buy would have to be considered extremely attractive before being acquired.

The only millstone is the irregularity "perpetrated by senior executive personnel acting in collusion at the two mills in Louis Tri-

FM 28/8/92 (186)

chardt," which was discovered in 1991 and is being investigated by the police. In 1992, trading margins improved sharply, ~~even~~ though turnover was unchanged

After having risen to a 12-month high in response to the positive results, the share price has remained at 80c (ex-dividend) The share offers a 10% dividend yield If interim results for the six months to end-August confirm the upswing, the share price will warrant a more favourable rating *Kate Rushton*

Activities: *Makes maize meal, malt and animal feeds*

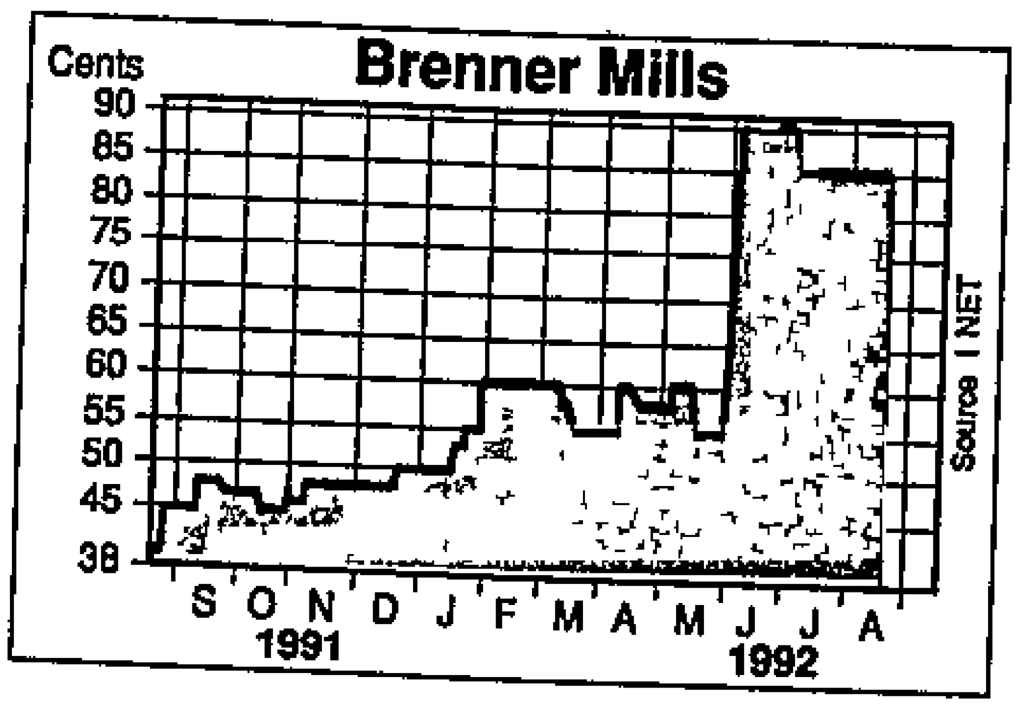
Control: *Brenner family 81,4%.*

Chairman and joint MD: *A Brenner, Joint MDs· Z Brenner and M Brenner*

Capital structure: *23,3m ords. Market capitalisation R18,6m*

Share market: *Price 80c. Yields 10,0% on dividend, 20,5% on earnings, p e ratio, 4,9; cover, 2,1 12-month high, 90c, low, 38c Trading volume last quarter, 96 000 shares*

Year to Feb 29	'89	'90	'91	'92
ST debt (Rm)	—	1,7	4,1	—
Debt equity ratio	—	0,06	0,16	—
Shareholders' interest	0,77	0,72	0,67	0,71
Int & leasing cover	—	9,3	5,3	26,5
Return on cap (%)	13,4	14,1	10,5	19,2
Turnover (% increase)	8,3	18,7	11,2	nil
Pre-int profit (Rm)	4,2	4,9	4,0	7,5
Earnings (c)	11,8	9,9	7,2	16,4
Dividends (c)	5,0	5,0	3,75	8,0
Net worth (c)	103	107	109	118



SUGAR INDUSTRY FM 28/8/92 (186)

Waiting for a sweetener

Transvaal Sugar is waiting anxiously for a government decision that could kick off R1bn capital investment in a new dam and sugar mill and open up thousands of hectares of cane land in the eastern Transvaal

Government will decide whether to provide financial guarantees for the R300m Driekoppies Dam, which would be financed by the Development Bank of SA. The dam would be on the Lomati River — a tributary of the Komati River — and would be built by

the Department of Water Affairs in the fertile Onderberg basin, south of the border town of Komatipoort

The dam is central to a sugar project aimed at opening up 12 000 ha of new cane land, which will cost sugar growers roughly R10 000/ha to develop The company says that once there is a commitment to the dam, it will proceed with work on a R350m-plus medium-sized sugar mill Long-term plans call for possibly doubling the mill's capacity and building a second dam.

Transvaal Sugar expects the long-delayed decision in the next few weeks, but if the decision is negative, or is delayed further, the company could face penalty clauses for cancelling or postponing work already started The matter is now with Finance Minister Derek Keys, who will make a recommendation to the Cabinet

Government is expected to approve the guarantees but if it doesn't give the go-ahead soon, the company may have to postpone work on the mill for another year because it wants the mill's completion to coincide with the start of a sugar milling season, which occurs each April Financial GM Hennie Snyman says. "We have gone out on a limb and given out some of the work. If we are wrong, cancelling that work could be expensive "

It is believed that Transvaal Sugar has awarded the management contract for developing the mill to Durban-based Bosch & Associates, but Snyman would not confirm this

He says the uncertainty over timing — there have also been substantial delays while an international riparian treaty involving Swaziland and Mozambique was negotiated — has persuaded the company not to obtain outside financing for the project

"Though there is considerable interest in our scheme, we doubted the wisdom of obtaining the backing of an institution and then having to repeatedly report postponements It now gives us considerable flexibility in structuring finance for the scheme We will bankroll the first year of the project from existing resources while we consider the options for the balance "

Among the choices are listing Transvaal Sugar or, more likely, a rights issue by its parent, Rembrandt's Hunt Leuchars & Hepburn Or it could seek a partner in the development project. One option that has already been ruled out is to borrow the money against the company's balance sheet, but issuing debentures through the parent company is also a possibility ■

FM 28/8/92

CHOICE HOLDINGS 186

Looking at refinancing

Chairman and major shareholder John Limberopoulos has taken only three years to bring DCM-listed Choice Holdings (formerly Mighty Meat) to a trading profit Firmer management and new operating and administrative systems have overcome problems at subsidiary Caterchoice

Retailing outlet Mogale Mmabatho, based in Bophuthatswana and held 50% by Yabeng, made a "little contribution" of R197 000 in 1991 but provided only R49 000 last year Limberopoulos says the introduction of VAT last September was largely to blame for the poor results from its 20 butcheries

Management is looking at recapitalising the company this year, to finance new acquisitions as well as the recurring extraordinary item — Choice still has to pay Caterchoice's R2,5m goodwill, being paid off over 10 years

Limberopoulos declines to disclose details of the refinancing as it could affect negotiations He does say another acquisition may follow that of The Food Connection, bought for R240 000 in March The Food Connection will allow Choice to acquire a larger market share in supplying to the restaurant and hotel trade

Interest payments are still absorbing half the operating profit Lower interest rates may bring some relief, fortunately, R2,03m of the net long-term debt is interest free and renewable annually

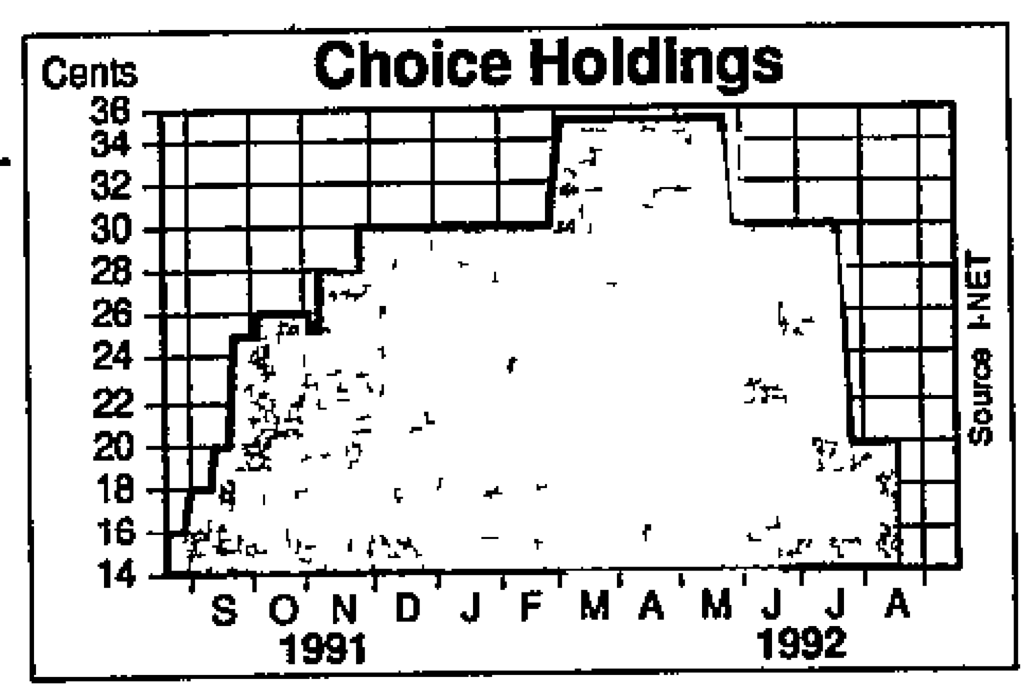
Limberopoulos says the group should more than break even in the six months to August, when profit of R150 000 may be realised The earnings outlook is better, but the share price still stands below the 45c Limberopoulos paid in 1989. Given the gearing and negative NAV (after deducting goodwill), the share remains speculative.

Kate Rushton

Activities: *Processes and distributes meat products*
Control: *Directors 54,2%*
Chairman and MD: *I Limberopoulos* 186
Capital structure: *10,1m ords Market capitalisation. R3m*
Share market: *Price 30c 12-month high, 35c, low, 15c Trading volume last quarter, nil shares*

Year to Feb 29	'90	'91	'92
ST debt (Rm)	1,8	1,9	1,5
LT debt (Rm)	1,6	2,8	3,3
Shareholders' interest	0,01	—	—
Int & leasing cover	—	—	1,1
Return on cap (%)	—	—	10,4
Turnover (% increase)	n/a	34	13
Pre-int profit (Rm)	(1,3)	(0,8)	0,9
Earnings (c)	(15,4)	(15,0)	(0,72)
Net worth (c)	0,7	—*	—*

* Negative after deducting goodwill



I & J beats the drought

186

CT 28/8/92

Business Editor

IRVIN & Johnson lifted earnings [illegible] to R74m (R67,2m) in the year to June in spite of difficult trading conditions and the drought. [illegible]

Turnover [illegible] R1,6bn [illegible]

The directors [illegible] the consumer price index [illegible] CPI food price [illegible]

[illegible] operating profit [illegible] R107,1m [illegible] R97,2m [illegible]

Income from [illegible] issue [illegible]

[illegible] share [illegible]

In spite of the recession the company continued [illegible] capital expenditure [illegible]

[illegible] John [illegible] fishing [illegible] and three Spanish [illegible] — [illegible] authorities — [illegible]

[illegible] store had been bought [illegible] Island.

Chairman [illegible] Robbertze [illegible] report [illegible] new [illegible] products [illegible] during the [illegible] on the [illegible] board.

Robbertze [illegible] although [illegible] growth [illegible] opportunities [illegible]

Irvin & Johnson earns more and pays more

By Stephen Cranston (186)

Irvin & Johnson (I&J), Anglovaal's frozen food company, increased earnings by 10 percent to R74 million and earnings per share to 258,4c in the year to June STAR 28/8/92

The dividend has been raised by 10 percent to 86c

Turnover increased by 16 percent to R1,638 billion, with tonnage sold up 6,4 percent

Chairman Jan Robbertze says management has striven to enhance efficiency, which has enabled it to contain price increases to 8,9 percent

The retail market for frozen foods was static during the year and the food service market was down three percent in real terms

I&J gained market share, with retail volumes growing by five percent

During the year the company raised R98,2 million in a rights issue to ensure that adequate resources would be available to fund growth

Income from investments increased by 70 percent to R11,5 million, mainly because of interest on funds raised But interest paid was up from R5,5 million to R10,7 million because of payouts on the rights issue

Gearing fell from 14,4 percent to 5,4 percent

During the year I&J reconstructed two freezer trawlers It took delivery of two Spanish-built factory freezer trawlers after year-end

The company has bought a site for a new frozen potato chips factory which will enable it to capitalise fully on growth in this sector

I&J is planning a new sales and distribution warehouse to serve the expanding market in the Durban area

Mr Robbertze says the recession is expected to persist for much of the coming year and that it has been exacerbated by the unprecedented drought in the summer rainfall area

He says the current year will be difficult, but that the company plans to maintain profit growth by optimising all opportunities and by maintaining operational discipline

Kanhym axes 130 workers

ABOUT 130 workers were dismissed from the Kanhym Meat Market in Montague Gardens yesterday following a wage dispute CT 29/8/92

A Food and Allied Workers' Union organiser, Mr Leon Mqhakayi, said the workers had gone on strike illegally for one day last week. Union members had stepped in and the workers had returned to work. (186)

Royal in deal with Mars

By CHERILYN IRETON

THE eccentric Mars clan, the world's fourth-richest family, have concluded a deal with South Africa's Royal Corporation to distribute Mars food products here S/Times Buss 6/9/92

This ends speculation that several food companies, including Anglovaal, were negotiating with US-based Mars

The deal gives Royal access to Mars' full product range, but rules out initial SA manufacture Distribution will take place through Royal subsidiary Royal Beech Nut (RBN)

The Mars' range includes chocolate confectionery, under the Mars Bar, M&M, Snickers and Twix brand names, Pedigree pet food and Uncle Ben's Rice.

Royal has not disclosed which products it will import, but says it will concentrate initially on chocolate confectionery

An industry source says Royal would be "mad" to try to take on Tastic in rice

Mars' products are imported in limited quantities

Royal will not be drawn on the financial implications of the deal, but it is believed that Mars is keen to see its products marketed at competitive prices This suggests that the US company will bear the load of currency fluctuations and import duties (186)

According to Fortune magazine the Mars clan have a combined wealth of $13-billion It says brothers John and Forrest run their business like they run their lives somewhat eccentrically. They share a secretary and shun private offices They even taste-test the dog food

COMPANIES

I&J hopes for growth despite poor spending

LINDA ENSOR (186)

CAPE TOWN — Consumer spending was under severe pressure and it would be a great challenge to achieve real physical volume growth in the current financial year, Irvin & Johnson (I & J) chairman Jan Robbertze said after the group's AGM at the weekend

Nevertheless, the group had planned to achieve earnings growth, he said. BDM 19/10/92

Trading in the first three months had been very difficult, with stayaways having a significant affect and it had been very difficult to achieve budgets

While exports had always been a significant part of I & J's business, the market was slack with international prices of perishable foods reflecting the state of European and other world economies

Robbertze said world markets were soft and realisations were not as good as they might be. The aim in these conditions was to hold on to existing market share He conceded that the removal of the general export incentive scheme would result in the loss of some international markets, or at least a less robust performance

Some time ago the group had formulated a strategy to establish a foothold in offshore markets

In reply to questions by Shareholders Association chairman Issy Goldberg, Robbertze said the official 25%-30% increase in food prices was related mainly to food products which had been hit by the drought, whereas the price of a representative basket of goods would have increased by less than that figure. Including VAT, I & J's products had increased by 19%-20%, bearing in mind that previously its products were exempt from GST.

Excluding VAT the inflation rate of frozen vegetables was about 12,5%.

Robbertze said manufacturers were constrained in what they could say about retail markups as retailers were their customers However, the gross margins charged by retailers were closely monitored and in I & J's food categories markups were small due to the intense competition in this sector.

Sweet success as Roycorp signs up Mars distribution

B/DAY 7/9/92 (186)

MARCIA KLEIN

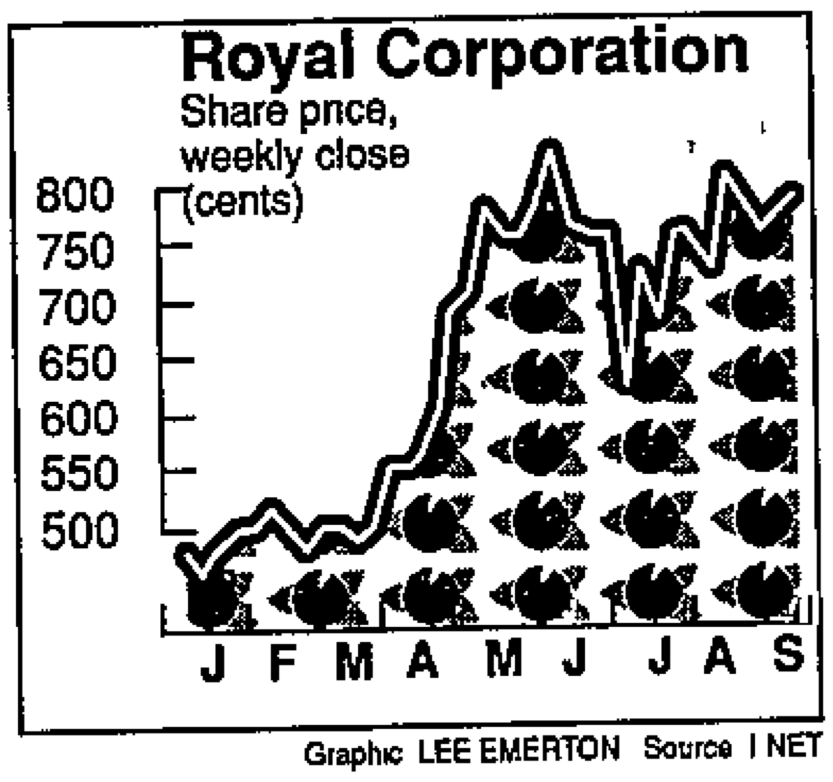
THE Royal Corporation (Roycorp) is set to take a large slice out of SA's R400m chocolate confectionery market after a deal with international giant Mars

Roycorp had scooped distributorship of Mars food products — which include some of the world's best-selling brands — through its subsidiary Royal Beech Nut (RBN), the group announced at the weekend.

The deal includes Mars's full product range, which consists of confectionery, pet foods, mashed potato and pastas and spices However, RBN would focus on chocolate confectionery at this stage

Although it would not say what brands would be distributed, it is expected that it would sell Mars's world famous brands, Mars Bars, Snickers, M & M and Twix They are expected to appear on the shelves in mid-October at a price that would compete with local brands.

Roycorp would not project what sort of volumes it expected to sell, but it is understood that both Mars and Roycorp would not have entered into an agreement if they were not hoping to capture a significant share of SA's market



Graphic LEE EMERTON Source I NET

Roycorp said it would focus "the full force" of its marketing and distribution operation "on boosting market share substantially"

It said Mars would not have signed a deal of this nature without putting its muscle behind it "to ensure optimum competitiveness and market penetration"

Privately owned Mars originated in the UK but is largely US-based, selling in more than 30 countries with international sales of more than $12bn It sponsored both the Olympic Games and the soccer World Cup

Mars holds about 40% of the US chocolate confectionery market, an estimated 20% of the British market and just less than 20% of the market in Europe

Roycorp chairman Vivian Immerman said the deal had been negotiated over several years and it rounded off RBN "as a well-balanced leader in the SA confectionery market"

An analyst said the deal would see SA's major players, and particularly Cadbury's, face very serious competition They were expected to fight the competition, but if the market did not expand they would be faced with a reduction in market share

The deal was expected to have a significant positive effect on Roycorp's profitability

An analyst said it was not unlikely that a local manufacturing plant would be established in the future

Food probe puts Tiger Oats in flattering light

BDAY 8/9/92 (186)

MARCIA KLEIN

RESULTS of an investigation into Tiger Oats' food prices, which showed it absorbed inflation totalling millions of rands over the past five years, have implicitly pointed fingers at other players in the food chain regarding escalating food prices

Food manufacturer Tiger Oats commissioned the National Productivity Institute (NPI) to investigate its maize milling, eggs and animal feeds divisions The NPI was asked to look at input prices and selling prices over a five-year period, and whether these were inflationary or deflationary.

The results, which were released yesterday, showed that Tiger Oats had been absorbing inflation and its selling prices were below 10% a year during that period

NPI business development director John Parsons said the food group had increased productivity and created wealth, and had used this wealth to hold down selling prices Tiger had said it would extend the probe to its other operations

NPI corporate measurement manager Douw Möller said "investigations of the effects of productivity and inflation on ex-factory prices . clearly show substantial under-recoveries by Tiger Oats which means that the company has been deflationary in food pricing"

Selling price increases were "markedly lower than the overall escalation in raw materials, wages and salaries, electricity, capital equipment and other resources".

Möller said the investigation related only to Tiger Oats and did not necessarily reflect on the activities of the other major food manufacturing groups. It also did not cover products after they left Tiger Oats

Parsons said the results "intimated that the distribution and retail areas also need to undergo similar investigations".

The VAT co-ordinating committee said yesterday the results were "a step towards greater clarity in establishing the real problems in food price inflation"

The data had shown that ex-factory prices had increased at a rate close to the PPI and far lower than the CPI over the past five years It called on other major companies "to agree to studies being carried out urgently on their operations", and said the distributive and retail industries should be submitted to similar scrutiny.

BUSINESS

Buoyant Bidvest expects to improve on its success

BIDAY 8/9/92. (186)

MARCIA KLEIN

THE Bidvest group outperformed many companies in the year to end-June, and its annual report suggests a similar trend in the current financial year.

Nearly all of the Bidvest group's divisions, which include Afcom, Cater Plus, Crown Foods and Steiner Services, have forecast increased earnings in financial 1993

Chairman Brian Joffe said in the group's annual review that Bidvest's results were "remarkably positive" in the year to end-June. Attributable income rose by 53,8% to R27,1m on a 44,8% rise in turnover to R596m.

Joffe said most divisions had performed satisfactorily, and both Afcom and Steiner were positive cash generators. He attributed the results to a focus on effective asset management combined with tight cost controls, staff motivation and an aggressive sales and marketing approach

But recently acquired Crown Foods' performance had been overshadowed "by the discovery of fraudulent irregularities within the Crown Mills division, involving the non-disclosure of liabilities and the rolling of stock" amounting to R18,2m.

In light of the irregularities, Crown Food made no meaningful contribution to group profits. But Joffe expected it "to yield significant returns in time to come"

Following some "swift action", including the merger of National Spice Works and the Crown Mills division, Crown Food showed a profit of R2,1m in the four months to end-June.

Packaging and stationery products group Afcom had produced excellent results, contained expenses, improved manufacturing efficiencies, addressed asset management and improved trading disciplines, MD Alan Salomon said. He expected a satisfactory increase in earnings in the coming year

Steiner Services, which is involved in textile-rental services, increased turnover by 16% and operating profit by 19% Real growth was more than double the previous year on the back of an aggressive strategy towards new business, and the division was expected to show real growth in financial 1993

MD Bryan McEvedy said there was no reason why the growth in turnover and profits could not be equalled, "if not significantly improved upon", in the coming year

Cater Plus, which supplies food and allied products to the industrial catering and hospitality industries, had a difficult year This division would benefit from an upturn, particularly in the tourism and the retail industries

Workers hurt in clash at bacon factory

STAR 8/9/92

By Charmeela Bhagowat
Crime Staff

186

Three Escort Bacon factory workers in Heidelberg, Transvaal, were injured and one youth was killed in the nearby Ratanda township yesterday.

The youth was killed by unidentified men after permanent and casual labourers clashed at the Escort factory.

Peace Action co-ordinator Venetia Govender said casual labourers taken on during the strike, and then dismissed when it ended, refused to allow returning Food and Allied Workers' Union (Fawu) members into the factory

Peace Action was monitoring the return of about 260 striking Fawu members to Escort.

The ~~casual~~ labourers were dismissed on Friday after the month-long wage dispute between Fawu and Escort was settled. Miss Govender said the returning workers had to be moved to the Thusong Civic Centre to avert a clash between them and armed casual workers who had gathered at the factory gates

Attacked

However, Fawu members who managed to enter the factory were attacked by non-Fawu workers who had not taken part in the strike.

Escort assistant general manager Paul Watmaugh said one Fawu member was injured when he was "hit over the head with something", but workers were immediately disarmed

Fawu organiser Sakkie Kekana said three Fawu members were injured One was seriously injured and taken to the Heidelberg Hospital with stab wounds

Fawu and the company then decided to send the Fawu members home until it was safe for them to return, he said.

According to Peace Action, the casual workers who returned to Ratanda hostel at about 7.30 am attacked Ratanda residents, and local schoolchildren said they saw the group kill a youth near the hostel

Warrant Officer Andy Pieke said police found the body of an unidentified man near the hostel at about 8 am with a bullet wound in the head

ROYAL/MARS FM 1|9|92 -

Another sweetener (186)

FM 1|9|92. (186) FOX

Rumours circulating for the past six months that Royal Corp (Roycorp) was negotiating a joint venture deal with international players proved true at the weekend, though the announcement involved Mars and not the mooted Del Monte — or can investors expect yet another cautionary soon?

Acquisition of the distributorship of Mars' food products is in the form of an open-ended contract through its subsidiary, Royal Beech-Nut (RBN). Though the deal includes the full range of Mars' food products, RBN will at first concentrate only on distributing chocolate confectionery

While the group contends no plans have been made to make Mars' products locally, this may change if pressures such as the declining value of the rand, import duties and surcharges on chocolates outweigh the advantages of importing the goods Local production of the chocolates would be an extremely capital-intensive process

Roycorp will not be drawn on the financial implications of the deal But the cost of importing chocolates — there are 20% duties and a 40% surcharge — suggest Mars is already taking only a small mark-up. And, of course, there is the question of royalties If RBN is to increase its market share in SA's R400m chocolate market, the goods will have to be competitively priced

Leading market players in the chocolate market include Cadbury Schweppes, Nestle Rowntree and, lagging behind them, Beacon Imported chocolates now represent less than half a percentage point of the market.

Mars' chocolates can be expected on the shelves within the next two to three weeks, though distribution will be limited at first to smaller outlets, expanding later to the main retail chains

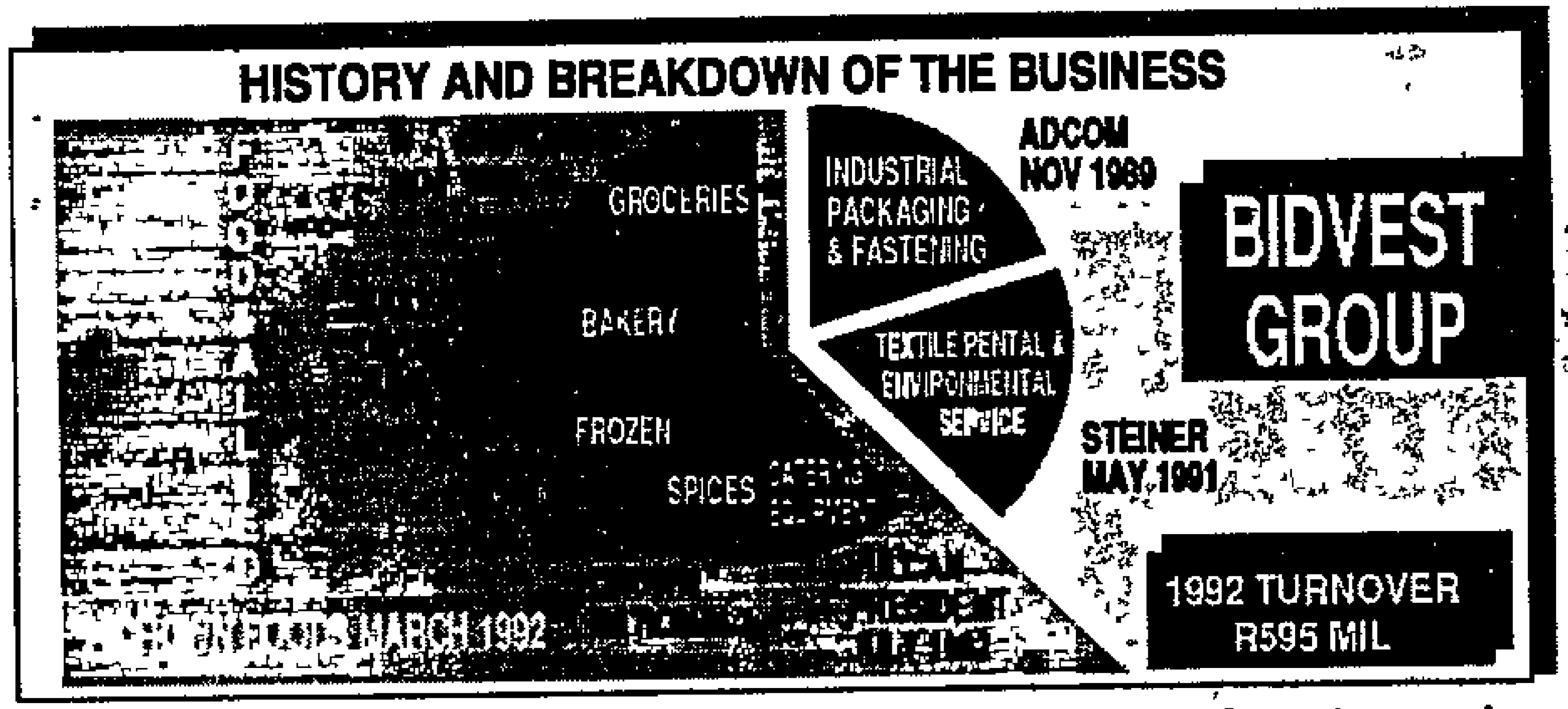
The SA market is known for its brand loyalty And, as an industry spokesman points out, the product will also have to compete against the substantial investment that has gone into advertising over the past 30 to 40 years

The question left begging is whether Roycorp's latest venture will boost its bottom line On the face of it, the deal looks simple enough, with no major capital being laid out The next we are likely to hear of this will be via its planned extensive marketing campaign

Marylou Greig

Something good from Crown's can of worms

(186) S Times (Buss) 13/9/92



CROWN Foods was in such a mess when Bidvest bought it from Murray & Roberts that the buyer never even knew it held the franchise to Southern Fried Chicken.

Since Crown went into the Bidvest fold a year ago, an R18-million fraud has been uncovered, top managers face criminal charges and the mills division has been merged with Bidvest subsidiary National Spice and renamed Crown National. Best of all, it is making money

Bidvest executive chairman Brian Joffe says the franchise, 50 strong at present, could double — and be a winner

He outlined these events at a presentation of his group's interests to the Investment Analysts Society.

He says most of Bidvest's earnings come from its unlisted investments.

In a conscious effort to avoid encroaching on the territories of SA's superpowers yet with a desire to grow quickly, Mr Joffe has focused Bidvest's strategy on niche markets operating on the fringes of major industries

Bidvest's business is distribution, trading and light manufacturing — they do not require high capital investments

The range is wide Starting with a reverse takeover of R8-million cash-shell Iclef, the first investment was WA Chipkin from founder Walter's son Mervyn Mr Chipkin had previously looked to New Bernica's Arnie Witkin to help expand the family-owned company, but that came to naught.

He must be glad about that now Under the Bidvest banner, Chipkin has grown greatly It forms part of the wholly owned Cater Plus division, which sells groceries, frozen and speciality foods, line crockery and cutlery to 5 0.. restaurants, 1 300 hotels, 1 300 schools, 1 200 clubs, 5 000 hostels and 4 000 staff canteens, according to Mr Joffe's best estimates

Partly complementary in terms of customer base is Steiner Services All those places with a canteen also have washrooms, which Steiner manages It also rents out workwear on full-maintenance contracts

Vulcan is a part of Crown and a supplier and exporter of catering equipment. Vulcan was the most important reason for the Crown acquisition, although Crown and National have many areas of common interest.

President Trading, also a catering equipment supplier, was added to the portfolio in July

The other substantial leg of Bidvest is 63%-held Afcom, an industrial packager and fastener manufacturer.

Mr Joffe says "It takes 550 fasteners to make a bed. There wasn't a hotel bed to be had in Cape Town and Johannesburg last month when the two rugby Tests were on. More and more airlines are flying here — albeit with many empty seats

"But we are optimistic about the changes to come in SA and believe our group stands to gain from greater tourism and sporting links. SA's hotels are in poor shape and need extensive refurbishment.

"Our exports will grow now that sanctions are going. Every box of fruit and vegetables needs to be fastened. Every new house needs roof trusses, stapled by Afcom products. Furniture manufacture calls for millions of staples and Afcom has the capacity to meet demand."

In its own division is cosmetics house Justine, for which 10 000 sales ladies serve 400 000 customers Mr Joffe admits that more could be done with it, but Bidvest owns only half of the company and the other shareholder is reluctant to sell. Funds invested in Justine could be better applied elsewhere

In fewer than four years, Bidvest has come from nothing to a group with close to R600-million turnover in the year to June 1992, making R60-million operating profit, earning 412c a share and employing R260-million of capital at June 30 this year

The group is about 40% geared — well below its self-imposed ceiling of 60%. It achieved a 28,7% return on funds employed.

The company's exemplary performance in such a short time has not been rewarded by an above-average rating on the stock exchange Its earnings and dividend yields are higher than those of the industrial index

That is surprising for a group whose philosophy is one of not taking part in the recession

Mr Joffe runs his business for the love of it The proceeds of the sale of his half-share of an animal feeds business enabled him to retire and move to America when in his early 30s

But after two years he returned to become managing director of EW Tarry and later chief executive of W&A, which he left in 1988.

Bidvest will also grow through acquisitions — Mr Joffe says it is always looking.

"Things will improve — it's only a matter of time when," he says

At R39 Bidvest is on a price-earnings ratio of under 10 and a dividend yield of 4,2%

Mr Joffe says. "I know we must be doing something right when top executives of much bigger companies phone us almost daily looking for a job"

BRIAN JOFFE Work's only a pleasure Picture ANDY KATZ

BIDVEST FM 18/9/92

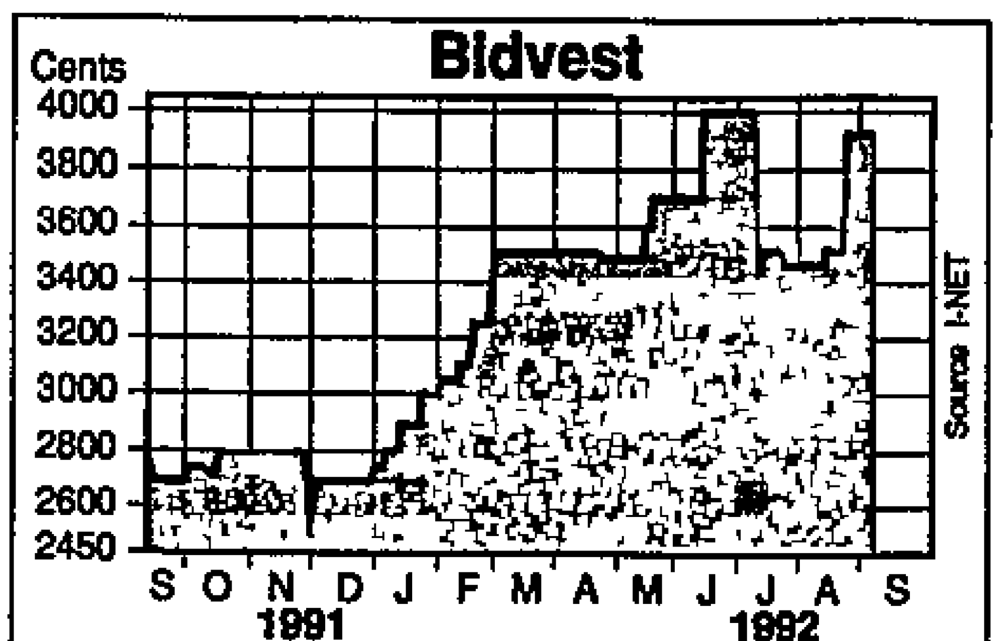
Fixing Crown

(186)

Activities: *Makes fastening and strapping equipment, makes catering and refrigeration equipment, supplies spices and seasoning, rents towels and workwear, makes and distributes food and allied products*
Control: *Bidcorp 78%*
Chairman: *B Joffe*
Capital structure: *6,6m ords Market capitalisation. R256m.*
Share market: *Price· 3 900c Yields· 4,2% on dividend, 10,6% on earnings; p·e ratio, 9,45; cover, 2,5 12-month high, 4 000c, low, 2 500c Trading volume last quarter, 19 000 shares*

Year to June 30	'89	'90	'91	'92
LT debt (Rm) ..	—	3,7	40,4	96,4
Debt equity ratio	—	—	0,33	0,68
Shareholders' interest	0,85	0,69	0,37	0,37
Int & leasing cover	—	—	2,9	3,9
Return on cap (%)	23	21	11	16
Turnover (Rm)	85,9	115,1	411,7	596,0
Pre-int profit (Rm)	11,5	16,9	35,4	59,8
Pre-int margin (%) .	13	15	9	10
Earnings (c) . .	267	241	352	412
Dividends (c)	100	96	115	164
Net worth (c)	1 789	1 426	1 001	934

Profits at Bidvest could improve significantly this year as it's expected the earnings contribution from Crown Foods will jump to roughly R6,7m (1992. R1,5m) Group earnings would thus rise to at least R32m (R27m), assuming the three other divisions merely stand still. In fact, executive director George Demetriades says real growth has



continued

COMPANIES FM 18/9/92 (186)

Bidvest's Joffe . *a more aggressive strategy*

been budgeted for all four divisions.

Chairman Brian Joffe says Crown Foods' 1992 trading performance was overshadowed by the discovery of serious irregularities involving the nondisclosure of liabilities and the rolling of stock. However, Crown management has budgeted for earnings of R10,3m this year, of which R6,7m accrues to Bidvest for its 66% holding. As the company enjoys a R16m assessed loss, Crown should make a significant contribution until at least 1994.

Bidvest's acquisition of Steiner Services last year significantly altered the portfolio The towel and workwear rental business, unlisted and owned 100%, accounts for R22m of the group's R60m 1992 trading profit

Joffe says a more aggressive strategy at the division resulted in a more than doubling in real growth, despite contractual shrinkage in workwear rental through customers reducing their staff complements Linen rental, which services the hotel industry, had lower volumes

Cater Plus, also unlisted and wholly owned, contributed about R20m trading profit Turnover at the division, which makes and distributes food and allied products to the hotel and catering industries, exceeded the inflation rate, but Joffe says margins came under pressure, resulting in a small increase in trading profit He adds tourism growth and an upturn in the economy "should have a very positive effect on trading conditions for Cater Plus "

The 28% rise in trading profit at listed Afcom, a manufacturer of fastening and strapping equipment, meant the trading profit contribution from this 63%-held operation increased to R16m.

Joffe says Afcom "performed remarkably well," to join Steiner Services as a cah generator The results were achieved even though all its major markets had tight economic conditions, through containing expenses, improving manufacturing efficiencies and tight asset management Afcom also benefited from the synergistic acquisition of Signode Strapping

Taking account of management's view of Crown's prospects, and using group earnings of R32m (EPS of 487c), Bidvest's forward p e of 7,8 is probably conservative, as this assumes the remaining three divisions will not record earnings growth *William Gilfillan*

Tongaat-Hulett plans R200m expansions

BIDAN 22/9/92 (186)

MEREDITH JENSEN

TONGAAT-Hulett yesterday announced plans for R200m worth of capital expenditure programmes in the near future

Group chairman Chris Saunders said the move demonstrated the group's faith in the future of SA despite present economic and political difficulties

Earlier this year, the group said it would spend R100m on a new sugar cane irrigation project at Heatonville in northern Natal, using water from the Goedetrouw Dam on the Umhlatuzi river It is estimated the area could yield as much as 500 000 tons of cane by September 1994

Hulett Aluminium, a division of the Tongaat group, would invest R61m in a lacquer coating line to be installed at the company's Maritzburg plant The system would provide coated coils of aluminium can-end to various beverage can manufacturers

"The new line follows the decision of the beverage can industry to convert from the 65mm can-end to a 60mm end which is the international norm and has advantages for can fillers and consumers," Saunders said An all-aluminium can would be introduced by next year

Last week, Tongaat's board of directors gave the go-ahead for a R28m enzyme glucose plant to be built at Tongaat subsidiary African Products' Bellville Mill in the western Cape. The new plant would specialise in glucose refining, freeing capacity at the group's Germiston plant

Langeberg (186) moves plant

PIETERSBURG — The recently listed R700m-a-year canning and food processing company Langeberg is to close down its two tomato facilities in Hoedspruit and Siyabusa CT 23/9/9?

Company spokesman Ray Brown said the plants were no longer viable because relatively little tomato growing takes place in the area He said a new plant will open in Messina, one of the prime growing areas for tomatoes Sapa

2. KLOUSULE 19. ELEKTROTEGNIESE ONTWIKKELINGS- EN OPLEIDINGSFONDS VAN DIE ELEKTROTEGNIESE AANNEMINGSNYWERHEID—

In subklousule (1), vervang die uitdrukking "R2,00" deur die uitdrukking "R2,50"

DEEL II

3. KLOUSULE 4: OPGAWE VAN LONE EN VERDIENSTES

Vervang die bestaande loontabel deur die volgende:

	"*Loon per uur*
	R
Meester-elektrisien	15,88
Elektrisiën en ambagsman	13,03
Elkonop 3	9,73
Elkonop 2	9,21
Elkonop 1	6,18
Arbeider	5,06
Drywer van 'n voertuig waarvan die onbelaste massa—	
(a) hoogstens 3 500 kg is	5,47
(b) van 3 501 kg tot 9 000 kg is	6,18
(c) 9 001 kg en meer is	7,04"

Soos gemagtig, vir en namens die partye by die Raad, op hede die 11de dag van Junie 1992, te Kaapstad onderteken

M. MILLER,

Voorsitter van die Raad

M. BENNETT,

Ondervoorsitter van die Raad

G. J. J. VAN DER MERWE,

Sekretaris van die Raad

No. R. 2698 **25 September 1992**

WET OP ARBEIDSVERHOUDINGE, 1956

BESKUITNYWERHEID VAN SUID-AFRIKA: HERNUWING VAN OOREENKOMS

Ek, Glen Morris Edwin Carelse, Adjunkminister van Mannekrag, verklaar hierby kragtens artikel 48 (4) (a) (ii) van die Wet op Arbeidsverhoudinge, 1956, dat die bepalings van Goewermentskennisgewings R. 2047 van 7 Oktober 1988, R 2758 van 15 Desember 1989, R 1877 van 10 Augustus 1990 en R 1600 van 5 Julie 1991, van krag is vanaf die datum van publikasie van hierdie kennisgewing en vir die tydperk wat op 28 Februarie 1993 eindig.

G. M. E. CARELSE,

Adjunkminister van Mannekrag.

No. R. 2699 **25 September 1992**

WET OP ARBEIDSVERHOUDINGE, 1956

BESKUITNYWERHEID VAN SUID-AFRIKA: WYSIGING VAN OOREENKOMS

Ek, Glen Morris Edwin Carelse, Adjunkminister van Mannekrag, verklaar hierby—

(a) kragtens artikel 48 (1) (a) van die Wet op Arbeidsverhoudinge, 1956, dat die bepalings van die Ooreenkoms (hierna die Wysigingsooreenkoms genoem) wat in die Bylae hiervan verskyn en betrekking het op die Onderneming,

2. CLAUSE 19. ELECTRICAL DEVELOPMENT AND TRAINING FUND FOR THE ELECTRICAL CONTRACTING INDUSTRY—

In subclause (1) substitute the expression "R2,50" for the expression "R2,00"

PART II

3. CLAUSE 4: SCHEDULE OF WAGES AND/OR EARNINGS

Substitute the following for the existing table of wages.

	"*Rate per hour*
	R
Master electrician	15,88
Electrician and artisan	13,03
Elconop 3	9,73
Elconop 2	9,21
Elconop 1	6,18
Labourer	5,06
Driver of a vehicle, the unladen weight of which is—	
(a) up to 3 500 kg	5,47
(b) from 3 501 kg to 9 000 kg	6,18
(c) 9 001 kg and over	7,04"

Signed at Cape Town, as authorised, for and on behalf of the parties to the Council, the 11th day of June 1992

M. MILLER,

Chairman of the Council.

M. BENNETT,

Vice-Chairman of the Council.

G. J. J. VAN DER MERWE,

Secretary of the Council

No. R. 2698 **25 September 1992**

LABOUR RELATIONS ACT, 1956

BISCUIT MANUFACTURING INDUSTRY OF SOUTH AFRICA: RENEWAL OF AGREEMENT

I, Glen Morris Edwin Carelse, Deputy Minister of Manpower, hereby, in terms of section 48 (4) (a) (ii) of the Labour Relations Act, 1956, declare the provisions of Government Notices R. 2047 of 7 October 1988, R 2758 of 15 December 1989, R. 1877 of 10 August 1990 and R. 1600 of 5 July 1991, to be effective from the date of publication of this notice and for the period ending 28 February 1993.

G. M. E. CARELSE,

Deputy Minister of Manpower.

No. R. 2699 **25 September 1992**

LABOUR RELATIONS ACT, 1956

BISCUIT MANUFACTURING INDUSTRY OF SOUTH AFRICA: AMENDMENT OF AGREEMENT

I, Glen Morris Edwin Carelse, Deputy Minister of Manpower, hereby— 186

(a) in terms of section 48 (1) (a) of the Labour Relations Act, 1956, declare that the provisions of the Agreement (hereinafter referred to as the Amending Agreement) which appears in the Schedule hereto and which relates to the Under-

Nywerheid, Bedryf of Beroep in die opskrif by hierdie kennisgewing vermeld, met ingang van die tweede Maandag na die datum van publikasie van hierdie kennisgewing en vir die tydperk wat op 28 Februarie 1993 eindig, bindend is vir die werkgewersorganisasie en die vakvereniging wat die wysigingsooreenkoms aangegaan het en vir die werkgewers en werknemers wat lede van genoemde organisasie of vereniging is; en

(b) kragtens artikel 48 (1) (b) van die genoemde Wet, dat die bepalings van die Wysigingsooreenkoms, uitgesonderd dié vervat in klousule 1 (1) (b), met ingang van die tweede Maandag na die datum van publikasie van hierdie kennisgewing en vir die tydperk wat op 28 Februarie 1993 eindig, bindend is vir alle ander werkgewers en werknemers as dié genoem in paragraaf (a) van hierdie kennisgewing wat betrokke is by of in diens is in genoemde Onderneming, Nywerheid, Bedryf of Beroep in die gebiede in klousule 1 van die Wysigingsooreenkoms gespesifiseer.

G. M. E. CARELSE,

Adjunkminister van Mannekrag.

BYLAE

NASIONALE NYWERHEIDSRAAD VIR DIE BESKUITNYWERHEID VAN SUID-AFRIKA

OOREENKOMS

ooreenkomstig die Wet op Arbeidsverhoudinge, 1956, gesluit deur en aangegaan tussen die

Employers' Organisations of the Biscuit Manufacturing Industry of South Africa

(hierna die "werkgewers" of die "werkgewersorganisasie" genoem), aan die een kant, en die

National Union of Operative Biscuit Makers and Packers of South Africa

(hierna die "werknemers" of die "vakvereniging" genoem), aan die ander kant,

wat die partye is by die Nasionale Nywerheidsraad vir die Beskuitnywerheid van Suid-Afrika,

om die Hoofooreenkoms gepubliseer by Goewermentskennisgewing No. R. 2047 van 7 Oktober 1988 (hierna die Herbekragtigingsooreenkoms genoem), soos hernieu en gewysig deur Goewermentskennisgewings Nos R 2757 en R 2758 van 15 Desember 1989, R 832 van 12 April 1990, R. 1877 van 10 Augustus 1990, R 2082 van 31 Augustus 1990, R 1186 van 24 Mei 1991 en R. 1600 van 5 Julie 1991 te wysig

1. TOEPASSINGSBESTEK VAN OOREENKOMS

(1) Hierdie Ooreenkoms moet nagekom word—

(a) in die landdrosdistrikte Bellville, Die Kaap, Goodwood, Kuilsrivier, Malmesbury, Moorreesburg, Simonstad, Somerset-Wes, Stellenbosch, Worcester en Wynberg

(b) deur alle werkgewers en werknemers in die Beskuitnywerheid wat lede van onderskeidelik die werkgewersorganisasie en die vakvereniging is

taking, Industry, Trade or Occupation referred to in the heading to this notice, shall be binding with effect from the second Monday after the date of publication of this notice and for the period ending 28 February 1993 upon the employers' organisation and the trade union which entered into the Amending Agreement and upon the employers and employees who are members of the said organisation or union; and (186)

(b) in terms of section 48 (1) (b) of the said Act, declare that the provisions of the Amending Agreement, excluding those contained in clause 1 (1) (b) shall be binding, with effect from the second Monday after the date of publication of this notice and for the period ending 28 February 1993 upon all employers and employees, other than those referred to in paragraph (a) of this notice, who are engaged or employed in the said Undertaking, Industry, Trade or Occupation in the areas specified in clause 1 of the Amending Agreement.

G. M. E. CARELSE,

Deputy Minister of Manpower

SCHEDULE

NATIONAL INDUSTRIAL COUNCIL FOR THE BISCUIT MANUFACTURING INDUSTRY OF SOUTH AFRICA

AGREEMENT

in accordance with the provisions of the Labour Relations Act, 1956, made and entered into by and between the

Employers' Organisations of the Biscuit Manufacturing Industry of South Africa

(hereinafter referred to as the "employers" or the "employers' organisation"), of the one part, and the

National Union of Operative Biscuit Makers and Packers of South Africa

(hereinafter referred to as the "employees" or the "trade union"), of the other part

being the parties to the National Industrial Council of the Biscuit Manufacturing Industry of South Africa,

to amend the Main Agreement published under Government Notice No R 2047 of 7 October 1988 (hereinafter referred to as the "Re-enacting Agreement"), as renewed and amended by Government Notices Nos R 2757 and R 2758 of 15 December 1989, R 832 of 12 April 1990, R 1877 of 10 August 1990, R 2082 of 31 August 1990, R 1186 of 24 May 1991 and R 1600 of 5 July 1991.

1. SCOPE OF APPLICATION OF AGREEMENT

(1) The terms of this Agreement shall be observed—

(a) in the Magisterial Districts of Bellville, Goodwood, Kuils River, Malmesbury, Moorreesburg, Simon's Town, Somerset West, Stellenbosch, The Cape, Worcester and Wynberg.

(b) by all employers and employees in the Biscuit Manufacturing Industry who are members of the employers' organisation and the trade union, respectively

(2) Ondanks subklousule (1) is hierdie Ooreenkoms slegs van toepassing op die kategorieë werknemers vir wie minimum lone voorgeskryf word in klousule 4 van die Ooreenkoms gepubliseer by Goewermentskennisgewing No R 2479 van 19 November 1982 (hierna die "Vorige Ooreenkoms" genoem) en op die werkgewers van sodanige werknemers

2. KLOUSULE 4 VAN DIE VORIGE OOREENKOMS: LONE

Vervang subklousule (1) deur die volgende:

"(1) Die minimum lone wat aan ondergenoemde klasse werknemers betaal moet word, is soos volg

	Vanaf die datum van inwerkingtreding van hierdie Ooreenkoms
	Loon per week
	R
Graad 1 Voormanbeskuitbakker	713,29
Graad 2 Beskuitbakker, voorman, voormanversender, ambagsman	627,20
Graad 3 Magasyn, blikmakeronderbaas, bestelwaverkoopsman en handelsreisiger	530,03
Graad 4 Besteller	486,51
Met dien verstande dat die volgende addisionele bedrae betaalbaar is aan bestellers in die klasse soos aangedui	
Van 9 000 tot 16 000 kg R6,00 per week	
Meer as 16 000 kg R9,00 per week	
Bediener van'n beskuituitsny-en-embosseer masjien, deegmenger of deegman, oondman	
Eerste jaar ondervinding	367,62
Tweede jaar ondervinding	423,29
Daarna	486,51
Graad 5 Deegroller	476,20
Graad 6 Senior onderbaas	454,90
Graad 7 Versender, onderbaasverpakker, afsetbevorderaar, eerstehulp-bediener, klerk	387,02
Graad 8 Assistent-magasynman, bediener van 'n sjokolade-omhulmasjien, gehaltebeheerkontroleur, drywer	364,77
Met dien verstande dat die volgende addisionele bedrae betaalbaar is aan drywers van motorvoertuie in die klasse soos aangedui	
Van 3 500 tot 9 000 kg R3,00 per week	
Van 9 000 tot 16 000 kg R6,00 per week	
Meer as 16 000 kg R9,00 per week	
Graad 9 Valmesmasjienbediener, faktotum, bediener van 'n stempelpers, masjienwerker	320,42
Graad 10 Wassery-onderbaas, laboratoriumwerker, voorraadhulp, assistent-oondman, assistent-deegroller	304,55

(i) As 'n assistent-oondman permanent tot oondman bevorder word, moet hy—

na twee jaar diens as 'n assistent-oondman, teen die loon van 'n eerstejaar-oondman besoldig word,

na drie jaar diens as 'n assistent-oondman, teen die loon van 'n tweedejaar-oondman besoldig word,

na vier jaar of langer diens as 'n assistent-oondman, teen die loon van 'n oondman besoldig word

(2) Notwithstanding the provisions of subclause (1), the terms of this Agreement shall apply only to those categories of employees for whom minimum wages are prescribed in clause 4 of the Agreement published under Government Notice No. R 2479 of 19 November 1982 (hereinafter referred to as the "Former Agreement") and to the employers of such employees

2. CLAUSE 4 OF THE FORMER AGREEMENT: WAGES

Substitute the following for subclause (1):

"(1) The minimum wages that shall be paid to the undermentioned classes of employees shall be as follows

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	From date of coming into operation of this Agreement
	Wage per week
	R
Grade 1: Foreman biscuit baker	713,29
Grade 2 Biscuit baker, foreman, foreman despatcher, artisan	627,20
Grade 3: Storeman, tin-making chargehand, van salesman and traveller	530,03
Grade 4: Vanman	486,51.
Provided that the following additional amounts shall be payable to vanmen in the categories indicated:	
From 9 000 to 16 000 kg. R6,00 per week.	
Over 16 000 kg. R9,00 per week.	
Biscuit cutting and embossing machine operator, dough mixer or doughman, ovensman	
First year of experience.	367,62
Second year of experience	423,29
Thereafter	486,51
Grade 5 Brakesman	476,20
Grade 6: Senior chargehand	454,90
Grade 7 Despatcher, chargehand packer, merchandiser, first-aid attendant, clerical employees	387,02
Grade 8: Assistant storeman, chocolate enrobing machine operator, quality control attendant, driver	364,77
Provided that the following additional amounts shall be payable to drivers of motor vehicles in the categories indicated	
From 3 500 to 9 000 kg: R3,00 per week.	
From 9 000 to 16 000 kg. R6,00 per week	
Over 16 000 kg: R9,00 per week	
Grade 9: Guillotine machine operator, handyman, the stamping press operator, machinehand	320,42
Grade 10. Laundry chargehand, laboratory attendant, stock-hand, assistant ovensman, assistant brakesman	304,55

(i) If an assistant ovensman is premanently promoted to ovensman—

after two years employment as an assistant ovensman, he shall be paid at the rate for the first year ovensman;

after three years' employment as an assistant ovensman, he shall be paid at the rate for a second year ovensman,

after four years' or more employment as an assistant ovensman, he shall be paid at the rate for an ovensman

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	Vanaf die datum van inwerkingtreding van hierdie Ooreenkoms Loon per week R
(ii) Indien en wanneer 'n deegroller weens siekte of 'n ander oorsaak van sy werk afwesig is, moet die assistent-deegroller die werk van die deegroller verrig en moet hy gedurende die tyd wat hy aldus werksaam is, besoldig word teen die loon wat in Graad 5 vir 'n deegroller voorgeskryf word	
Graad 11: Telklerk, papierstalletjiewerker, hanteerder van personeelpakkette	287,82
Werknemers wat blikke maak of blikke en houers herstel wat nie elders vermeld word nie.	
Eerste 12 maande ondervinding	268,50
Daarna	287,82
Graad 12: Verpakker, etiketteerder, pakkiesverpakker, monsterverpakker:	
Eerste 42 maande ondervinding	268,50
Daarna	281,92
Afsetbevorderaar se assistent	268,50
Plukker	281,92
Graad 13 Ketelbediener, wag (nagwag, dagwag of hekwag), werknemers wat rantsoene gaarmaak, werknemers nie elders vermeld nie	268,50
Fabriekwerker.	
Eerste ses maande ondervinding.	268,50
Daarna	276,32
Graad 14 Arbeider, afleweringsassistent	268,50

'n Los werknemer moet ten opsigte van elke dag of gedeelte van 'n dag wat hy gewerk het, minstens een vyfde die weekloon van 'n arbeider betaal word. Met dien verstande dat waar daar nie van 'n los werknemer vereis word om meer as vier opeenvolgende ure op 'n dag te werk nie, sy voorgeskrewe loon met 50 persent verminder kan word

Die weekloon van 'n werknemer wat per maand betaal word, is sy maandloon gedeel deur vier en 'n derde."

3. KLOUSULE 9 VAN DIE VORIGE OOREENKOMS: JAARLIKSE VERLOF

(i) Vervang subklousule (1) (a) (iv) deur die volgende

"(iv) in die geval van 'n werknemer wat 12 jaar of meer ononderbroke diens by dieselfde maatskappy het, vyf agtereenvolgende werkdae verlof plus die verlof wat in (i), (ii en (iii) hierbo voorgeskryf is· Met dien verstande dat vir die doel van hierdie paragraaf enige onderbreking van diens van 6 maande of minder nie as gebroke diens beskou word nie en so 'n onderbreking nie in ag geneem word by die berekening van die werknemers se tydperk van diens nie,".

(ii) Voeg die volgende nuwe subklousule (7) in·

"(7) *Jaarlikse sluiting* Binne 'n bedryfsinrigting wat 'n jaarlikse sluiting waarneem, hou alle werknemers wat gedurende die sluiting hulle jaarlikse verlof neem, om 12h00 op die laaste werkdag voor die begin van die sluiting op werk en word hulle vir 'n volle dag ten opsigte van daardie dag betaal ".

	From date of coming into operation of this Agreement Wage per week R
(ii) If and when a brakesman is absent from his work through illness or other cause the assistant brakesman shall perform the work of the brakesman and shall be paid, during the time he is so employed, at the rate specified in Grade 5 for a brakesman	
Grade 11 Tally clerk, paper stall attendant, staff parcels attendant	287,82
Employees engaged in tin making or repairing of tins and containers not elsewhere specified	
First 12 months of experience	268,50
Thereafter	287,82
Grade 12 Packer, labeller, packer packer, sample packer	
First 42 months of experience	268,50
Thereafter	281,92
Merchandising assistant	268,50
Picker	281,92
Grade 13 Boiler attendant, watchman (night watchman, day watchman or gatekeeper), employees engaged in cooking of rations, employees not elsewhere specified	268,50
Factory operative	
First six months of experience	268,50
Thereafter	276,32
Grade 14 Labourer, delivery assistent	268,50

A casual employee shall be paid in respect of every day or part of a day of employment not less than one fifth of the weekly wage of a labourer Provided that where a casual employee is not required to work for a period of more than four consecutive hours on any day his prescribed wage may be reduced by 50 per cent

The weekly wage of a month-paid employee shall be his monthly wage divided by four and a third "

3. CLAUSE 9 OF THE FORMER AGREEMENT: ANNUAL LEAVE

(i) Substitute the following for subclause (1) (a) (iv)

"(iv) In the case of an employee who has 12 years or longer unbroken service with the same company, five consecutive working days leave of absence in addition to the leave provided for in (i), (ii) and (iii) above· Provided that for the purpose of this paragraph any break in service of 6 months or less shall not be regarded as broken service and such break shall not be taken into account in calculating the employee's length of service,"

(ii) Insert the following new subclause (7)

"(7) *Annual closing* In an establishment which observes an annual shut down, all employees proceeding on their annual leave during the shut down shall cease work at 12h00 on the last working day prior to the commencement of the shut down and be paid a full day's pay in respect of that day "

4. KLOUSULE 10 VAN DIE VORIGE OOREENKOMS: SIEKTEVERLOF

In subklousule (3) (a) Kraamverlof, vervang die woorde "vier maande" en "tydperk van vier maande" deur die woorde "ses maande" en "tydperk van ses maande" onderskeidelik

Geteken te Kaapstad op hede die 2de dag van April 1992

N. DANIELS,
Voorsitter

M. T. FORREST,
Ondervoorsitter

K. L. BARNES,
Sekretaris

No. R. 2700 **25 September 1992**

WET OP ARBEIDSVERHOUDINGE, 1956

VLEISBEDRYF, OOS-LONDEN WYSIGING VAN OOREENKOMS

Ek, Glen Morris Edwin Carelse, Adjunkminister van Mannekrag, verklaar hierby—

(a) kragtens artikel 48 (1) (a) van die Wet op Arbeidsverhoudinge, 1956, dat die bepalings van die Ooreenkoms (hierna die Wysigingsooreenkoms genoem) wat in die Bylae hiervan verskyn en betrekking het op die Onderneming, Nywerheid, Bedryf of Beroep in die opskrif by hierdie kennisgewing vermeld, met ingang van 1 Oktober 1992 en vir die tydperk wat op 30 September 1995 eindig, bindend is vir die werkgewersorganisasie en die vakvereniging wat die Wysigingsooreenkoms aangegaan het en vir die werkgewers en werknemers wat lede van genoemde organisasie of vereniging is; en

(b) kragtens artikel 48 (1) (b) van genoemde Wet, dat die bepalings van die Wysigingsooreenkoms, uitgesonderd dié vervat in klousule 1 (1) (b) met ingang van 1 Oktober 1992 en vir die tydperk wat op 30 September 1995 eindig, bindend is vir alle ander werkgewers en werknemers as dié genoem in paragraaf (a) van hierdie kennisgewing wat betrokke is by of in diens is in genoemde Onderneming, Nywerheid, Bedryf of Beroep in die gebied in Klousule 1 van die Wysigingsooreenkoms gespesifiseer

G. M. E. CARELSE,
Adjunkminister van Mannekrag.

BYLAE

NYWERHEIDSRAAD VIR DIE VLEISBEDRYF, OOS-LONDEN

OOREENKOMS

ooreenkomstig die Wet op Arbeidsverhoudinge, 1956, gesluit deur en aangegaan tussen die

East London Meat Traders' Association

(hierna die "werkgewers" of die "werkgewersorganisasie" genoem), aan die een kant, en die

East London Meat Trade Union

(hierna die "werknemers" of die "vakvereniging" genoem), aan die ander kant,

wat die partye is by die Nywerheidsraad vir die Vleisbedryf, Oos-Londen,

4. CLAUSE 10 OF THE FORMER AGREEMENT: SICK LEAVE

In subclause (3) (a) Maternity Leave substitute the words "six months", and "six-month period" for the words "four months" and "four-month period" respectively

Signed at Cape Town this 2nd day of April 1992

N. DANIELS,
Chairman

186

M. T. FORREST,
Vice-Chairman

K. L. BARNES,
Secretary.

No. R. 2700 **25 September 1992**

LABOUR RELATIONS ACT, 1956

MEAT TRADE, EAST LONDON: AMENDMENT OF AGREEMENT

I, Glen Morris Edwin Carelse, Deputy Minister of Manpower, hereby—

(a) in terms of section 48 (1) (a) of the Labour Relations Act, 1956, declare that the provisions of the Agreement (hereinafter referred to as the Amending Agreement) which appears in the Schedule hereto and which relates to the Undertaking, Industry, Trade or Occupation referred to in the heading to this notice, shall be binding, with effect from 1 October 1992 and for the period ending 30 September 1995, upon the employers' organisation and the trade union which entered into the Amending Agreement and upon the employers and employees who are members of the said organisation or union; and

(b) in terms of section 48 (1) (b) of the said Act, declare that the provisions of the Amending Agreement, excluding those contained in clause 1 (1) (b), shall be binding, with effect from 1 October 1992 and for the period ending 30 September 1995, upon all employers and employees, other than those referred to in paragraph (a) of this notice, who are engaged or employed in the said Undertaking, Industry, Trade or Occupation in the area specified in clause 1 of the Amending Agreement.

G. M. E. CARELSE,
Deputy Minister of Manpower.

SCHEDULE

INDUSTRIAL COUNCIL FOR THE MEAT TRADE, EAST LONDON

AGREEMENT

in accordance with the provisions of the Labour Relations Act, 1956, made and entered into by and between the

East London Meat Traders' Association

(hereinafter referred to as the "employers" or the "employers' organisation"), of the one part, and the

East London Meat Trade Union

(hereinafter referred to as the "employees" or the "trade union"), of the other part,

being parties to the Industrial Council for the Meat Trade, East London,

? wealth and job opportunities for black entrepreneurs

NSB expands into the food market

186

Sowetan 1/10/92.

By Joshua Raboroko

■ JOB CREATION New products will mean more jobs for blacks

NATIONAL Sorghum Breweries, in its quest for black economic empowerment, has undertaken to create wealth and job opportunities for black entrepreneurs

It is hoping to empower black entrepreneurs who will distribute its range of newly-acquired Jabula Foods previously owned by the Premier Group.

This new addition to the NSB fold brings with it well-established brands like Jabula soups and stews, mageu, Lamabalazi solf porridge, Iqhawe beer power, Duma high energy beverages and a malt factory.

At a press conference in Sandton this week, NSB's chairman and chief executive Mr Mohale Mahanyele said the take-over of Jabula Foods was an important milestone on the way to black economic empowerment.

Mahanyele, who has been appointed a director of the Premier Group, said the deal was part of the company's ongoing expansion programme

"We believe that we are on the right track. This will dispel fears and perceptions that blacks can't make it in business," Mahanyele said

Mohale Mahanyele

The company, which last year increased its earnings by 54 percent and is the leading light of black economic empowerment, would acquire R500 million from a conglomerate for development projects

NSB has also donated R40 000 to *Sowetan* for its job creation project and will be looking at business operations for blacks

Chairman of the Premier Group Mr Peter Wrighton said he was delighted that Jabula would have the benefit of its new association with the NSB, a company which had a dynamic and progressive management.

He said "It will no doubt take full advantage of the opportunities and synergies now available to it

"We believe that Jabula, with its product range being further strengthened by those of NSB, will have an outstanding growth potential as we progress into the new South Africa," he said

President of South African Black Social Workers Ms Fikile Mazibuko said the NSB takeover of Jabula Foods must be seen as a new era towards the creation of jobs

Blacks involved in the transport industry would be expected to deliver the products to many destinations countrywide

Swift action averts disaster for Crown Food Holdings

B/Dany 2/10/92 (186)

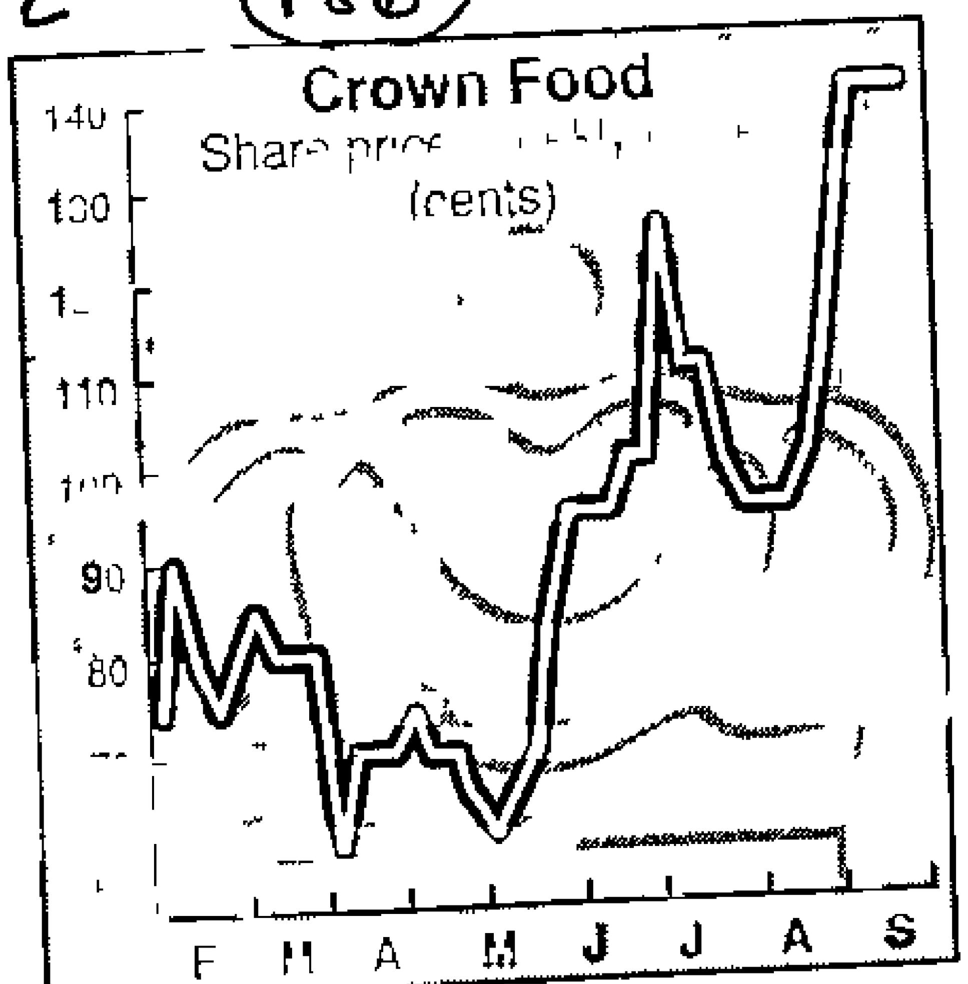
MARCIA KLEIN

CATERING equipment and ingredients group Crown Food Holdings was well placed to compete and improve profitability, new chairman Brian Joffe said in the annual review.

Crown, which was taken over by Bidvest in March from Murray & Roberts, reported a net loss of R16,1m in the year to end-June from net income of R3,5m in the previous year, largely due to an R18,2m abnormal loss arising from irregularities

Joffe said the irregularities within the Crown Mills division — which included the non-disclosure of liabilities and the rolling of stock — had been a potentially disastrous situation. But swift action by management, restructuring and an R11m interest free loan from Murray & Roberts had averted this consequence

He pointed out that the irregularities, which were still under investigation, occurred only in the Crown Mills division Some employees had been dismissed, and civil and criminal proceedings were likely The merger of Crown Mills and newly acquired National Spice Works in March, and the acquisition of President Trading in July had placed Crown in a dominant position in the markets it served, and had "laid the foundation for substantial future growth", Joffe said



Graphic: RUBY-GAY MARTIN Source I-NET

The merger had "gone a long way towards countering the negative affect" of the irregularities

The R4,2m acquisition of President, which manufactures, imports and supplies catering and refrigeration equipment and kitchen utensils, had given Crown Foods a dominant share of the professional and industrial catering equipment market

President was a major competitor of Crown division Vulcan.

President and Vulcan would be run as separate businesses, but certain product lines formerly imported by President would be manufactured by Vulcan

Under Crown, President would be able to expand its existing business nationally, Joffe said, and the margin would improve

The acquisition of President, and the Crown rights offer — which would be used to redeem the R11m loan — would strengthen the balance sheet, reducing gearing to 39,8% from 136,9% This would leave Crown "well placed to compete"

Crown National, which supplies ingredients and machinery to the meat industry, had been restructured and had lost some market share in the process

Catering equipment division Vulcan recently launched Food Service Concepts, a marketing company aimed at selling Vulcan equipment to fast food outlets

Over 50 installations had been secured, with the potential for a further 200 outlets within the next three years This division had the potential to contribute up to 15% of Vulcan's annual turnover

Since it was taken over by Bidvest, Crown's share has recovered dramatically

After touching a low of 44c in October last year, it closed yesterday at 140c after reaching a high of 150c last month

COMPANIES

Molyslip matches profit forecasts

EDWARD WEST

MOLYSLIP has met its forecast and upped attributable profit by more than half in the first six months of its financial year

Taxed profit of R237 000 was 57% higher in the six months to end-August, compared with the R151 000 achieved in the same period the previous year. At year-end February 1992, Molyslip achieved its best results in 32 years B|DAY 5|10|92

DCM-listed Molyslip is involved in the manufacture and distribution of specialised automotive and industrial lubricants

The improved profit was achieved in spite of a slight drop in turnover to R7m from R7,2m, caused by the ending of the distribution of metal powders from September 1991

Operating profit was down by more than 10% to R391 000 from R448 000 However, finance costs were substantially lower, dropping to R154 000 from R297 000 Pre-tax profit was 57% higher at R237 000 from R151 000 (183)

Earnings a share increased to 4,2c from 2,6c. No dividend was declared as traditionally only one dividend is paid a year

Executive chairman Robert Spanjaard said conservative financial policies and aggressive marketing was bearing fruit. The second half of the year was historically better than the first, but political uncertainties in SA made forecasting with any accuracy difficult, he said

Associate companies bail out Farm-ag

BDay 6/10/92. (183)

EDWARD WEST

FARM-AG's turnover plummeted in the 18 months to August 31, but income from associate companies boosted profit and annualised earnings a share climbed to 13,2c from 0,5c in 1991, results published today show

Turnover dropped to R26,42m in the 18 months, compared with the R73,13m reported in the 12-month period to end-August 1991

Net operating losses amounted to R2,09m, compared with an operating profit of R6,57m the previous year.

Interest charges increased to R13,64m from R12,39m Taxed losses amounted to R15,74m (R5,83m).

Income from associate companies climbed to R19,18m from R5,55m As a result, income attributable to shareholders before extraordinary items climbed to R2,81m compared with R74 000 last year The dividend was passed

An extraordinary item of R7,93m was written off due to discontinued operations and losses incurred with the disposal of businesses.

The directors did not expect further losses from the discontinued operations

Farm-ag disposed of its 23% interest in Bearing Man, its 50% holding in Union Drug and its pump-trade business during the year

Farm-ag intended disposing of its investments in Harvest Chemicals and Glenmore Tiles as soon as possible to reduce borrowings

An investment in Sanachem remained Farm-ag's major asset Sanachem reported a profit of R20,8m for its financial year, compared with R5,2m the year before

LABOUR NEWS More talks on rights of farm workers ● Chicken factory workers locked out

Rainbow strikers locked out

Sowetan 8/10/92.

186

■ **Split wage offer leads to two-day strike in Worcester:**

SEVERAL Hundred striking workers were locked out of the Rainbow Chickens processing plant in Worcester in the Cape yesterday, according to Food and Allied Workers Union spokesman Mr William Thomas.

The union had proposed a meeting with the company yesterday in a bid to settle the strike against a split wage offer, he said.

Fawu members also joined the strike at Bonny Bird. - *Sapa*

(186)

Strikers locked out

RAINBOW Chickens has locked out about 500 striking workers at its Worcester complex, company spokesman Rob Southley said yesterday

The strike against a split R35 pay offer entered its third day yesterday and has caused a major interruption in production, he said.

"Workers yesterday forced down a gate The police have been monitoring the situation but have not taken any action," Southley said

Strikers represented by the Food and Allied Workers Union are demanding that the R35 increase offered implemented from July 1.

Sowetan 7/10/92.

Feathers fly in Rainbow strike row

186 ARG 9/10/92

SHARON SOROUR
Labour Reporter and Sapa

PRODUCTION at Rainbow chickens in Worcester has been affected after the company locked out more than 500 striking workers

According to Food and Allied Workers' Union spokesman Mr Sonwabo Nelson workers went on strike on Monday over wages and working conditions.

Mr Nelson said chaos erupted at the factory yesterday when workers forced down a gate and the company called the police

A company spokesman confirmed the strike had caused a "major interruption in production".

"Workers yesterday forced down a gate This is unacceptable The police have been monitoring the situation, but have not taken any action," the company spokesman said.

Mr Nelson said workers were unhappy about a split wage offer made by the company. He said workers were demanding a R35 across-the-board weekly increase to be backdated to July 1.

Rainbow Chickens has offered a split increase In terms of the company's proposal, the increase would be paid out as a R19 instalment on July 1, and the balance of R16 on January 1 next year.

The company said the split offer represented a 13,8 percent increase, while a single payout, as demanded by the union, constituted an 18 percent increase.

Mr Nelson said the union was waiting for the company to initiate another meeting between the parties.

Engen on track for record results

BDAY 13/10/92 (183)

MATTHEW CURTIN

ENGEN was on track for record earnings growth in the year ended August 1992, unhindered by the local recession and slow economic growth overseas, market sources said yesterday

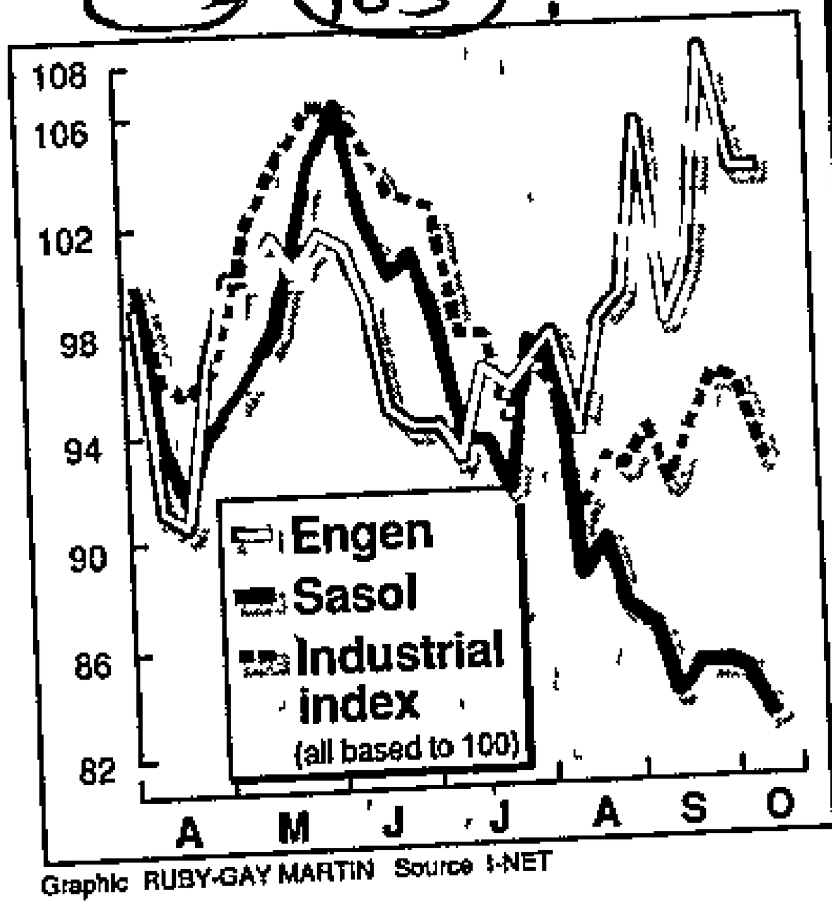
The oil and fuel producer reports its preliminary year-end results later this week.

Sources agreed that stable crude oil prices, improved domestic wholesale margins and a good contribution from exports would more than compensate for softer refining margins in the second half of the year, and generate real earnings growth

Engen's earnings in the six months ended February rose nearly 70% to R206m from R122m, with earnings a share 21% higher at 134c (111c)

The sources said that although a warm northern hemisphere winter and a temporary surplus in international refining capacity hit refining margins, Engen benefited from government's recent decision to raise the wholesale marketing margin petrol distributors receive as percentage of the overall fuel price.

Engen shares have remained untarnished by the dearth of confidence in the domestic industrial sector, outperforming the industrial index in the year and rival fuels group Sasol The stock closed 50c higher at R45 on the JSE yesterday.



Graphic RUBY-GAY MARTIN Source I-NET

Mathison and Hollidge analyst Rob Cattich said Engen, the Gencor group's fuel and energy arm, was likely to turn in earnings of 275c a share, 18% higher than in 1991 when they rose 20% to 233c. He said Engen would declare a total dividend of 135c, more than 16% higher than the 116c declared last year.

Anderson Wilson analyst Mike Ray put earnings at a "conservative 270c" He said that if crude oil prices and refining margins were stable in the present financial year, Engen would sustain real growth into 1994.

BTT report on food inflation due soon

GERALD REILLY

PRETORIA — The Board on Tariffs and Trade (BTT) final report on food price inflation would be submitted to the Agriculture and Trade and Industry Ministers by the month end, a board spokesman said yesterday

Consumer organisations are hoping that this time around the BTT investigation will pinpoint links in the food chain causing unnecessary price pressures.

Other issues expected to be dealt with in the final report include BTT recommendations on deregulation, and a more positive role for the Competition Board B/DAY 13/10/92.

Sacob in its representations supported the position that the statutory powers of control boards be modified to allow a more market-driven system

The SA Agricultural Union and other farming organisations rejected the recommendation They said it was based on a lack of understanding of the functions of the boards

Sacob also supported the removal of quantitative import controls, but was concerned about the harmful effects of dumping

In a further representation to the committee, the Housewives' League called for greater detail in Central Statistical Service food statistics

Solid showing from Fedfood

CT 14/10/92 (186)

From MARCIA KLEIN

JOHANNESBURG — The successful merger of Fedfood and Kanhym into the Malbak-controlled Foodcorp group saw it report a 6% increase in attributable earnings to R89m in the year to end-August

Foodcorp's results reflected a significant turnaround in Fedfood, which reported a 26% earnings decline in the year to end-March

CE Dirk Jacobs said results were achieved despite rationalisation and closure costs, and a significant increase in Kanhym's tax liability.

Audited results reflected the 17-month period to end-August in line with Malbak's year-end, making comparisons with the previous 12-month period meaningless For the 17 months, turnover was R2,5bn, operating income R169m and attributable earnings R83m

However, management accounts for the 12 months to end-August have been published in order to compare results with the previous year. For the 12-month period, turnover of R2,4bn was 8% higher than the R2,3bn that would have been reported by Fedfood and Kanhym combined in the previous year Operating income rose by 7% to R165m from R154m

Jacobs pointed out that CSS figures for August showed that the price of unprocessed foods rose by 38,2% year-on-year, while processed food went up by only 17,6%, indicating a substantial rise in raw materials costs

Despite this increase and a soft market, margins were maintained at 6,8%, and operating income had increased through strict cost control

Operating income had been affected by the costs of closures, rationalisation and restructuring, the benefits of which would flow through in the coming year

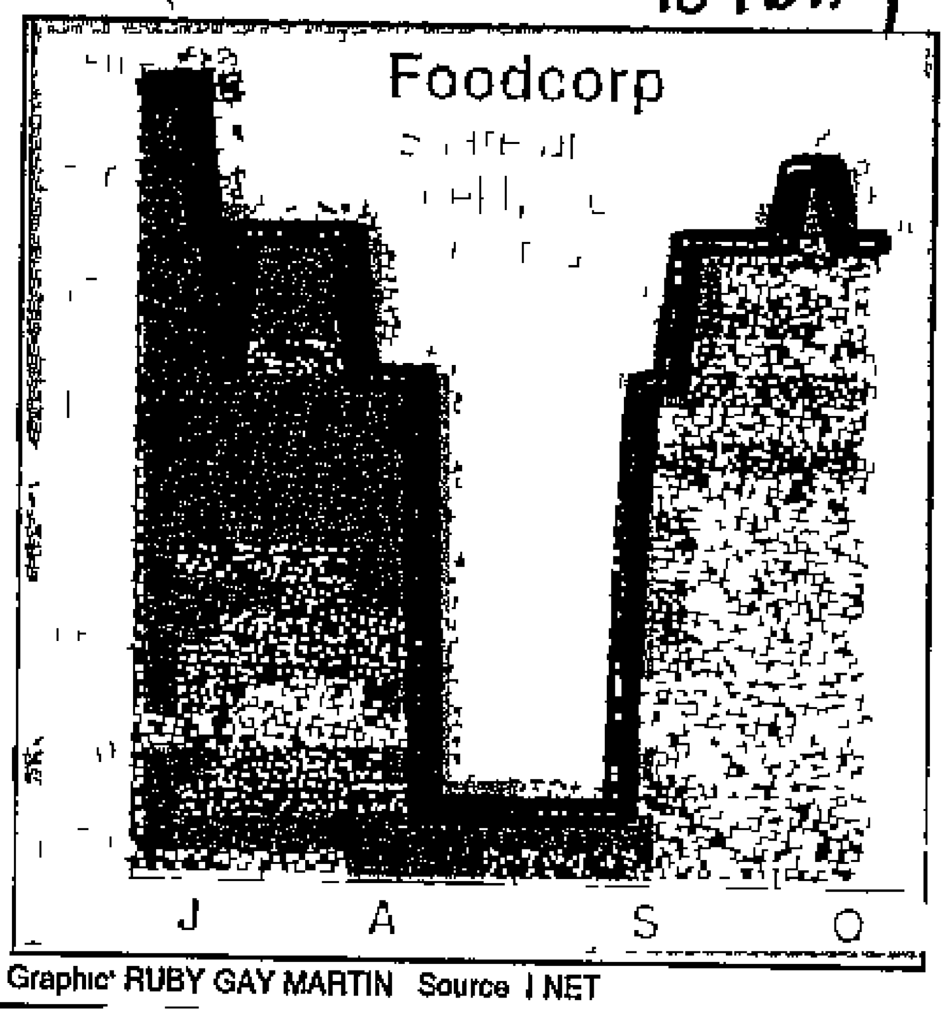
Interest-bearing debt was held at Fedfood's pre-merger level Jacobs said that in the five months since the merger, interest bearing liabilities were reduced by R82m due to strict asset management

Gearing declined to 43% from 70%, and would reduce by a further 15% when the Fedfood investment in preference shares was redeemed next year

A 57% rise in taxation to R47m — due to Kanhym operations becoming liable for tax — saw income after tax decline to R86m from R94m But an increase in other income saw earnings rise by 6% to 184c a share A final dividend of 22c a share was declared

Foodcorp earnings up 6%

BDay 14/10/92



Graphic: RUBY GAY MARTIN Source: I NET

MARCIA KLEIN (186)

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☐ To Page 2

Foodcorp

BDay 14/10/92 (186)

☐ From Page 1

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CT 14/10/92 (186)

'Chickens were kicked to death'

Staff Reporter

FORTY chickens were kicked to death and several others injured by striking workers at the Rainbow Chickens plant near Worcester, a company spokesman claimed yesterday.

But Food and Allied Workers Union official Mr William Thomas denied this, saying the birds had escaped from a crate; the strikers had not killed any of them.

Three strikers had been bitten by police dogs, he said.

Attempted blockades by about 350 striking members of the union at the Worcester plant led to three arrests and warning shots being fired by police.

Mr Rod Southey, a Rainbow Chickens spokesman, said a truck was held by striking workers at the gate, a crate with live chickens was taken from the truck and workers kicked the chickens to death.

"A number of wounded chickens were gathered up by management and had to be slaughtered," he said. "We object in the strongest terms."

Police spokesperson Captain Ciska du Plessis confirmed that the chickens were kicked to death.

Company negotiators and representatives of Fawu met yesterday to reach agreement in the wage dispute.

The strike at the Bonny Bird plant in Malmesbury was suspended yesterday with workers returning to work today.

Mr Southey said police fired warning shots at the Worcester plant to disperse striking workers who were stoning a bus ferrying night-shift workers from the plant about 12.30am yesterday.

Foodcorp serves tasty dish

STAR 14/10/92. (186)

By Derek Tommey

Foodcorp, South Africa's new food giant formed from the merger of Fedfood and Kanhym, has weathered well its first period of operations — partly as a result of its "tight belt" policy

Figures issued today show that earnings are up, despite heavy "above-the-line" costs incurred prior to the closure of unprofitable operations

As Foodcorp's audited figures for the 17 months to August are not comparable with those of the previous accounting period, it has overcome the problem by drawing management accounts for the 12 months to August and the previous 12 months These reflect a fairer picture of group operations.

They show that turnover rose 8 percent in the past year to R2,4 billion, despite depressed economic conditions, while operating income increased 7 percent to R165 million

Finance costs rose slightly from R30 million to R32 million, but with the company having repaid some R82 million in borrowings, this item is expected to drop in the coming year

Chief executive Dirk Jacobs says the reduction in borrowings was the result of better management of working capital

This contributed to the reduction in gearing from 70 percent to 43 percent on an enlarged capital base

Pre-tax income was 8 percent higher at R133 million Tax paid increased 57 percent to R47 million, resulting in taxed income dropping from R94 million to R86 million

But after including "other income", attributable earnings were R89 million, up 6 percent from the R84 million a year ago

Undiluted earnings a share rose 6 percent from 174c to 184c, while dividends calculated on an annual basis were an unchanged 56c

A final dividend of 22c has been declared, making a total of 75c for the 17-month period

The group has closed its poultry, fruit processing, Fedpro and certain animal feed operations at a cost of an extraordinary write-off of R38 million

Against this, the group made a profit of R12 million on the sale of certain retail butchery operations

Mr Jacobs says Foodcorp has become firmly established in a relatively short time and is well positioned for growth

There should be further growth in earnings, provided there is no further deterioration in socio-economic conditions, he says

Tension raises over scabs

Sowetan 15/10/92

Transvaal workers bused to Durban abattoir during a strike:

TENSION ran high outside the Cato Ridge Abattoir, Durban, yesterday when 90 Transvaal workers were brought in as emergency labour during a strike for higher wages by about 800 workers

Scores of workers remained outside on strike as the recruits entered the gates leading to the abattoir

Many strikers did not know who the people in the bus were, but when union officials told them, they were angered The general manager of the abattoir, Mr Kobus Eloff, confirmed that outside workers had been brought in to keep production going

"You must remember that 800 people are on strike and we brought in only 80 people, so you cannot expect production to be on schedule But it will be up to about 90 percent of last week's output" (186)

The Food and Allied Workers Union expressed anger that management had brought in outsiders, saying they would picket outside the complex to protest the decision. - *Sapa*

FM 16/10/92 (186)

IRVIN & JOHNSON (186)

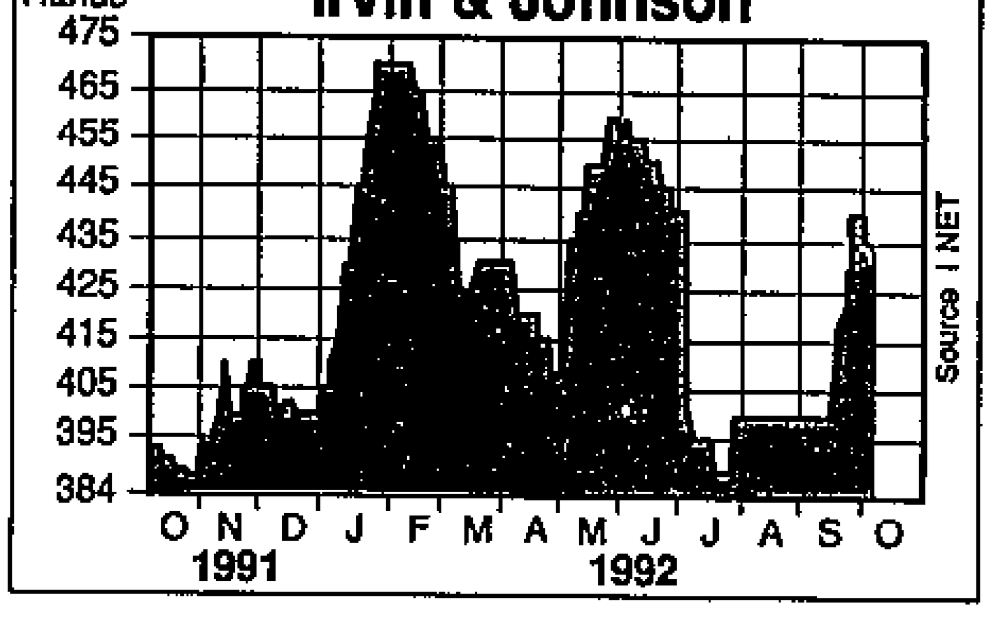
Quiet confidence

FM 16/10/92

Activities: *Processes and distributes seafood and other frozen food products*
Control: *AVI 68,2%*
Chairman: *J C Robbertze, CE J J Williams*
Capital structure: *28,7m ords Market capitalisation R1,26bn*
Share market: *Price R44 Yields 2,0% on dividend, 5,9% on earnings, p e ratio, 17, cover, 3,0 12-month high, R47, low, R36,50 Trading volume last quarter, 88 000 shares*

Year to Jun 30	**'89**	**'90**	**'91**	**'92**
ST debt (Rm)	20,2	11,0	20,3	9,5
LT debt (Rm)	38,6	35,1	24,0	24,3
Debt equity ratio	0,08	(0,07)	(0,11)	(0,21)
Shareholders' interest	0,48	0,49	0,52	0,62
Return on cap (%)	22,6	17,8	16,9	15,1
Turnover (Rm)	1 094	1 257	1 414	1 638
Pre-int profit (Rm)	103,4	88,5	97,3	107,5
Pre-int margin (%)	9,4	7,0	6,9	6,6
Earnings (c)	232	203	235	258
Dividends (c)	70	70	78	86
Net worth (c)	772	856	1 043	1 191

So far Irvin & Johnson (I&J) has withstood recession well That chairman Jan Robbertze can say that it plans "to maintain profit growth" this year shows quiet confidence that it still has the muscle and means to cope with another difficult trading period



At least two factors can be identified as having helped underpin performance Firstly, though no-one would doubt the severity of this recession, its effects have been felt mainly at the lower end of the consumer market — far removed from the sector that munches the pricey convenience foods which make up a large proportion of I&J's sales While the group has felt some chill winds as growth in markets has evaporated, it has escaped the freezing blasts experienced elsewhere

Underscoring this, Robbertze singles out the prepared foods division — almost everything except seafood — as achieving meaningful growth in operating profit This is not to say the gain came easily, in, at best, static markets, I&J could raise sales only by taking market share from competitors That contributed to a continued decline in margins, now about one-third off their 1989 high

The second factor is management An example is the timing of last year's R98,2m rights issue of 6% automatically convertible debentures Adding this cheap money to the funding mix at a time of accelerating capex will prop up the bottom line for some time

The issue added about R7,5m to 1992's pre-tax profit, though the funds were available for only eight months This represents the interest rate differential between the debentures and the borrowings which the group was able to repay and, translated to the bottom line, accounted for about 13c of the overall 23c improvement in EPS

More benefits will accrue as these funds are fully deployed Despite record capex of R65,7m, the balance sheet still showed net cash of R91,6m (equivalent to more than a fifth of the permanent capital base) which, with strong cash flow, should maintain a cash-rich position, even though the expenditure programme is far from complete

Major upgrades and expansion are in progress in all three divisions For the fishing fleet, the programme includes complete refits to two vessels and the acquisition of three additional freezer trawlers; a fourth is on order A new speciality seafood factory in Woodstock, Cape, was completed

In the sales and distribution division, land has been acquired in Durban where a new R24m distribution centre is scheduled for completion late in 1993 This follows expansion in the Cape, where a new distribution facility was commissioned in Bellville last November and a 11 000 t cold store was bought at Paarden Eiland

Activity in the prepared foods division centres on a new potato products factory, for which land has been acquired at Delmas

Profits from the above are still some way off But thanks to the debentures I&J will be able to fund expansion at minimal cost and with no further squeeze on earnings And, with the debentures being converted only when the ordinary dividend — now 86c — reaches the 204c payable on the debs, dilution of EPS is not an immediate problem

The share, at R44, is 6% off the R47 high, but a 2% historical dividend yield emphasises the market's regard for I&J *Brian Thompson*

CROWN FOODS FM 16/10/92

Closing the can

(186)

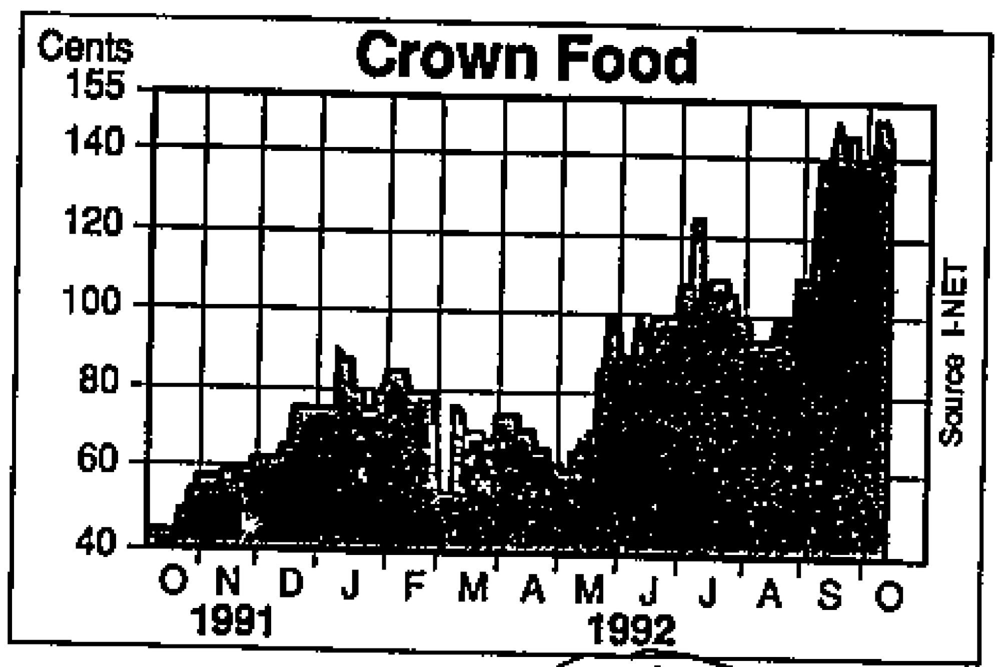
Activities: *Supplies ingredients and equipment to the butchery and meat processing industry Makes and supplies catering equipment*
Control: *Bidvest 67%*
Chairman: *B Joffe, MD: C Singer*
Capital structure: *56,3m ords Market capitalisation: R79m*
Share market: *Price. 140c 12-month high, 150c; low, 40c. Trading volume last quarter, 776 000 shares*

Year to Jun 30	'89	'90	'91	'92
ST debt (Rm)	1,5	2,9	7,8	11,7
LT debt (Rm)	12,7	15,6	8,7	12,2
Debt equity ratio	0,53	0,70	0,49	1,85
Shareholders' interest	0,43	0,43	0,46	0,22
Int & leasing cover	3,4	2,3	2,6	—
Return on cap (%)	20,4	13,5	15,6	—
Turnover (Rm)	115	112	121	137
Pre-int profit (Rm)	11,7	8,2	9,8	(13,8)
Pre-int margin (%)	10,2	7,3	8,1	—
Earnings (c)	12,5	7,6	10,1	(38,4)
Dividends (c)	4,5	3	3,5	—
Net worth (c)	71	75	82	23

Financial irregularities overshadow the 1992 trading performance. When Bidvest offered Murray & Roberts (M&R) R23m for its controlling 78% stake in February, an R18,2m abnormality involving nondisclosure of creditors and rolling of stock was found

After assessing the "damage" and closing the casing factory, which was at the centre of the storm, Bidvest was compensated and the price cut to R12,3m, or 45c a share About

Continue →



(186)

R8m of this was paid by the issue of Bidvest ordinaries and debentures, placed at R35 each on behalf of M&R

When the loss was written off, earnings plummeted into the red, and the drop in shareholders' funds placed Crown in an over-geared position M&R agreed to lend it R11m for one year, interest-free A 20-for-100 rights issue at 90c in August, which raised just under R11m, has brought down gearing and will allow repayment of the loan

In March, Crown bought National Spice from Bidvest, for 21,6m new shares at 45c each, or R9,7m National Spice was merged with Crown Mills to form Crown National President Group, maker and supplier of catering and refrigeration equipment, was acquired after year-end for R4,2m, again for shares — this time, 4,7m Though President is fellow-subsidiary Vulcan's main competitor, the two will operate separately

The auditors couldn't ascertain the nature and timing of the irregularities, so could not determine how much prior financial statements had been affected These results may thus not be comparable with earlier years

The share, at 150c, is more than triple the 45c sale price Chairman Brian Joffe says 1993 EPS may well exceed the forecast 13,2c Operations director Dave Rosevear is confident dividends will be resumed Order books are satisfactory in the Vulcan and President divisions after a setback in August with the Numsa strike

Like Bidvest, Crown will probably grow organically and through acquisitions, with strict control of funds employed It has a number of potentially good businesses and new management has, one hopes, cleared all irregularities Crown may no longer be the can of worms that was thought *Kate Rushton*

FM 16/10/92 (186)

FOODCORP

Savoury outlook

This food giant, born of the merger of Kanhym and Fedfood in June, gave the market some insight into its potential with the release of its maiden results.

The change in year-end to August 31, in line with holding company Malbak, means the report is for a 17-month period. Because this makes year-on-year comparisons meaningless, the group has released additional figures based on management accounts for the merged company for each of the 12-month periods to August 31 1991 and 1992

On this basis, attributable earnings increased 6% to R89m on turnover of R2,4bn Group CE Dirk Jacobs says this is particularly pleasing given Fedfood's poor results to March 1992 and the increased tax liability, which boosted the tax bill about 57%

Interest-bearing debt has been held at Fedfood's R264m at the time of the merger, which means about R82m has been repaid Jacobs says this is some feat since Foodcorp not only had to absorb the cost of downsizing but has also included the R95m Rusfurn preference shares which were not shown on Fedfood's balance sheet

If these are excluded, the debt.equity position, which has recovered from 70% to 43%, looks even better at 28% But, says Jacobs, in

PALATABLE PERFORMANCE

Year to August 31*	1991	1992
[illegible]		[illegible],4
Operating income (Rm)	154	165
[illegible]	[illegible]	[illegible]
Earnings (c)	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]

* [illegible]

February-April when these shares are redeemed, gearing is unlikely to fall that low as management plans to invest further on upgrading and improving efficiency in the staple divisions — which he feels have great potential in the new SA Nevertheless, he hopes gearing will fall below the target 40% during this financial year

Full benefits of rationalisation have not yet flowed through, says Jacobs, but should be realised this year. With the decline in consumer purchasing power and escalating costs, margins have come under pressure

"We had to pull in our belts until our eyes watered," he says Consequently, earnings growth was, in the main, achieved through internal savings The benefits of this are that the group is now lean and ready to take advantage of its cost-cutting programmes

Reviewing divisional performance against the drought, deregulation and increased competitive pressures, each arm held its own, thanks to effective cost and asset management Jacobs notes that the poultry, fruit processing and some animal feeds operations have been discontinued — reflected in a

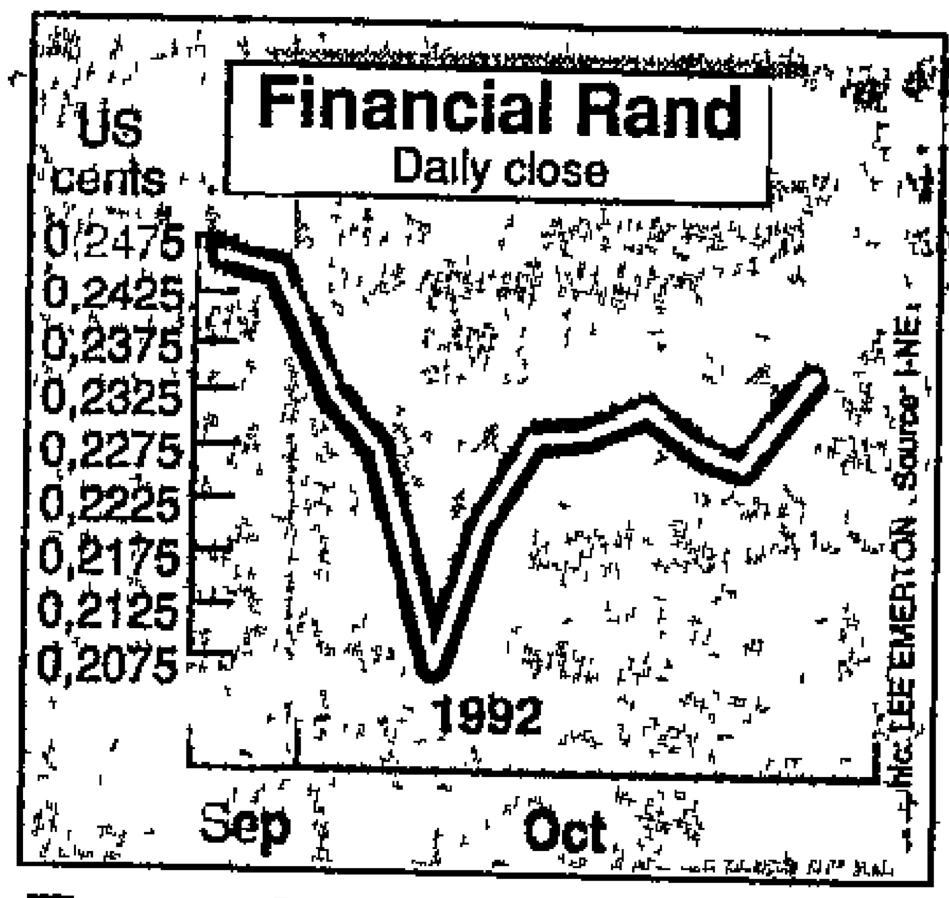
Continue

FM 16/10/92 (186)

R38m extraordinary write-off. This was mitigated by an inflow of R12m from the sale of some retail butchery outlets Exports now contribute 6% of turnover Jacobs would like to see this closer to 10%

He is alreadv looking to new avenues for growth These include a venture into vegetable canning, confectionery and pet food New lines from existing brands are also being investigated.

Even if EPS stick at 184c in financial 1993, this translates into an increase in the share price to R28 if the historic p e rating is sustained Nevertheless, expectations may already be in the share price to some extent, and investors may wish to wait for evidence of potential being fulfilled before committing fresh funds *Marylou Greig*



Royal deal triggers surge by finrand

186

GRETA STEYN and MARCIA KLEIN

THE financial rand surged by 3% yesterday to close at R4,2800 to the dollar on the report that Royal was expected to abandon the huge finrand sell-off to finance its purchase of Del Monte Europe.

Dealers said the market was initially hesitant to correct as much as was warranted by the deal's restructuring, but when buying started out of London the bullishness gained momentum. The unit reached a high of R4,2450 before profit-taking caused the bulls to pause for breath.

The finrand has strengthened by 17% since its six-year low at the beginning of the month when the Royal offshore purchase and other local moves overseas put pressure on the currency.

The discount between the unit and the commercial rand has narrowed to 33% from the record 45% when the currency was under pressure. The currency had been trading in a R4,44-R4,35 range in the days before the new move on Del Monte became known.

BDAY 16/10/92

A dealer said expectations of Royal's move had provided a major boost for sentiment in the finrand market.

A source close to Royal yesterday said part of the Del Monte deal would involve a rights issue in Royal Food in the ratio of one to four. Holding company Royal Corporation would pass its rights to Anglo American. Control would change to Anglo.

However, he said, Royal would retain management control of the enlarged Royal/Del Monte group.

He said the rights issue price was currently pegged at a higher level than the share price. The Royfood share regained the 20c lost on Wednesday to close yesterday at 850c

SA FOOD PRODUCERS UNDER FIRE IN REPORT BY THE WORLD BANK

By KEVIN DAVIE

FOOD production favours producers at the expense of consumers, according to an internal World Bank paper on agriculture and the rural economy in South Africa.

The paper also says the close links of public sector organisations, such as co-operatives and marketing boards, with private sector companies — which are often oligopolistic — "have combined to create an interlocking system of mutual interests which have not necessarily been responsive to the needs of producers and consumers".

Food production has been in the spotlight in recent months in SA as food prices have been increasing by about 30% since last year.

The paper says that regulations governing movement controls of key commodities, hygiene, production and packing standards are extremely rigorous.

"In the opinion of many analysts they are too rigorous, forming barriers to entry of new and informal enterprises and in some cases militating against the interests of low-income consumers.

"There is a strong case for promoting the growing informal sectors of the economy and to include a review of the regulatory framework as part of this process."

The paper does note, however, that substantial reform of agriculture in SA is already under way. It says the effects of legal, institutional and economic controls have already been dramatic for parts of the agricultural sector. S/Times (Buss)

It cautions that even with vigorous affirmative action programmes to correct past inequities, South African society will for a long period reflect patterns developed in the past. 18/10/92

The World Bank is developing a rural strategy to run in conjunction with its lending programme for SA. Subjects currently being examined are: 186

- Land distribution and use patterns;
- Land tenure;
- Pricing and marketing;
- Agricultural production potential; and
- Rural credit.

This briefing note says preliminary drafts have been completed on these topics and are due for release as more formal documents in February 1993.

The bank also intends analysing the policy environment for individual commodities, most notably maize, dairy products, red meat, poultry and sugar.

"Since most of the commodity pricing and marketing arrangements were designed to serve the interests of producers, a government that is concerned with consumer interests will wish to pursue reform policies in this area.

"It will be necessary to develop policies which balance the interests of consumers and producers."

The bank will also investigate the equitable and viable redistribution programmes. It says that to avoid the mistakes of countries such as Zimbabwe, the resettlement programme will need to be flexible enough to accommodate a wide range of production activities.

It notes that a unique aspect of SA's homelands is that much of the population has little or no involvement (or experience) of agriculture. "It is unlikely that many of these individuals will become agriculturalists even if opportunities are available.

"Nonetheless, the welfare of these groups will be a political priority as financial flows (remittances and pensions) diminish. Hence it will be necessary to design a transfer programme that addresses the welfare needs of these groups."

The paper also says that public sector agricultural institutions are not orientated towards the needs of the rural sector and will need to be restructured.

S/Times (BUSS)
18/10/92.
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In the can for Royal

THE Royal group and Anglo American have teamed up to buy Europe's canned food group Del Monte Foods International in a R2,4-billion transaction. The deal — signed in London on Friday afternoon — is one of the largest concluded by a SA company.

But there is concern among stock market analysts that South African shareholders will pay a hefty premium to enable Royal Foods to set up shop offshore in a severely depressed market

Anglo will put up R400-million of the funds by taking joint control of Royal Holdings.

By CHERILYN IRETON

Royal chairman Vivian Imerman, 37, the architect of the deal, will retain managerial control.

The rest of the funds will be put up by South African institutions which have been asked to take up shares in the Royal group.

There is unlikely to be much effect on the financial rand in the short- to medium-term Royal has arranged interim offshore bridging finance, which will be repaid in due course by the proceeds of the equity funding

Reserve Bank general manager exchange control John Postmus says no permission has yet been given by the Bank for Royal to take funds out of the country to pay for the acquisition.

"We have approved the investment in principle but will still have to discuss the funding arrangements with the parties"

Symbol

London stock market analysts calculate Del Monte's worth at £220-million — R1,5-billion after financial rand conversion But Royal, Anglo and their institutional backers are prepared to pay R1-billion more for a 20% stake of the European canned fruit market and a vehicle to shift assets and products offshore

Imerman says the deal will provide substantial foreign exchange earnings for SA in the medium- to long-term It will also enhance employment opportunities and prospects in the Cape Province

Del Monte, which is also big in fruit juices and sidelines such as tomato sauce, was acquired from American food group Nabisco in a leveraged buyout in 1990

Imerman says "Del Monte is a symbol of the very highest quality and is the premier brand for canned pineapple and deciduous fruit, fruit juice and tomato products across the UK, Europe and the Middle East

Sketchy

"This acquisition is a unique opportunity for us to expand the quantity of Del Monte branded fruit and vegetable products distributed through Del Monte's sophisticated European infrastructure

"The additional strength and resources of the enlarged Royal group will help expand the existing Del Monte business through the development of new products and new geographical markets

"This represents a significant building block in our strategy, aimed at developing a worldwide food production, processing and marketing business," says Imerman

"There's no question of this deal being a bargain," says a local food analyst. "They are paying the top price for the prestige of operating offshore and the ability to externalise their assets"

Details of unlisted Del Monte's performance are sketchy, but it is known that the group had sales of £250-million last year, from which it achieved a pre-tax profit of £24,7-million and net attributable profit of £17,2-million. According to figures given to analysts earlier this year, its two main markets were Italy and the UK, where sales of £78-million and £71-million were achieved The Benelux market and Germany each accounted for sales of £18-million, while the turnover in the rest of Europe was £25-million Sales outside Europe totalled £40-million

The group has operating plants in the UK, Italy and Greece

Under the leadership of Imerman, the Royal group has been on an active acquisition trail The most significant of these, which introduced Imerman to Nabisco, was the purchase of Royal Beech-Nut South Africa in March 1989.

■ SEE BACK PAGE

VIVIAN IMERMAN· 'This represents a significant building block in our st

R2bn issue to fund Del Monte deal

(186) MARCIA KLEIN

THE Royal group's acquisition of European food group Del Monte International, estimated at roughly R2,8bn, would involve a share issue of as much as R2bn, London sources said yesterday

Royal announced at the weekend that, subject to certain conditions, it had concluded a deal in which subsidiary Royal Foods would gain control of Del Monte Foods International The equity funded portion would total R2,4bn

It is understood that the total cash consideration on a debt-free basis was £360m This would be funded in part by an acceptable level of debt in Del Monte

The balance, which was estimated at R2,4bn, would be settled initially by a sterling medium-term bridging facility

This would be repaid over time by the proceeds of equity funding through the issue of new shares in Royal Foods, Royal Corporation and Royal Holdings

Anglo American would be buying shares worth about R400m, while most of the rest would be taken up by major institutions

In the process, Anglo would join the Imerman family as a joint controlling shareholder of Royal group, Royal Foods' holding company. Chairman Vivian Imerman would retain management control

There had been some concern that Royal was paying too much. A source close to the group said UK analysts, who were expecting Del Monte to list, had estimated its market capitalisation at up to £450m.

London's Sunday Times said yesterday Royal was paying about 14,5 times Del Monte's earnings last year The Sunday Telegraph said Del Monte would show profits of more than £40m this year, and said the deal was "struck at a price well short of the £450m tag expected from a planned flotation of Del Monte"

A market source said a dilution in Royal earnings following the issue of a huge amount of shares, as well as differing reports on Del Monte's earnings, could indicate that Royal had paid a premium

BDAY 19/10/92.

SA chain makes good Zambian link

(20)

LUSAKA — A SA food chain has established a market in Zambia to supply a variety of foodstuffs to state institutions and wholesale outlets.

Nutritional Foods financial director Charles Akeroyd said state supermarkets in Lusaka and Ndola were some of the consumer outlets for his company's food products.

"The potential for business in Zambia is limitless.

"We have the goods that Zambians want — the business climate is very good," Akeroyd said.

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Nutritional Foods is owned by JSE-listed Merhold.

It specialises in supplying soups, bredies and gravies, cold and hot drink powders, desserts and soya mince blends. — Sapa.

Restructured Malbak focuses on consumer

BDay 22/10/92 (186)

MARCIA KLEIN

MALBAK, considerably enlarged through its acquisition of Fedfood and SA Druggists, reported a 28% rise in attributable earnings to R329m from R256m for the year to end-August.

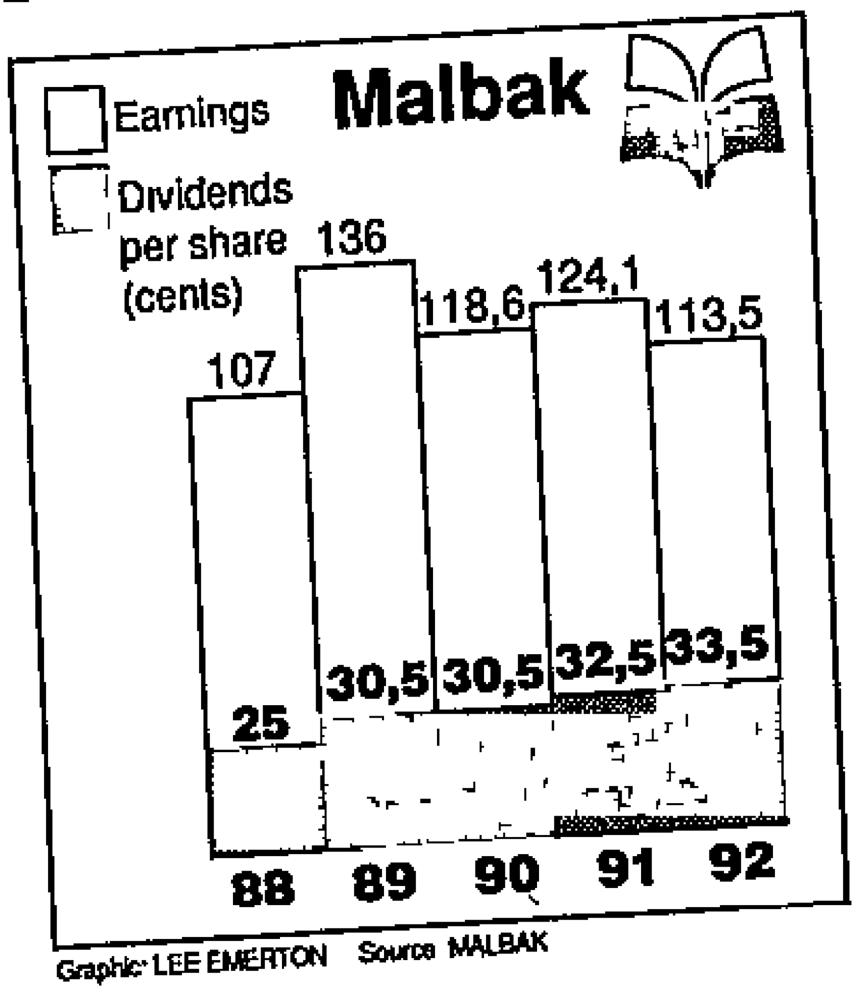
But earnings were 9% lower at 113,5c (124,1c) a share on more shares in issue, and were 3% lower than a pro forma earnings forecast of 117c in the previous year following some major transactions

The group structure has changed significantly since the September 1991 acquisition of Fedfood and SA Druggists, and the sale of Darling & Hodgson and 50% of its interest in Standard Engineering.

These transactions, as well as a huge rights issue, saw the group increase its shares in issue and raise R831m in cash.

During the year subsidiary Holdains acquired minorities in Sunpak, Fedfood and Kanhym were merged into Foodcorp, and SA Druggists bought Malbak's pharmaceutical, medical and related interests

Executive chairman Grant Thomas said the group had become more consumer oriented, and food and health care divisions made a much larger contribution to attributable earnings than in 1991 The food division was now the largest, contributing 19% of earnings. This was followed by packaging and paper (17%) and health care (13%)



Graphic: LEE EMERTON Source MALBAK

Operating investments (Malbak's holding in Haggie, Standard Engineering and ICL) contributed 15%, and corporate (including mainly the proceeds of the rights issue) contributed 19%.

Sales grew by 30% to almost R11bn from R8,4bn, and operating income was 18% higher, climbing to R851m from R720m.

Thomas said the decline in operating margin reflected fiercely competitive conditions and the change in the mix of Malbak's operations

"With our move away from low PE businesses such as construction to high PE businesses such as food and pharmaceuticals, both of which are very competitive, it is natural that the group's operating margin would narrow" But the faster asset turn would increase the return on shareholders' funds

There was a 20% growth in pre-tax income to R652m from R544m

Income after tax was 19% up at R452m (R381m), and after a marginal reduction in outside shareholders' interest, attributable earnings were 28% higher

A final dividend of 21c brought the full year dividend to 33,5c a share This compared with 32,5c in the previous year

Thomas said results were satisfactory, given the rationalisation and restructuring expenses absorbed and the difficult economic conditions.

The rights issue had strengthened the balance sheet, and the group had R709m in cash balances at year-end

Thomas said the international division "made a material improvement in its contribution", with a turnaround in the UK packaging interests The freight forwarding and shipping businesses, and the international trading activities, showed a strong performance

Losses incurred by Tedelex resulted in a reduced contribution from branded consumer products, he said, and Ellerines and Malbak Motor Holdings fared well.

In the coming year, Malbak has budgeted for improved pre-tax profits, but also for a significantly increased tax rate

Thomas said it was forecasting maintained earnings a share in the coming year.

FM 23/10/92 FOX

ROYAL/DEL MONTE (186)

Huge bite to swallow

Royal's bid for Del Monte Foods International (DMFI) has aptly been called a David-and-Goliath affair Royal, with a market capitalisation of R1bn, has announced after months of speculation a deal to take control of European food group DMFI, whose estimated value is £450m (R3,6bn)

The structuring of the deal is still a matter of conjecture It is understood that the cash consideration on a debt-free basis is £360m Royal has disclosed that the equity funding portion will total about R2,4bn, met initially by a medium-term sterling bridging facility Anglo American will become joint controller of Royal's ultimate holding company Royhold in return for cash backing of R400m

Royhold now owns 51,6% of Roycorp A share of 30% for each party is mooted

The vehicle for the acquisition, Royal Foods, at present embraces Royal Beech-Nut (bought in March 1989), Sapco (February 1991), Donald Cook's (May 1992) and Fresh-Up Juice (August 1992)

The pace at which Royfood has grown and the premiums paid for its acquisitions have led analysts to question whether the focus on earnings growth rather than cash flow will not eventually harm the balance sheet Management says this is unlikely, as DMFI is being recapitalised

Royal is paying about 14,5 times DMFI's earnings last year While some think this a hefty premium, management feels that under its guidance DMFI will have more scope This view flows from constraints placed on financial flexibility by the leveraged buy-out from its original management When Royal bought RBN it was believed to be at a premium, but the ability to enhance profitability provided a similar situation as DMFI

Anglo and Royal make strange bedfellows Benefits to Royal are numerous The deal, says chairman Vivian Imerman, is a step in its strategy to develop a worldwide food production, processing and marketing business, enhancing the sale of SA goods, particularly agriculturally based, in DMFI's global markets For Anglo they are less obvious Anglo may see this as a bid to move away from cyclical commodities towards consumers and higher value added areas

The size of the deal and the involvement of Anglo put Roychem's future in question The significance of its chemical and pharmaceutical arm pales While sources say no immediate decision has been taken, one wonders if, in the longer term, some arrangement with AECI will be arrived at, especially if the latest venture is successful

Management will not comment on the effects of this deal on the bottom line, with so many issues unresolved It is believed that meetings will be held with the JSE and Reserve Bank this week, in which case a further announcement is probable soon after, giving further informantion to justify the relisting of shares

Marylou Greig

Change of control in offing at Roychem

BDM 23/10/92 MARCIA KLEIN (186)

CONTROL of the Royal group's chemical arm Roychem could change as a result of Royal's acquisition of European food group Del Monte International.

Speculation in the market is that this would probably take the form of a management buyout at NAV, at present about 100c above the market price of 150c. The share rose to 300c in November last year, and dropped to 140c last week. The share was bid at 155c yesterday.

It is believed Chemserve has shown some interest in acquiring the company.

Roychem's businesses include pharmaceutical and industrial chemical company Holpro-Lovasz, high-performance materials company Ferro Industrial Products and Laser Pharmaceuticals.

Market sources said Roychem could be delisted before or after it was sold.

The Royal group announced today that the JSE had agreed to extend the suspension of shares of Royal Corporation, the Royal Group Holdings and Royal Foods until the close of trade today.

The shares have been suspended since Monday. Royal said a further annoucement would be made on Monday, when the shares would be relisted.

The announcement would include details of the Del Monte acquisition which involved funding of around R2,8bn. About R2,4bn of this amount would be equity funded.

Minister plans talks on food import problems

BDAY 23/10/92 (186)

MEREDITH JENSEN

AGRICULTURE Minister Kraai van Niekerk will meet members of working group 3 next week to discuss food imports.

Group members have complained about the inflexibility of the present system and the practice of enforcing surcharges on imports of staple foods in a drought year.

Working group 3 was one of 10 groups set up in August as part of the Food Logistics Forum to identify the real causes of food price inflation.

Tiger Oats executive director and working group 3 member Hamish McBain said the forum, including representatives from government and the co-operatives as well as retailers, manufacturers and consumers, aimed to address issues surrounding present import controls.

In a paper delivered to the forum in August, McBain said quantitative control permits had been subject to abuse, while attempts to tighten control had been bypassed through permits issued to TBVC states. "Abuses are being incurred through TBVC rebates, incorrect product descriptions and even falsified Bills of Landing."

McBain said controls had tended to be too inflexible, but he stressed the danger of an open policy toward imports, especially foodstuffs. "Reliance on imported food will place an unbearable burden on our foreign exchange and balance of trade."

Another group member said government stood to make R150m from import tariffs on maize this year. "Is it necessary to enforce a surcharge on a crop that is short? Surcharges were designed to protect local industry, but if there is no crop then there is nothing to protect."

Other issues being investigated were VAT and basic foodstuffs, Central Statistical Service accuracy in the CPI regarding food, the existence of the marketing boards, input costs of food processing and manufacturing, and the gap between the farmer's price and the consumer price.

Royal unveils share deal

St Times 28/10/92

Business Times Reporter

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INSTITUTIONS will be offered shares in the Royal group at a premium to the market price in order to help fund the £360-million acquisition of Del Monte Foods International.

New shares in Royal and Royal Group Holdings will be offered to institutions at R9,50 a share — against the price of R8,50 at the time of their suspension last week — while Royal Foods will be on offer at R9,25 a share, R0,50 higher than the price of R8,75 at suspension. Minorities can expect a similar deal if all terms of the acquisition are met.

The funds raised through the equity placing will repay an offshore loan used as bridging finance.

Royal expects Del Monte to boost group earnings

BDAY 29/10/92 186

MARCIA KLEIN

THE Royal group today announced higher earnings for the year to end-August and has forecast significantly increased earnings in the 1993 financial year following its acquisition of Del Monte Foods International.

It has lodged an application to change its financial year to end-November, dependent on completion of the R2,4bn Del Monte deal through subsidiary Royal Foods (Royfood). This would be the second change of financial year-end in as many years

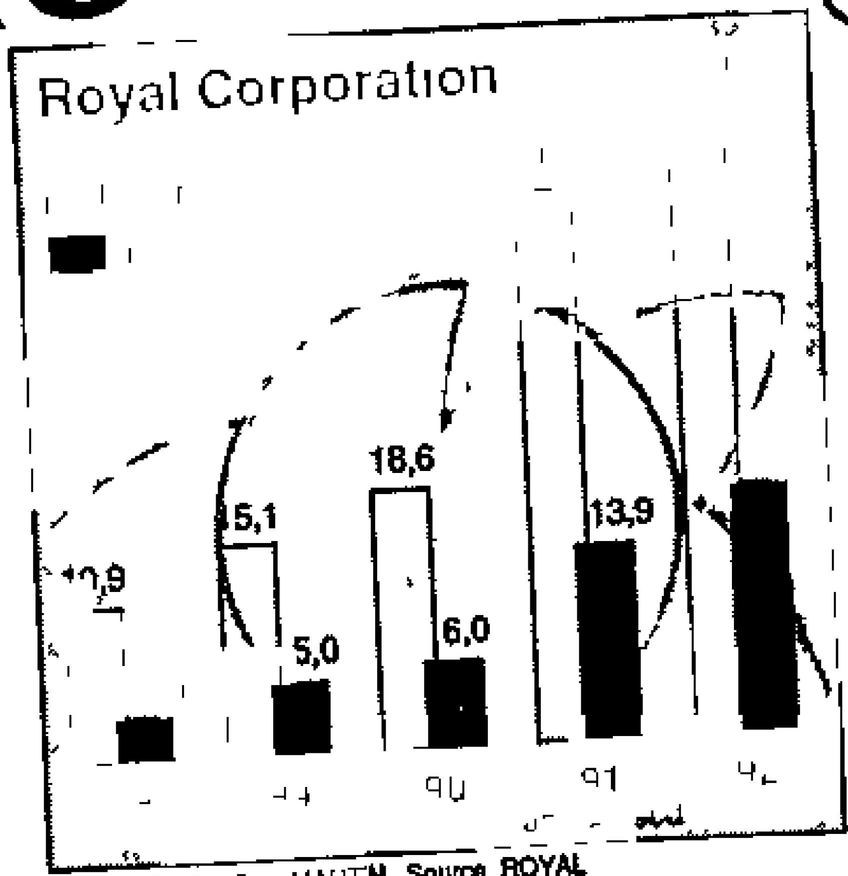
Today the group reported earnings of 36,2c a share in Royfood and 46c for Royal Corporation (Royal).

It forecast earnings of 61,9c a share for Royfood and 65,1c for Royal in the year to end-November 1993

This would place Royfood at a PE multiple of 14,93 and Royal at 14,68 on their issue prices of 925c and 950c respectively. New shares in the group have been offered to institutional investors at these issue prices as part of the funding arrangement of the Del Monte deal

At these issue prices, Royfood would have a market capitalisation of R3,3bn, Royal R1,5bn and Royal Group Holdings (Royhold) R0,7bn

Anglo American and the Imerman Control Consortium would each hold half of a 60%-holding in Royhold It would invest R400m, while the Imerman consortium would invest a minimum of R30m Anglo would also have a 5% direct stake in Royfood



Graphic: RUBY-GAY MARTIN Source ROYAL

Royal confirmed that the £360m purchase price represented a nine times multiple on Del Monte's November 1992 annual earnings before interest and tax

Directors said Royal's results to end-August were achieved through continued growth — both locally and internationally — of major subsidiaries Royfood and Roychem.

Results were not comparable as they reflected the 12 months to end-August compared with the previous 18 month period, as well as large acquisitions and other changes

In addition, the previous results included 18 months earnings of Royal Beech-Nut and Holpro-Lovasz and only six months earnings of the SA Preserving Company (Sapco) and Ferro Industrial Products

During the latest reporting period, Royfood acquired Lecol, Donald Cooks and Fresh-up and tied up a distribution agreement with Mars

Royfood's earnings rose by 58% to 36,2c (22,9c) a share, partly due to the inclusion of Sapco for a full year.

Directors said in order to make a meaningful comparison, earnings for the six months to end-August were 32% higher than the same period last year when the business was similarly constituted

Royfood declared a final dividend of 6,6c a share, to bring the full year total to 12,1c from 8,1c previously.

Roychem's earnings of 29,4c compared with earnings of 25,8c in the prevous 18 month period. It declared a final dividend of 3,7c, to bring the full year dividend to 9,7c (9c) a share

A R5,6m extraordinary item reflected closure of Ferro's plastics division following a decision by Ferro USA to discontinue these operations.

Holding company Royal's turnover was R475,9m from R460,8m in the 18 months to August 1991, and operating profit was R69,6m (R50,4m).

Attributable income rose to R29,8m from R27,7m, and earnings of 46c a share compared with 39,8c in the previous period

A final dividend of 10,2c, of which 2,6c "represents a special distribution following a settlement of the dispute between Royal and the vendors of the Holpro group". This brought the total dividend for the year to 17,8c (13,9c)

Royhold, which derives its income from its 51,1% holding in Royal, reported earnings of 46c a share and a 10,2c a share dividend for the six months to end-August.

Improved catches help keep Oceana shipshape

B/Day 29/10/92 (186)

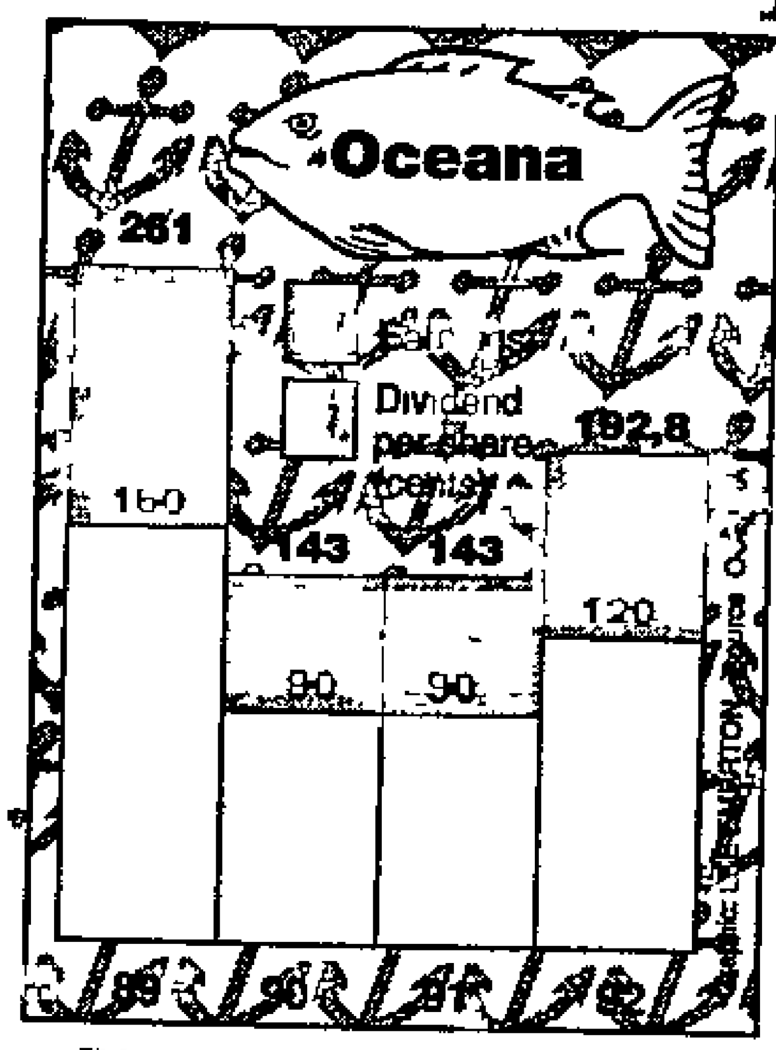
EDWARD WEST

OCEANA Fishing Group netted a fine profit in the year to end-September 1992 with earnings up 35% and total dividends one-third higher than in the previous year.

Turnover increased 15% from 1991 to R375,43m but operating income soared by more than 70% to R36,28m. Interest received climbed to R5,1m from R2,3m and investment income rose to R5,79m from R3,45m.

Pre-tax income, 70% up at R42,07m, lifted the tax bill to R22,61m from R10,45m, leaving taxed income at R19,46m from R14,17m.

Attributable income to shareholders was 36% higher at R18,19m from R13,38m in 1991, raising earnings to 192,8c a share from 142,8c. With the final dividend of 90c (65c the previous year), the total payout for the year reached 120c compared with 90c in 1991.



Directors reported that increased earnings were attributable mainly to improved pelagic landings and the benefits of rationalisation in the fishing division in earlier years. Good performances were also recorded by the trading and cold storage divisions. Investment income increased.

The performance of Oceana's new R19m cold store at Duncan Rock in Cape Town, which came into operation in August and which was funded by venture partners, Oceana, ICS and Portnet, was in line with expectations, the directors said.

The industry's rock lobster quota for the 1992/93 season had been reduced to 2 200 tons from 2 400 tons the previous season which, together with worsening economic conditions in overseas markets, was expected to adversely affect Oceana's rock lobster division in the year ahead.

However, marine scientists were confident that lobster resources were sound. Pelagic resources appeared to be stable and good catches could again be expected in the next year.

This, and expected improvement in the trading and cold storage divisions, should improve overall earnings for the coming year, directors predicted.

ROYAL/DEL MONTE FM 30/10/92 (186)

An ill-informed confection

Royal's latest announcement regarding its proposed acquisition of Del Monte Foods International (DMFI) throws little light on the deal. Shareholders were told that information on the financial elements and their effect will be made known only in November.

Considering the quantum of cash involved — around R2,4bn — this seems an unacceptably cavalier attitude Selected SA institutions, including Anglo American Corp, have received a package of information from Royal dealing with the DMFI transaction, complete with full disclosure on the underlying financials relating to DMFI

In fact, it's highly unlikely any institution would commit itself to an investment of this size without full disclosure. But why is the information being distributed on a selective basis and not to all Royal's shareholders?

Rules of the Securities Regulation Panel (SRP) clearly state as a general principle that information shall not be made available "to some holders of relevant securities which is not made available to all holders of such securities except with the consent of the Panel "

SRP spokesmen are reluctant to comment because the deal is with an overseas seller But they agree the SRP's approach, which is to be consistently even-handed in the spread of vital information, should be adhered to. Also, the Code requires its spirit and not just the regulations should be followed Why shouldn't that apply here?

The *FM* has learnt that the basis of the deal which Royal is attempting to consummate is an option only The option is limited, apparently, to about one month and conditional on Royal's ability to secure funding.

In granting the option, the British sellers, led apparently by Charterhouse Merchant Bank which is controlled by the Royal Bank of Scotland, insisted on a confidentiality undertaking which specifically prohibits publication of sensitive information until the deal is concluded. No wonder Royal and its advisers feel they're between a rock and a hard place

Co-sponsoring broker Frankel Max Pollak Vinderine's corporate finance director Simon Oliver says: "With a deal of this magnitude it was deemed prudent first to ensure there is a reasonable chance of putting the funding in place before making a full public disclosure "

All very well, but this week the share was again being traded on the market. In the interests of equity, shouldn't the JSE insist on immediate full disclosure?

Key elements of the deal are the intended purchase price of £360m and the manner in which debt in DMFI is restructured An SA purchase of DMFI will be made through the financial rand, currently at 6,77:£1. That gives a purchase price of R2,439bn Anglo will contribute R400m and it is believed Royhold's cash injection will be only about R30m-R40m SA's institutions are being asked to subscribe the remaining R2bn

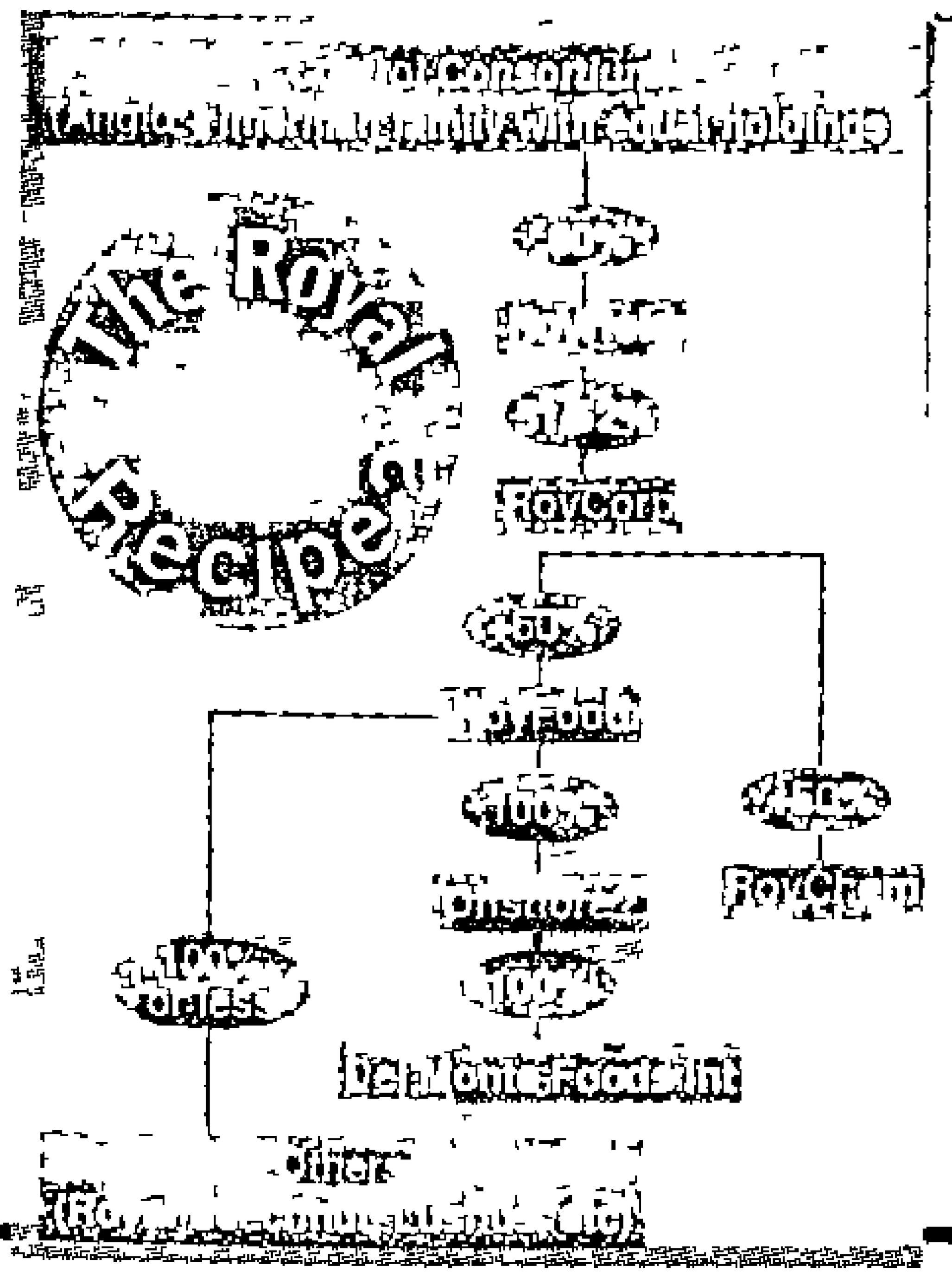
DMFI was a part of RJR Nabisco until it was bought out by management in 1990 for £229m It has operating plants in the UK, Italy and Greece, holds around 20% of the European canned fruit market and is big in fruit juices and sidelines such as tomato sauces

Sales in the year to November 1991 totalled £250m, pre-tax profit was £24,7m and net attributable profit £17,2m Borrowings averaged about £115m and the interest bill was £21m

London analysts suggest that DMFI's pre-tax profit to November 1992 could be around £27,5m That seems a far cry from the £40m suggested in one British newspaper "The only way it could get there would be from asset sales of some kind," says broker Smith New Court analyst Tim Potter.

Applying the same 30% tax rate as last year produces net attributable profit for the year to November 1992 of £19,25m, to be generous, call it £20m On a purchase price of £360m that implies a p:e of 18. This compares with an average p e for the JSE's food sector of 21. It seems a high price to pay only two years after DMFI's management bought the company for £130m less

A Royal spokesman told the *FM* the company's opinion is that, because of the distortions which arise from leveraged buy-outs, multiples based on earnings before interest and tax (EBIT) are more appropriate This is a matter of definition In the absence of detailed information, the *FM* is using tried, proven and understood SA methods.



Rather surprisingly, though, the *FM* learns the response from institutions generally is that they are viewing it favourably One portfolio manager says he thinks it will have profound rand-hedge possibilities

Clearly, they know a lot more about it than the rest of us — but then they've had the full details These obviously include plans for reducing DMFI's borrowings in a manner which leaves the company producing profits attractive to Royal and Anglo

Finance director Mike King says Anglo's investment in Royal will be held directly by the corporation rather than through a subsidiary or associate King says its dealings with Royal will be on an arms-length basis. Anglo will be represented on Royal's executive committee but it will leave the management to Vivian Imerman

Royal's consistent refusal to communicate adequately over past months has led to considerable speculation Why the group's managers persist with this attitude is difficult to understand, it can only prove detrimental in the long run Meanwhile, shareholders must patiently await the next instalment

David Gleason, Marylou Greig & John Cavill

GENCOR (186) FM 30/10/92

Bottom of the cycle?

The preliminary results illustrate the dilemma that faces natural resource groups subject to commodity cycles — times have probably never been tougher but Gencor is in the throes of big expansions in SA and abroad

Gencor has raised its dividend payout, despite lower earnings for the second consecutive year If chairman Brian Gilbertson has his way, the house will raise the dividend again this year even though earnings are forecast to fall again

By comparison, Gold Fields has pegged its payout for four successive years and JCI for three, Gencor's generosity seems almost out of place Gilbertson reckons it can afford it, despite potentially heavy commitments to projects like Columbus and Alusaf

Gencor's underlying operating income rose 7% to R1,17bn in the year to August, while cash EPS increased 4% to 59,9c (1991 57,8c) The overall 17% decline in earnings was because of lower income from non-recurring items and share dealing surpluses, as well as the increased issued shares after January's R2bn rights issue

The business outlook, however, is grim Says Gilbertson "Conditions in the local economy have never been worse and we can see absolutely no sign of any international

continued

MANUFACTURING — FOOD

1992

Royal boss confident about deal

186

S/Times (Buss)

1/11/92

By CHERILYN IRETON

ROYAL will know by Friday the 13th whether it has won institutional backing for its £360-million acquisition of European food group Del Monte Foods International

A team of investment advisers and Royal's executive management this week wound up their sales pitch to the 18 South African institutions which were invited to put up a combined R2-billion in part payment of the deal

In his first interview since signing the deal in London two weeks ago, Royal chairman Vivian Imerman said several institutions had already committed themselves to take up new shares in Royal One had declined

He is nonetheless confident that the funding commitments will be in place when his 28-day option expires on November 13

Political

A confidentiality agreement between Royal management and the vendor, Charterhouse merchant bank, has limited the amount of information available about Del Monte The institutions signed similar secrecy pacts, giving them sight of extra information on the unlisted Del Monte and its prospects

The emphasis of Mr Imerman's pitch to institutions, political players and the Reserve Bank has been the macro benefits that would follow a SA concern's gaining control of Europe's top canned-fruit business

Armed with a report by Professor Johan du Pisanie, Mr Imerman has been highlighting the advantages to agriculture, employment and foreign-currency earnings

He says "It is vital to encourage increased agricultural production by giving comfort and security to the sector. Farmers must know they will be able to sell their products down the line"

"The deal will not only allow fruit from the Cape to be sent to Europe, but will enable the product to slot into a premium price position"

In some cases Del Monte can charge three times the house brand price for its products, enabling it to defend its market share

"Being a brand leader, the company has the critical mass to advertise, distribute its products and still be innovative," says Mr Imerman

Royal started negotiating to buy Del Monte in July when management said it was investigating a flotation

Some analysts who were given a presentation on Del Monte at the time still maintain that the £360-million price is too high

"We would not have got Del Monte for £1 less," insists Mr Imerman. He says it was planning to list at £450-million in a flat market

Of the 100 advisers engaged by Royal in its pre-purchase investigation, many studied comparative prices for companies with pan-European brands

Mr Imerman and his advisers believe the price is fair

"Companies of this size and dimension are a rarity It has brands in 30 countries and boasts brand leadership in 11 of them"

Bread price - blame it on the bakers

Sowetan 3/11/92.

186

■ Agriculture Ministry takes no blame:

BREAD price increases over the weekend should be attributed to bakers' and millers' increases as there had been no real increase in the wheat price, Agriculture Ministry spokesman Frans Loots said yesterday.

According to reports bread prices rose over the weekend after Agriculture Minister Mr Kraai van Niekerk announced on Friday that the price of wheat would be held constant until about the second quarter of next year.

"Profits" from cheaper imported wheat would be used to postpone a nine percent increase in the consumer price of wheat.

Loots said yesterday that the weekend bread price increases should therefore be ascribed to increases by other sectors of the industry. He also said the recommended maximum prices for bread were not enforceable. While the recommended maximum price for white bread was R1,75, some cafes were selling loaves for more than R2.

Baking industry spokesman Fanie Ferreira said distribution costs was just one of the factors bakers had to contend with. There were few consumer items which had to be distributed so widely on a daily basis, he said. - *Sapa*

Exports boost for Langeberg

CT 4/11/92

186

By MAGGIE ROWLEY
Deputy Business Editor

STRONG exports and improved margins helped Bellville-based Langeberg Holdings exceed its pre-listing earnings forecast by more than 10% to R87,5m for the year to end September — an increase of more than 40% on the previous year.

In spite of the adverse economic conditions and the serious drought, the food processing and canning conglomerate, which was listed on the JSE in June, increased operating profit by 30% to R102,9m on a 15% increase in turnover at R741,8m.

Lower interest rates led to reduced finance charges of R15,4m (R17,1m) but an extraordinary item of R8,6m was incurred in the main by the closure of factories in the Transvaal.

This resulted in attributable earnings increasing by 29% to R78,9m — which was still marginally ahead of the prelisting forecast — translating into earnings at the share level of 55c against 38,9c previously. No tax was payable.

Financial director Johann Cilliers said cost controls and greater efficiency led to an increase in margins in spite of price increases on the domestic market being held at below 12% this year.

Exports of the group, which is 56% held by Tiger Oats and 30% by Langeberg Co-operatives, had been excellent in the past year particularly in niche markets in the Far East and Europe.

However an increase in working capital was experienced due to stock build up as a result of higher production volumes and lower export shipments during the last quarter of the year. Working capital was further increased by a transfer from investments amounting to R47m which represented amounts expected to be realised within the next year.

Japan, which accounts for about 22% of its exports, remains Langeberg's single most important market.

Cilliers said the effects of the drought had been minimalised as most of the company's products were sourced from areas which were well irrigated.

However the pineapple crop had been hard hit by the several years of drought, which had produced a legacy of poor plant development in the older plantings, and this division had made a loss during the period under review.

Cilliers said the closure of two tomato processing factories in the Transvaal was now nearing completion and as the main producing areas had shifted more towards the Messina area, the factory there and a second factory in Boxburg would be revamped at a total cost of about R18m to increase capacity.

In spite of the fact that no improvement in either international or domestic conditions was expected during the current year and export competition expected to intensify, a further increase in pre-tax profits is forecast for 1993.

This, say the directors, would be as a result of greater efficiencies and cost containment in the local and deciduous divisions, which had both turned in a profit during the year under review, and an improved performance by the pineapple division.

"The latter should benefit from improving crop quality which is currently evident, provided weather conditions remain favourable."

However, they warn that as tax would be payable for the first time, it would be difficult to achieve a "meaningful growth" in earnings.

Rising export prices give Langeberg a boost

BDAY 4/11/92.

LINDA ENSOR

CAPE TOWN — Tiger Oats food processing and canning subsidiary Langeberg Holdings increased its earnings a share by 40,6% in the year to end-September, as prices fetched on the export markets rose significantly and local volumes improved.

Earnings rose to 54,7c (38,9c) and a final dividend of 11c brought the total for the year to 16c (11,3c).

Turnover rose 15% to R741,8m (R645,8m) and operating profit by 30% to R102,9m (R79,4m) as a result of the healthy growth in margins to 13,9% (12,3%)

Lower interest rates saw finance charges drop, while accumulated tax losses meant Langeberg was not burdened with a tax bill.

MD Ray Brown said he was very happy with the performance in the circumstances, adding that profits were driven by export of deciduous products and improved conditions on the local market.

Export markets declined in terms of volumes because of the better prices fetched, but the value rose significanly.

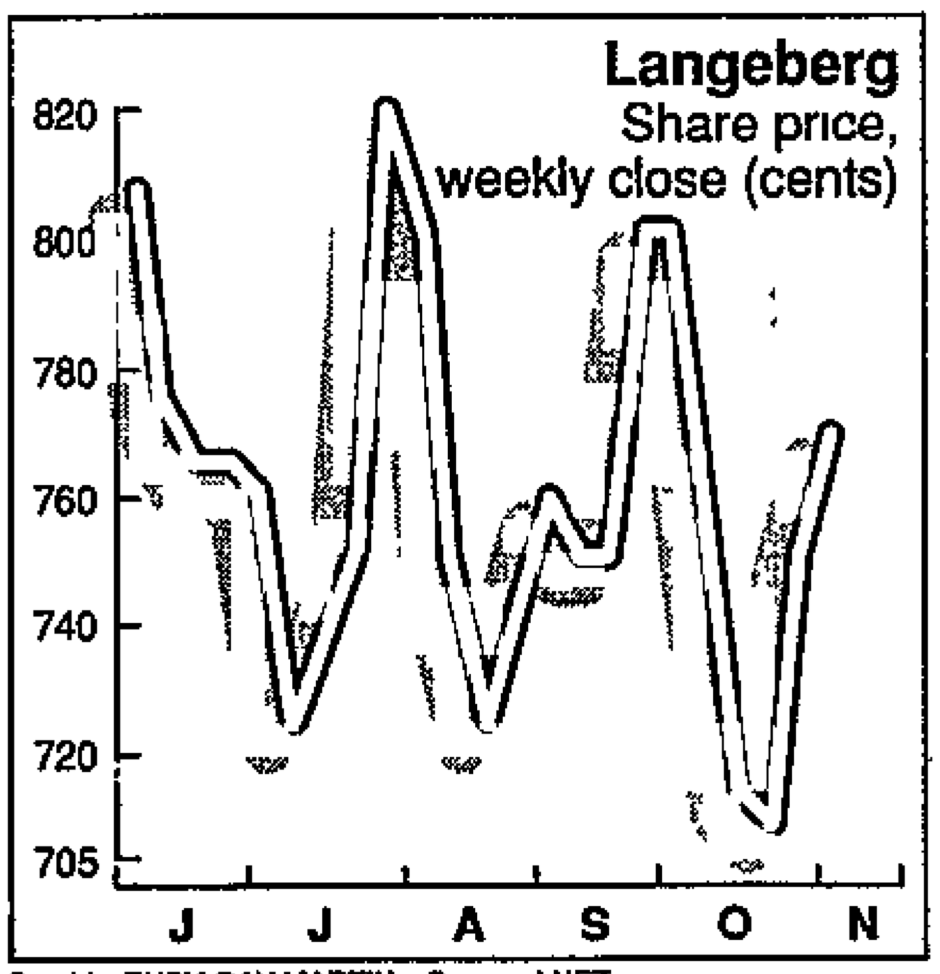
Langeberg's main markets are the UK, Germany and Japan.

Brown said the domestic market was fairly flat, but a growth in volumes of below 5% was achieved Sales were clearly affected by the recession, the levels of violence, unemployment and the poor political situation, he said.

The local and deciduous divisions increased profits, but the pineapple division made a loss because of the long-term effect of years of drought on plantings.

Otherwise, the drought did not have much direct effect as most of Langeberg's suppliers produced in irrigated areas under contract, and fruit crops in the western Cape had sufficient rain However, drought did contribute to the poor economic climate.

An extraordinary item of R8,6m was incurred by the closure of two factories in the Transvaal as part of a drive to contain costs and improve profitability.



Graphic RUBY-GAY MARTIN Source I-NET

In addition, the workforce at a third factory was reduced by 80%, technology was improved and production capacity was made more productive for local and overseas markets.

The gearing ratio at year-end was about 25%, though it reached 70% at peak periods when demand for working capital was high because of stock build-ups Working capital was increased by a transfer of R47m from investments.

On prospects, Brown said the current year would be tough but he believed there would be an improvement in pre-tax results.

As income tax would be paid for the first time, it would be difficult to achieve a meaningful growth in earnings

Capex last year amounted to R18m with R30m budgeted for this year, Brown said

Exports boost for Langeberg

CT 4/11/92 (186)

By MAGGIE ROWLEY
Deputy Business Editor

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ROYAL/DEL MONTE FOODS FM 6/11/92 (186)

A right royal affair

It's been like getting blood out of a stone, but persistence brings its own rewards the *FM* has had access in the past week to rather a lot more information about Royal's projected acquisition of Del Monte Foods International (DMFI).

The conclusion, in the full light of day, is that the deal looks good for Royal and will probably be good for new subscribers We could have said this weeks ago, and with less fuss, if the pertinent details had been laid out at the right time. But management remains coy

It appears Royal's offer for DMFI of £360m is based — and this is important — on DMFI's being debt-free Of course, the company isn't. When it was taken out of RJR Nabisco in 1990 for £229m, as part of a leveraged buy-out orchestrated by Charterhouse Merchant Bank, a large chunk of debt was tagged on to it according to city sources this is as high as £140m Royal will neither confirm nor deny the figure

It follows that any retention of debt in DMFI will reduce the purchase price paid by Royal Indications when the deal was first announced suggested that Royal's intention was that some of DMFI's debt would be retired Royal chairman Vivian Imerman says "Royal is a debt-averse company in any circumstances It would be our intention to retire some of DMFI's debt"

Imerman confirms he intends to repay about £70m of DMFI's debt This is important in calculating what Royal is paying for DMFI Assuming DMFI's debt is indeed about £140m, it implies the company's debt-free value is £220m — rather less than it was when the LBO occurred in 1990 So, if Royal is buying DMFI for £220m and intends to retire as much as half its existing debt, then Royal's total bill will be around £290m

At a finrand rate of, say, R7·£1 that adds up to R2,03bn of which R400m is to be supplied by Anglo and the balance by Royal and other institutions That's a far cry from the R2,4bn-R2,8bn bruited about when the deal was first brought to shareholders' attention

It also changes the purchasing multiples London analysts have suggested that DMFI's pre-tax profit to November 1992 should be about £27,5m Applying last year's tax rate of 30%, this will leave about £19,5m. To be fair, assume final net earnings of £20m. Against a total purchase price of £290m, that implies a purchasing price multiple of 14,5 — appreciably more favourable than the *FM*'s earlier calculation of 18 based on incomplete information and one with which SA investors should feel significantly more comfortable

EBIT — earnings before interest and tax — appears to be preferred overseas to the p e multiple used in SA A calculation of DMFI's EBIT at the end of November 1992, and assuming debt is retired, produces a multiple of 9 London analysts say this compares with Cadbury Schweppes' current 10,3, Unilever's 10,4 and Hero's 9,5

Any assessment of the deal boils down, in the end, to what it is meant to add to Royal Why is Royal so anxious to conclude it? Imerman, ever reticent, says the arrangement between Sapco (which Royal earlier bought from DMFI) and DMFI led inevitably to the perception that Royal, faced with a mature local market, needed to pursue the vertical integration of an international operation

DMFI presents a unique opportunity There is a scarcity value attached to a food company the size of DMFI Imerman says Royal can absorb DMFI without discomfort though that's something of a cheek since DMFI is about twice the size of Royal

A well-regarded source says DMFI's operating margins are probably better than other major European food companies, which average around 10% to 12% That implies DMFI's trading margin may be as high as 15% but Imerman declines to confirm this

Royal has only a limited opportunity to close the deal which is limited by an option period This ends, the *FM* understands, somewhere around November 13 The major issue is whether the institutions will subscribe to the vendor placing When going to press, we were unable to establish the extent of institutional support

A market source says that while the Royal deal is being received favourably, it is competing with a variety of heavy demands which include R1,3bn funding for Alusaf's expansion

No figures are available as to the effect the DMFI acquisition will have on the Royal group A company official says the impact is expected to be small at first and will become substantial only later as DMFI's business expands

Shareholders are being asked to take a lot on trust in this deal If they are not one of the large institutions they will not have been made privy to the details and underlying financial information relating to DMFI Without those, it is hard to reach a reasonable conclusion Imerman says he will release full details as soon as he can, in terms of the confidentiality undertaking given to the London sellers

Until then, all existing investors have to go on is the knowledge that Anglo has undertaken to pick up their shares at a premium of about R1 to the market price That alone indicates Anglo feels extremely comfortable with prospects So the best advice has to be to wait it out

David Gleason & Marylou Greig

FIRST NATIONAL BANK FM 6/11/92

Approaching the ceiling?

While Reserve Bank Governor Chris Stals can be thanked in part for First National Bank's outstanding, margin-driven results, management deserves its share of credit

The 11,7% increase in interest income and 7,1% increase in interest expenditure represent a slightly smaller margin than that achieved in the previous financial year Yet earnings grew 15,5% — despite the issue of 11m new shares in March's R550m rights issue, a special tax provision of R5,4m relating to a dispute with the Receiver and extraordinary items totalling R27m

MD Barry Swart admits margins were good but points out non-interest income advanced a healthy 16,8% to R1,3bn This is 3,4% of average assets, the highest percentage in at least the past five years

MARGIN DRIVEN

Year to Sep 30	1991	1992
Net interest inc (Rbn)	1,58	1,95
Other operating inc (Rbn)	1,12	1,30
Other operating exp (Rbn)	1,79	2,15
Net income (Rm)	385,1	478,9
Earnings (c)	529,3	611,2
Dividends (c)	175	200

And don't suggest that FNB has been too cautious in its bad debt provision, at R347m up 32% on the previous year, without which earnings could have been higher

"I think we're realistically conservative about bad debts and FNB has the best disclosure in the country," says Swart "We don't create big general reserves — bad debt provisions are specifically defined We probably have a better handle on our advances book than other banks"

Advances grew 14,2%, mainly on the back of increased home loans Since FNB's unsuccesful bid for Allied, it has followed an aggressive home loans marketing policy which is showing results At the 1991 year-end, FNB's home loans book stood at about R5bn. Swart says it totals just under R7bn, "with an additional R1bn in the pipeline"

FNB still holds the rights funds, which, besides boosting interest earned and curbing interest paid, could be used for the Henry Ansbacher acquisition This is still under negotiation and Swart says a different fund-

continued

Newly listed CG Smith raises profits by 10%

B/DAY 6/11/92 (186) (3) Sugar

PETER DELMAR

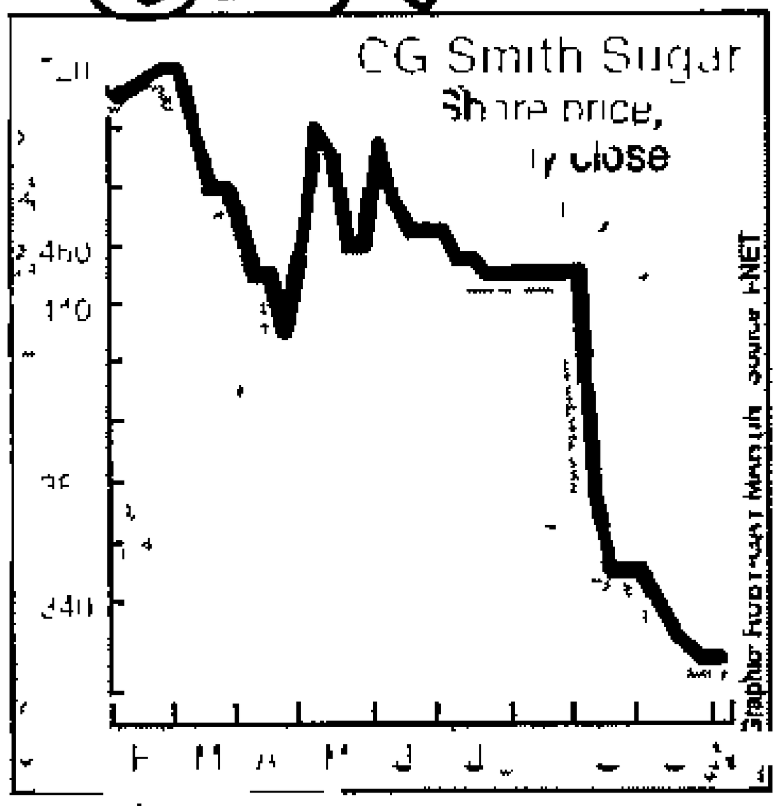
SUGAR producer C G Smith, reporting for the the first time as a quoted company, achieved a "satisfactory" 10% increase in attributable profit to R87,1m for the year to end-September 1992.

This translated into earnings a share of 55,3c A final dividend of 14c a share was declared, bringing the dividend for the year to 23c

Attributable profit the previous year was R79,3m

Turnover rose 15% to R1,143bn (R991,4m) and operating profit 6% to R142,9m (R103,9m). Profit after extraordinary items was R89,2m (R77,7m).

Interest costs rose by 13% to R34,9m (R30,8m), largely due to the acquisition of the Umfolozi sugar mill in April and higher crop financing requirements. These contributed to a lower effective tax rate — from 27,4% to 22,9%.



Contributory factors to the favourable performance were a near record production resulting from a favourable sugar season, good factory performances and an increased contribution from warehousing and distribution Warehousing profits were up due to a short milling season and entry into commercial warehousing.

The effects of the drought were partly cushioned by an increase in C G Smith's share of the higher priced A-pool sugar production.

The chemical division's contribution to profits was maintained.

C G Smith Sugar chairman Glyn Taylor said the results brought into account the second half of the 1991/92 sugar season.

"The current season has been hit by the worst drought in living memory, but on account of its wide geographic spread, the company has avoided the full effects of the drought in several of its cane supply areas and its industrial share has risen from a normal level of 43,5% to 48%," Taylor said.

Crayfish strike hit by pullout

186

SOUTH 7/11 - 11/11/92

By Justin Pearce

THE CRAYFISH strike on the West Coast received a setback on Tuesday when the South African Frozen Rock Lobster Packers (Safroc) pulled out of a meeting with the West Coast Fishermen's Union.

Safroc is the body which markets rock lobster on behalf of the factories.

According to union spokesperson Mr Hennie Mostert, Safroc undertook last week to meet the union on Tuesday. Safroc reneged on its promise at short notice, saying the fishermen must take their demands to individual employers

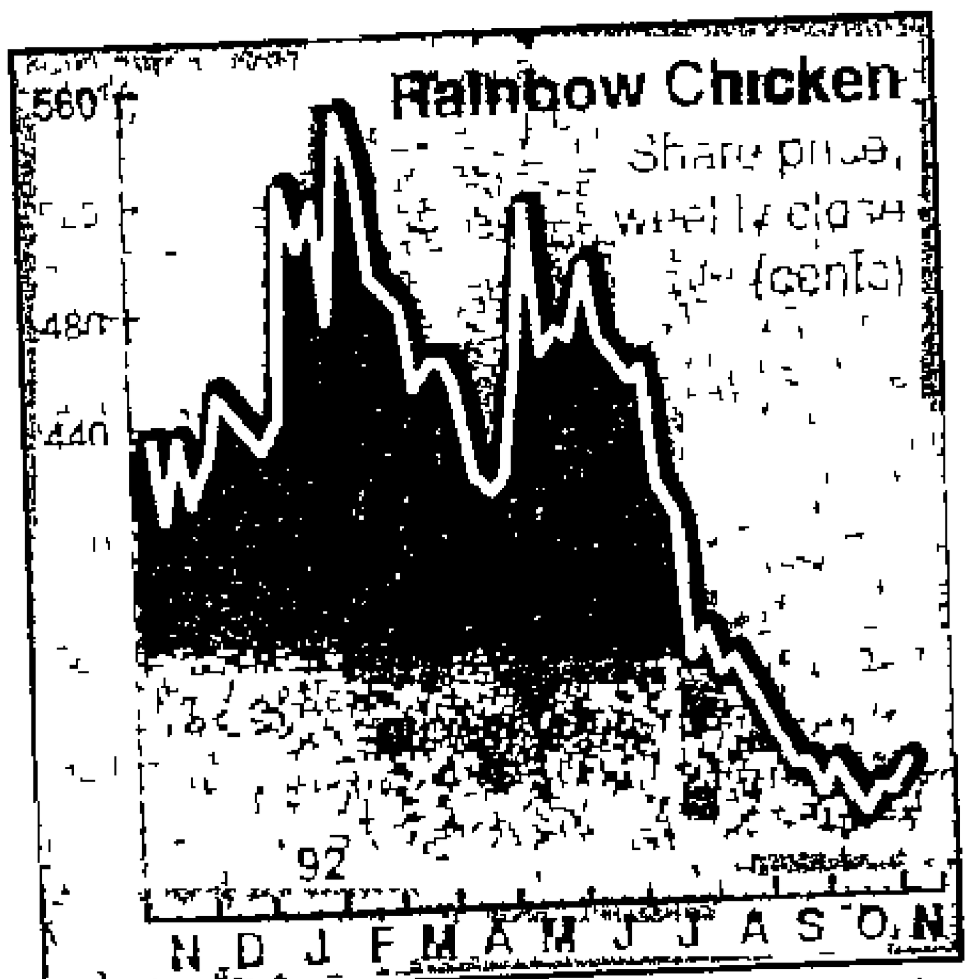
The fishermen's demands are:

- Payment of R8 a kilogram for rock lobster. They are currently paid around R4 a kilogram for lobster that retails for R40.
- Protective clothing supplied by employers at no cost
- The factory must be the sole employer of the fishermen. Up to now factories have named the boat skippers as the fishermen's employers — thus avoiding having to register their employees with the Department of Manpower
- The reinstatement of 120 workers recently dismissed in Lamberts Bay, Hondeklip Bay, Doringbaai and Paternoster.

"Some of those men have been working there for 30 years and have no other source of income," Mostert said.

Mostert also claimed that employers in Port Nolloth and Hondeklip Bay were using scab labourers from the Transkei to work on the boats during the strike.

Demonstrations have taken place in various West Coast fishing towns to draw attention to the strikers' demands.



Graphic: RUBY-GAY MARTIN Source I-NET

Rainbow Chicken produces a loss

MARCIA KLEIN (186)

LOSSES in the first quarter had a severe effect on Rainbow Chicken, which reported an attributable loss of R18,9m in the six months to end-September, from a profit of R5,7m the previous year.

The loss indicated a significant and unexpected downturn in the group's fortunes, as it had forecast at the March year-end that it would show "a strong improvement in earnings a share in the next year".

Group MD John Geoghegan said although Rainbow traded profitably in the second quarter, the interim results were seriously affected by the losses suffered in the first quarter BDAM 9/11/92

☐ To Page 2

☐ From Page 1

Rainbow

BDAM 9/11/92 (186)

These losses were largely because of excess stocks in the industry, the continued adverse environment and low fed meat prices resulting from higher cattle slaughtering brought about by the drought

These factors had led to to extreme pressure on chicken prices Geoghegan said selling prices were below production cost during the first three months The selling prices had declined by 5,4% compared with the previous year's average prices

Although prices increased in the second quarter, the level of the price increase for the full six-month period was "substantially below the inflation rate"

In addition, volumes were 6% down on the back of reduced consumption

Turnover increased by 6,3% to R787,5m from R740,7m as a result of small growth in sales of chicken products and strong growth in Epol's sales

But at the operating level, the group showed a loss of R507 000 from profit of R20,9m in the previous year due to the low selling prices, reduced volumes and the higher cost of imported maize — of which the free on rail price rose by 24%

Funding of capex and the increased working capital requirement saw the interest bill rise by to R18,2m from R14,7m, and no provision for tax was made

Rainbow showed a loss of 5,1c (earnings of 1,7c) a share, and no interim dividend was declared

Capex of R35,4m was mainly used for the new Rustenburg feedmill, which started production in June Geoghegan said the mill was part of a "strategy to reduce feed costs to the lowest possible level" and that the mill would contribute to profitability

The increase in interest-bearing debt rose to R326,5m (R254,6m) to finance working capital and capex, and Geoghegan said gearing of 37,5% remained manageable. About R90m of the debt related to loans from the sellers of Bonny Bird at an interest rate of 6% under prime

Although prices had improved and the group was likely to trade profitably for the rest of this year, earnings would be "significantly down on the R48,5m earned in the prior year"

Management would focus on reducing costs, managing stock and strengthening its marketing activities

● See Page 3

HL&H hit by drought, poor consumer spending

BIDAY 10/11/92 (186)

MARCIA KLEIN

REMBRANDT-controlled food and timber group Hunt Leuchars & Hepburn's (HL & H's) attributable income halved to R23,6m (R47,8m) in what directors described as a "very disappointing" six months to end-September.

CE Neil Morris said all the group's companies were affected by the drought and a continuing decline in consumer spending.

Robertsons, which increased its contribution to the group's attributable income to 62% (31%), was the only division to report a satisfactory performance.

Transvaal Sugar dropped its contribution from 36% to 31%. Its production almost halved because of lower volume and poorer quality of cane.

Associated companies Rainbow Chicken and HL & H Timber Holdings' performances were "unsatisfactory".

Rainbow was affected by decreased demand for chicken as other meat prices dropped. Chicken prices in the first quarter were below production costs, and Rainbow returned to profitability only in the second quarter, recording a 32% loss against a 9% contribution to earnings a year earlier.

While local demand for timber, "at its lowest level in 20 years", affected HL & H Timber's results, HL & H Mining Timber performed satisfactorily.

The group showed a marginal increase in turnover to R331,9m (R325,7m). Operating income was down 23,4% to R43,7m (R57,1m). An increase in interest-bearing debt reflected funding additional working capital in subsidiaries.

Earnings fell 53% to 15,8c (33,7c) a share.

The interim dividend was maintained at 13,5c a share. Directors warned that HL & H intended to restore dividend cover to the level of the past two years.

Morris said trading prospects in the short term would remain difficult, and there would be "extreme pressure" on operating margins. But earnings would improve in the second half on the back of a continued good performance from Robertsons and improvement in the timber operations. Rainbow was expected to trade profitably for the rest of the year. However, its results for the full year would not match the previous year's.

Huntcor — its only investment a holding in HL & H — reported earnings of 31,8c (67,6c) a share and declared an unchanged interim dividend of 27,2c a share.

Income up by 23% as ICS trims its fat

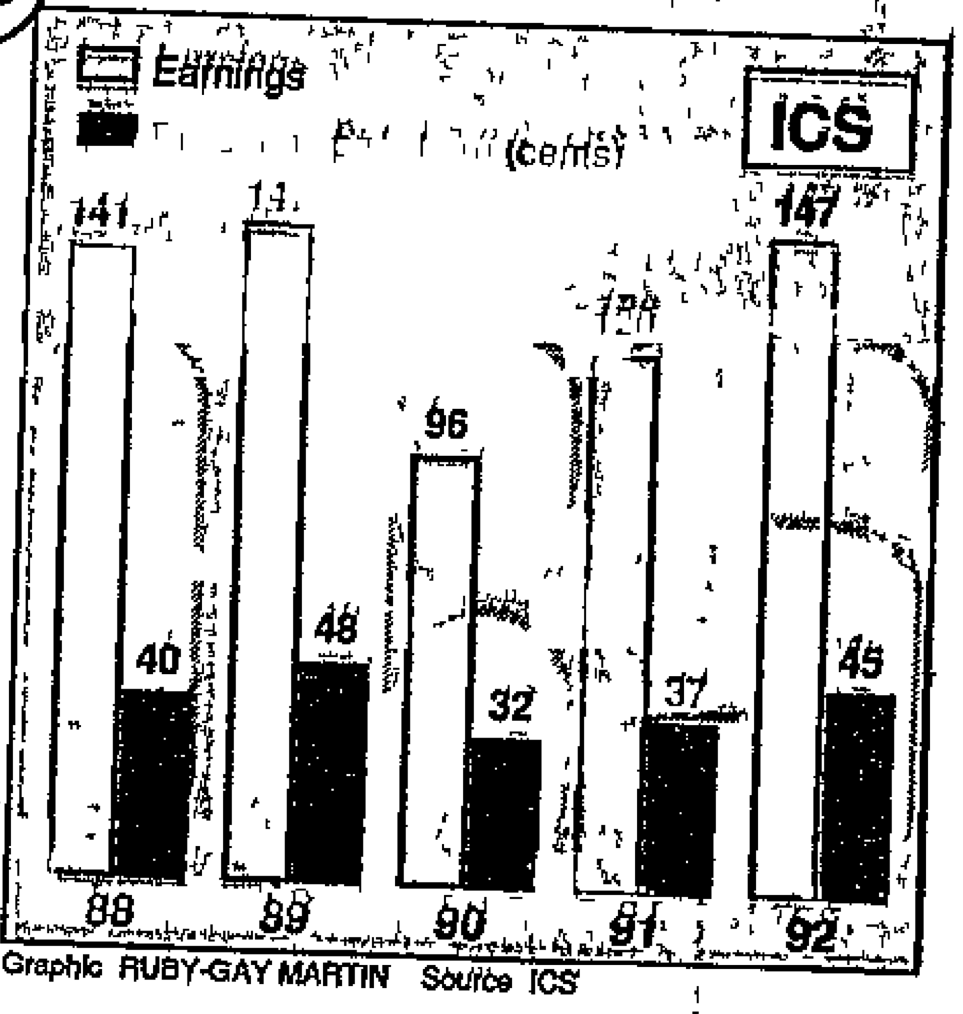
BDay 10/11/92 (186)

MARCIA KLEIN

TIGHT cash controls and the benefits of rationalisation saw food group ICS Holdings increase its attributable income by 23% to R55,9m (R45,5m) in the year to end-September

The group, which changed its name during the year from The Imperial Cold Storage and Supply Company, achieved these results on a marginal increase in turnover to R2,14bn (R2,1bn) and a 6% drop in operating profit to R26,5m (R28,1m)

MD Nick Dennis said the group experienced difficult trading conditions throughout the year, particularly in the second six months. Almost every division was affected by the sharp decline in consumer spending, and red and white meat sales had dropped.



Graphic RUBY-GAY MARTIN Source ICS

Although operating profit was down, a significantly lower interest bill of R10,8m (R17,8m) increased income from investments and lower taxation saw ICS achieve a 59% rise in profit after tax to R16m (R10m).

The group's share in associates' profits rose to R42,5m (R34,1m), reflecting good performances by Sea Harvest, Bull Brand, Fedics and Chandling International.

Dennis said the group's subsidiaries improved their contribution by 59% and associates improved theirs by 25%.

☐ To Page 2

ICS

BDay 10/11/92 (186)

☐ From Page 1

Group earnings were increased by 23% to 147c (120c) a share, and a final dividend of 28c a share brought the full year dividend up by 22% to 45c (37c) a share.

Dennis said that the earnings increase would have been 36% if not for the inclusion of an abnormal item of R4,4m for the sale of a ranch in Zimbabwe.

He said there was little increase in red meat prices "as drought-hit farmers were forced to reduce their herds".

While the meat division produced satisfactory results, the broiler division, housed in Festive Farms, was affected by overcapacity Lower realisations and margins saw this division turn in a loss.

Festive Farms had never been more efficient, Dennis said, but the poultry industry as a whole was "perhaps hardest hit by the drought" It was difficult to achieve margins as maize had to be imported and transported to the Highveld at a premium

Clayville dairy showed a monthy profit for the first time in its eight-year history despite the fact that the introduction of VAT had affected sales.

Dennis said the balance sheet was strengthened further through cash management. Interest charges were reduced by R7m and gearing fell to 14% from 24%.

He said trading conditions were worsening, and there had been an even sharper dip in consumer spending in the past few months, particularly on protein products

ICS's profitability would in future be influenced to a great extent by shortages or surpluses of red meat, white meat and milk, he said

Abacor not such a good buy, say analysts

BDAY 11/11/92 (186)

MEREDITH JENSEN

PROSPECTIVE investors in Abacor would be buying shares at a substantial discount to net asset value when the state-run abattoir corporation was listed, analysts said

Though initially Abacor could appear a good buy, analysts said the company offered only a marginal return on investment.

Sources said Abacor, presently valued at R350m, generated R15m in retained profits this year, indicating that potential investors would in fact earn less than 5% before tax.

In addition, Foodcorp group CE Dirk Jacobs said Abacor would require large amounts of working capital and capital expenditure after it privatised to set up an infrastructure for acquiring stock and distribution

Analysts said Abacor intended to issue R60m worth of shares, enough to pay off its government loan

Jacobs said shareholders would essentially be buying assets for 17% of their book value

Industry sources said distributing assets at such a discount, with minimal capital outlay, could give Abacor an unfair advantage over private enterprise

Rand Merchant Bank corporate financier Martin Keyser, who has been working on the Abacor listing, argued the discount would be market-related on current yields.

Neither Abacor nor Rand Merchant Bank would disclose actual figures with regard to the offering

Although Abacor retained close to R15m a year in profits, it has never paid tax nor serviced its government debt. Jacobs said it would have cost Abacor close to R9m a year to pay off its debt, leaving the company with R6m of pre-tax profit.

Earlier this year, Abacor announced its intention to privatise as well as list on the JSE But the company has been forced to put its plans on hold pending approval of a new meat scheme.

Fine-tuned Tiger Oats lifts earnings 16%

(186)

CT 11/11/92

From MARCIA KLEIN

JOHANNESBURG — Food manufacturer Tiger Oats' fine-tuned mix of branded commodities and branded value added products saw it lift its attributable earnings by 16% to R335m (R289m) in the year to end-September

The group's turnover increased by 15% to R9,2bn from R8bn, but chairman Robbie Williams pointed out that the volume increase was just over 4%, and acquisitions 1,5%, indicating that the price element was only 10%

He said real growth in turnover was maintained across most of Tiger Foods' products, and the branded staple products had performed well

A decline in margins saw operating profit grow by 13% to R677m from R598m previously Net interest paid was reduced to R74m (R89m), bringing pre-tax profit up by 17,8% to R614m But a higher effective tax rate, following the withdrawal of investment and other allowances, saw profit after tax increase by 15% to R401m (R348m)

Williams said results should be seen against the background of the higher taxation and one of the most prolonged economic recessions since the 1930s

He said this was only the second time in SA economic history where non-durable expenditure fell in real terms and there were declines in volume sales in nearly half of the grocery categories measured in its major retailers

Earnings rose by 11% to 230c (207c) a share on more shares in issue A final dividend of 51c a share was declared, to bring the full year dividend up by 11% to 79c (71c) a share

Williams said the Spar group had done well, and Tiger was happy with Langeberg's performance Ingram and Logos pharmaceuticals had reported good results following the successful introduction of new products and continued growth in existing brands Oceana Fishing had shown a strong growth in earnings

Export and international sales improved slightly to R1,2bn, and Williams said Tiger was making further investments to improve international competitiveness.

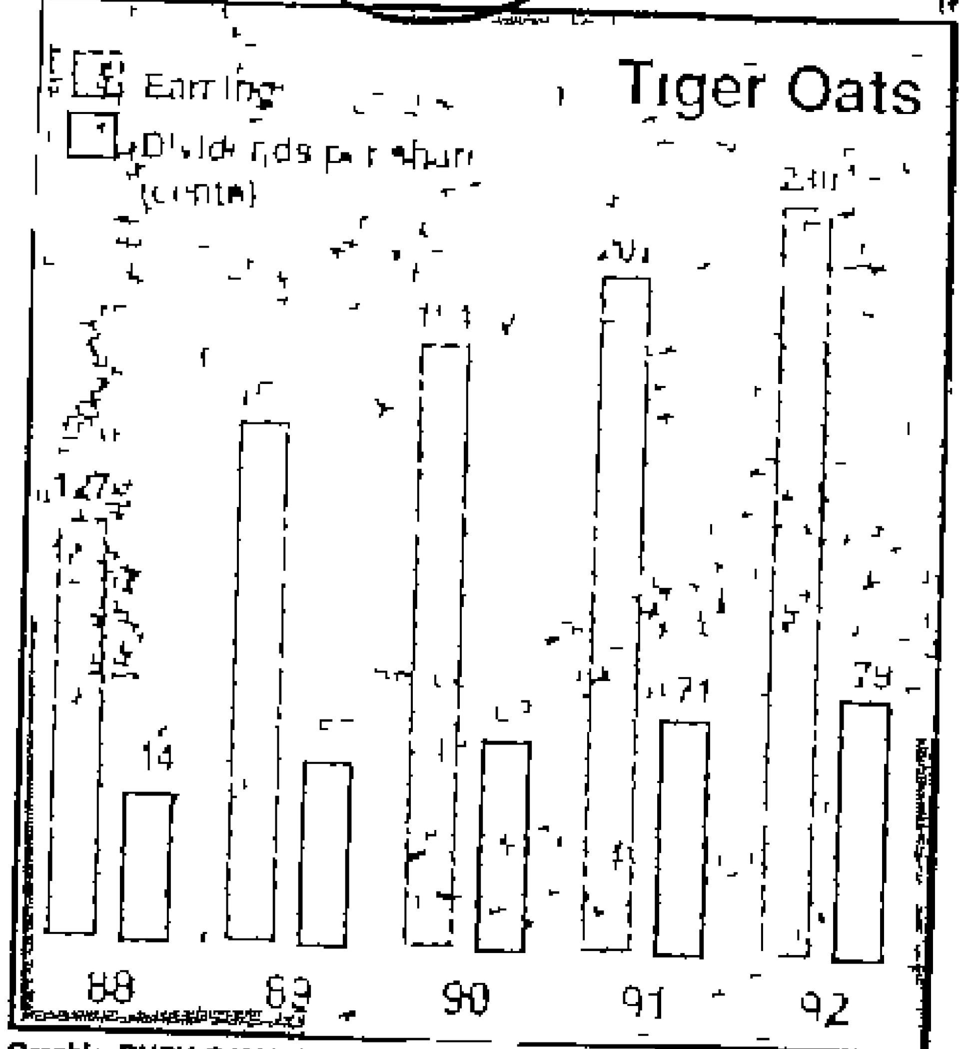
He said the group's rights issue had ensured that the balance sheet was strong despite a major investment programme Gearing was down to 25% from just over 40% in the previous year

Tiger scores with strong brand mix

BDAY 11/11/92

(186)

MARCIA KLEIN



Graphic RUBY-GAY MARTIN Source TIGER OATS

FOOD manufacturer Tiger Oats' fine-tuned mix of branded commodities and branded value-added products saw it lift attributable earnings 16% to R335m (R289m) in the year to end-September

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To Page 2

Tiger

BDAY 11/11/92 (186)

From Page 1

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FM 13/11/92 (186 FOX

TIGER OATS/ICS FM 13/11/92

Setting the pace

(186)

Competition intensified in the food industry during the past year as the giants vied for shrinking disposable income In the C G Smith Foods stable, Tiger Oats and ICS continue to generate double-digit growth in earnings, with benefits being felt from efforts to conserve cash and maintain or improve margins.

Tiger Oats, with food, pharmaceutical and fishing activities, lifted EPS 11% to 230c, though volumes increased only 4% The dividend was lifted to 79c (71c)

The contribution from Tiger Foods — which represents 70% of the business — increased by about 14% (10%), in line with the CPI but well below official food inflation of about 27%. Performances here were mixed, with the main growth impetus coming from canning Drought and social unrest, says executive chairman Robbie Williams, curbed results of the bakery, confectionery, broiler and eggs, with figures well below expectations.

Pharmaceuticals achieved strong earnings growth, mainly on successful introduction of new products Fishing, about 5% of the business, reported good results

While Tiger's core business remains focused on staple products — the basic philosophy is feeding the nation — squeezed margins required a move where possible to products with higher margins Williams says the thrust of activities will include canned pet food and Purity baby food.

Tiger's food processing and canning subsidiary **Langeberg** advanced EPS 41% to 54,7c on higher prices fetched on export markets and improved local volumes Healthy growth in margins to 13,9% saw operating profit up 30% to R102,9m Accumulated tax losses softened Langeberg's tax bill. An extraordinary item of R8,6m was incurred by the closure of two factories in the Transvaal, part of efforts to contain costs

LOWER VOLUMES

Year to	Sep 30 '91	Sep 30 '92
Tiger Oats		
Turnover (Rbn)	7,98	9,21
Operating income (Rm)	598	677
Attributable (Rm)	289	335
Earnings (c)	207	230
Dividends (c)	71	79
ICS		
Turnover (Rbn)	2,11	2,14
Operating income (Rm)	28	27
Attributable (Rm)	46	56
Earnings (c)	120	147
Dividends (c)	37	45

The other main contributor to C G Smith Foods, **ICS**, continues to improve its profitability Like others in the food industry, volumes were hurt, but after-tax profit jumped an impressive 59% to R16m thanks to good performances by associated companies, whose contribution rose about a quarter EPS increased 23% to 147c.

ICS's broiler division, housed in Festive Farms, was affected by over-capacity as well as an increase in the maize price, which saw the division make a loss The meat division achieved satisfactory results but much depends on market shortages and surpluses

At R42,25c, Tiger offers a p e of 18,4, ahead of arch-rival Premier — though the gap remains narrow, with Premier now on a p e of 17,2 ICS is still some way behind on a p e of 7,8, though this should improve after the results With Tiger looking fully priced based on yield, investors could consider tapping into ICS

Marylou Greig

CG Smith lifts its earnings 8%

BDAY 13/11/92 (186)

MARCIA KLEIN

A WIDE portfolio of food, packaging, carpets and textile interests enabled Barlow Rand subsidiary C G Smith to increase its attributable earnings 8% to R415,1m (R384,7m) in the year to end-September.

The group, which has among its major interests C G Smith Foods, Nampak and Romatex, improved its earnings by 1% in financial 1991.

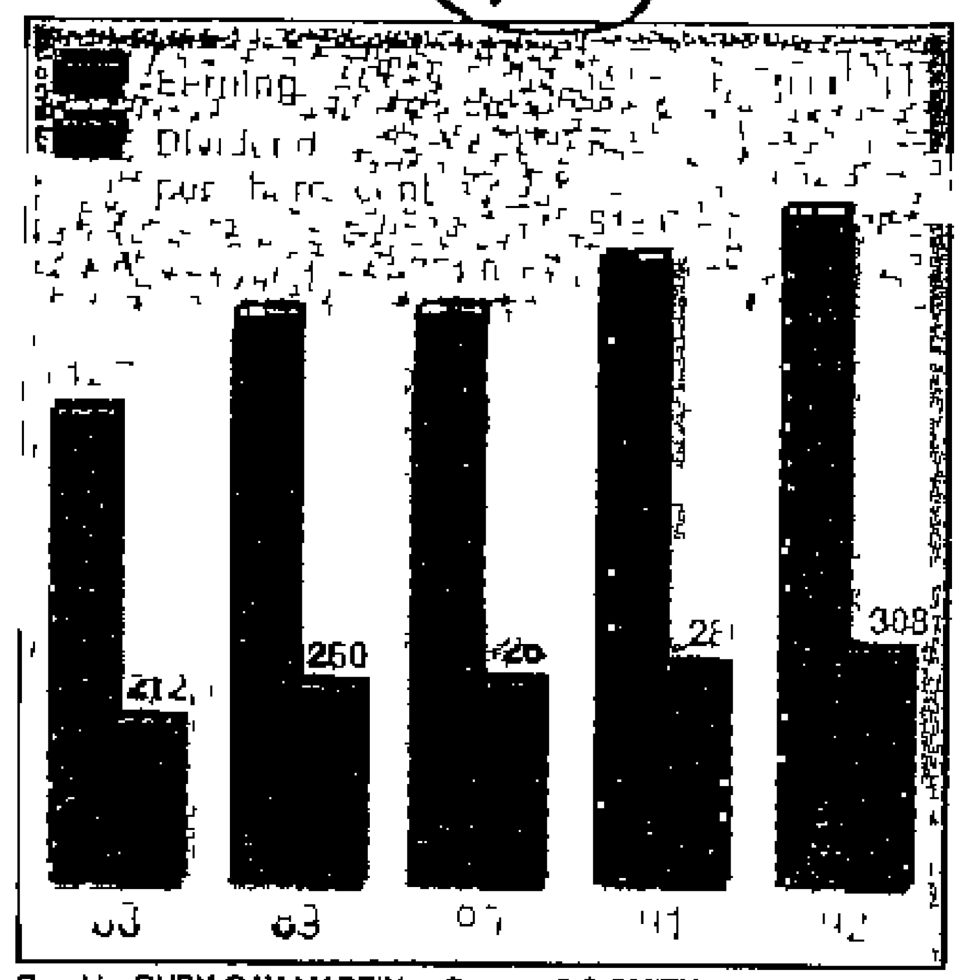
Turnover for the year was 11% higher at R17,8bn from R16,1bn, and operating profit increased 10% to R1,4bn (R1,3bn) Margins dropped marginally because of reduced consumer demand and competition

A reduced interest bill and increased income from investments saw profit before tax rise 15% to R1,2bn (R1,1bn)

But the reduction in C G Smith Foods' shareholding in C G Smith Sugar and the effects of Tiger Oats' rights offer saw earnings rise only 8% to 882,3c (818,6c) a share A final dividend of 191c a share was declared, bringing the full year's dividend up 8% to 308c (286c) a share

Chairman Robbie Williams said C G Smith Foods had achieved a satisfactory increase in earnings.

Nampak gained some volume growth in a declining market Packaging divisions servicing the food and beverage industries had shown good growth, but Williams said that glass suffered an operating loss because of reduced demand.



Graphic RUBY-GAY MARTIN Source CG SMITH

The paper division's profits declined as a result of reduced production, attributed to poor demand, and the tissue division reported lower profits But the printing division did well, he said.

Romatex reported strong growth in earnings through containing operating costs and reducing interest charges. Trading conditions in the textile and fabric operations remained depressed

While trading conditions were not expected to improve in the short term, Williams said there could be some upturn in the economy in the second half of the year.

● See Page 11

Diverse interests prove a boon to CG Smith Foods

BIDAY 13/11/92.

(186)

MARCIA KLEIN

FOOD group C G Smith Foods increased attributable earnings by 7% to R304,2m (R284,3m) in the year to end-September on the back of strong performances by most of its food, pharmaceutical and distribution interests.

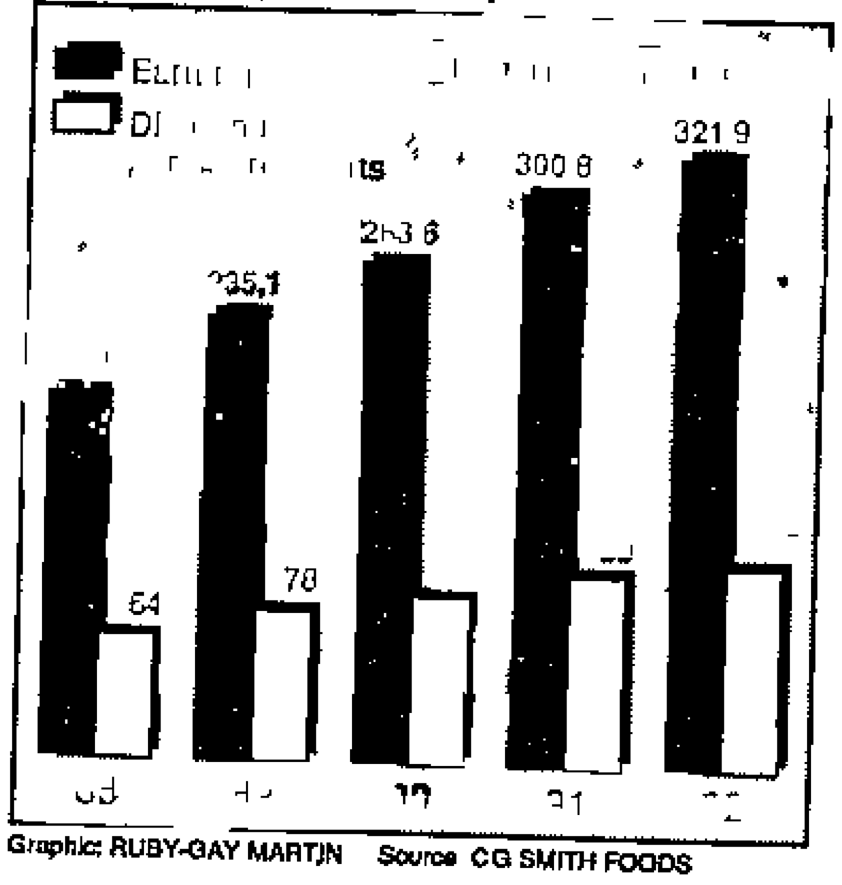
The group's turnover rose 12% to R12,8bn (R11,3bn), but stiff competition resulted in a marginal decline in operating margins and a 10% growth in operating profit to R872m (R794,5m)

Chairman Robbie Williams said the group had weathered the threats of the recession and the drought due to a focus on containing expenses, a drive to improve productivity and C G Smith Foods' diverse interests.

Most of its interests, which include Tiger Oats, Langeberg Foods, ICS, Oceana Fishing, Adcock Ingram, Logos Pharmaceuticals and C G Smith Sugar, had performed well

The interest bill was contained at R180m and income from investments increased, resulting in a 14% rise in pre-tax profit to R764,8m (R671,8m)

Profit after tax improved by 13% to R564,2m (R498,3m), but Williams said the 7% increase in attributable earnings was lower "due to the 30% reduction in the group's shareholding in newly listed C G Smith Sugar and the effect of the Tiger Oats rights issue earlier this year"



Graphic: RUBY-GAY MARTIN Source CG SMITH FOODS

Earnings were 7% higher at 321,9c (300,8c) a share and the dividend was increased by 6% to 105c (99c) a share.

Local and international sugar interests were affected by reduced crops C G Smith Sugar managed to increase earnings by 10% due to its wide geographic spread, but a smaller crop saw the offshore operation report significantly lower earnings.

Benefits of a restructuring programme and a solid contribution from associates saw ICS improve earnings by 23%, despite a decline in volumes in most of its divisions and an oversupplied broiler market.

Tiger Oats improved its earnings on strong performances by its milling, canning, shipping and offshore edible oil operations. Results from the bakery, confectionery, broiler, eggs and local edible oil operations were "below expectations"

Adcock Ingram and Logos Pharmaceuticals showed a "solid overall performance" due to the successful introduction of new products and continued growth in its established brands.

Oceana Fishing recovered strongly, improving earnings by 35% through improved pelagic landings and rationalisation in prior years.

Williams said Beacon Sweets had fared worse than last year. The group had spent R805m during the year, of which R574m had been used on expansion projects

Acquisitions, which included the Umfolozi sugar mill, Colman foods and the remaining 50% of Petz Products, were financed partly by the Tiger Oats and C G Smith Sugar rights issues and partly from cash generated

Williams said it was unlikely that there would be any improvement in economic conditions locally or abroad

Also the drought would continue to affect operations — particularly in the sugar division — for at least the first half of the coming year.

Early signs of growth at fledgling Foodcorp

(186) BDM 13/11/92

MARCIA KLEIN

FOODCORP, just a few months old, was already well positioned for further growth, CE Dirk Jacobs said in the group's first annual report since the merger of Kanhym and Fedfood in the Malbak stable.

He said the growth would arise from strict financial discipline, a wide range of branded and value added products, its development as a low-cost producer and its "growing involvement in international markets".

Results to end-August were not comparable with the previous period due to the merger and a change in Fedfood's year-end. Turnover at end-August was R2,4bn and attributable earnings were R83m.

Chairman Grant Thomas said the financial statements showed that Foodcorp's management had begun to unlock the potential created by the merger.

Rationalisation and stringent curtailment of costs saw the group increase earnings by 6% on an annualised basis. Gearing was significantly reduced in spite of Kanhym becoming liable for tax.

Offshore sales, including the Chilean fishing operations, totalled about R150m a year, and Jacobs said there was considerable scope for expanding its overseas markets

The group was giving priority to offshore sales and the acquisition of international brands, and a director had been dedicated to international marketing.

In the short term, Foodcorp would continue to be affected by depressed consumer spending and political turmoil, which took their toll on every link in the food chain. Jacobs said the group would nevertheless show a growth in earnings in the coming year.

Fishermen win most demands

SOUTH 14/11 – 18/11/92 (186)

By Justin Pearce

STRIKING lobster fishermen achieved a partial victory this week when the West Coast's largest fishing company conceded most of the fishermen's demands

But the West Coast Fishermen's Union has vowed to continue the strike until the company meets their demand of R6 per kilogram payment for the lobster they catch

Oceana, which holds about 45 percent of the total rock lobster quota, has agreed to compensate the 101 fishermen and 28 other workers who were made redundant at the beginning of the current season

The company has also undertaken to employ all lobster fishermen as full-time employees, with the associated benefits.

Until now the quota holding companies have regarded fishermen as employees of the boat skipper rather than of the company This absolved the companies of the usual responsibilities of an employer

Oceana also committed itself to creating job opportunities, and has made six small boats available to the fishing communities for the catching of linefish.

The company has agreed to participate in a forum which will also include community leaders and workers from Hondeklip Bay, Lambert's Bay, Doring Bay, Eland's Bay, St Helena Bay and Hout Bay.

The fishermen rejected Oceana's offer of R5 a kilogram payment. They have reduced their demand from R8 to R6 a kilogram, and intend to continue their strike until Oceana agrees to this figure.

Rock lobster fetches about R40 a kilogram on the retail market.

West Coast Fishermen's Union spokesperson Mr Hennie Mostert said he expected that the concessions made by Oceana, who is the biggest employer, would force other employers to take similar steps.

Mr Leon Conradie, Oceana's human resources manager, said the meeting had helped to "alleviate misunderstandings" but no settlement was reached.

He said another meeting would be held on November 16.

ANC assistant regional secretary Mr Willie Hofmeyr expressed disappointment over the failure to reach agreement on the issue of payment

Tiger call for tax-free food

TIGER Oats executive chairman Robbie Williams has called for the removal of VAT on all food.

(186)

Mr Williams says that unless adequate arrangements are made to feed the poor, VAT on food is unacceptable.

He believes a zero-rating on all food should be introduced — not so much that the rich then eat tax-free but that the poor are actually fed. The rich-get-fat notion is more than outweighed by the need to feed the people cost effectively, and it is more practical to zero-rate all food than to introduce tiers of VAT. S/Times (Buss) 15/11/92

Tiger Oats is one of the most efficient producers of food in SA and Mr Williams says that if productivity could be increased along the whole of the nation's food chain and be linked with deflationary pricing, the food-price spiral could start to turn down.

Tiger's turnover in the year to September rose 15% to R9,2-billion. Volumes in basic foods held up although retailers noted declines in volume sales of almost half the grocery categories measured.

Tiger's operating profit of R677-million was up 13% on lower margin and earnings a share by 11% to 230c after higher tax.

Furnace oil price shoots up

COROBRIK Western Cape managing director Peter du Trevou has criticised the Department of Mineral and Energy Affairs for the 31,5% increase in the price of heavy furnace oil (HFO) to 50,25c a litre. S/Times (Buss)

He says this is the second increase in four months. On the date the HFO price was increased by 20%, petrol went up 8% and bunker and diesel fuel remained unchanged.

"It is patently clear that ours and similar industries are having to subsidise the other products."

Mr du Trevou says even though increases in HFO are not politically sensitive, they have far-reaching implications for the hard-hit building industry. 15/11/92

COMPANY ROUND-UP

PRELIMS	Turnover	%	Profit before tax	%	Earnings a share	%	Div a share	%

Fine Foods identifies the recipe for success

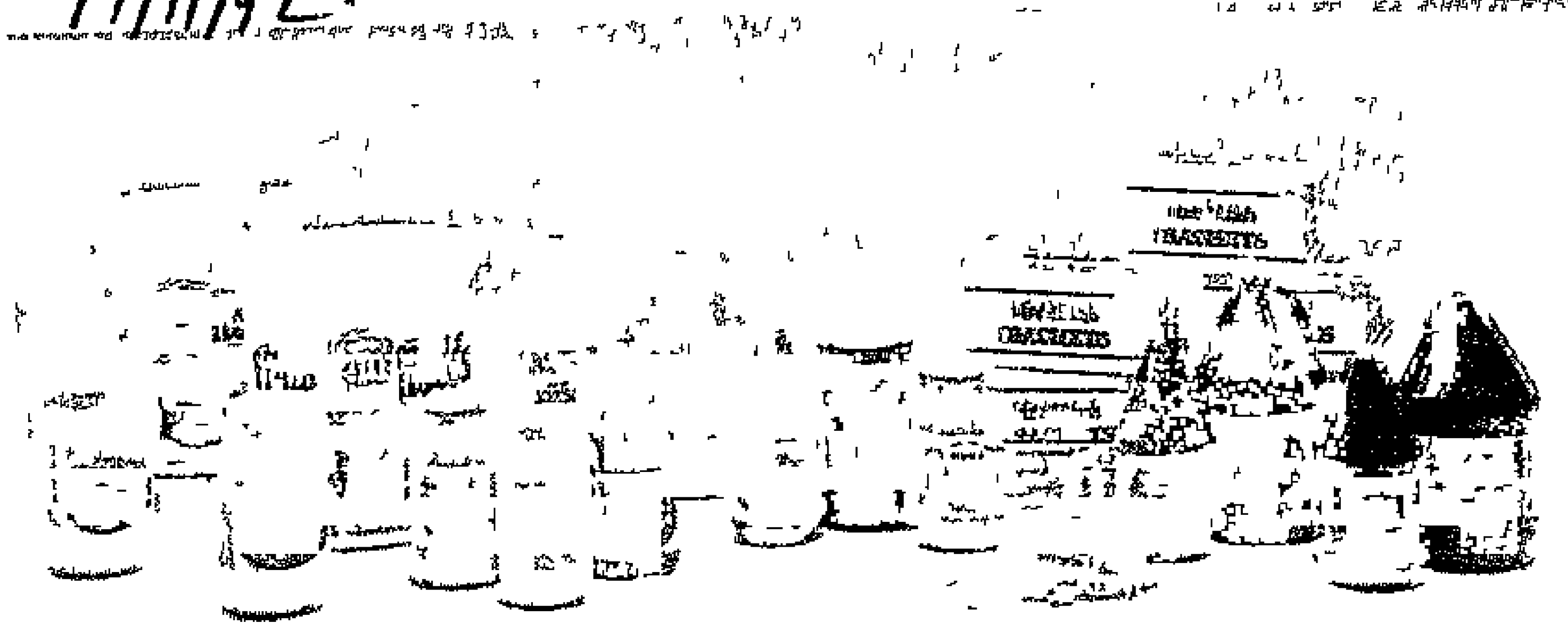
BDay 17/11/92

FOOD supplier Fine Foods has come a long way since opening up as a take-away outlet about 15 years ago

Fine Foods supplies sauces, condiments and food flavourings to the food service market — particularly fast foods — in SA and neighbouring territories

But it started life as a fast food take-away outlet, established by a French couple, Jean Pierre and Josie Bello

Soon after it was established, it was decided that it was a better business proposition to supply sauces, condiments and other ingredients So a factory was established, and the fast food business was sold.



Range of products from Fine Foods

Expanded

By 1981 the business activities had expanded beyond Natal to all the major areas of SA

It was bought by Bromor Foods in 1981 "as an extension of its existing retail operations into a catering arena", said MD Barry Fletcher, who was appointed at that time.

The company made a brave move to discontinue consumer packs to the retail market, although this constituted over 20% of sales This decision has since proved justified

Bromor was sold to Cadbury Schweppes in about 1986, and ownership of Fine Foods moved to Crown It has been trading as a private company since 1989, following a management buyout

Within a year of the buyout the company had generated considerable cash — through asset management — as well as profitable sales This, and the resultant reduction of debt, allowed it to expand

Fletcher said over the three years management had "tightened its grip on the company while delegating to a greater extent" In the process, Fine Foods became a major brand

The company's core market is the commercial market, including hotels, restaurants, fast food chains and independents It also services the industrial market (mainly canteens) and the institutional sector (including the SADF and correctional services) to a lesser extent

186

Focus

But its main focus is the fast food market Fine Foods focuses on creating specialist products with higher margins

It has also "vigorously pursued" the development of "customer" products or "licensed products" for customers like Wimpy, Kentucky Fried Chicken and Mike's Kitchen

A wide range of additional products would make their mark on the business in 1992/93

It has recently tested the export market, and has sent samples across the globe

In October, Fine Foods took a stand at the first East African Hotel and Catering Exhibition in Nairobi "Considerable interest was shown, but high import duties may inhibit volume sales We are negotiating with a leading company to act for us there"

Through all of these endeavours, Fletcher believes Fine Foods has identified "those critical factors for success over the long term"

Tongaat-Hulett earnings sweet in spite of drought

BDAY 19|11|92 (186)

MARCIA KLEIN

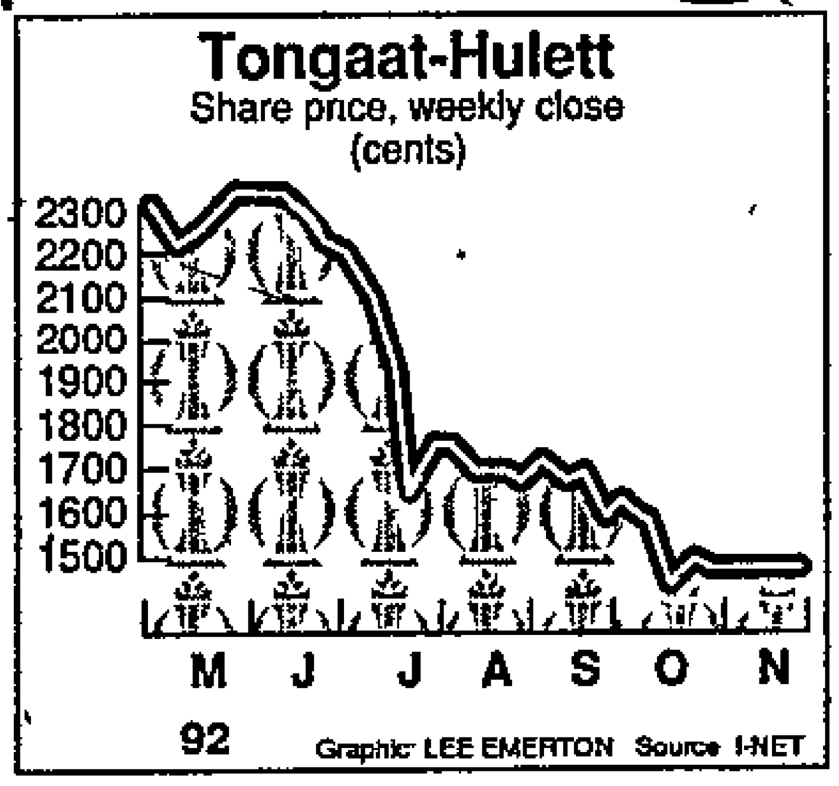
TONGAAT-HULETT increased attributable earnings and maintained the interim dividend in the face of difficult trading conditions in the half-year to end September.

The Natal-based group, which manufactures sugar, building materials, foods, starch and sweeteners, textiles and aluminium, had to contend with a drop in turnover, a sharp rise in taxation and effects of the drought.

However, it managed to increase earnings by 2% to 87,4c (85,8c) a share, and maintain its interim dividend at 23c a share.

Directors pointed out earnings were based on half the sugar division's estimated earnings for the year together with the interim results of Tongaat's other divisions.

Turnover declined by 4% to R1,9bn from R2bn, and operating profit was



marginally lower at R141,6m (R141,8m).

Directors said although the poor state of the economy and the drought affected the group's businesses, the group had managed to maintain its operating profit.

An emphasis on cash flow and under-performing operations resulted in lower borrowings of R551m from R687m at end-September 1991.

Directors said taking into account the seasonal nature of Tongaat's agricultural operations, borrowings net of cash resources were expected to decline to about R120m (R232m) at year-end.

Lower borrowings and the dramatic reduction in the interest bill to R38,9m from R53,6m, saw pre-tax profit rise by 16% to R102,6m from R88,2m.

Higher deferred tax and the withdrawal of tax allowances, particularly export incentives, were reflected in a 58,8% hike in taxation to R37,4m (R23,6m), and resulted in a rise of only 1% in profit after tax to R65,2m (R64,6m).

The sugar division's performance continued to be affected by the crippling drought and was expected to show a reduction in earnings of R25m in the full year, directors said.

Tongaat expected no improvement in trading activities for the remainder of the year. In view of the drought and its effect on the sugar divisions' earnings, results for the year "are unlikely to equal those of last year".

ROYAL/DEL MONTE FOODS

FM 20/11/92 (186)

Within striking distance

What has happened to Royal's efforts to cobble together the R2bn-plus necessary for the Del Monte Foods International (DMFI) deal to go ahead? No-one at Royal is telling "Mr Imerman hasn't been in his office for

FM 20/11/92 (186)

weeks," responds a weary secretary, "he's out at presentations all the time."

Two weeks after persuading Royal chairman Vivian Imerman to talk to the *FM* about the proposed transaction to buy control of UK food heavyweight, the silence which has descended is palpable On the basis of information which suggested Royal's option period would expire around last Monday, it would seem the deal has failed.

Market sources are not so reticent The *FM* learns from a reliable source that Royal has so far persuaded institutions, Anglo American Corp included, to commit themselves to about R1,8bn of the roughly R2bn needed (depending on the exchange rate applied the amount required to clinch the deal varies)

That means Royal is within striking distance of concluding the arrangement. Nor is the company out of its option period. Apparently, Imerman was always aware he had a few additional days if he needed them; cleverly, he's kept the leeway tucked away

It is now expected Royal will put the finishing touches to the deal next week and a full press statement will probably be released then Shareholders can expect the company to release a further cautionary statement within the next few days

David Gleason

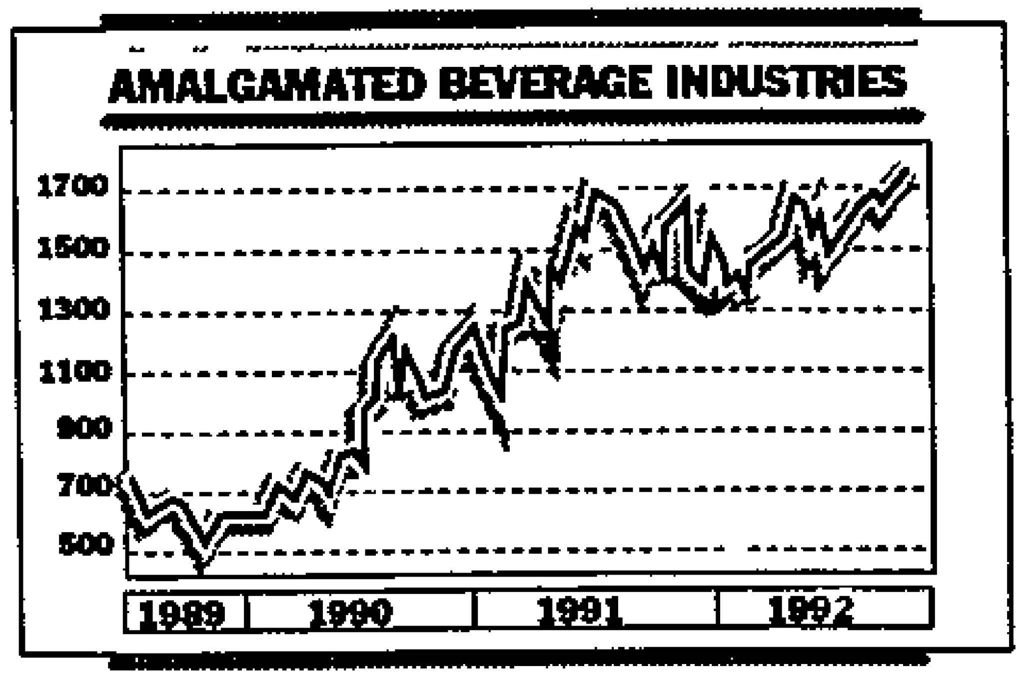
ABI sitting pretty with big, big Coke

S/Times (BUSS) 22/11/92.

EVERY man, woman and child drinks the equivalent of two carbonated soft drinks (CSD) a day in America

This is more than a third of world consumption of soft drinks That America is No 1 is no surprise, but relatively small South Africa is among the top 10 largest Coke markets in the world, according to figures given at a presentation to the Investment Analysts Society by Amalgamated Beverage Industries (ABI) in Johannesburg this week.

ABI is by far the largest of seven SA bottlers and distributors of Coca-Cola and other soft drinks, such as Fanta, Sprite and Schweppes



Chairman Pete Lloyd says that SA consumption of soft drinks is 45 litres a person a year In Zimbabwe it is 21l and Namibia 19l.

But in places such as the former Soviet Union, Arab nations and India, Coca-Cola sales are negligible.

ABI managing director Alex Reid hammers home the point. if he were main competitor Pepsi, would he be interested in trying to re-enter the Southern African market where Coke is so firmly entrenched or would he look at potentially much larger, greenfields markets where no competitor has a foothold?

Coke has experienced management, excellent distribution, a variety of sizes and packaging, good advertising and a high profile among consumers.

It's a daunting target for any challenger

Although they are tied to the Coke franchisor, distributors have sole rights within an area.

ABI has the most wealthy Pretoria, Witwatersrand and Durban regions

PETE LLOYD ABI pays a minimum wage of R1 600 a month

Coca-Cola and its bottlers are partners in development costs and market protection

SA's non-alcoholic beverage market of 75-million hectolitres a year is dominated by tea and coffee. They have 72%, CSD 23%, and fruit juices and cordials share the rest.

But by value, CSDs account for two-thirds of the R4,7-billion-a-year business and tea and coffee only 17%

SA's CSD market has grown by a whopping 9% a year for 30 years and only twice has there been a contraction. in 1967 when excise duty was imposed and in 1986 when violence prevented adequate distribution

Several factors influence Coke sales urbanisation, disposable income among rural populations and availability Even the weather is important. sales can vary by 30% between a cold, wet weekend and a hot, dry one

Only 40% of annual sales are made in the six months April to September

ABI marketing director Mike Bind refers to the growth of the informal sector and the challenges of making available soft drinks

"A year ago, we found that the stores in the townships were often out of stock and there was a poor market infrastructure — ew ind es and inexperienced traders," says Mr Bind

"Since then, we have won 2 000 more customers by installing 283 strategic supply distributors — manned containers at central spots to help out vendors who have run out of stock — and putting in 1 250 coolers at shops.

"The containers have been turned into tuckshops and more than 80 have been launched. Ice plants have been installed at 26 wholesalers

"In addition, 7 000 bits of signage have been placed to promote Coke's multibillion-dollar trademark."

Mr Reid describes some of ABI's production plans, which include development of four mega-plants and separate distribution facilities. Excess capacity, currently 30%, will be used up by the end of 1996

ABI's staff are well looked after Minimum wage is R1 600 a month and 60% live in their own homes

In the past five years, ABI has gone from strength to strength on sound cash-flow management. Compound annual growth in profits is 30% a year (it chips in 6% to SA Breweries' profits) and return on equity tops 22%

When it was listed in June 1989, ABI's price-earnings ratio was eight, now it is more than 20

Mr Lloyd is not alarmed by this. ABI makes additional provision for depreciation and on a cash-equivalent basis the PE is more like 14 — "not overvalued, perhaps even slightly undervalued", says Mr Lloyd.

In the short term, ABI's prospects look fair in spite of the recession. In the longer run, Mr Lloyd says ABI should continue to provide steady, consistent and real growth in earnings and dividends

That is the real thing The analysts left the presentation ruing the fact that lines of ABI shares are hard to come by Those that have them, including thousands of storekeepers who sell Coke, are firm holders even though paper profits are huge at a share price of

DIAGONAL STREET
by Julie Walker

VAT, underused plants lift prices

(BUSS) S/Times 22/11/92.

BARLOWS managing director Derek Cooper volunteers two possible solutions to one of the great mysteries of our time — every company reports squeezed profit margins, but prices continue to rise.

At a presentation of group results for the year to September, Mr Cooper suggested that VAT had been applied to food in particular over the past year, which had had a knock-on effect on prices

Perhaps more pertinent was the underuse of capacity He estimated that many of Barlows' plants were running at only 60% of capacity

Clearly, unit costs are higher and so margins are squeezed from both ends

In the year, SA's largest group showed a 10% rise in turnover to R35,1-billion. Operating profit before interest edged up 5% to R2,7-billion However, proceeds from the sale of Middelburg Steel & Alloys allowed for a lower interest bill.

"The money we received was not used simply to repay debt or kept at the centre of the group It was deployed throughout the group in the places where it could do the best work," says Mr Cooper

Investment income was up a quarter at R369-million. But fewer assessed losses were available against which to save tax. The Receiver's cut grew by a quarter to R800-million.

Barlows' earnings a share were 2% higher at 437,5c on a higher number of shares in issue At the current R42,75, Barlows shares are close to double net asset value and on a historic price-earnings ratio of 9,8 The dividend was also 2% up at 173c, yielding 4%

The second half of the year was particularly domestic and the international economies failed to rally

Working capital days moved out from 42 to 46 on several counts. drought necessitated big stocks at CG Smith Sugar at the end of September, Tiger Foods bought Colmans, Langeberg increased production and British subsidiary Bibby deliberately bought an overstocked, debtor-rich Finanzauto

Other deals that took place in the year included the Elmosa and Siemens Cables restructuring, the division of TSI into ISG and Persetech and a major restructure at Rand Mines.

Mr Cooper scotches talk of a cloud over Rand Coal's prospects

(It has had to cancel a large project with Eskom's Majuba power station because the coal body was faulted Worse, some analysts believe coal will be sold at only $24/ton instead of $32)

Mr Cooper says supplying Eskom provides a comfortable buffer against adverse movements in the coal price and the rand's decline will compensate for dollar receipts, which he does not expect to fall that far

Food and pharmaceuticals fared best among the group's interests, Reunert performed strongly and the electronics pair did all right. Romatex recovered and Nampak grew well, Minerals Resources eased again, contributing perhaps to the demise of Rand Mines as a mining house.

Minerals nevertheless chipped in a quarter of attributable profit of R849-million

Mr Cooper says Barlows is ready to go, but he can-

DEREK COOPER Eskom buffer

ment in the economy in 1993 He hopes that earnings will be maintained, but acknowledges the difficulty At the very least, the dividend will be held.

I hope only that he is wrong about the economy

Sentrachem plays it safe

S/Times (BUSS) 22/11/92

SENTRACHEM chief executive John Job is taking care not to follow the poor example set by many SA companies that have expanded abroad.

Heads of agreement have been signed for Sentrachem's purchase of Australia's styrene and other chemicals producer Chemplex.

Controlled by Kerry Packer of cricket-promotion and media fame, the two Chemplex plants near Melbourne had sales of A$200-million (about R425-million) last year

Dr Job says that unless Sentrachem is satisfied by the findings of a due-diligence team of international accountants and its own technical experts, the deal will not go ahead.

If it does, Dr Job says that less than half of the purchase price — not yet disclosed — will be paid through financial rands The rest will be funded from borrowings

"There are two hurdles to an SA company investing abroad. the financial rand and the higher price-earnings ratios For us, the offset will be synergy between Sentrachem and the Australian company," he says

In support of the decision to look abroad, Dr Job says Sentrachem needs to diversify

Buying opportunities are limited because most chemical plants are owned by multinationals.

The third reason is affordability — Chemplex is also debt-free, profitable and near the booming Pacific Rim Its product range and technology are akin to Sentrachem's.

Equity plan for Premier workers

LINDA ENSOR 186

CAPE TOWN — Equity participation for the employees of food group Premier was definitely on the cards, chairman Peter Wrighton said at the Black Management Forum conference at the weekend.

Wrighton received an award for being the most progressive business leader in the country, while the most progressive company award was shared by Nampak and pharmaceutical company Abjohn.

Wrighton said Premier was preparing to extend the co-determination being practised with workers in various internal joint committees by way of equity participation.

"We believe that this may be one of the ways in which the nation tackles the inequalities of the past but at the same time benefits the economy rather than damaging it."

Equity participation would contribute to broadening the ownership and management base of the country's economy.

However, Wrighton warned that equity participation schemes would have to be "bold and meaningful" if they were not to be misconstrued as mere bribes and co-option by employees who regarded SA companies as white owned and controlled.

He said Premier would also like to bring in board representation for workers.

Oceana expects a better year as a result of rationalisation

BDM 26/11/92

186

LINDA ENSOR

CAPE TOWN — Oceana Fishing expected an increase in earnings in the current year to end-September 1993, chairman Robbie Williams said in the group's latest annual report.

Last year Oceana increased its earnings before extraordinary items by 35% to 192,8c (142,8c) on a 15% rise in turnover to R375,4m (R325,9m), mainly because of good pelagic landings and rationalisation.

Williams said Oceana planned a R19,4m capital expenditure programme this year, including the replacement of assets and the acquisition of three new lobster vessels and a new steel pelagic vessel

While the 1993 total allowable catch (TAC) for pelagic fish had yet to be announced, Williams said resources appeared to be stable and allowed for similar or improved catches in the coming season

This, together with a high stockholding at year-end should enable the fishing division to produce satisfactory results, while the cold storage and trading divisions were also expected to show an improvement

However, the reduction of the 1992/93 TAC of lobster to 2 200 tons (2 400 tons) in addition to more difficult conditions on overseas markets, would have a negative impact.

Williams noted that the expected improvement in earnings would take place in difficult circumstances.

"While the demand for fish meal, oil and canned fish on the local market remains firm, the current depressed economic conditions will make the recovery of production cost increases difficult to achieve."

Local demand for lobster was below the 25% of total production allocated for ~~local~~ consumption and surplus stocks might have to be exported. International demand had softened and prices had fallen because of the recession, a trend that was likely to persist in 1993

Last year Oceana landed its pilchard and anchovy quota of 149 984 tons in full. Williams said the group's reduction plants and cannery achieved production and profitability increases because of higher volumes of raw fish and the effects of rationalisation and cost saving measures

The fishing division's contribution to pre-tax income rose sharply to 55% (43%), while that of the cold storage division fell to 16% (18%) and the trading and shipping division to 15% (25%). Investment income's contribution remained stable at 14%

The return on average total assets last year increased to 10% (9%) and the return on average shareholders' funds to 20% (17%)

TONGAAT-HULETT

Hard slog rewarded (186)

FM 27/11/92

Tongaat-Hulett derives more than half its profits from sugar, textiles and supplying materials to the building industry — three sectors under pressure this year It therefore has had to work hard to realise its 2% increase in earnings, especially as this comes on reduced turnover

The improved operating margin is largely due to a refocusing programme instituted at the end of the past financial year This involves rationalising under-performing oper-

continued

 FM 27/11/92 (186)

TAXING TIME

Six months to	Sep 30 '91	Mar 31 '92	Sep 30 '92
Turnover (Rbn) ...	2,02	1,95	1,95
Operating inc (Rm)	142	139	142
Attributable (Rm)	64,2	86,0	65,4
Earnings (c)	85 8	114,9	87 4
Dividends (c) ...	23	50	23

ations and putting capital resources into those businesses which are performing well

Sugar remains the mainstay, and the estimated R25m reduction in earnings expected from this division, which should see sugar's contribution drop to about R60m, or 35% of total profit, is largely beyond the control of management The industry faces the double disadvantage of a drought (it's too late for recent rains to affect this season's crop) and the continuing weak international sugar price

The division will get about half of the R200m that Tongaat plans to spend this year on expansion projects, with about R70m going to the aluminium division and R30m to starch and sweeteners

The other three divisions will continue to receive critical attention, which could result in disposals or shut-downs

Concentration on cash flow — Tongaat's traditional strength — and on costs have brought net borrowings down to R551m, expected to be reduced to about R120m at year-end. This in turn has brought the interest bill down more than a third to R38,9m, though much of the benefit is lost to the similar increase in tax to R37,4m

Management says tax increased due to higher deferred tax — last financial year the deferred tax provision was reduced by 2%, in line with the drop in the tax rate, not repeated this year — and the withdrawal of some tax allowances on export incentives Particularly hard hit by the latter were exports from the aluminium division

Considering its mix of business, Tongaat-Hulett seems to have done a creditable holding job by lifting earnings slightly and maintaining the interim dividend This is on increased cover (3,8 times against 2,7 at year-end), which suggests there is little chance of the final dividend being cut.

What the results don't explain is the languishing share price, bumping along at R14,75 after trading at R24,50 at the beginning of the year. It has dropped 35,9% since February

Part of the problem seems to be the perception that Tongaat-Hulett is a sugar group, and that the outlook for sugar is dismal, locally and internationally, for the coming year The price of C G Smith Sugar has dropped about 40% since listing early this year

The drought has depressed local expectations, with total production estimates for the industry revised down to 1,51 Mt, compared to the 1991-1992 season's output of 2,23 Mt Overseas, the price remains a low US8,5c/lb, with little prospect of an increase in the short term

Of course, Tongaat-Hulett's interests are far broader than sugar (though most of these are also in depressed industries), despite the general perception Management will be arguing against this, and will also contend it does not depend as much on cyclical industries as is often believed The strong balance sheet and large asset base make the share a low-risk investment, but it needs some sparkle before it will start to attract attention in the market

Shaun Harris

Right on, Wrighton!

W/Mail 27/11-3/12/92 (186)

Peter Wrighton, chairman of Premier, was named progressive employer of the year this week. He told **FERIAL HAFFAJEE** *he owes it all to his Afrocentricism*

PETER WRIGHTON'S revolution at the giant Premier Group started with a book he bought while waiting in an airport three years ago

It was written by Sony chief Akita Morita and, says Wrighton, "it explained the Japanese miracle and how he had introduced shared values and common beliefs into his company"

Soon "shared values", "training and trust", "affirmative action" and other Nineties buzzwords were heard in Premier boardrooms and staff canteens Today joint employer-union committees run the company s provident fund, bursary and social investment programmes

Premier plans to take it a step forward by introducing "equity participation" or employee share ownership schemes for workers

"We hope soon to have our workers represented in our boardrooms," adds Wrighton The company has sent joint union-management teams to Germany to study equity participation

He also believes that all executive teams should reflect the country's racial balance, Premier has three black men on the board, the most in any major South African corporation ("We will have to deal with the gender imbalance later," Wrighton adds wryly)

"If you're going to do any of these schemes, you have to pay more than just lip service," says the Premier chief

Paying more than lip service has worked this week the Black Management Forum capped him "progressive employer of the year" "It's as much an accolade for a progressive organisation," says Wrighton

The theme of the BMF conference was "Eurocentric versus Afrocentric management" and Wrighton believes he got the prize because he is an Afrocentric manager who brought co-determination and "ubuntu" or humanism to the workplace

"It's not only a philanthropic gesture," says Wrighton of Premier's R16-million allocation to social investment "We get back more from the communities because they buy from our companies and our workers are more productive "

Wrighton has a colourful "pulling oneself up by the bootstraps" history which explains his willingness to give worker participation a chance

He completed his accountancy degree at the University of the Witwatersrand part-time because he lost his father in the first year and had to support his family He qualified with flying colours and began auditing Premier's subsidiary companies.

Premier appointed him group financial director in 1976 and when chairman Tony Bloom emigrated in 1989, Wrighton became group chairman

Under Tony Bloom Premier had already implemented a "huge" training programme and performance bonus schemes were put in place

"But still productivity deteriorated," says Wrighton, "because we needed something completely different"

The company established working committees comprised of equal numbers of worker and employer representatives

Joint control was established over social investment, housing, safety, education, management, job creation, drought relief, school feeding schemes, bursaries and the company's provident fund

He admits that it has not all been cosy industrial relations "there have been fits and starts" There is a need "to train workers to accept responsibility and to condition managers for workers' participation"

Many workers still see the committees as an attempt at co-option and managers used to dictator style control, need to be trained to accept joint responsibility and consensus decision-making

The company's "value system", its mission statement, had to become more than just a pretty plaque at corporate headquarters

Managers and executives from all levels went on walk-abouts speaking to workers "to explain philosophies and to tap their fears and aspirations"

The statement had to be written in Standard Four English because this was the workers' average proficiency level The spinoff of the walkabouts was a literacy drive for Premier workers called Jolt (Job Literacy Training)

But "the value system crashed" because the union had not been consulted

The company started again by calling together the head honchos of the Food and Allied Workers Union and the Premier executive to thrash out their grievances publicly

They videotaped the proceedings and sent it to all companies in the group, with 70 trained facilitators to explain the value system

Wrighton is determined to implement a working "value system" throughout the group "If we want to attract foreign investment," he says, "we need to be an ethical society "

There are still strikes and old style industrial relations at many of the group s subsdiaries and Wrighton admits that the new system will only bear fruit in the next generation

Sharing values also meant changing the political face of the Group Premier was one of the first companies to visit the African National Congress in Lusaka in 19?9 It was also one of the first companies to encourage a "yes" vote in the referendum early this year and its in-house newspaper gives wide coverage to political developments

In the run-up to the referendum earlier this year, Premier strung a huge banner on the M1-highway stating its commitment to "Peace and Democracy"

Says Wrighton, "The only problem was that the ANC stole our slogan "

Peter Wrighton Hoping to have workers represented in the boardroom Photo SARAH PRALL

ROYAL/DEL MONTE FOODS

Almost home

FM 27/11/92

(186)

"We are very close to concluding the operation," says a cheerful Royal spokesman about his company's efforts to stitch together the R2bn purchase of Del Monte Foods International (DMFI)

But he won't say how far Royal's attempts at cobbling together the money are adrift Market sources suggest chairman Vivian Imerman may still be short of R200m, others say it as little as R100m

The real problem, suggests another source, is that some of the institutions approached have made counter-proposals which affect the timing of payments and the level at which their entry to the deal is pegged That has a ripple effect, it means the vendors have to be consulted and since there are more than 100 UK investors involved, that is a time-consuming exercise and other SA subscribers need to be re-addressed

Unfortunately, it's also having an effect on local market perceptions of Royal's chances of pulling off the deal "The longer it takes," says one analyst, "the more Imerman's chances of success recede"

Meanwhile, the EC is holding a parallel inquiry into the acquisition, reports the *Financial Times* Interested parties were given 10 days to file comments during the first phase of the month-long inquiry, which is being conducted under the EC's merger regulations Royal's SA spokesman says it is merely standard EC practice "Royal and Del Monte have already complied with all the requirements," he says "The process is being conducted simultaneously with Royal's programme to meet the vendor's conditions, so it's unlikely any elements of the transaction will be delayed"

Contacted by the *FM*, a reluctant and terse Imerman said his operation was proceeding "well" but he didn't expect to be able to make a formal announcement before November 27 at the earliest *David Gleason*

Higher tax bill frays Oceana's performance

B/Day 27/11/92 (186) (8) fishing

Business Day Reporter

FOSCHINI's UK associate company, Oceana Investment Corporation, showed a modest 3,6% increase in after-tax profit for the six months to end-September

The directors said this reflected prevailing difficult trading conditions in major international markets

However, according to results released today, profit before tax increased sharply to £771 000 (£498 000) from its share in Etam's (a 35%-owned subsidiary) attributable interim earnings These were not included in the comparative figures for the corresponding period last year

A higher tax bill of £341 000 (£83 000) reduced after-tax profit to £430 000 (£415 000)

The greater number of shares in issue during the period under review resulted in earnings a share dropping to 2,11p from the previous 3,96p

An unchanged interim dividend of 1,5p was declared

UK fashion retailer Etam reported a dramatic turnaround in profit with a 7,4% growth in sales to £106m for the six months to mid-August

Profit showed a strong increase to £1,2m from £35 000 in 1991

Interim dividend was lifted 10% to 1,65p a share and the group reported a fall in borrowing from £8,1m to £1,6m pounds, despite capital expenditure which nearly doubled to £4,2m.

Earlier this year Oceana came under scrutiny from the Financial Reporting Panel, the UK acounting standards watchdog, following complaints about treatment of profit derived from Etam

Etam allegedly complained to the panel after a public announcement by Oceana that it would use equity accounting on its shareholding rather than include only the income from Etam dividends

Equity accounting was permitted only where a shareholder exerted significant influence over a company in which it had a holding

In September Oceana considered relaunching its bid for an increased stake in Etam Foschini's UK-based chairman Stanley Lewis, who is also chairman of Oceana, said an increased stake would provide "enormous synergistic benefits which would accrue to both companies"

Foschini's stake in Etam is held through its 35,4% share of Oceana, which owns 35% of Etam

Oceana's bid last year was seen as hostile by Etam management and rejected

Analysts in the UK were positive about prospects for Etam, saying it was doing well and should out-perform similar companies

Fine set of figures from Brenner Mills

B/Day 27/11/92. (186)

MERVYN HARRIS

THE 171% surge over the past year in the share price of Brenner Mills (Brenmil), to a peak of 130c this week, has been justified by a fine set of interim results for the six months to end-August

The maize meal, malt and animal feeds manufacturer lifted earnings a share 178% to 16,4c from 5,9c in the same period last year, and the directors said prospects for the rest of the financial year appeared favourable

The increase in the interim dividend payout was even larger — up 191% from 2,75c to 8c a share — as the group generated significant amounts of cash during the period under review

The sterling performance came on the back of a substantial increase in turnover, which rose 32%, although no figures are disclosed

Operating profit more than doubled from R3,06m to R6,95m

Strong cash flow enabled the company to receive interest of R268 000 This sum compared with a payment of R392 000 at the previous stage and boosted profit before tax from R2,6m to R7,2m

This was more than the R7,1m recorded for the year to end-February 1992, when the group reversed a three-year-profit decline

Profit after tax increased by 176,3% from R1,38m to R3,82m, with the dividend covered 2,1 times by earnings Shareholders interest increased during the period to R29,4m, representing a net asset value of 126c a share

Directors said investigations into irregularities by senior executives, prompted by a sharp drop in margins, were continuing

In the 1991 annual report, chairman Arnold Brenner said the investigations had been referred to the police and he hoped they would be completed in the near future

Finrand firms on Del Monte speculation

GRETA STEYN and MARCIA KLEIN

THE financial rand gained 1,8% yesterday, mainly on speculation that the finrand portion of Royal's acquisition of Del Monte Foods had been slashed to R250m from R1,5bn. BDAY 27/11/92

Market talk was that the finrand proved too expensive for Royal and the deal thus had to be restructured. The R1,5bn finrand sale to finance the deal had kept foreign investors out of the market on fears of capital losses. As rumours spread that the amount would be much less, foreign buyers started coming back. (186)

It is believed that Royal, Anglo and Del Monte are considering restructuring certain elements of the deal. Market sources said Anglo American was looking at increasing its investment (previously R400m) in order to make up for a shortfall in the R2,4bn funding required and to facilitate a cheaper form of funding.

An Anglo spokesman said discussions were continuing, but there was no intention to change the joint control position previously announced In terms of the original deal, Royal chairman Vivian Imerman would maintain management control.

An announcement on restructuring is not expected until next week.

The finrand was further underpinned by positive sentiment flowing from the ANC and Inkatha's agreement to hold a summit. Dealers reported good demand from London that seemed to be for a spread of equities, gilts and money market investment. Demand for gold shares was specifically noted.

Dealers expect the unit to trade in a tight range until a statement on the Royal deal is released, with demand picking up when it slips below the R5,00 to the dollar level. Its upside potential would, however, be limited until there was clarity on possible changes to exchange control regulations. Speculation is that Finance Minister Derek Keys was reluctant to tighten controls, while the Reserve Bank thought it might be necessary.

The currency finished at R4,92 yesterday from Wednesday's R5,01. The unit has firmed by 3,5% from its lows this week.

COMPANIES

Slow-down at Lebaka continues

BIDAY 27/11/92. (186)

DUMA GQUBULE

EARNINGS growth at Lebowa Bakeries (Lebaka) continued to slow down in the year ending September as tough trading conditions restricted annualised attributable earnings to R6,7m, a 5% increase

The company, which had shown compound earnings growth of 21% over the past decade, was taken over by bakery group Sasko last year

Lebaka's year-end was changed to end-September and its preliminary report compared annualised results for the period to end-September with audited figures for the previous period to end-March

The directors said continued recession and the drought had resulted in difficult trading conditions Turnover increased by 12% to R102,2m (R91,1m), but lower trading margins resulted in a 2% drop in operating profit to R15,5m (R15,8m)

Depreciation charges and franchise costs absorbed R7,1m (R4,7m) and net operating profit was R10,8m (R10,6m)

Financing costs decreased by 37% to R632 000 (R1m) and investment income was up 22% to R2,8m (R2,3m) Pre-tax income increased by 9% to R13m (R11,9m)

Attributable income came to R6,7m (R6,4m), equivalent to 24,3c (23c) a share

The payout for the year was 10,5c (9,25c) a share

Dorbyl to tap aid funds

S/Times (Buss) 29/11/92

By CHERILYN IRETON

DORBYL is to export its project management expertise to Africa in a bid to tap international development funds

Turnkey projects are the target, says executive director Louis Taljaard

"Institutions like the World Bank and African Development Bank are looking for experienced companies to manage projects in Africa This opens up vast opportunities for us"

Mr Taljaard says Dorbyl is looking beyond the borders because contracting opportunities in South Africa have dried up with the slowdown in gross domestic fixed investment — particularly from the mining and power-generation sectors

A third of Dorbyl s sales in the year to September were directly linked to gross domestic fixed-investment spending, results released this week show

Little

But contracting activities provided less than 10% of the group s operating profit of R141,1-million Their reduced contribution was one of the main reasons why the group's taxed profit shrank by 21% to R92,3-million for the year

Alusaf and the Columbus stainless steel project — if it comes on stream — will provide work for companies like Dorbyl, but chief executive Dawid Mostert warns that engineering works will receive little business until 1994

But when the work begins, its contribution to industry will be considerable.

"Alusaf is twice the size of Mossgas in terms of the work content that can be done by South African companies," says Mr Taljaard

Mr Mostert believes that the tough times that have characterised the engineering industry for the past few years have become the norm

"The group has to be right sized for today's market and that means reducing our dependence on fixed-investment spending

Trading

Opportunities in Africa include work at the Cabinda oilfields where Dorbyl has linked up with a foreign consortium.

Mr Mostert says Dorbyl has not given up the idea of unbundling

"The logic of unbundling our business is sound But it is a matter of timing The ideal time would be when the market would react favourably to such a decision and when all three of our operating engines were going fairly strongly"

Varying

Dorbyl recently restructured into three operating divisions contracting, manufacturing and trading Each achieved sales of roughly R1-billion in the year but made varying contributions to operating profit.

The manufacturing division, which is heavily involved in the transport and tube industries accounted for more than half of the operating income Trading activities chipped in a third

Full-tilt Tongaat could earn extra R70m a year

(186) Sugar

S/Times (Buss) 29/11/92

By JULIE WALKER

TONGAAT managing director of 16 months Cedric Savage has outlined two ways in which the diversified sugar company should be able to deliver real growth for shareholders

At a presentation to the Investment Analysts Society in Johannesburg this week, Mr Savage said that if all six manufacturing divisions were to operate at capacity it could mean an extra R70-million for the bottom line.

For a group that made R65-million in the six months to September that would be a meaningful increase

Largely because of the drought, Tongaat Sugar had 48% spare capacity this year At full tilt, it could add R30-million. Building materials operations were working at half capacity and food and textiles were a third below what they could handle, he said

Cities

There were smaller amounts of slack in aluminium and in starches and sweeteners

The other major play Tongaat could make would be to unlock asset values

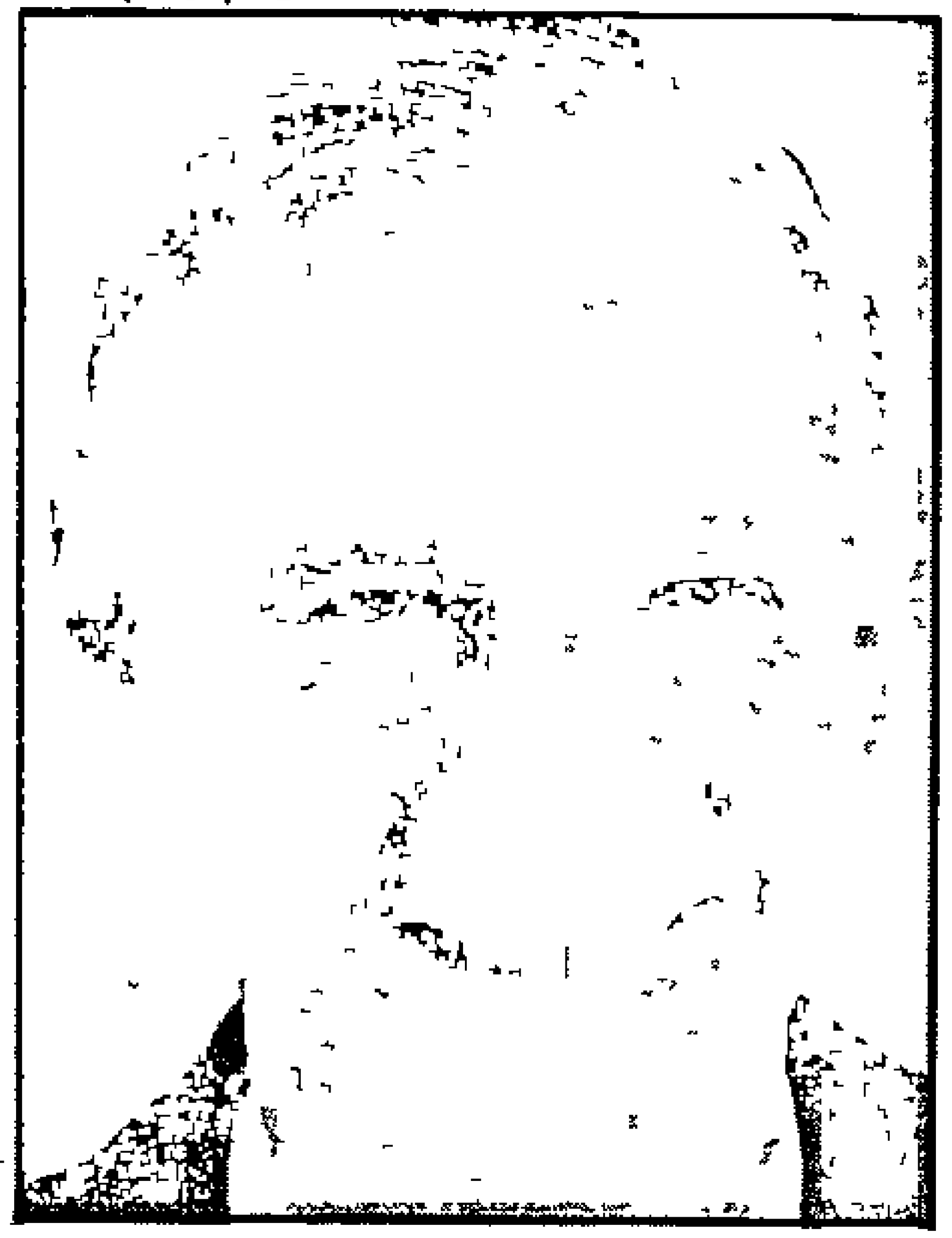
Mr Savage gave examples, such as the sale to employees of company-owned houses

"When sugar mills were first established, they were a bit like mines in remote areas and they had to have a total infrastructure to attract people to work there.

"With the spread of urbanisation, many of the houses are next to cities We have 5 000 company-owned houses and are onselling the non-strategic ones to employees

"With other surplus land and building sales this year we will have realised more than R25 million"

The turning around of non-performing businesses, and tighter management of working capital enabled Tongaat to lower borrowings by R136-million to R551 million



CEDRIC SAVAGE Houses for sale to employees

At the 1992 interim Tongaat improved its earnings on a 4% fall in turnover to R1,9 billion by being more productive and because of a 27% lower interest bill of R36,9-million

Sugar chipped in 35% of the R142-million profit aluminium 24%, starches 17% and food 15% Textiles and building materials, adversely affected by recession made relatively small contributions.

In normal years, Tongaat s earnings are greater in the second half than in the first. But Mr Savage believed that drought violence and recession would prevent a second-half fillip in the current year

The group would expand its core businesses of aluminium, sugar and in starches and sweeteners

"We do not need sugar farms, but cane for our mills Many canegrowers can do the job better than we can' said Mr Savage

"We have concentrated on running the mills efficiently and on keeping the unit costs down We don t have many other options when the revenues are not there '

Expansion was taking place at Hulett Aluminium in Maritzburg Mr Savage said the advent of Alusaf would be good for Tongaat's aluminium business because it would mean a continuous source of aluminium ingots at competitive prices

Ingots are the raw material for Hulett Aluminium's value adding rolling and extrusion processes It makes rolled products such as foil sheet and the ends of drinks cans and electric transmission lines.

As did all textile manufacturers, Tongaat's suffered from the Government s changing the provision of export incentives and import protection Loser Hebox denim was sold and the future profitability remained uncertain, he said

Starches and sweetener products are used in beer and soft-drinks production, coffee and creamer products and paper manufacture among others

Foods had a good year from maize meal and an improved performance from mushrooms Tongaat also supplies eggs, cooking oil, animal feeds and cotton

Tongaat is the leading supplier of clay and concrete bricks and blocks through Corobrik It has been badly hit by a lack of building activity and the number of employees has been reduced by 14 000 to 5 000 in six years

Singapore

Mr Savage said he was often asked whether bricks had a future in the new South Africa In reply, he showed pictures of attractive low-cost brick terrace-houses in SA. He said they had a ready market.

He also showed applications of low-cost housing using Corobrik products in Singapore

Tongaat's seventh division, property, is a significant contributor to cash flow Its focus is administration of the group's significant land assets

Mr Savage said attention had been paid to underperformers. In this weak economy, he was reluctant to make major changes through purchases of companies at unrealistic premiums or through sales at discounts

He said changes had been made in 25 senior positions and some young blood brought in to help Tongaat achieve its objectives after years of indifferent performance

The share has been a relative underperformer in recent years and if Mr Savage and his team can unlock the potential, it could be a good recovery stock at R15,75 — 75 times earnings

...d and ...'s out

SA's on the road to India

S/Times (Buss) 29/11/92

Premier should still outperform market

STAR 1/12/92

By Stephen Cranston (186)

Earnings from the Premier Group will increase by 21,3 percent in the year to April 1993 and by a further 26,4 percent in the following year, Davis Borkum Hare analyst Manny Pohl forecasts

Pohl says the demand for Premier's mass market food products lends assurance to long-term growth and profitability.

Earnings will be boosted by the increased contribution expected from Metro Cash 'n Carry, which has a market edge in its strategic distribution channels and dominant market share

Premier Food is no longer encumbered by unperforming poultry and animal feeds businesses, and benefited substantially from the lower interest burden resulting from these disposals

Over the longer term, the bread market is expected to grow at a rate approximately equal to the population growth

At present, significant price escalation which deregulation created at the retail level, together with a depressed economy and unrest and violence has given rise to a static bread market And because of the surplus of baking capacity there has been intense competition and pressure on margins

Premier reversed the losses it had made in its edible oils division as sales volumes of its products, principally Blossom and Kraft margarines, increased substantially.

Consumers buy down as disposable income reduces, which has benefited Premier, and opportunities exist for the sale of basic foods into countries to the north.

Much of Premier's growth prospects in milling and baking depends on government fiscal policy

The drought has necessitated the import of massive quantities of maize and wheat, on which the government exacts a tariff giving it a R30 to R40 a ton profit margin

This will give the government a R150 million profit which could be passed on to consumers or primary producers

In the longer term any future government will initially be less enthusiastic to raise floor prices or to resist price controls Accordingly, there is a reasonable chance of lower input prices for Premier

There is also pressure for the reintroduction of subsidies on bread and maize and for the zero rating for VAT of basic foodstuffs, which will stimulate volume growth and enhance divisional profits.

Premier's pharmaceutical interests will be stimulated by group strategy to provide cheaper products as the country becomes more cost-conscious.

State expenditure levels on health care are expected to rise significantly

Pohl says that if Premier's wholesaling interests can return to the profit margins of the mid-1980s, in which there was a pre-tax margin of 3,5 percent, pre-tax profits will surge from R50 million to R143 million.

Since earnings and dividend growth should exceed that for the industrial companies in general it should continue to outperform the market.

Restructuring gears Malbak for growth

186

BDay 2/12/92

EDWARD WEST

MALBAK's restructuring provided a sound platform for future growth and, with social and political stability, strong profit growth could be expected in the longer term, said executive chairman Grant Thomas

Commenting on the short-term outlook in the 1992 annual report, he said Malbak had budgeted for improved pre-tax profit, and a significantly increased tax rate. Given economic uncertainties, Malbak forecast earnings would be maintained

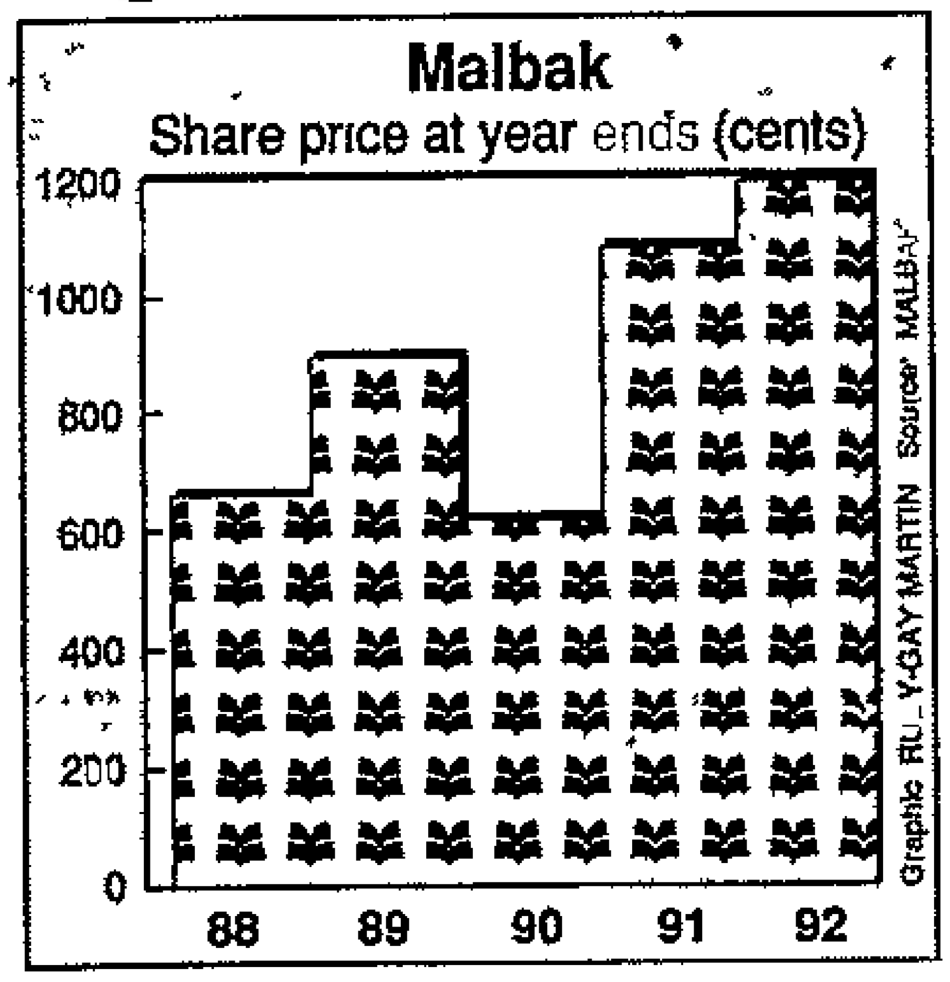
Malbak had been restructured over the past two years. Business focus had been sharpened and the thrust was in clearly delineated areas

In spite of the short-term effect of the depressed economy, Thomas said medium to long term prospects for each of the group's operations were excellent

Thomas was pleased with Malbak's results for the year to end-August 31 and earnings were slightly better than the revised forecast at 113,5c a share The dividend was increased to 33,5c a share

Proceeds from the sale of non-strategic holdings coupled with the results of the rights issue resulted in the group holding more than R700m cash Gearing, excluding cash on hand, had fallen to 29% from the adjusted 40% at the start of the year

At 54 and 56 days, debtors and stock were well controlled The past year saw interests in Kanhym consolidated with those of Fedfood to form Foodcorp



Foodcorp's diversification and focus on value added products shielded earnings and the group had embarked on a major expansion project to capitalise on international market potential

The acquisition of SA Druggists and the merger of Malbak's healthcare interests in SA Druggists had transformed the company into the largest pharmaceutical group in SA.

Packaging and paper company Holdains also had a successful year The partnership agreement with Crown Cork & Seal of the US was signed after year-end This move would give Holdains a meaningful entry into the beverage packaging market

FM 4/12/92 (186)

ROYAL/DEL MONTE FM 4/12/92 (186)

More support from Anglo

The Royal/Del Monte saga is turning into an apparently interminable exercise And if it's close to becoming a bore for the financial journalists watching it stumble on week after week, it has taken on nightmare proportions for those attempting to put it together

Sources in London and Johannesburg told the *FM* last week they were absolutely confident the deal would finally be stitched together early this week Your correspondent should have known better rashes of optimism have punctuated the deal almost from the time it was first broached publicly, yet none of the deadlines has been met

A major problem is the logistics of consultation in London, there are more than 100 investors who have to be considered, in SA all the institutions which earlier agreed to support Royal's bid for Del Monte Foods International (DMFI) have to be consulted if changes occur which affect the basis of their contributions

It is widely rumoured that Anglo American's support for the deal has risen to about R800m — double the sum it originally agreed to contribute Anglo spokesmen refuse comment but well-placed sources are adamant the corporation moved to support Royal chairman Vivian Imerman when the Public Investment Commissioners (PIC), responsible for the investment policies of the civil service pension funds, declined to participate Another source says the PIC may decide to participate later but that's not much help to Imerman's immediate campaign to cobble together the monies needed to satisfy the bid

In addition, the *FM* now understands the principal DMFI vendors, led by Charterhouse merchant bank, were persuaded to accept a lower selling price That in turn means all the selling investors have to be consulted, an exercise which is taking longer to complete than anticipated Sources in London close to the transaction say the deadline for acceptance of the revised Royal offer was midnight on Tuesday

However, it has been cheerfully emphasised that the consensus of opinion is that the deal will go through "You don't really imagine, do you, that we've been putting in all these hours without being certain of ultimate success?" half-questioned one merchant banker, clearly struck suddenly by the awful possibility of failure

Apparently, an 85% acceptance of the revised Royal offer from vendors is necessary before Royal's advisers will conclude the deal is through And, while no-one is revealing the present level of acceptances, there is a pervasive feeling that vendors have been boxed into a weak position

"They're hardly likely to want to start this whole process all over again, next time with a new buyer," says an observer "In any event, the news about a reduction in the price is already in the market" That means, of course, any alternative buyer will be trying for a similar, if not better deal, and that isn't a circumstance which Charterhouse will want to encourage In summary, it will be much better for the vendors to button up the Royal deal this time around

It's just possible — dare we say it again? — that the next time we report, Royal will be the new owner of DMFI *David Gleason*

Royal deal with Del Monte okayed

(186) STAR 4/12/92

By Stephen Cranston

Royal Corporation's purchase of European canned food processor Del Monte Food International (DMFI) was confirmed yesterday.

The price has been reduced from £360 million (R2,4 billion) to £345 million (R2,17 billion)

It will be paid in cash and through the issue of 16,9 million Royfood shares to the vendors.

The latter have undertaken to keep at least 89 percent of their holdings for at least a year, unless they are assured by Royal's advisers that the disposal will not unduly affect the finrand market or the price of the shares

Anglo American's commitment to the deal has doubled to R800 million

Investment

It will be sub-underwriting a secondary placing of holding company Royhold and operating company Royfood shares on top of its R400 million direct investment

The price of shares to be placed with institutions to fund the deal has been reduced to 330c for Royfood, Royhold and Roycorp shares, which is slightly above the current market price of each share

Problems were experienced in obtaining the necessary funding for the original deal from institutions because of the depressed economy and share market conditions

Roycorp has assumed £128 million in DMFI debt and intends to repay it by raising £63 million in equity and £75 million in new debt.

Roycorp and Royhold are forecasting earnings of 62,5c in the year to November 1993, a dilution from the 70,1c forecast prior to the deal. Royfood shares will be diluted from 62,6c to 60,1c.

The predicted dividend for the year is 20,8c instead of 23,3c for Roycorp and Royhold and 20c instead of 20,8c for Royfood.

Net asset value will be boosted from 285c a share to 473c for Roycorp and Royhold and from 212c to 457c for Royfood.

The Imerman Control Consortium, which currently controls Roycorp, and Anglo will each hold 50 percent in the pool company, which holds 60 percent of Royhold.

Chairman Vivian Imerman retains management control.

Anglo deputy chairman Graham Boustred has been appointed chairman of Royhold

Imerman says the deal means substantial job creation, particularly in the Western Cape and good business for the farming community.

"Perhaps, most important of all, it has been cited as an example of the way Third World countries must evolve to prosper by gaining influence in the international market place — a view endorsed by the World Bank," he says

Tiger urges govt not to scrap export incentives

(186)

B/DAY 4/12/92

MARCIA KLEIN

GOVERNMENT should not succumb to pressure from international agencies like GATT to rapidly wind down export incentive schemes, Tiger Oats chairman Robbie Williams said in the group's annual report

It would be unwise to expect SA to compete effectively on international markets without this kind of incentive, when export subsidies were common throughout the world Schemes like the general export incentive scheme (Geis) helped SA manufacturers to establish international markets for their goods, he said

Tiger, whose level of exports and international sales had risen to more than over R1,2bn by the September year-end, had been active in becoming internationally involved and competitive, Williams said

He said the group had increased its investment in production facilities overseas and it was developing international technology linkages

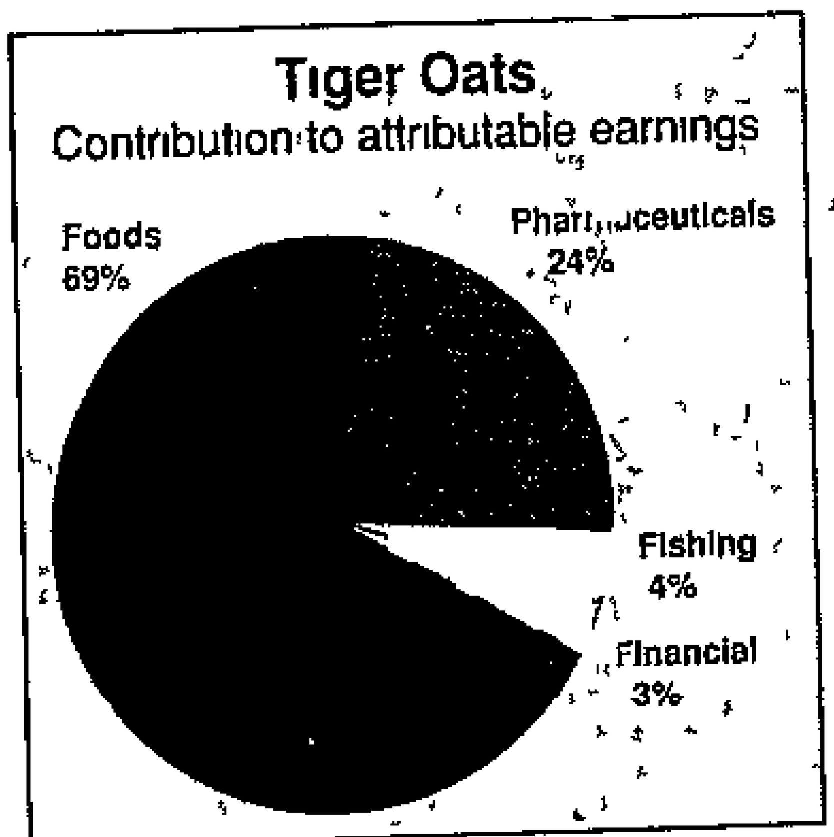
Williams said the group supported VAT as a better form of indirect taxation than GST, but the zero-rating should be extended as broadly as possible, preferably to all foodstuffs.

The food price spiral could be reversed if productivity was increased at every level of the food chain and linked to pricing policies which were marginally deflationary, Williams said

In the year to end-September, Tiger reported a 16% rise in attributable earnings to R335m as turnover rose 15% to R9,2bn

MD Clive Wolpert said the group's major division Tiger Foods had increased its contribution to earnings by 15% to R232,5m or 69% of attributable earnings

Food made up 85% of the group's turnover Pharmaceuticals made up 24% of attributable earnings, fishing 4% and financial 3%



Graphic RUBY-GAY MARTIN Source TIGER OATS

Langeberg and the milling, international and shipping divisions had performed particularly well olpert said Spar had shown considerable growth over the past year, and it was "well poised for future growth"

Williams said Beacon reported a decline in volumes and margins and a sharp decline in profitability, but it was likely to show an improved performance in the coming year The broiler business incurred losses, but there would be long-term growth in this market.

Tiger had made significant investments during the year, including the acquisition of Colman and the new maize and wheat mill in Pietermaritzburg, which is now operating.

The group was budgeting for "some improvement in our results", but this could be weighted towards the second half of the year, Wiliams said

Anglo doubles stake to R800m

Royal sews up Del Monte acquisition

(186)

BDAY 4/12/92.

MARCIA KLEIN

THE Royal group's acquisition of Del Monte Foods International (DMFI), believed to be corporate SA's largest deal, has been concluded

Royal Corporation (Royal) announced yesterday that the deal, through subsidiary Royfood, was signed early on Wednesday morning, and included some significant changes since it was initially announced.

Royal said the purchase price had been reduced to R2,17bn from R2,4bn, and Anglo American Corporation had doubled its contribution to R800m

Despite these changes, the joint control between the Imerman Control Consortium (ICC) and Anglo, with ICC retaining management control, remained in place.

A market source said yesterday that the reduced purchase price, Anglo's increased contribution and the issue of shares in Royfood to DMFI's sellers — with time constraints on tradeability — would place less pressure on the finrand

Another source pointed out that the deal had been approved by the Reserve Bank before Finance Minister Derek Keys's announcement last week on limitations being placed on finrand deals

Royal chairman Vivian Imerman said the group had experienced problems in obtaining the necessary commitment to the funding from institutions and this had caused the group to restructure the deal. All the funding had now been secured

In terms of the restructured deal, the sellers of DMFI had agreed to drop the selling price by £15m to £345m This would be made up of £270m for equity "and the assumption of £138m debt"

The debt would be repaid by raising about £63m equity and £75m of new debt, while Royfood's total equity investment of £270m would be funded through the issue of shares to the sellers and through a long-term offshore facility

The R2,17bn equity funding would be met through the issue of new shares in Royfood, Royal and Royal Group Holdings (Royhold) to financial institutions, Anglo, ICC and the DMFI sellers

Because of the reduction in the purchase price, the issue price of Royal, Royhold and Royfood shares sold to the institutions was dropped to 880c Royal and Royhold shares were initially offered at 950c, while Royfood was offered at 925c

Anglo has doubled its commitment "by sub-underwriting a secondary placing of Royhold and Royfood shares" through an offer to minorities of Royhold and Royal at 880c a share

In addition, the sellers would "take partial payment in Royfood shares and accept a time prohibition on tradeability". Royal said about 16,9-million Royfood shares would be issued to the sellers. Some sellers had undertaken not to dispose of about 89% of their holding for at least a year unless they were given assurance by Royal's advisers and bankers "that the disposal would not unduly affect the finrand market or the price of the shares"

Royal said Royal and Royhold were expecting earnings of 62,5c a share to end-November 1993, which compared with 70,1c forecast before the deal. Royfood expected earnings of 60,1c from 62,6c ex-

☐ To Page 2

☐ From Page 1

Royal

BDAY 4/12/92. (186)

cluding the acquisition

Royal and Royhold were expected to pay dividends of 20,8c as opposed to the forecast 23,3c, and Royfood would pay 20c rather than 20,8c The companies' net asset value would increase significantly

In terms of the revised group structure, ICC and Anglo would each hold 50% of the pool company, which would hold 60% of Royhold

Royal said the deal still needed the "blessing" of shareholders and the Commission of European Communities

It's a right royal tie-up

(Buss) STimes 6/12/92. (186)

By CHERILYN IRETON

THE TIE-UP between the Royal group and Anglo American Corporation may go beyond the R2,17-billion Del Monte Foods International acquisition finally sealed this week.

Anglo director and new Royal Holdings chairman, Graham Boustred, confirms that the parties will examine the synergies between Royal's operations and the Cape-based processed food businesses owned by Anglo American Farms (Amfarms)

"The deal creates new opportunities for us to expand the food processing business in SA," he says.

Anglo stepped up its involvement in the Royal deal by agreeing to act as sub-underwriter for a R400-million share placing This means its investment in Royal could eventually total R800-million

As a result of the increased participation, several Anglo heavyweights have been appointed directors of the Royal companies

Boustred becomes chairman of Royhold and deputy chairman of Royal and Royfood With him on the board of Royhold are Leslie Boyd, Nicky Oppenheimer, Dave Rankin and Tony Trahar.

"We want to put a lot of time and effort into making this relationship a success," says Boustred "But day-to-day management will stay in the hands of Vivian Imerman and his executives

"We made it absolutely clear that we won't try and interfere. Imerman has taken on highly professional people from Nabisco and they have worked closely with Del Monte in Europe. There is no way we can, or would want to, interfere with that," says Boustred

Details of the deal, unpublished until now because of a secrecy clause, suggest that two-thirds of Royfood's earnings will now be translated through sterling, although a large portion of Del Monte's sales are denominated in Deutschmark and the French franc.

A report by sponsoring broker Davis Borkum Hare says Del Monte should earn R111-million in 1992

Organic growth in 1993 will add R21-million and currency benefits £13-million After adjustments for tax and currency translation, Del Monte should earn R131-million, giving Royfood projected earnings of R206-million for the year.

Ken Costa, a director of SG Warburg and an advisor to Royal, says the currency aspect of the deal is one of Del Monte's greatest attractions. "It produces its products in soft currency areas like South Africa and Kenya, yet sells them in hard currency areas like Britain, France and Germany

"It is a remarkable deal — and I've been involved in a few But for Imerman to have raised R2-billion in this environment is remarkable and signals the return of SA into the international fold," says Costa.

The drop in the price tag from R2,4-billion to R2,17-billion reflects in part the general deterioration of the markets, says Costa

This is likely to affect Del Monte's results for the year to November

"The high value branded food business is extrememly robust in a downturn But obviously even Del Monte has suffered as a result of the lower economic activity," says Boustred "But we are not in it for short-term gains"

Costa says Royal got a good cut in the headline price "It has been a complex and most unusual deal, because Imerman persuaded the vendors to give him an option to purchase They wanted the information kept secret, and because of the lack of public information, journalists and analysts were using multiples that were not accurate

"To have pulled it off shows Anglo is able to back entrepreneurial skills," says Costa

Sweet returns all the way from Cadswep

S/Times (BUSS) 6/12/92. (186)

By ZILLA EFRAT

CADBURY Schweppes celebrates its 90th year in business in South Africa this year, but is far from losing its fizz

It has moved into fifth position in the Top 100 after notching up an average annual return of 123,51% for shareholders over five years.

Shareholders lucky enough to get hold of this tightly held share are accustomed to sweet returns from the group which controls Cadbury, Bromor Foods, Chapelat-Humphries and Schweppes and has a 19% stake in Amalgamated Beverage Industries.

Over 15 years, the average annual compound return to shareholders has been 43% — well above a 26% average growth rate for industrial companies on the JSE.

BRANDS

Outlining the reasons for the group's continued success, chief executive Peter Bester says Cadswep has always had a clear and committed strategy. Its focus has never strayed from the business it understands best — confectionery and soft drinks.

In addition, its strong brands have generally been able to make gains in a growing but competitive market.

Cadswep has also benefited from a structure which provides a high degree of independence to individual company management teams, each of which is is determined to outperform the market.

In a R1,25-billion-a-year market it has more than 50% of the chocolate slab segment, 40% of chocolate bars and 23% of sugar confectionery

Many of its brands — from Schweppes soda-water, Oros squash to Crunchie and Lunch Bar — are household names. They have also become part of every day life. For example, South Africans eat more than 105 Chappies every second of the working day.

BILL

Mr Bester says that although these brands are not represented in Cadswep's balance sheet, they are its main commercial asset. Each year the group invests hugely in building and maintaining its brands' reputation. Its marketing bill invariably exceeds its capital expenditure.

Mr Bester says Cadswep's brands have stood the test of time because of inherent consumer loyalty. For example, Brooke's Lemos, a Bromor product, is the oldest registered trademark in SA.

Schweppes was founded more than 220 years ago and Cadbury is 160 years old. Rose's was founded in 1865, Moir's in the early 1800s, Brooke's in 1895 and Humphries in 1913.

Many of the chocolates made by Cadbury's in its earliest days in SA — Dairy Milk, Whole Nut, Lunch Bar and Flake — still rank among the top-selling 20 products in SA.

"After the novelty of a newly launched product has worn off, consumers tend to return to established products that have consistently proved their worth," says Mr Bester.

JUMP

Cadswep invests much in developing products and recently launched Frutus, Gems and Endearmints. Several SA-inspired brands are marketed internationally by its associates.

After a 33% jump in earnings a share in the year to December 1991, profits were up 28% in the first half of the current year.

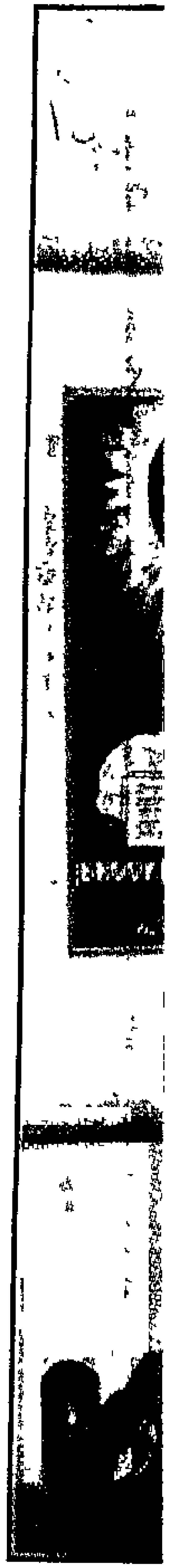
Mr Bester warns, however, that growth in the second half may not match that of the first because of deteriorating trading conditions. Volumes are not expected to show much growth, but Cadswep could make some gains in market share.

Carbonated soft drinks and confectionery products are regarded as affordable luxuries Demand is not immune to recessions, but holds up better than other non-staple food products.

The weather also affects trading The group generally benefits from hot weather. Soft-drink sales soar, but a a balancing factor is that chocolate sales improve when it is cold.

The group is set to extract further benefits from the acquisitions made by Cadswep in recent years It bought Bromor in 1986 and Chapelat-Humphries in

Sunday Times
TOP 100
NUMBER 5
1987: R10 000
1992: R71 754



PETER BES

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The group is set to extract further benefits from the acquisitions made by Cadswep in recent years. It bought Bromor in 1986 and Chapelat-Humphries in 1989

Carbonated soft drinks and chocolate confectionery are forecast to be high-growth areas in the next few years Improved spending power in the informal sector will also benefit Cadswep.

Exports to Africa and Europe are growing and this is seen as an important area for development, although Cadswep's foreign parent prevents it from exporting its global chocolate brands beyond Africa.

Mr Bester says that once political conditions stabilise, there could be opportunities for opening up operations in other Southern African countries.

Although Cadswep is always looking for acquisition possibilities to balance its portfolio, there is nothing immediate in the pipeline, he says

Cadswep benefits from being part of an international network which provides it with a constant exchange of ideas and new concepts.

Major shareholder Cadbury Schweppes has manufacturing facilities in more than 20 countries and sells its products in 110 around the world

Sunday Times

TOP 100

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1987: R10 000
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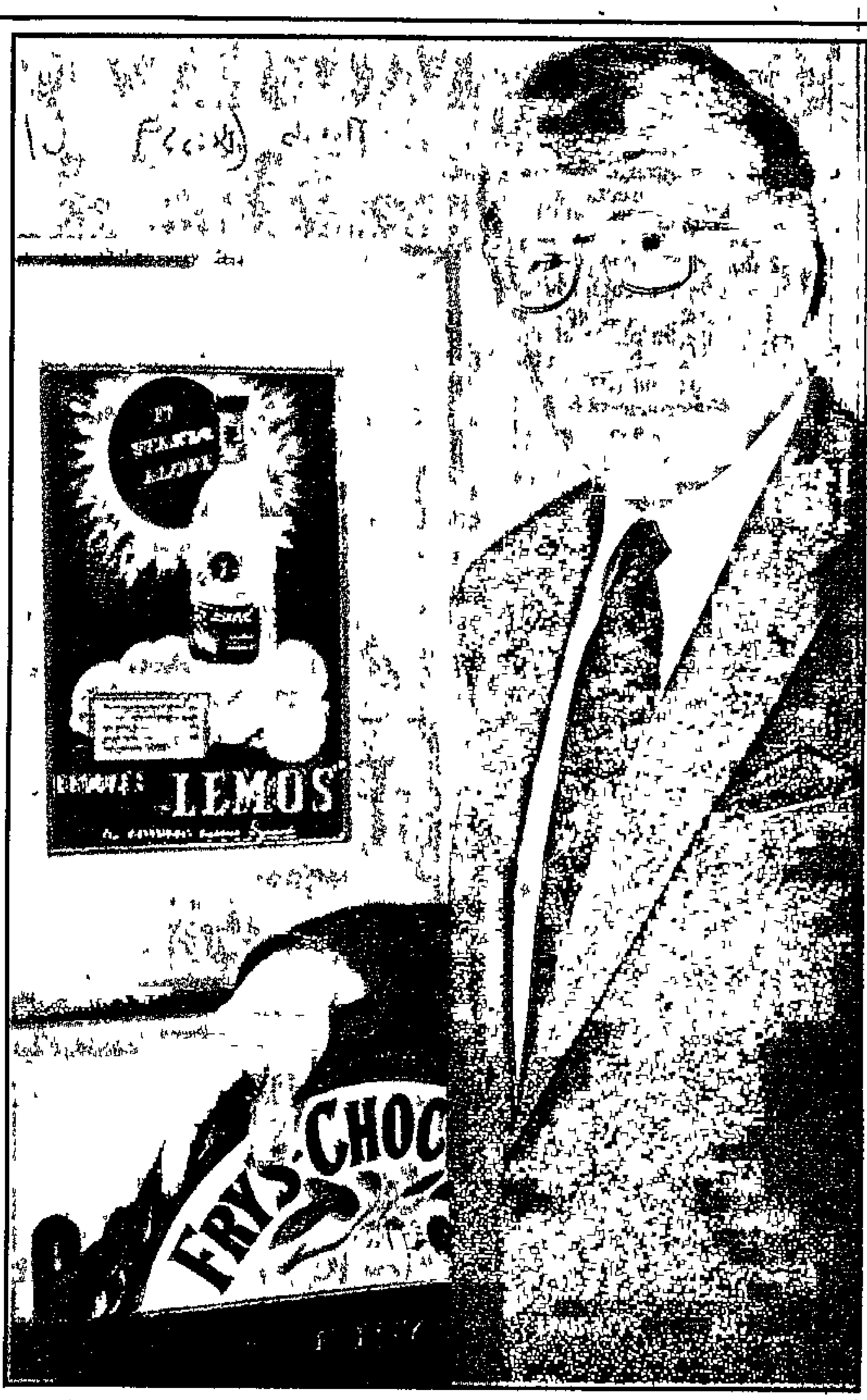
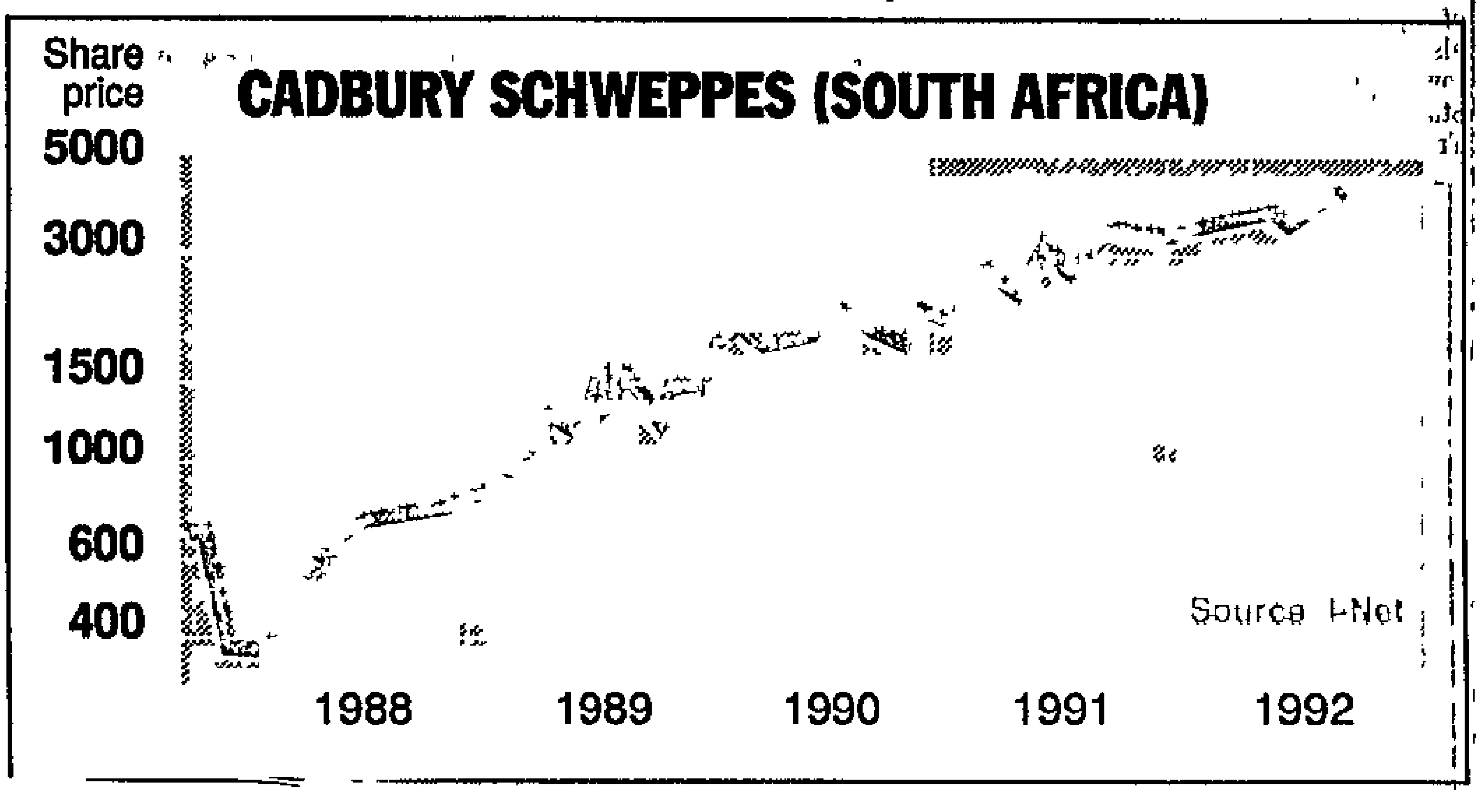


PETER BESTER . . . Many household drink names — and the goodies go down well with thirsty guzzlers in a hot summer



Pro-business slant to ANC anti-trust policy

STAR 7/12/92

By Sven Lunsche

Anti-trust legislation by the ANC is likely to have a "pro-business" bias and is to be separated from policies aimed at addressing the concentration of economic ownership, says ANC economist Tito Mboweni.

He was speaking at the conclusion yesterday of a three day workshop on anti-trust, monopoly and merger policy.

The workshop was attended by ANC economists, private sector managers and a range of international experts on anti-trust laws.

The ANC's strong focus on anti-trust legislation is an indication that it will take the place of large-scale nationalisation as the major tool to redefine the largely white-controlled patterns of ownership.

Mboweni said the ANC had identified a set of key issues in dealing with anti-trust legislation, including setting-up an investigative arm similar to the UK's Monopolies and Mergers Commission.

Legal powers to take action on such findings should rest with the Department of Trade and Industry, he added.

"We are certainly not convinced that the SA Competitions Board, which has a very weak profile, can serve as a basis to investigate monopolies and mergers which impede competition in the economy."

Mboweni said anti-trust legislation could not be seen in isolation from "the power of the conglomerates and a long-term industrial strategy".

Yet, he added, the overriding tone of the workshop suggested that anti-trust policies should be "pro-business" and the ANC identified with this sentiment.

He said the organisation would use the input from the participants in the workshop to draw up a comprehensive anti-trust document, possibly by the end of February next year.

It also seems that the ANC will heed the advice of the senior economist of the UK's Monopolies and Mergers Commission, Geoffrey Sumner, who told the workshop that the confluence of economic power in the economy should not be redressed by retroactive competition policy.

Sumner said investigatory and tribunal agencies should be set up which "as far as possible should not have political bias".

The ANC was also warned that anti-trust policies alone could not achieve a radical change in the patterns of ownership and control.

JSE president Roy Andersen said the inward-looking policies of exchange controls, import tariff protection, import substitution and self-sufficiency during the apartheid years had played a critical role in the development of this concentration.

"These are the underlying causes of concentration which need to be dealt with," he said.

Despite the focus on anti-trust policies, the ANC has not ruled out partial nationalisation of mining groups.

In a paper to the workshop ANC minerals economist Dr Paul Jordan said the state had a right to equity participation in private mining companies because of its ownership of the natural resources of a land.

Strategies proposed by Jordan included nationalising cross share ownerships between mining groups, particularly De Beers and Anglo American, and giving the state a minority equity holding of about 20 percent.

He said joint control of a mining group was working well in the case of De Beers and the Botswana government through the jointly contolled Debswana operation.

Furthermore, white control could be diminished by "a meaningful employee share holding scheme, which is not based on income".

Mboweni said the proposals addressed the problem of inter-locking directorships, but added that it remained to be seen whether this should be dealt with through nationalisation or anti-trust policies.

Palladium rises to 18-month high

By Neil Behrmann

LONDON — Palladium prices surged to their highest levels in 18 months last week in response to lower Russian supplies and a sharp increase in orders from Japan.

At $103 an ounce, palladium, the main by-product of platinum, is 25 percent higher than levels in August. Its trading range was $80 to $85 for most of this year.

Palladium, by far, has been the best-performing precious metal. Its appreciation since August compares with a four percent increase in the price of platinum, a constant silver price and a four percent decline in gold.

The rise in palladium prices is a welcome boost to SA platinum companies.

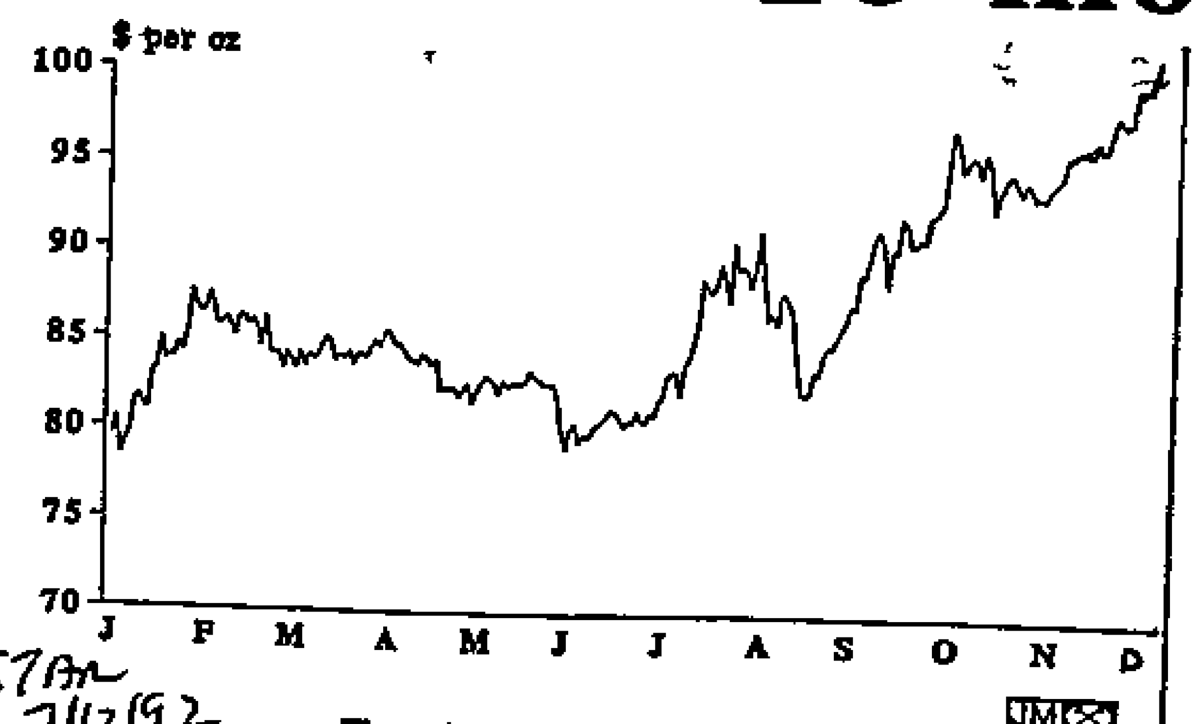
SA palladium production is forecast at 1,28 million ounces this year, compared with 2,82 million ounces of platinum, according to Johnson Matthey.

For each $10 increase in the palladium price, revenue for Rustenburg, Impala, Western and others rises by $12,8 million — not an insignificant sum.

Platinum's price increased by about $13 in the same period.

Since the rand has fallen against the dollar, platinum companies which were under pressure earlier in the year, should be on a better footing.

Yet actual revenue gains will depend on contract prices.



STAR 7/12/92.

The price of palladium this year

A palladium futures contract was introduced in August on Tokom, Tokyo's commodity exchange. Dealers say that on Wednesday volume reached a quarter of a million ounces and on Thursday 650 000 ounces.

Thursday's trade alone equalled activity for the whole of last month, say dealers.

London dealers are perplexed about the sudden burst of buying on the Tokyo futures exchange.

Some believe that Japanese motor companies intend using more palladium in anti-pollution auto catalysts.

Others say that "cold fusion" energy experiments are keeping the palladium pot boiling.

Cold fusion requires palladium to generate energy, but so far there is no scientific proof on whether the process will work.

According to some scientists, energy is produced when an electric current is sent through palladium electrodes that are immersed in a jar of heavy water enriched by a heavy form of hydrogen known as deuterium.

Japan, totally dependent on oil imports, is anxious to develop alternative energy sources.

Robbie Williams taxing food is untenable

IDC disposes of Senchem shares

STAR 7/12/92

Finance Staff

The Industrial Development Corporation (IDC) has placed its R90 million shareholding in chemical group Sentrachem with 14 fund management groups.

IDC senior general manager Gerard Morse said at the weekend the IDC had sold its 13,5 percent stake as part of its policy of realising mature investments to fund new industrial projects.

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Job said the IDC's disposal provided an ideal opportunity to broaden shareholder participation in Sentrachem.

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Williams favours export incentives

By Stephen Cranston

STAR 7/12/92

Tiger Oats chairman Robbie Williams has urged the Government to retain export incentives and not to succumb to pressure them.

In the annual report for the year to September, Williams says group exports and international sales now exceed R1,2 billion.

But it would be most unwise to expect SA to be able to compete effectively without such incentives when export subsidies in one form or another are commonplace worldwide.

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"Unless adequate arrangements are made through food aid schemes to provide basic sustenance for the poor, we believe taxing food is untenable."

Tiger Oats should narrow its focus

STAR 7/12/92

(116)

By Stephen Cranston

Earnings growth at Tiger Oats has been consistent over the last three years.

After two years of increases in earnings per share of about 13 percent, the group turned in an 11 percent increase in the year to end-September.

This is not the kind of performance that would normally lead to Tiger's demanding rating of a 20,1 P/E ratio and a 1,7 percent dividend yield.

But investors like Tiger because it has taken a long-term view of its food basket. Market share, rather than short-term profitability, is king.

The group seems to tolerate a mediocre performance in some divisions — returns in the edible oil business have been poor for some years — but it has been able to acquire a formidable portfolio of companies and brands which have compensated for this.

Unlike arch-rival Premier, Tiger has held on to its interests in poultry and eggs, even though they have undoubtedly been a drain on margins and profitability.

The exact contribution of these interests cannot be determined from the annual report.

But margins for County Fair and Golden Lay were poor and under pressure and Tiger is waiting for rationalisation in these industries. It has the financial muscle to ride out such attrition.

It is surviving a price war in the animal feed area, for example. The group says a number of rival animal feed mills have closed down because of over-capacity in the market, but Tiger can afford to live with negligible margins.

But is it in the interests of Tiger shareholders to persist with a group with such an inconsistent profit mix?

In the agri-business and food processing division, for example, Langeberg, with a third of the turnover contributed, two-thirds of the profits.

Tiger is counting on improvements and can point to edible oils, margarine and peanut butter, which lifted operating profit by 48 percent, though off a very low base, and which still have a negligible opeating margin of less than three percent.

Tiger can still rely on certain divisions ensuring that its growth at least exceeds 10 percent.

Pharmaceuticals now contribute a quarter of operating profit.

Forefront

Adcock Ingram continues to be at the forefront of new product development and has the country's best portfolio of pharmaceutical brands.

Spar continues to show good growth. Perhaps the best opportunities will arise from its international shipping and trading operations.

It is well-placed to meet new opportunities after the R21 million expansion of its Durban bulk shipping facilities.

Tiger's advantage over other food suppliers is that it is represented in all the staple categories — and in the case of rice is the only producer, so if there is swapping in consumption between maize, bread, rice and pasta Tiger will be represented.

But is such breadth always an advantage? Tiger might be advised to take a look at its portfolio and concentrate its resources and efforts on areas providing the best returns.

Pro-business slant to ANC anti-trust policy

STar 7/12/92

By Sven Lunsche

Anti-trust legislation by the ANC is likely to have a "pro-business" bias and is to be separated from policies aimed at addressing the concentration of economic ownership, says ANC economist Tito Mboweni.

He was speaking at the conclusion yesterday of a three day workshop on anti-trust, monopoly and merger policy

The workshop was attended by ANC economists, private sector managers and a range of international experts on anti-trust laws.

The ANC's strong focus on anti-trust legislation is an indication that it will take the place of large-scale nationalisation as the major tool to redefine the largely white-controlled patterns of ownership

Mboweni said the ANC had identified a set of key issues in dealing with anti-trust legislation, including setting-up an investigative arm similar to the UK's Monopolies and Mergers Commission.

Legal powers to take action on such findings should rest with the Department of Trade and Industry, he added.

"We are certainly not convinced that the SA Competitions Board, which has a very weak profile, can serve as a basis to investigate monopolies and mergers which impede competition in the economy"

Mboweni said anti-trust legislation could not be seen in isolation from "the power of the conglomerates and a long-term industrial strategy"

Yet, he added, the overriding tone of the workshop suggested that anti-trust policies should be "pro-business" and the ANC identified with this sentiment.

He said the organisation would use the input from the participants in the workshop to draw up a comprehensive anti-trust document, possibly by the end of February next year

It also seems that the ANC will heed the advice of the senior economist of the UK's Monopolies and Mergers Commission, Geoffrey Sumner, who told the workshop that the confluence of economic power in the economy should not be redressed by retroactive competition policy

Sumner said investigatory and tribunal agencies should be set up which "as far as possible should not have political bias"

The ANC was also warned that anti-trust policies alone could not achieve a radical change in the patterns of ownership and control.

JSE president Roy Andersen said the inward-looking policies of exchange controls, import tariff protection, import substitution and self-sufficiency during the apartheid years had played a critical role in the development of this concentration.

"These are the underlying causes of concentration which need to be dealt with," he said.

Despite the focus on anti-trust policies, the ANC has not ruled out partial nationalisation of mining groups.

In a paper to the workshop, ANC minerals economist Dr Paul Jordan said the state had a right to equity participation in private mining companies because of its ownership of the natural resources of a land.

Strategies proposed by Jordan included nationalising cross share ownerships between mining groups, particularly De Beers and Anglo American, and giving the state a minority equity holding of about 20 percent.

He said joint control of a mining group was working well in the case of De Beers and the Botswana government through the jointly contolled Debswana operation.

Furthermore, white control could be diminished by "a meaningful employee share holding scheme, which is not based on income"

Mboweni said the proposals addressed the problem of inter-locking directorships, but added that it remained to be seen whether this should be dealt with through nationalisation or anti-trust policies.

Palladium rises to 18-month high

By Neil Behrmann

LONDON — Palladium prices surged to their highest levels in 18 months last week in response to lower Russian supplies and a sharp increase in orders from Japan.

At $103 an ounce, palladium, the main by-product of platinum, is 25 percent higher than levels in August. Its trading range was $80 to $85 for most of this year

Palladium, by far, has been the best-performing precious metal. Its appreciation since August compares with a four percent increase in the price of platinum, a constant silver price and a four percent decline in gold.

The rise in palladium prices is a welcome boost to SA platinum companies.

SA palladium production is forecast at 1,28 million ounces this year, compared with 2,82 million ounces of platinum, according to Johnson Matthey

For each $10 increase in the palladium price, revenue for Rustenburg, Impala, Western and others rises by $12,8 million — not an insignificant sum.

Platinum's price increased by about $13 in the same period.

Since the rand has fallen against the dollar, platinum companies which were under pressure earlier in the year, should be on a better footing.

Yet actual revenue gains will depend on contract prices.

A palladium futures contract was introduced in August on Tokom, Tokyo's commodity exchange. Dealers say that on Wednesday volume reached a quarter of a million ounces and on Thursday 650 000 ounces.

Thursday's trade alone equalled activity for the whole of last month, say dealers.

London dealers are perplexed about the sudden burst of buying on the Tokyo futures exchange.

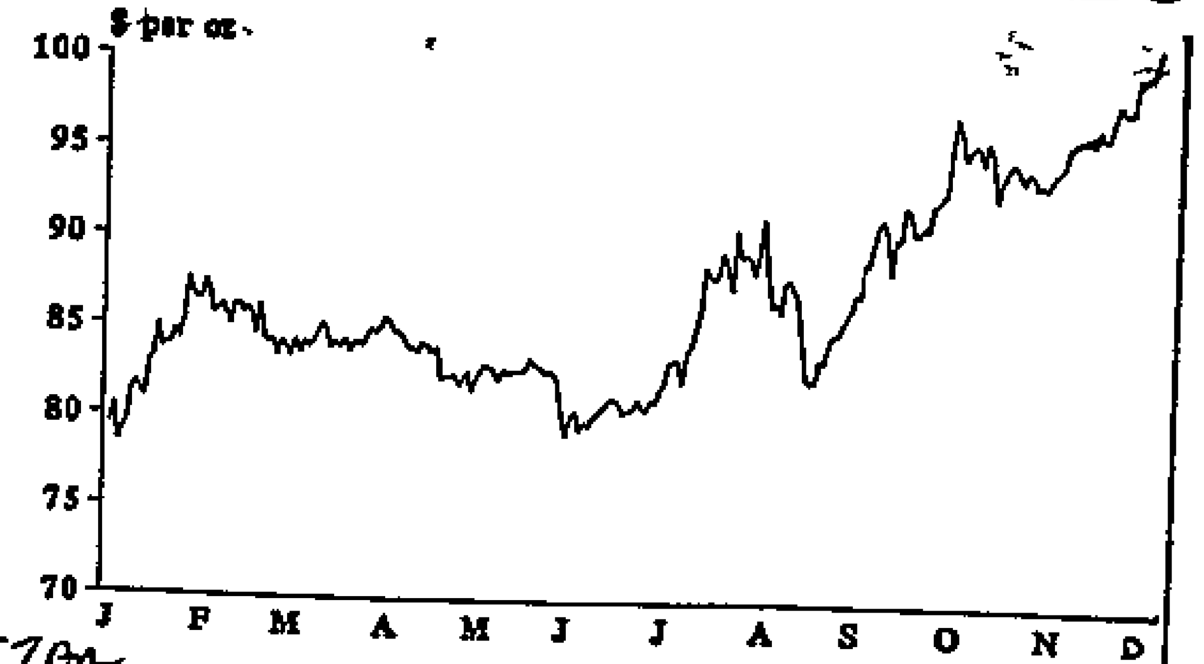
Some believe that Japanese motor companies intend using more palladium in anti-pollution auto catalysts.

Others say that "cold fusion" energy experiments are keeping the palladium pot boiling.

Cold fusion requires palladium to generate energy, but so far there is no scientific proof on whether the process will work.

According to some scientists, energy is produced when an electric current is sent through palladium electrodes that are immersed in a jar of heavy water enriched by a heavy form of hydrogen known as deuterium.

Japan, totally dependent on oil imports, is anxious to develop alternative energy sources.



STar 7/12/92.

The price of palladium this year

Robbie Williams taxing food is untenable

IDC disposes of Senchem shares

STar 7/12/92

Finance Staff

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Food imports take bite out of reserves

BlDM 8/12/92

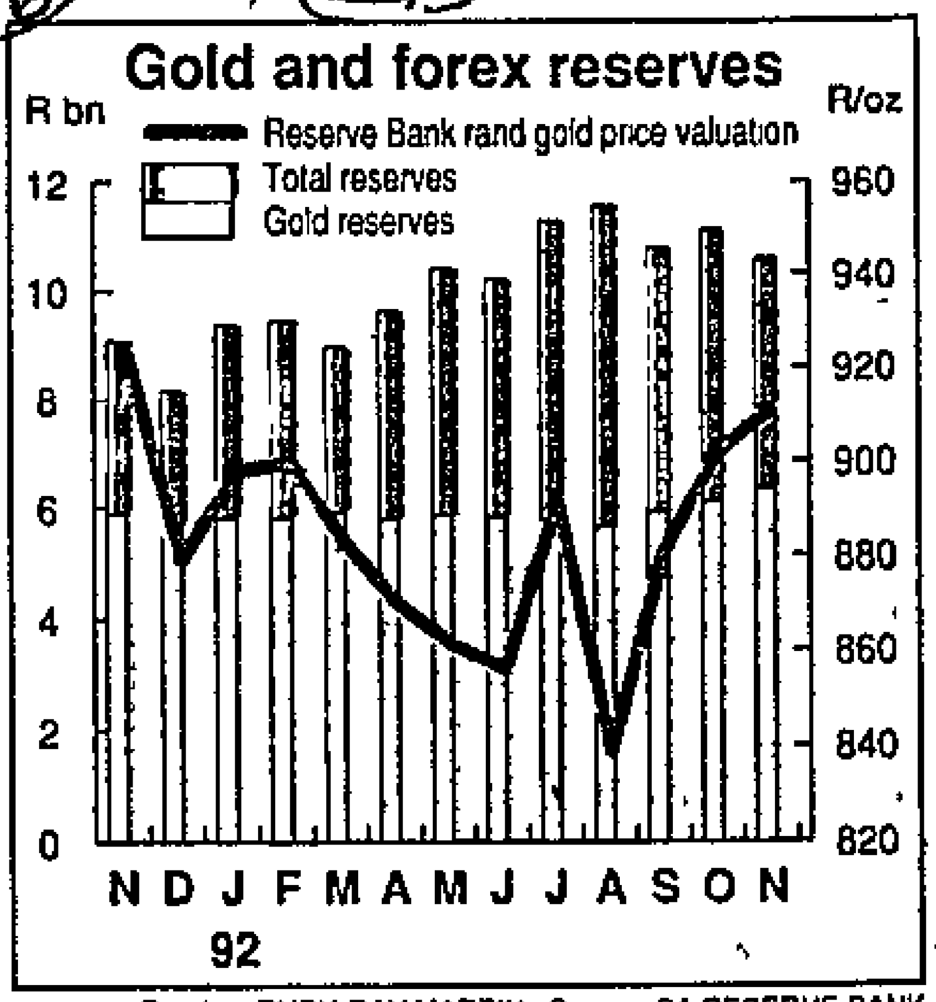
186

HILARY GUSH

DROUGHT and consequent high agricultural food imports continued to plague SA's total gold and foreign exchange reserves in November.

Reserve Bank figures released yesterday showed that despite an increase in the value of gold holdings, to R6,39bn from R6,09bn, total reserves fell to R10,57bn from October's R11,1bn — a result of ebbing foreign assets.

A higher gold valuation of R911,09 an ounce in November from October's R902,51, as well as larger gold holdings — these were at 7-million ounces from the 6,7-million recorded every month since July — were responsible for the increase in the value of gold holdings.



Graphic RUBY-GAY MARTIN Source SA RESERVE BANK

Economists blamed the prolonged drought and larger food imports for the fall in forex reserves to R4,18bn in November from R5,01bn in October.

Afrikaanse Handelsinstituut chief economist Nick Barnardt said the November figure was much poorer than expected. It seemed the balance of payments was still struggling in the fourth quarter.

Weak commodity prices abroad, a high level of food imports, low food exports and a continued capital outflow were responsible for the lower level of reserves, he said.

"The poor performance of the balance of payments in recent months and the accompanying decline in net reserves appear, at least, partially to explain and justify the hesitancy of the monetary authorities to reduce interest rates," he added.

Econometrix senior economist Azar Jammine said the drought had had an unpredictable and dampening effect on the level of gold and forex reserves and the current account. Assuming the drought would end soon, there was no reason for panic and reserves were in a "reasonably healthy position"

Code of practice gives more punch to board independents

BIDAY 9/12/92.

JOHN CAVILL in London 186

EXPORTED to SA, the recommendations of the Cadbury report on how British quoted companies should be governed could produce fascinating results

Anglo American, for example, has a board of 30 directors Of those, 11 are non-executive Of that number only four would qualify as "independent" in terms of Cadbury — the other seven hold positions in companies in the Anglo-De Beers corporate family

The independents are two academics, Dr Mamphela Ramphele and Dr Absalom Vilakazi, a retired judge, Jan Steyn, and an English merchant banker, Rupert Hambro

And under the recommendations, these four would dominate a remuneration committee which fixed the salaries of Anglo chairman Julian Ogilvie Thompson, his deputy, Nicholas Oppenheimer, and all the other 17 executive directors

The Code of Best Practice was unveiled last week by Sir Adrian Cadbury, a director of the Bank of England, former MD of Cadbury Schweppes and one of Britain's most senior businessmen It was the result of 18 months' work by a committee — which received 225 submissions — set up by the Financial Reporting Council which consists of the London Stock Exchange and the three accountancy profession bodies in the UK

The code is an attempt at self-regulation in response to a turbulent period of scandal, collapses and controversy in corporate Britain, many of which have involved companies where a single man has been all powerful — from the late Robert Maxwell at Maxwell Communications and Mirror Group Newspapers to Lonrho CE Tiny Rowland

Its aim is to increase the accountability of executives to their shareholders and the transparency with which they report on the state of the companies There should be a balance of power and authority "such that no one individual has unfettered powers of decision"

And, says the Cadbury report, the people who should be mainly responsible for ensuring this are the non-executive independent directors who should wield real power in an agreed system of checks and balances

It defines independent directors as those who have no business connections with the company, who are selected by other non-executive board members, appointed for a limited period and who do not participate in share option schemes, receive pensions or other payment other than their fees These fees should reflect the amount of time they commit to company affairs

As Cadbury said "Boards must be free to drive their companies forward but to exercise that freedom within a framework of effective accountability"

Adherence to the code will be voluntary But from June 30 next year, the stock exchange's rules will require that the annual reports of all listed companies must carry a statement to say whether they are complying with the code and, if not, why not

☐ OGILVIE THOMPSON

Cadbury hopes that the big institutional shareholders will use their weight to lever companies into compliance, adding that he expects the share price of groups which do will command a premium in the stock market

"We are relying on market forces to turn our recommendations into action," he said

The Cadbury measures are wide-ranging, but some of the chief points of the report are.

☐ Boards must be in firm control and should have enough non-executive directors (at least three, of whom two should be independent) of "sufficient calibre" to carry weight in decision-making,

☐ Independents should be able to take outside professional advice — at the company's expense — if they need it to carry out their duties to shareholders,

☐ Non-executives should have a say in all key issues from strategy to performance, top management appointments and standards of conduct; and

☐ They should also predominate on remuneration committees which recommend executive salaries. These should be fully disclosed, including share option and pension benefits and where there are performance bonuses, the basis on which these are awarded should be explained in annual reports

The report also says the Companies Act should be changed to limit executives' service contracts to three years unless they have the approval of shareholders

Companies which follow the code will also set up an audit committee — with at least three non-executive directors — with a clearly defined, written mandate to monitor the company's progress

The board will have a duty to report to shareholders whether the business is a going concern, to say why they think so or to state any concerns and qualifications they might have about its health

Cadbury has been widely welcomed "You can't be against it. You have to be for it," said Robert Fleming Asset Management MD Charles Nunelly

And while the Confederation of British Industry — which was hostile to the initial draft presented in May — says the code is better than legislation, there are doubts whether it will make any difference to most companies

There is polite scepticism, too, about Cadbury's belief that the "market", in the shape of the big investment institutions which own more than 70% of shares listed on the London exchange, will provide the push for companies to observe the code

As one fund manager said "Institutions are loath to get involved in the running of companies If they don't like the way things are going or the management they usually prefer to sell than use their votes at annual meetings"

Finally, nobody is forecasting that Lonrho, which has only one non-executive director on the board — Sir Peter Youens, a 76-year-old former executive of the group — will change its policy Rowland has cocked snooks at the establishment before and when the last group of non-executive directors on the Lonrho board tried to curb him they were unceremoniously removed by shareholders

Food inflation seen tumbling to 15 percent

STAR 10/12/92

(186)

By Stephen Cranston

The food inflation rate should fall to 15 percent over the next few months and down to 10 percent in the foreseeable future, says Premier chairman Peter Wrighton.

He says it was found by the Food Forum that the excessive inflation in food prices had been caused mainly by the drought, responsible for an eight percent hike, and by the imposition of VAT on formerly GST-exempt products, which added six percentage points.

Processed basic staple foods had not been subject to inflation in excess of the consumer price index (CPI)

Premier Food's own basket had produced an inflation rate of less than 11 percent for the year to September.

This could come down further as the Government had been persuaded to make available R200 million out of the profits it was making on wheat imports to stabilise the wheat price.

The bakery bread price had increased by only 6 percent in November and flour by less than 4 percent.

The recommended retail price was now R1,75 a loaf for white bread, and R1,50 a loaf for brown bread.

Wrighton says that in the developing deflationary climate, which puts margins under considerable pressure, it will be difficult for management of food companies to produce the same increase in profits as in the past

Premier turns in solid performance

STAR 10/12/92

(186)

By Stephen Cranston

The Premier group increased earnings per share by 14 percent to 113c in the six months to October, compared with the first half of last year.

An interim dividend of 36c has been declared — a rise of 13 percent.

Attributable earnings increased by 23 percent to R89,5 million

Turnover increased by 21 percent to R5,42 billion, but operating income increased by just nine percent to R212,7 million.

Chairman Peter Wrighton says margins were down in most divisions.

The bakery division was affected by violence, with some parts of the country being turned into no-go areas

Oils and fats were hit by the drought. Defatted germ meal produced from the maize currently being imported from the US does not meet European Community standards and has to be sold locally, rather than exported.

Highest turnover growth came from Metro and Clicks, which operate on lower margins than the food and pharmaceutical businesses

Metro now accounts for 49 percent of group turnover and for 15 percent of operating profit.

Interest paid halved from R39,4 million to R17,7 million, thanks to tighter asset management, the proceeds of the rights issue to fund the Metro acquisition, and the cash generated by Metro.

Peter Wrighton . . . pleasing results

Gearing fell from 47 percent to 18 percent.

Results of Score Supermarkets have not been included because Premier disposed of its controlling investment in May for R15 million

But the group has retained a 10 percent interest in the ownership consortium controlled by Score's executive management.

The transaction will have no material effect on Premier's earnings.

Wrighton says the results are pleasing and that Premier has kept its earnings growth two or three points ahead of its competitors — its growth of 14 percent compares with 11 percent for Tiger Oats.

But he says trading since year-end has been tough and that prospects for Christmas and Easter trading, both vital for Premier, are not bright.

Economists are predicting Christmas retail sales will drop 2,5 percent in real terms. Wrighton says it would be unrealistic to expect profits to improve in the second half at the same rate as the first.

Turning to divisional performances, he says Premier Food performed satisfactorily and that Metro surpassed expectations

Premier Pharmaceuticals did not achieve real growth in turnover as it is rationalising its product range, but a reduction in costs and good asset management resulted in a creditable increase in earnings.

The results of Gresham Industries and PDC Holdings, which could soon be taken over by Prempharm, were poor because of trading conditions and persistent pressure on margins.

Premier remains in dispute with the Krok brothers over the proposed takeover, but is proceeding with its offer of R10 a share to Prempharm minorities

Wrighton says the deal will bring about rationalisation and cohesion to the benefit of the respective operations

Of Premier's retail interests, Click Stores performed well, despite an aggressive new store opening programme and the absorption of the Musica chain, which had been making losses.

CNA Gallo was affected by reduced discretionary spending and showed slightly lower profits

Premier earnings bypass recession

CT 10/12/92

(86)

From MARCIA KLEIN

PREMIER Group has increased its attributable earnings 23[illegible] to R89,5m (R72,[illegible]m) in the six months to end-October on the back of a significant drop in its interest bill and good results from some of its major subsidiaries.

The group's earnings [illegible] to 113c (99[illegible]) [illegible] on an increased number of [illegible] in issue. It declared [illegible] interim dividend of [illegible] share. Interim results for the previous year, which covered [illegible] months, [illegible] to [illegible] comparison.

Premier [illegible] 21[illegible] higher turnover of R5,4bn [illegible] comparable with the previous year's R4,5bn as a result of [illegible] Cape [illegible] incorporated last [illegible] four months [illegible].

Trading profit increased [illegible] to R212,7m from R[illegible].

Premier chairman and CEO Peter Wrighton said the group continued to benefit from the reduction in interest rates [illegible] the [illegible]. The group's interest bill [illegible] to R17,7m from R39,3m, resulting in a [illegible] profit to R195m (R177,2m).

Profit after tax [illegible] at R127,1m [illegible] and after minorities and preference dividends, attributable earnings were 23[illegible].

Wrighton said Premier's performance [illegible] through trading [illegible] increasingly difficult [illegible] performed well, but [illegible] were affected by poor trading conditions and reduced consumer spending.

He said Premier Food had turned in [illegible] and Metro had produced excellent results and [illegible] expectation.

Premier Pharmaceutical [illegible] increased earnings on the back of reductions in costs and [illegible] management [illegible] results were [illegible].

CNA Gallo, which showed a slight reduction in profits, had been affected by reduced consumer [illegible] Industries and PLC Holdings had reported [illegible] results. Wrighton said [illegible] the Frost brothers, Premier would proceed to combine the pharmaceutical distribution operation of the two companies.

With effect from [illegible] Premier had [illegible] control [illegible] supermarket [illegible] consortium for about R15m [illegible] interest in the consortium [illegible] not included in the interim figures.

Wrighton said sales in November had been poor and economic [illegible] predictions of 2[illegible] drop in Christmas retail sales [illegible].

Food inflation was expected to come down to 15[illegible] during the next few months, with an eventual [illegible] of not more than 10[illegible] in the [illegible] future. It would be difficult for food companies to [illegible] profit [illegible] in the [illegible].

● The Premier Group [illegible] were being [illegible] in terms of which [illegible] Industries and PLC Holdings would become wholly owned subsidiaries.

Royal companies to make changes

BDAM 11/12/92

MARCIA KLEIN (186)

COMPANIES in the Royal group would change their names and year-end following the R2,2bn acquisition of Del Monte Foods International

Royal announced yesterday all the Royal group companies, except Royal Chemicals (Roychem), would add Del Monte to their names

Royal Corporation would become Del Monte Royal Corporation and Royal Group Holdings would become Del Monte Royal Holdings

Royal's financial year would change to end-November in line with that of Del Monte, and the group would report for the year to end-November 1992

Royal Corporation expected a pro forma turnover of R1,6bn in financial 1992 and a forecast R2,2bn in 1993 About 90% would come from Royfood and 10% from Roychem

MALBAK (186)

FM 11/12/92.

Still a strong generator of cash

Activities: *Diversified conglomerate with main interests*
Control: *Gencor through Malhold (effective holding 59,79%)*
Executive chairman: *G S Thomas*
Capital structure: *303,3m ords Market capitalisation R4,17bn*
Share market: *Price R13,75 Yields 2,4% on dividend, 8,3% on earnings, p e ratio, 12,1, cover, 3,4 12-month high, R15,15, low, R10 Trading volume last quarter, 2,26m shares*

Year to Aug	**'89**	**'90**	**'91**	**'92**
ST debt (Rm)	539	656	550	713
LT debt (Rm)	216	171	189	161
Debt equity ratio	0,41	0,38	0,24	0,03
Shareholders' interest	0,46	0,46	0,51	0 52
Int & leasing cover	5,0	3,6	4,8	7,2
Return on cap (%)	17,4	17,2	15,4	13,1
Turnover (Rm)	7 329	8 374	8 441	10 992
Pre-int profit (Rm)	639	698	686	757
Pre-int margin (%)	8,7	8 3	8,1	6,9
Earnings (c)	136	119	124	114
Dividends (c)	30,5	30,5	32,5	33,5
Net worth (c)	691	707	776	781

Given the economic environment, in particular the accelerated decline in activity during calendar 1992, executive chairman Grant Thomas has reason to be satisfied with Malbak's performance, notwithstanding the further 8,5% decline in EPS

Regardless of the economy, the year was going to be difficult because of earnings dilutions inherent in Sankor's asset shuffle, in which Malbak acquired Fedfood and SA Druggists, and simultaneously sold D&H and half its stake in Standard Engineering, as well as last December's rights issue

At the time of the asset shuffle Malbak calculated a 7c-a-share decline based on 1991 results of the companies involved, while the *FM* calculated that if the funds raised through the rights issue (R431m net) were to

Malbak's Thomas *elusive benefits to shareholders*

lie fallow — as turned out to be the case — the effect would be to reduce EPS by a further 3c, bringing the total potential dilution to 13c This, within a fraction of a cent, is exactly what happened

In effect, through restructurings and other cost savings, Malbak offset the further decline in the economy and drop in interest rates (which must have hurt investment income on the rights funds), thereby maintaining earnings after adjustment for the above "nontrading" factors

A second point which Thomas takes obvious pleasure in recording is the strengthened balance sheet Net borrowings fell from R555m in 1991 (before the asset shuffle and rights issue) to a mere R105m, or 3% of the permanent capital base

Three observations are relevant

Firstly, the R450m decline in net borrowings exceeds the amount raised through the rights issue by R19m, underlining the strong cash-generating ability

Secondly, as an extension of that, the net effect of the asset shuffle was to take on net extra borrowings of R312m, mainly from the overgeared Fedfood and SA Druggists That lifted the year's opening debt balance (gross) by 42% from R739m to R1,05bn, but by year-end this had been reduced to R874m for a net rise of only R135m

This was achieved without seriously denting the overall cash pile The asset shuffle brought in R400m (Malbak paid for acquisitions with shares but received cash for disposals) which, together with the rights issue, brought total cash raised to R831m — of which R769m was still intact at year-end

Thirdly, net interest paid of R105m exactly matched year-end net borrowings If borrowings are kept down, this will lead to a big interest saving, and may be one reason why Thomas forecasts with some certainty that 1993 pre-tax profit will grow But this will be offset by a higher tax rate, so the bottom-line forecast is for unchanged EPS

As the *FM* pointed out a year ago, full benefits from the strong balance sheet will come only when cash is put to productive use Cash may be a good asset, particularly in the current environment But, especially now when interest rates are dropping, it is also an expensive luxury — a point reinforced by finance director Dave Kennealy, who notes that Malbak's gross return on average funds employed would have been two percentage points higher than the 21,5% achieved if cash is excluded from the calculation

This, indirectly, leads to another point: though Malbak has shown massive growth in size in recent years, benefits to shareholders have been elusive

The group once had a reputation for creating substantial added value for shareholders from, in particular, acquisitions, but this record is in danger of becoming tarnished. EPS performance since 1989 (when earnings peaked at 136c) shows a distinct lack of sparkle even taking into account the recession

This is underscored by the fact that even had the group earned its target minimum 25% gross on total average funds employed, this would probably have added no more than 18c to EPS, with the resulting 131,5c still off the high even in nominal terms

And as regards NAV, according to the *FM's* calculation, only 90c has been added to underlying value between 1989 and 1992, again a significant decline in real terms

The market does not seem unduly worried Since the *FM* reviewed the 1991 report the share price has added a net 120c to R13,75 (after topping R15 in June), reducing the historic dividend yield from 2,6% to 2,4%

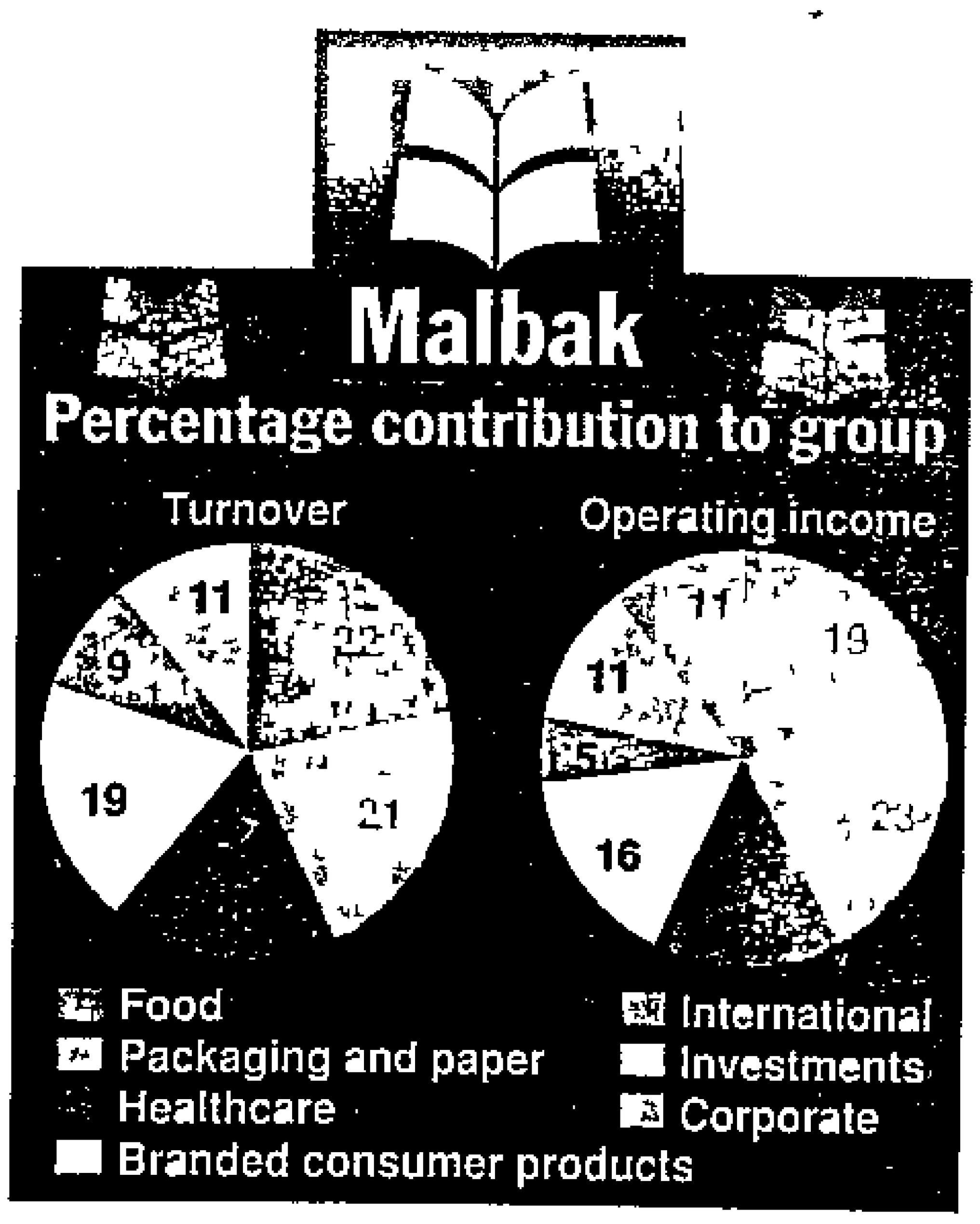
But there may be a warning in that pyramid Malhold has lagged With no change in

continued

DIVISIONAL CONTRIBUTIONS

Attributable earnings

	1991 Rm	1991 %	1992 Rm	1992 %
Food	27	11	63	19
Packaging	59	23	56	17
Healthcare	19	7	42	13
Consumer Products	70	27	23	7
International	12	5	33	10
Investments	100	39	50	15
Corporate	(31)	(12)	62	19
Total	256	100	329	100



P.T.O.

COMPANIES

Rainbow Chicken in feed deal

MARCIA KLEIN

TIGER Oats subsidiary Meadow Feeds has signed a R1bn contract with Rainbow Chicken for the supply of animal feed in Natal (186)

The contract, which would be reviewed in 1997, would initially involve the supply of at least 180 000 tons of feed a year to Rainbow B/DAY 11/12/92

Meadow Feeds chairman Terry Millar said the contract would ensure that Meadow Feeds, Maritzburg, remained operating at full capacity, adding strength to the about R200m investment by Tiger Oats in the recently completed wheat and maize mill Tiger Milling & Feeds had announced it had sold its Meadow Worcester feed mill to Rainbow subsidiary Epol for an undisclosed sum

The Worcester mill's contract to supply Rainbow with feed had been extended to March 1994, after which the sale would become effective

Tiger said at the time that Rainbow intended blending its own feed for its poultry operations The sale of the mill, which had met all of Rainbow's feed requirements in the Western Cape, was an alternative to Epol setting up its own mill in the area, a Meadow Feeds spokesman said

A source said the contract for Natal, the Worcester acquisition and the fact that Rainbow had built its own mill in Rustenburg, should bring down feed costs, which were more than 50% of the company's total costs. The Rustenburg mill was opened last month

(186)

ROYAL/DEL MONTE

FM 11/12/92

In the can, at last

Was it all worth it, and how much did it cost? As you would expect, Royal chairman Vivian Imerman says that of course, in the long run, acquisition of Del Monte Foods International (DMFI), whose completion was finally announced late last week, will prove a vital factor in the growth of the Royal group

As for the thorny question of cash, the exercise cost about R75m That is a lot to spend on another company, even though negligible against the R2bn-plus bill for the operation "And," says Board of Executors' Richard Derman, "that embraces all aspects of the exercise, from travelling to the costs of due diligence examinations, and attorneys and solicitors fees " Commissions too, he

FOX FM 11/12/92 (186)

Imerman *food for thought*

might have added, but then that's always a sensitive issue with merchant bankers

As expected by the *FM (Fox* December 4), key issues on which consummation hinged included an undertaking by Anglo American to double its commitment to the scheme to R800m, a significant reduction in the purchase price, and confirmation that Imerman's timing couldn't have been better

That Anglo's commitment is unreserved is made clear by its agreement to increase its exposure to R875m Of this, R400m is a direct contribution to funding, a further R400m in respect of Anglo's agreement to underwrite a portion of the funding requirement, and the balance of R75m from Anglo's agreement to underpin minorities in Royhold and Royal who want to sell

When the deal was originally stitched together with the UK vendors, it was on the basis of a debt-free £360m However, life is rarely that simple, as the sellers were about to discover First, the terms of the original transaction which took DMFI out of Nabisco returned to haunt the vendors Second, Anglo wasn't convinced, in view of deteriorating equity markets, that the purchase price was beyond a little tweaking.

When DMFI was taken out of RJR Nabisco in May 1990 in a leveraged buy-out led by Charterhouse Bank, the terms provided a window of disposal to permit repayment of borrowings Royal's negotiations, which spanned four months, ran into this period Unhappily for the sellers, the negotiations coincided with a growing imperative to sell to satisfy the original lending terms

At the same time Anglo, faced with requests for more financial support, took the view that the pain should be spread around equitably, that led to a renegotiation

DMFI's vendors, pressed now from both sides and acutely conscious that failure would mean touting the company around the international marketplace for the second time, always injurious, caved in, the result was a £15m cut in the debt-free purchase price That may not sound much but converted through a financial rand rate of 7,5 to the pound it adds up to about R112m

The final purchase price of £345m will be funded by equity of £270m and a rearrangement of loan finance of £75m At a financial rand exchange rate of R8 to the pound, the rand equivalent is R2,17bn However, at current levels there should be a sizeable saving in the final amount required, perhaps as much as R150m

In a comprehensive circular to shareholders, the Royal group confirms speculation that it will seek name changes. its three pyramid companies are to incorporate the Del Monte name, if approved at general meetings scheduled for December 29.

The effect of the DMFI acquisition on Royfood, for example, is calculated by one broking analyst to be virtually neutral despite a massive increase in issued capital Royfood's issued equity will rise by 244m shares — a fourfold expansion However, the analyst calculates that projected 1993 earnings of 62,6c a share will fall to 60,1c after DMFI's inclusion, a derisory reduction considering the huge increase in issued capital

There's never a good time to buy or sell companies, but Imerman says DMFI fitted his bill because the strength and depth of its management has enabled it to return solid operating performances despite acutely difficult recessionary conditions And the quality of DMFI's management has attracted Imerman more than almost any other factor "The LBO imposed extraordinarily difficult constraints on them (management) Now that we've got those problems out of the way, management will be able to concentrate on expanding markets and keeping costs down — and those are things it does well"

Imerman says his long-term strategy is to develop a worldwide integrated foods business, concentrating on producing, making and marketing branded products DMFI fits this admirably And SA produce can be integrated into DMFI's European markets and expanded as European volumes grow

Another considerable attraction is that the acquisition will have a dramatic impact on the source of earnings about two-thirds will be translated through sterling and large sales are denominated in D-mark and French francs So the Royal pyramid will become a significant rand hedge, combining as it does exports from SA and earnings from Europe

Now there's food for thought *David Gleason*

(186)

A plea for incentives

(746)

S Times (Buss) 13/12/92

TIGER OATS' chairman Robbie Williams has urged the Government not to wind down export incentive schemes for local manufacturers, as is being called for by international agencies such as Gatt.

He says SA could not be expected to compete without incentives when these are common throughout the world in one form or another SA's General Export Incentive Scheme (GEIS) helps manufacturers to establish international markets for local goods. Tiger's exports topped R1,2-billion during 1992.

Tongaat expanding Umhlanga interests

By Frank Jeans

STAR 14/12/92 (186)

The Tongaat-Hulett group's commitment to property development north of Durban is likely to hit the R1 billion mark over the next decade

The core of this massive expansion is the Umhlanga area, where the group is involved in the multi-million rand Mount Edgecombe Country Club Estate through its property development arm, Moreland Estates.

As sales gather momentum at the estate which has a golf course revitalised by professional, Hugh Biaocci, Tongaat will then bring into the development process adjacent land where it plans to create a further golf and community living venture, with 500 homes.

With its substantial land holdings on the Umhlanga ridge overlooking the town, other residential developments are under way

Opinion divided on bank shares

SHARON WOOD

BANKING shares could reverse their leading position on the investment horizon in the year ahead, with investors swapping out of the overweight sector and into industrial and mining shares as the domestic recession lifts

However, market opinion on the outlook for the banking sector is divided Some analysts believe the share prices of the major banks will consolidate after an extremely good year during 1992, while others say there is still room for more banking shares in investors' portfolios and thus upward potential for the banking index.

Martin & Co bank analyst Richard Jesse advises investors to reduce significantly overweight banking sector positions because interest margins have probably peaked In his quarterly banking analysis, Jesse says bank shares now represent 6,8% of the all share index compared with 4,5% last year. BDAY 14/12/92

However, another analyst believes that, although a time will come to switch out of banking shares, the time has not yet arrived He still expects the banking sector to slightly outperform the industrial index next year

There is general consensus that the industry's volumes will be low, and bad debts could remain a problem Historically, bad debt experience tends to rise as the economy moves out of recession, but analysts point out that the major banks are well-provided for bad debts.

Interest margins are expected to contract slightly

All the analysts surveyed said the Standard Bank share was over-priced at R77. Nedcor and Absa shares were considered underrated.

ICS keeps focus on added value

BDAY 14/12/92 (186)

MARCIA KLEIN

FOOD group ICS Holdings would continue to shift its focus towards added-value, high-margin products which it had already introduced in its dairying, ice cream, poultry and processed food divisions, chairman Robbie Williams said in the group's annual review

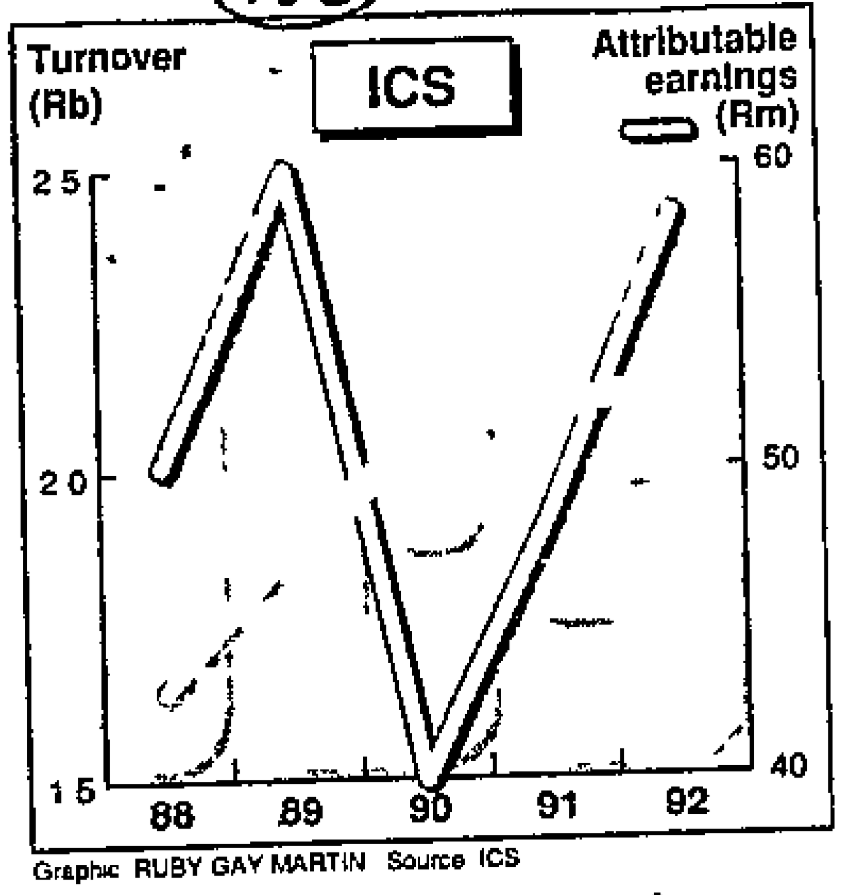
In the year to end-September, improved efficiencies and good performances from associates enabled ICS to report a 23% growth in earnings to 147c a share despite a marginal 2% turnover growth to R2,1bn

Williams said most divisions experienced a volume decline in food sales, which had accelerated in the second six months ICS continued to reduce its expense structure and to improve productivity and efficiencies, and this resulted in lower borrowings and gearing of 14%

Williams said the difficult conditions in the second half had continued into the new year, and protein surpluses were still at high levels due to the decline in demand But rationalisations over the past two years would contine to show further benefits in the coming year, he said

ICS's major associates — Sea Harvest, Fedics, Bull Brand, Chandling and International and Commercial Cold Storage — made a significant contribution to ICS's profitability Sea Harvest had performed particularly well, but it was not likely to sustain its level of performance due to declining prices and margins in internatonal white fish markets

The group's broiler division incurred a loss to end-September, but Williams said its results were better than the previous year Festive



Graphic RUBY GAY MARTIN Source ICS

Farms would continue to focus on adding value to poultry meat and increasing sales of fresh chicken and frozen products

Activities in the meat division were affected by the drought and reduced consumer consumption after the introduction of VAT

Williams said the abolition of the distinction between controlled and uncontrolled areas had facilitated the freer movement of meat and enabled the meat division "to concentrate on the greater utilisation of its own abattoirs" rather than those in controlled areas But he warned that the proposed meat scheme "has the potential for moving towards greater regulation of the industry"

MD Nick Dennis said there was also concern that Meat Board finance could be used "to fund share applications on a preferential basis"

ICS would continue to address its underperforming assets "and focus on reducing costs and improving efficiencies" The benefits of rationalisation would help ICS towards achieving acceptable earnings over the coming year, Dennis said

EC clears Royal takeover of Del Monte

STAR 15/12/92.

(186)

BRUSSELS — The European Community Commission said yesterday it had cleared the purchase by two South African companies of Del Monte Foods International Ltd of Britain

It said the joint acquisition by Anglo American and Royal would have only a marginal impact on market shares because they were in different industries

Del Monte's main activities are canned fruits, fruit drinks and other food products. Anglo has interests in mining, manufacturing and real estate

The Royal group is a foodstuffs and chemical company

The commission said neither Anglo-American nor Royal had any significant activities in the community that would overlap those of Del Monte Foods.

Under EC rules, the commission has the power to alter or block business link-ups it feels would jeopardise competition in European markets — Sapa-AP

CG Smith expecting a difficult year ahead

BDay 15/12/92. (186)

MARCIA KLEIN

C G SMITH, the holding company of C G Smith Foods, Nampak and Romatex, had budgeted for "some growth" in earnings in what was expected to be a difficult financial 1993, chairman Robbie Williams said in the annual review

In the year to end-September, the group's turnover rose 11% to R17,8bn, and attributable profit was 7,9% higher at R415,1m C G Smith Foods contributed R247,7m (59,6%) of attributable profit, Nampak 38,7% and Romatex 1,8%

During the year, the group spent R1,1bn, which included Tiger Oats's new maize and wheat mill in Maritzburg and Nampak's new beverage can plant at Springs.

Cash from operations of R747,9m and the proceeds of rights issues and the sale of shares in C G Smith Sugar resulted in an improvement in gearing to 28,8% from 38% in 1991

Williams said major contributor C G Smith Foods's 7% earnings rise was satisfactory, and it was expected to show "some growth" in financial 1993

Tiger Oats had benefited from its wide portfolio of operations, and Adcock Ingram, Logos, Langeberg Foods, Oceana Fishing, the milling division and the international and shipping operations had done particularly well

ICS showed a good increase in earnings, but C G Smith Sugar experienced slower growth

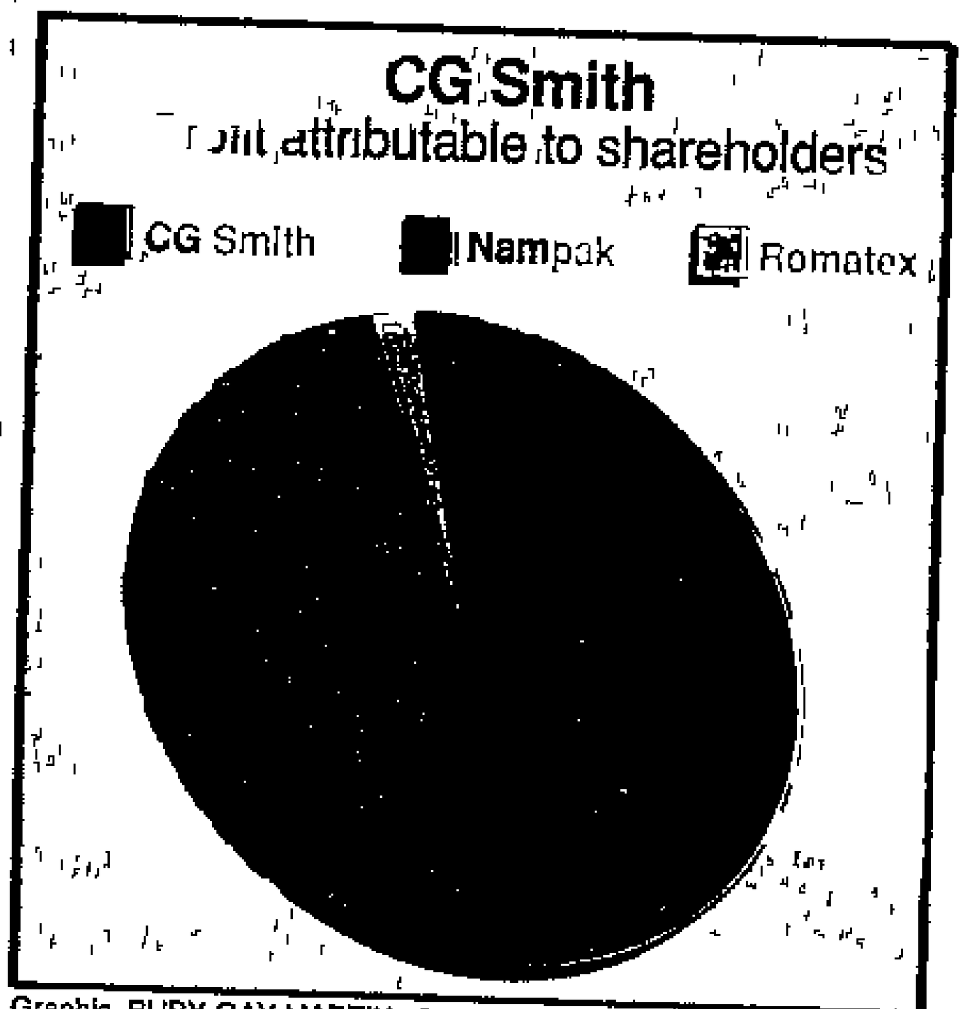
C G Smith Sugar had introduced a number of cost-cutting measures and would benefit from an increased share of the higher priced "A" pool sugar production

The warehousing and distribution division would also make an increased contribution But these would be outweighed by the drought and low world prices Taking this into account, Williams said "a decline in profit cannot be avoided"

Packaging subsidiary Nampak had reported a "pleasing" 9% increase in earnings as reduced earnings of some divisions were more than compensated for by others which capitalised on trading opportunities or whose results improved on the back of restructuring in previous years Nampak was expecting the coming year to be even more difficult than 1992, and had forecast only a modest earnings rise

Textile and carpet group Romatex reported "a meaningful increase in profit" despite lower sales volumes

Romatex's volumes and margins were dependent on import protection, and future capital expenditure would be directed into areas less vulnerable to tariff changes and external policy decisions



Graphic RUBY GAY MARTIN Source CG SMITH

TIGER OATS

FM 18/12/92 186 183

Facing stiffer competition

Activities: *Makes and distributes food and pharmaceuticals, has fishing subsidiary*
Control: *C G Smith Foods 52,8% Barlow Rand has ultimate control*
Chairman: *R A Williams, MD C Wolpert*
Capital structure: *150m ords Market capitalisation R7,06bn*
Share market: *Price R47 Yields 1,7% on dividend, 4,9% on earnings, p e ratio, 20,4, cover, 2,9 12-month high, R48, low, R37 Trading volume last quarter, 1,7m shares*

Year to Sep 30	'89	'90	'91	'92
ST debt (Rm)	366	479	524	304
LT debt (Rm)	98	128	153	498
Debt equity ratio	0,35	0,39	0,38	0,25
Shareholders' interest	0,43	0,43	0,44	0,48
Int & leasing cover	9 8	7,6	6,7	9,1
Return on cap (%)	17,4	16,3	17,2	14,9
Turnover (Rbn)	5,74	6,78	7,98	9,21
Pre-int profit (Rm)	452	504	605	685
Pre-int margin (%)	7,6	7,3	7,5	7,4
Earnings (c)	158	184	207	230
Dividends (c)	54,5	63	71	79
Net worth (c)	689	796	930	1 249

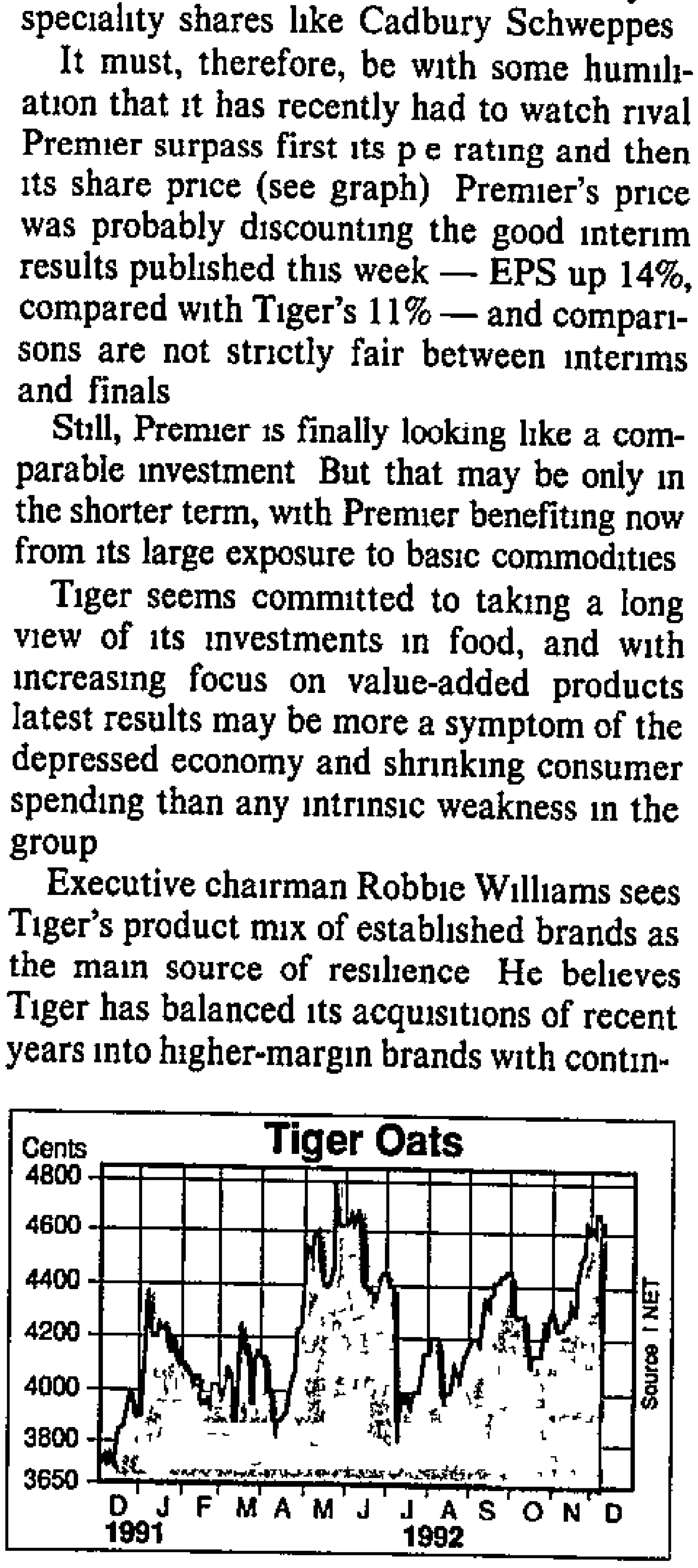
Tiger Oats has long been the benchmark share among the integrated food groups, generally enjoying a rating second only to speciality shares like Cadbury Schweppes

It must, therefore, be with some humiliation that it has recently had to watch rival Premier surpass first its p e rating and then its share price (see graph) Premier's price was probably discounting the good interim results published this week — EPS up 14%, compared with Tiger's 11% — and comparisons are not strictly fair between interims and finals

Still, Premier is finally looking like a comparable investment But that may be only in the shorter term, with Premier benefiting now from its large exposure to basic commodities

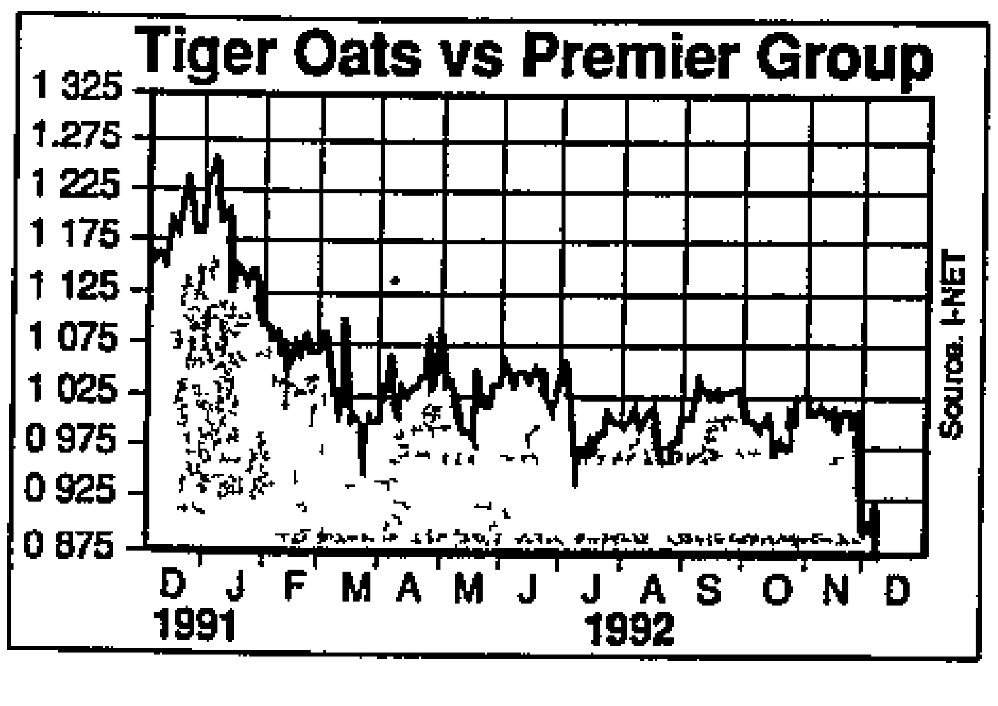
Tiger seems committed to taking a long view of its investments in food, and with increasing focus on value-added products latest results may be more a symptom of the depressed economy and shrinking consumer spending than any intrinsic weakness in the group

Executive chairman Robbie Williams sees Tiger's product mix of established brands as the main source of resilience He believes Tiger has balanced its acquisitions of recent years into higher-margin brands with continued investment in staple commodities



Tiger Oats' Williams *resilience in the brands*

That means having to carry poor performers at times, and this is apparent in the latest report Markets for eggs and broilers remain depressed, with an oversupply depressing prices Yet Tiger remains committed to these industries Williams says despite losses in the broiler business Tiger remains confident in the future of white meat and that long-term growth will return to the broiler market

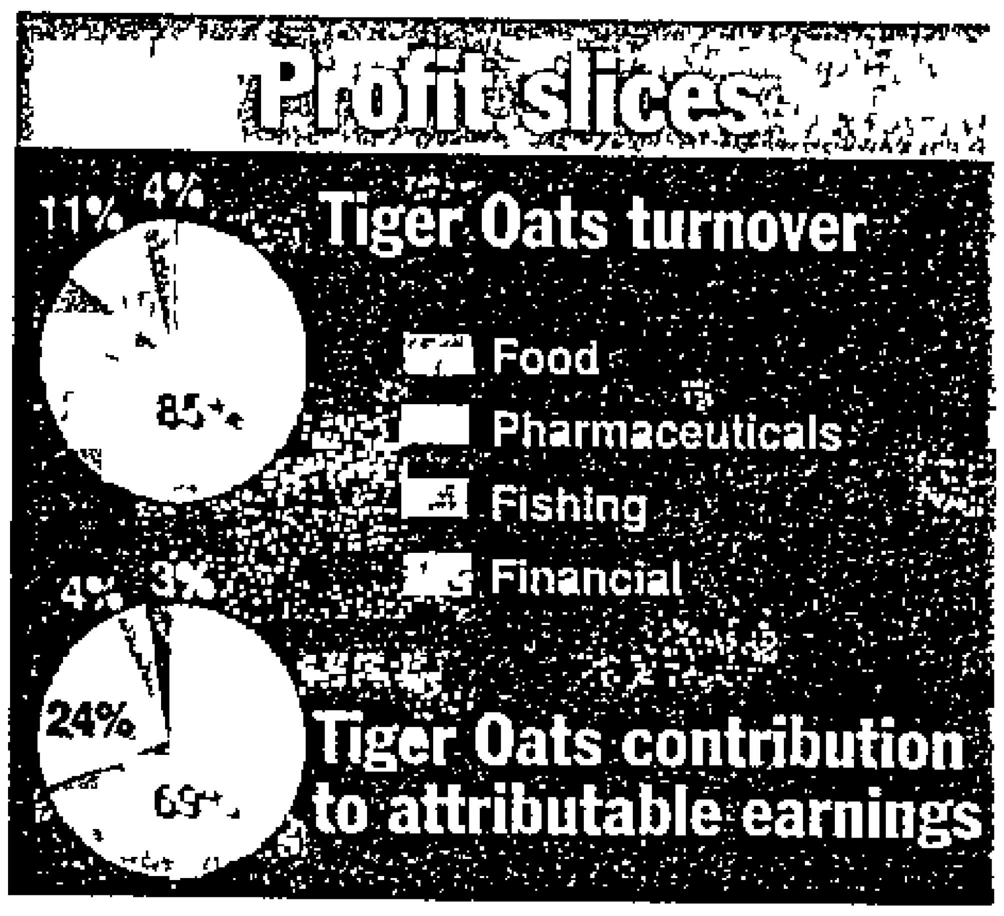


Additional capital has been spent on the broiler business, mainly refurbishment and upgrading programmes to improve quality and efficiencies Upgrading programmes have also been carried out in egg processing and packaging plants, and Tiger has increased its shareholding in one of its poultry businesses.

This type of commitment has attracted criticism Some analysts feel Tiger should get out of poor performing areas to where it can get better returns But clearly it has taken a position on core investments, and is prepared to invest in them

Overall food interests, which through Tiger Foods contribute 67% to operating profits, increased year-on-year sales in line with the holding company's 15% increase in turnover Staple products generally performed well, boosted by strong performances from recently listed Langeberg and the offshore vegetable oil processing operations

Unfortunately, little is revealed about the latter A note to the financial statements says approval has been granted under the Companies Act not to disclose certain foreign subsidiaries They are obviously doing well, with MD Clive Wolpert saying the investment is yielding a good return and taking "full advantage of existing investment assistance programmes," a second oil processing plant is being built and expected to come on stream next month



In addition, he says good quality oilseed crops near both offshore plants (wherever they are) have led to the recent acquisition of a confectionery sunflower seed business While edible oils and derivatives account for only 3% of operating profit, shareholders are entitled to know more about these investments and how much money is being spent on them — and what their liabilities may be

The pharmaceuticals businesses, comprising 74%-held Adcock Ingram and wholly owned Logos, continue to perform well, increasing contributions to earnings by 20% to R79,1m Adcock Ingram, which benefited from a R14m upgrade to its tablet making facility, increased market share, mainly through five new products

Potential for branded products to earn better returns in an improved economic climate is backed by Tiger's healthy balance sheet A big jump in long-term debt pushed up total debt 19% to R802m, but strong cash reserves of R257m, mainly from the well-timed, R370m rights issue in June, reduce net borrowings Gearing has fallen to a comfortable 25%

Tiger remains cautious about the year ahead, though Williams says he is budgeting for some improvement in results, probably towards the second half of the year A feeling remains, however, that Tiger could be getting more out of some of its businesses — for

P.T.O. →

FM 18/12/92 (186) (663)

example the Spar franchise chain, so successful in predominantly white areas, might be more aggressively marketed in black areas

Still, Tiger is a long-term investment and, as such, deserves its blue-chip status, though the share seems fully priced *Shaun Harris*

PREMIER GROUP FM 18/12/92 (186)

Changing profit profile

After recently growing earnings at a faster rate than competitors, mainly Tiger Oats, Premier Group's share price is finally showing the benefit Premier's 14% increase in interim EPS to September, compared with Tiger's 11% for the full year (see *Companies)*, now has the rival shares on almost the same rating

FM 18/12/92 (186)

At the same time, profit profiles of the respective groups are growing apart Once the obvious comparison in the JSE's food sector, Premier and Tiger are starting to look more like apples and pears

For one, Premier received a strong boost from six months' inclusion of Metro Cash & Carry Year-on-year comparisons are not strictly comparable as Metro was only included for four months in the last interims, still, the effect on earnings is quite dramatic

Metro increased its contribution to Premier's earnings over the year from about R2,9m (on figures restated to six months) to R16,1m, which means it now accounts for about 18% of earnings compared to about 4% a year ago The strong cash flow generated by Metro has helped Premier reduce borrowings and bring gearing down to a comfortable 18%, against 1991's 47%

At the same time, the food division has reduced its contribution to earnings from about 58% a year ago (R42m) to 51% (R45,8m)

Premier's deliberate policy of focusing on branded staple foods, while competitors like Tiger followed the value-added route is paying off in the current recession, despite problems in the bakery business, which executive chairman Peter Wrighton says stem from a drop in bread consumption, aggravated by distribution problems to troubled black areas

But when the economy turns up, will Premier's focus on staples leave it behind competitors who have moved into higher-margin products? Wrighton argues not, saying growth will be in the mass market for some time to come "We don't believe the A- and B-income sectors will ever grow as fast as the C and D sectors, which we have targeted, even when there is an upturn," he says

The food division was also boosted indirectly by the disposal of a large part of Premier's poultry and animal feeds interests, which has helped cut the interest bill by more than half to R17,7m

Wrighton says contributions from Premier Pharmaceuticals are creditable, with earnings from this division up 22%, and now accounting for about 19% of earnings

But, while the dispute with the Krok brothers over the acquisition of pharmaceutical businesses controlled by Gresham industries continues, and will probably be settled only in court, contributions from this sector dropped by a disappointing 66% to

FM 18/12/92 (186)

about R1,1m That's a small portion of Premier's earnings, but it remains hard to fathom why the group is so keen to add what appear to be underperforming assets to its pharmaceutical business

Certainly, there is little apparent reason why the acquisition should benefit Premier Pharmaceuticals

The share, now seemingly on the rating it deserves, is not cheap at R52,50 Still, Premier seems to be offering more long-term value than it did a year ago *Shaun Harris*

CASH BOOST

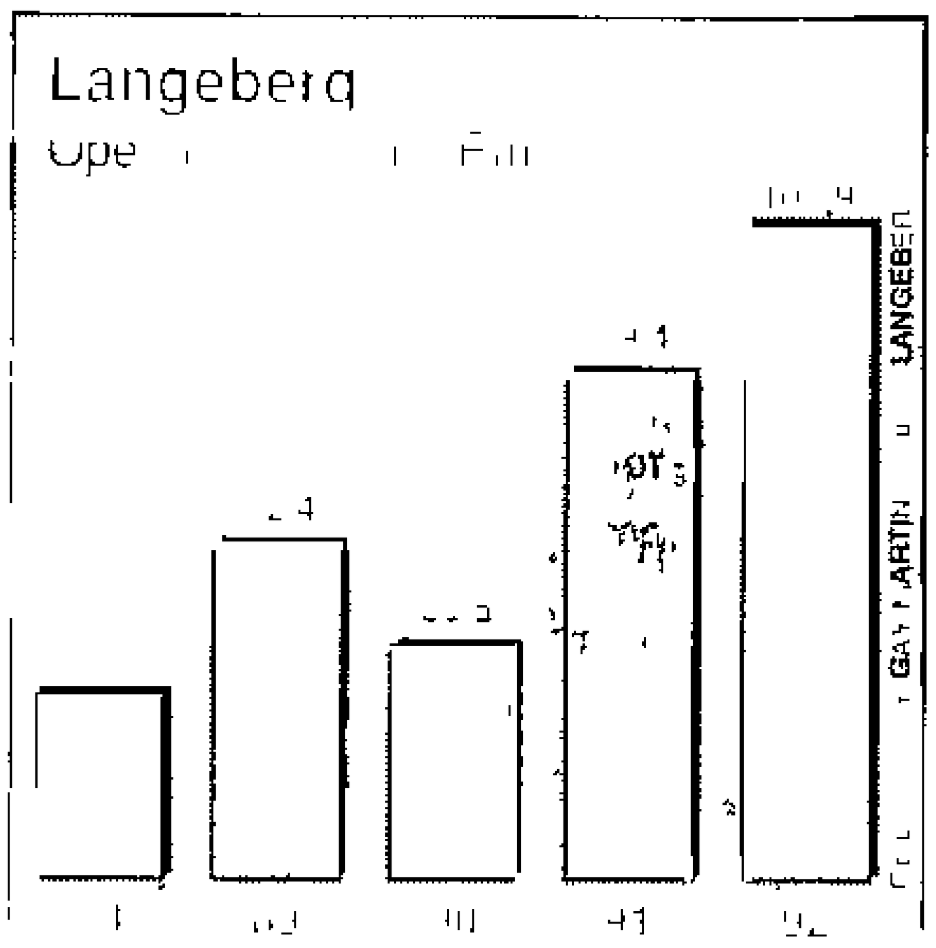
Six months to	†Oct 31 '91	Apr 30 '92	Oct 31 '92
Turnover (Rbn)	4 47	5,35	5 42
Operating inc (Rm)	194,6	225,5	212,7
Attributable (Rm)	72,8	117,2	89,5
Earnings (c)	99	145	113
Dividends (c)	32	49	36

† Seven month period restated as six months

Langeberg performs well in tough first year

B/DAY 21/12/92 186

MARCIA KLEIN



TIGER Oats subsidiary Langeberg's first financial year as a listed company was characterised by flat markets, stronger competition and concern about domestic issues, directors said in the annual review.

Nevertheless, the canning company managed to produce a 40,6% increase in earnings a share in the year to end-September. Turnover rose 14,9% to R741,8m in spite of a slight decline in sales volumes.

In the report, MD Ray Brown said domestic and export markets were unlikely to improve significantly in the coming year. In addition, Langeberg would begin to pay tax, and the rand was expected to depreciate only moderately.

However, the company should improve results in all of its divisions, largely through "improved quality, strenghtening our brands and implementing strategic cost containment measures, including factory upgrading and modernisation".

Sales volumes would rise moderately, but improved profit would come from improved efficiencies and the increasing strength of its brands in the local division.

Brown said the improved performance over the past year was achieved through better results from the local and deciduous divisions. The pineapple division, which had a "disappointing" year, did not make a positive contribution. But in the coming year, it would benefit from better quality fresh fruit.

The local division had done well to increase sales volumes and improve operating profit, Brown said. This was achieved through its strong brands, improved stock management, tight asset management and new added value products.

This division would improve efficiency through the closure of factories and the modernisation of its tomato processing facilities.

The deciduous division had increased production materially, and contractual sales and shipments went well until the end of the third quarter.

Although shipments slowed down sharply in the final quarter, higher prices and a decline in the rand against other currencies resulted in improved profitability. The division would upgrade production facilities, control costs and establish its own brands in selected markets.

Drought 'will sour the future' for C G Smith

BDM 22/12/92 (186)

MARCIA KLEIN

C G SMITH Sugar could not avoid a decline in profit in the coming year as factors in its favour would be outweighed by the drought, its effect on sugar production and low world prices, chairman Glyn Taylor said in the company's annual report

In the year to end-September, its first year to report as a listed company, C G Smith Sugar increased attributable profit 10% to R87,1m as turnover rose 15% to exceed R1bn for the first time

Looking ahead, Taylor said a number of cost-cutting measures had been introduced and the company would benefit from an increased share of higher priced "A" pool sugar production. The warehousing and distribution division would increase its contribution

But he said the market had become a dumping ground for surplus production, and world sugar prices were generally "well below the costs of production of even the most efficient producers".

The world price was lower than domestic sugar prices in most countries, Taylor said. Some countries afforded their producers higher levels of protection, while others were beneficiaries of favourable prices under the Lomé Convention

In these countries, producers' fixed costs were covered and sugar could be exported at marginal prices, leading to the market becoming a dumping ground, Taylor said.

The SA industry could not withstand the importation of cheap sugar He said it was open to question whether there would be some relaxation of the "protectionist policies" and more open international trade in sugar If so, SA could take advantage of opportunities in the world market.

Taylor said the industrial sugar price had risen 12,8% a year over the past six years, while the food price index had risen 17,9% and the CPI 15,2% This meant the sugar price was 12% lower than six years ago in real terms

C G Smith Sugar had produced a near record tonnage of sugar in the 1991/92 season The full effects of the drought had been avoided through the firm's geographical spread Its share of industry production rose to more than 48,6% from 43,5%

The chemical division maintained its contribution, and warehousing and distribution increased their profits

Taylor said SA's sugar export earnings were expected to drop to R76m in the current season from R525m the previous year, mostly because of the drought's effect on export availability. The world sugar price was not likely to improve soon, as early estimates for the 1992/93 season indicated the third successive year of global supply outstripping demand

BDAY 24/12/92

NEWS IN BRIEF

Premier inquiry

186

LAWYERS investigating a report that diversified food group Premier was involved in bribery of a Botswana minister to secure a R70m building contract are expected to release their findings early in January

Premier CE Peter Wrighton said yesterday lawyers he had appointed to look into the report by a Botswana presidential commission of inquiry would brief him before January 8 1993

Premier has an effective 40% holding in Spectra Botswana, one of the companies named in the report Another SA firm, Goldav Construction, has a similar interest in SB while former Botswana government minister Michael Tshipinare owned one third

Food sector thrives despite recession

CT 24/12/92 (186)

Own Correspondent

JOHANNESBURG — Companies in the food sector thrived this year compared with those in most other sectors, despite a slump in consumer spending, introduction of VAT and rising unemployment

In line with good results from the major food groups, the food index has been one of the top performers on the JSE, moving up 20% in the 11 months to end-November

Analysts said the food index had fared surprisingly well, food being a defensive sector in tough times

Consumer spending declined, but food companies with a spread of basic and value-added brands managed to reap the benefits of buying down If the economy turned, there should be increased demand for value added products which would result in better margins

Margins came under pressure, but major food groups generally produced excellent results with profit increases ahead of retailers

Successful rationalisation of Fedfood and Kanhym businesses after their merger into Malbak-controlled Foodcorp resulted in a 6% earnings rise to R89m in the 12 months to end-August

Tiger Oats' attributable earnings increased 16% to R335m to end-September, largely due to its mix of branded commodities and value-added products Canning and food processing subsidiary Langeberg's earnings rose 40,6% as a result of good local and export markets

Tiger holding company C G Smith Foods' 7% rise in attributable earnings to R304,2m at their September year-end included a good performance by its food interests held largely through Tiger, ICS Holdings and C G Smith Sugar

The Premier Group, which has diversified into wholesaling, although remaining heavily invested in food, increased its attributable earnings 23% to R89,5m in the six months to end-October

But there were some casualties. Rainbow Chicken showed an attributable loss of R18,9m in the six months to end-September on the back of losses in the first quarter

Hunt Leuchars & Hepburn, which has a 40,3% stake in Rainbow, halved its attributable income to R23,6m in the six months to end-September.

Tough times but food firms excel

B/DAY 24/12/92. (186)

MARCIA KLEIN

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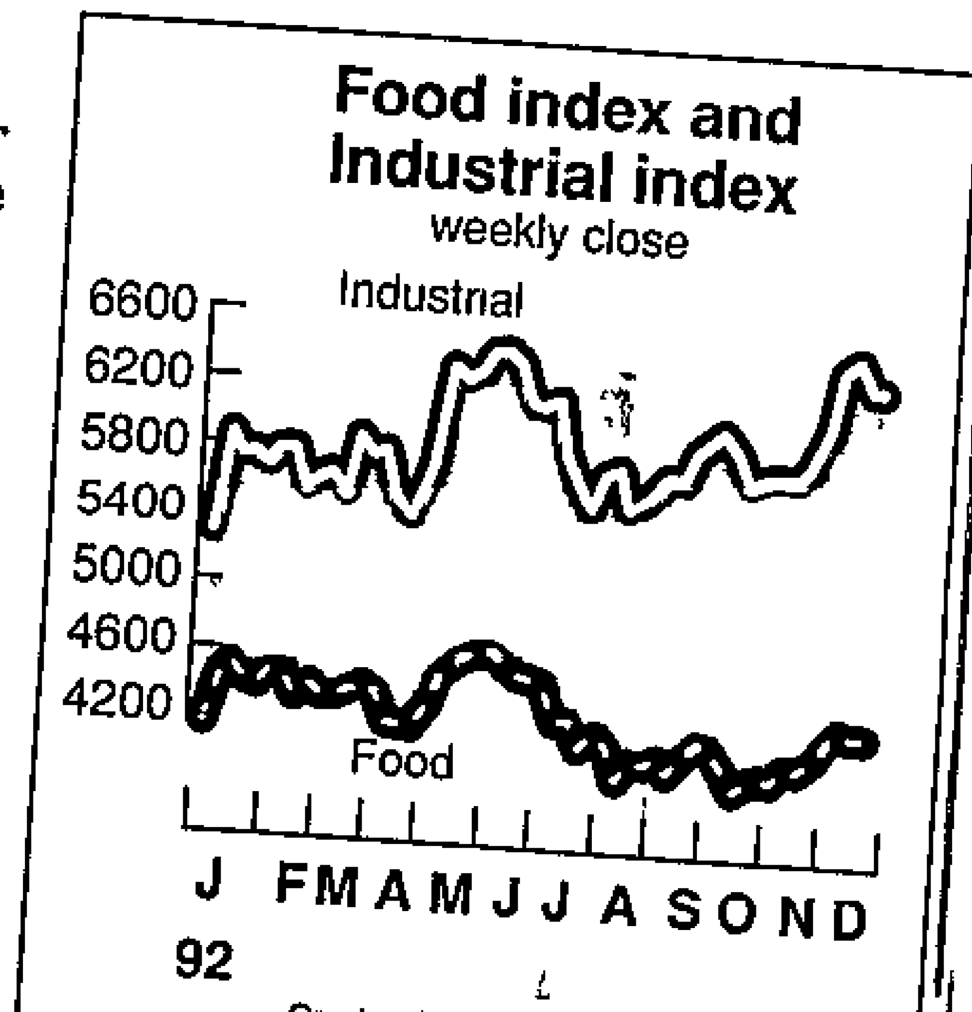

Graphic LEE EMERTON Source I NET

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Some food groups have warned that a reduction in food inflation to about 10% would make it difficult to maintain good earnings performances as margins would continue to come under pressure

SECTION III

SUGAR INDUSTRY

FM 25/12/92 (186)

More rain, please

Though much of Natal's sugar belt has had late spring rains, they haven't been enough to wash away the devastating effects of the drought There are preliminary fears that in some regions, particularly the Natal South Coast and Midlands, the cane harvest may be no better than last year's, unless the rainfall increases significantly

Last season the region produced only half the normal yield and some of the worst-hit growers were able to salvage only 10%-20% of their crops It's estimated that the drought has already cost the industry R500m — 65% of it borne by the growers The continuing problem will aggravate the critical debt crisis faced by some growers

Though Sugar Association chairman Tony Ardington stresses that any crop esti-

cont —>

Canefields *more rain will mean more work*

FM 25/12/92 (186)

mates are at best preliminary, he says some growers will have another bad season "That will make two straight years of negative cash flows, particularly serious for those who had significant debt loads before the drought "

With late spring rains following last season's drought, "even growers in the least affected area — between Durban and Darnell to the north — are nervous because they've got late ratoons (new cane shoots)," he says.

It's not all bad, however Ardington says there are large areas that have had good ratoons and if there are well-distributed rains in January, February, March and April, there will be a good crop He concedes he is hedging his bets because, in some instances, all the damage done by bad growing conditions in September, October and November could be undone by one good extra rainfall in January

Nevertheless, he endorses the view of Rick Thomson, the Cane Growers' Association South Coast regional economist, that even with good rains, the region's crop will be well down on normal Says Thomson. "This is a crisis in what, for the agricultural industry, is an inherently stable sector It could force some growers out of business — particularly young ones who have geared up to establish their businesses in the past few years Their drought debts have simply been heaped on top of mortgages that they would have been able to service in a normal season "

He points out that the Land Bank is refusing loans to certain growers because of their debts

The one possible benefit from the problems could be to deflate land prices, which some people believe exceeded their economic value in recent years The downswing in farm prices, however, is being delayed while growers wait to see whether they can cover their debts without being forced to sell

Thomson adds that growers who have to replant because of drought damage are being hampered by a seedcane crisis Apart from the high replanting cost — about R3 500/ha (cane has a normal productive life span of about 15 years) — they are discovering that an exceptionally large number of fires has added to the damage done to seedcane by the drought. "There simply isn't enough seedcane to meet needs and it could take up to 18 months to re-establish the canefields on the South Coast " But he says that if the crops are successfully replanted, most farms should be back to normal in 1994 ■

ICS FM 25/12/92

Less vulnerable

(186)

The importance of ICS's long-term strategic view to lessen its dependence on commodity products and, instead, direct its energies towards branded, value-added items, was brought home during financial 1992 The reduction in consumer spending and the negative effects of the drought resulted in surpluses in the dairy, meat and poultry sectors placing pressure on prices

In the year to end-September, ICS posted a 54% increase in operating profit on turnover that was up a mere 2% Improved efficiencies and a two-fifths decline in interest paid to R10,8m both helped Margins have been maintained around 1,2%, though this is some way off the 2,9% in 1988 A healthy performance by associates contributed significantly to EPS growth of 23% and a similar increase in DPS

Working capital was watched closely, but the 19% increase in debtors to R278,7m, largely because of the introduction of VAT, and a 26% rise in stocks to R156m, made this difficult The net effect was a 36% reduction in cash retained from operations, though cash requirements decreased R36,3m

Activities: *Processes and distributes dairy products, meat and poultry Has investments in frozen fish, catering and meat canning*
Control: *C G Smith Foods 69,1% Barlow Rand has ultimate control*
Chairman: *R A Williams, MD N Dennis*
Capital structure: *38m ords Market capitalisation R608m*
Share market: *Price 1 600c Yields 2,8% on dividend, 9,2% on earnings, p e ratio, 10,9, cover, 3,3 12-month high, 1 700c, low, 1 150c Trading volume last quarter, 113 000 shares*

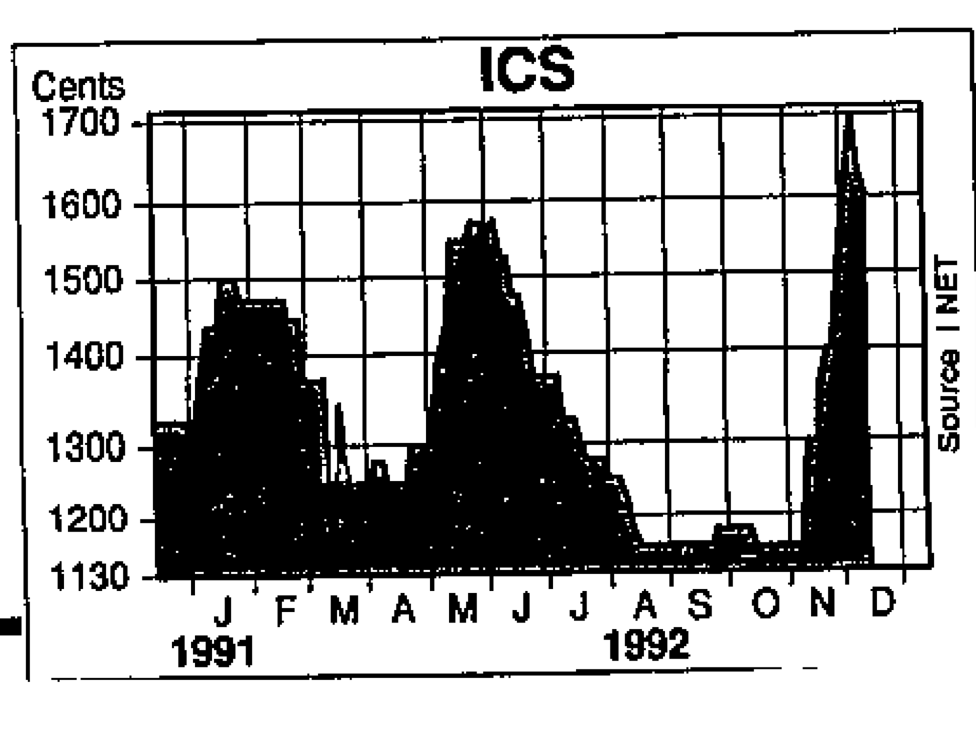
Year to Sep 30	'89	'90	'91	'92
ST debt (Rm)	42,7	50,6	30,2	29,3
LT debt (Rm)	70,2	84,8	70,2	34,7
Debt equity ratio	0,26	0,30	0,21	0,12
Shareholders interest	0,48	0,46	0,50	0,51
Int & leasing cover	4,3	1,7	1,8	2,9
Return on cap (%)	8,0	4,4	3,9	3,4
Turnover (Rbn)	1,88	2,07	2,11	2,14
Pre-int profit (Rm)	61,5	33,5	32,5	31,1
Pre-int margin (%)	3,0	1,3	1,5	1,5
Earnings (c)	147,4	96,2	119,7	147,0
Dividends (c)	48	32	37	45
Net worth (c)	950	1 007	1 091	1 125

ICS, nevertheless, reduced gearing to a low 0,12, down on the previous year's 0,21 Interest-bearing debt shrank 36%

The managed operations had a difficult year due to declines in volume and associated protein surpluses Oversupply and an increase in the maize price caused a loss in Festive Chicken The industrial dairying "performed adequately in difficult circumstances " Much effort has been directed towards improving the performance of the Clayville dairy and, though progress was made, it operated at a loss for the year, says chairman Robbie Williams

The slow deregulation of the meat industry has facilitated the freer movement of meat and this, says Williams, has enabled the meat division to concentrate on greater usage of its own abattoirs, though there is some concern that Meat Board finance may be used to fund share applications on a preferential basis Williams says this division's results were satisfactory given reduced consumer consumption, the introduction of VAT and the drought, but much depends on market shortages and surpluses

Three-quarters of earnings originated from associate companies, namely 46%-held caterer Fedics, and 50%-held Chandling International, Bull Brand and Sea Harvest The latter was again the most important associate contributor But MD Nick Dennis cautions that it is budgeting for lower profit this year because export demand for white fish has weakened



ICS's Williams
freer movement of meat

Given the current trading conditions, capex for this year was minimised, says Dennis, with spending focused on underperforming assets with potential to contribute positively to ICS's performance

The share price reacted positively to the results, increasing roughly 50% over three weeks, to R17 before easing slightly to R16 now The rating of ICS still remains some way behind those of sister Tiger Oats and rival Premier, on a p e of 10,9 against their multiples of 20 But with Tiger looking fully priced on yield, investors may consider tapping into ICS

Marylou Greig

Sugar prospects hinge on Gatt

STAR 28/12/92.

(186)

By David Canning

DURBAN — South Africa, as a low-cost producer, would be well placed to take advantage of world market opportunities should talks within Gatt lead to relaxation of prevailing protectionist policies, CG Smith Sugar chairman Glyn Taylor says in the group's annual report.

However, writing in its first annual report since relisting on the JSE, Taylor dismisses any suggestion that SA should throw open its doors to sugar imports.

Imports

He says despite its low production-cost status, the SA sugar industry could not withstand imports of cheap sugar.

The world price is lower than both the local price and the price in most other countries.

High levels of protection have enabled certain countries to export sugar at their marginal costs of production.

"As a result ~~of this~~, the world market has become a dumping ground for surplus production

"On average, world sugar prices are well below costs of production of even the most efficient producers."

The SA sugar industry would not be prepared to make major changes in policy unless other countries made them as well.

If addressed, the matter would have to be fixed by all the world's major sugar producers.

Turning to CG Smith Sugar's prospects, Taylor says: "In the circumstances, a decline in profits cannot be avoided."

In view of current circumstances, a number of cost-cutting measures had been introduced.

On the bright side, the company should benefit from an increased share of higher-priced A-pool sugar production.

There should also be increased contribution from the warehousing and distribution division.

Gants disclosure will allow assessment

B/Day 3/1/91.

LESLEY LAMBERT

CAPE TOWN — A fuller disclosure of Gants' financial position is likely to be made at a shareholders' meeting on Monday, enabling minority shareholders to assess the fairness of the offer by Tollgate Holdings (TGH) to buy them out

Some minority shareholders have asked the Shareholders Association of SA to investigate the scheme of arrangement in which TGH is offering Gants' minorities 60c a share or, alternatively, R4,50 in cash and seven Duros shares for every 100 Gants' scheme shares. The offer puts a value of R8 a share on Duros shares which last traded at R7,25

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Covered

The association's chairman Issy Goldberg said yesterday minority shareholders who had approached him were concerned at the escalation of debt from R68,4m at the end of December 1989 to the R90m disclosed in recent Press reports

He said that at the 1989 year end, the R68,4m debt was adequately covered by current assets of R81m against liabilities of only R29m.

Goldberg said the shareholders were also concerned the offer of 60c a share represented a substantial discount to the company's current net tangible asset value, even after taking into account the increased debt

The last audited statements — for the year to December 1989 — showed a net tangible asset value of 114c a share, compared with 127c in 1988 and 142c in 1987.

He said he had invited minority shareholders unable to attend Monday's meeting, at which the proposed scheme of arrangement would be discussed, to send him blank proxies

"I do not have enough updated information about Gants to advise shareholders now and I intend asking the necessary questions at the meeting But, if the scheme is implemented, I believe it would be in the interests of the shareholders to accept the alternative offer of Duros shares and cash," Goldberg said yesterday

TGH chairman Julian Askin said earlier this week he did not want to disclose details of Gants' financial position ahead of the meeting

However, he said the offer price of 60c represented a fair premium over the best offer, of 48c, which had been made for Gants.

He also confirmed that debt had increased to around R90m, largely as a result of retrenchments after the closure of the Somerset West canning factory Furthermore, he said that if the company had not been rationalised, it would have required new capital expenditure of up to R20m and would have lost about R15m during the current financial year

"Gants' share is unlikely to see 60c for some time and it probably will not pay dividends for the next five years," he said

The company has shown a steady decline over the past few years Earnings a share of 21,7c in 1987 and 24,8c in 1988 plummeted to 2,2c in 1989 after control passed from the hands of the Gant family For the six months to June 1990, the company reported an attributable loss of R3,4m, or -5,7c a share

Trademarks

The only balance sheet information available is for the December 1989 year end At that stage, long term liabilities were R33,6m, current liabilities R29m and there was a bank overdraft of R5,7m, leaving total debt at R68,3m Other liabilities included accounts payable of R17,5m Current assets of stock valued at R46m, accounts receivable valued at R32m and R3m cash, amounted to R81m, while fixed assets and investment, including trademarks, amounted to R42m and R25m, respectively

At the interim period, Gants' management appeared fairly optimistic that the company would benefit from higher prices on local markets during the final quarter of the year

Irradiated foodstuffs safe, says department

(186) Star 11/7/91

Irradiated food is nutritionally sound and safe for human consumption, says the Department of National Health and Population Development

A joint statement issued by the department, the SA Association for Food Science and Technology and the Association for Dietetics of SA said they considered food irradiated "up to an average absorbed dose of 10 kg" safe

This stance had been adopted in line with the policies of the World Health Organisation

The statement attempted to dispel reports that contaminated or questionable produce was being irradiated in order to make it acceptable

"Contaminated food cannot be disguised by irradiation The Department of National Health and Population Development does not permit foodstuffs, which are not suitable for human consumption prior to irradiation, to be irradiated," the statement said — Sapa

Anglo not interested in Gants

B Day 5/7/91

MARCIA KLEIN

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ANGLO American has denied reports that it is a contender for the imminent sale of loss-making food processing company Gants by Tollgate Holdings It did not "have an interest in acquiring Gants", a spokesman said

Speculation that Gants was up for sale has been continuing for over a year, and has been rife since its delisting in February and its incorporation into the Duros Group as a wholly owned subsidiary

Interested parties reportedly included Anglo American and Heinz, Fedfood and the Watson family from the Cape.

B/Day 5/7/91

HL & H expects a weaker year

—MARCIA KLEIN 186

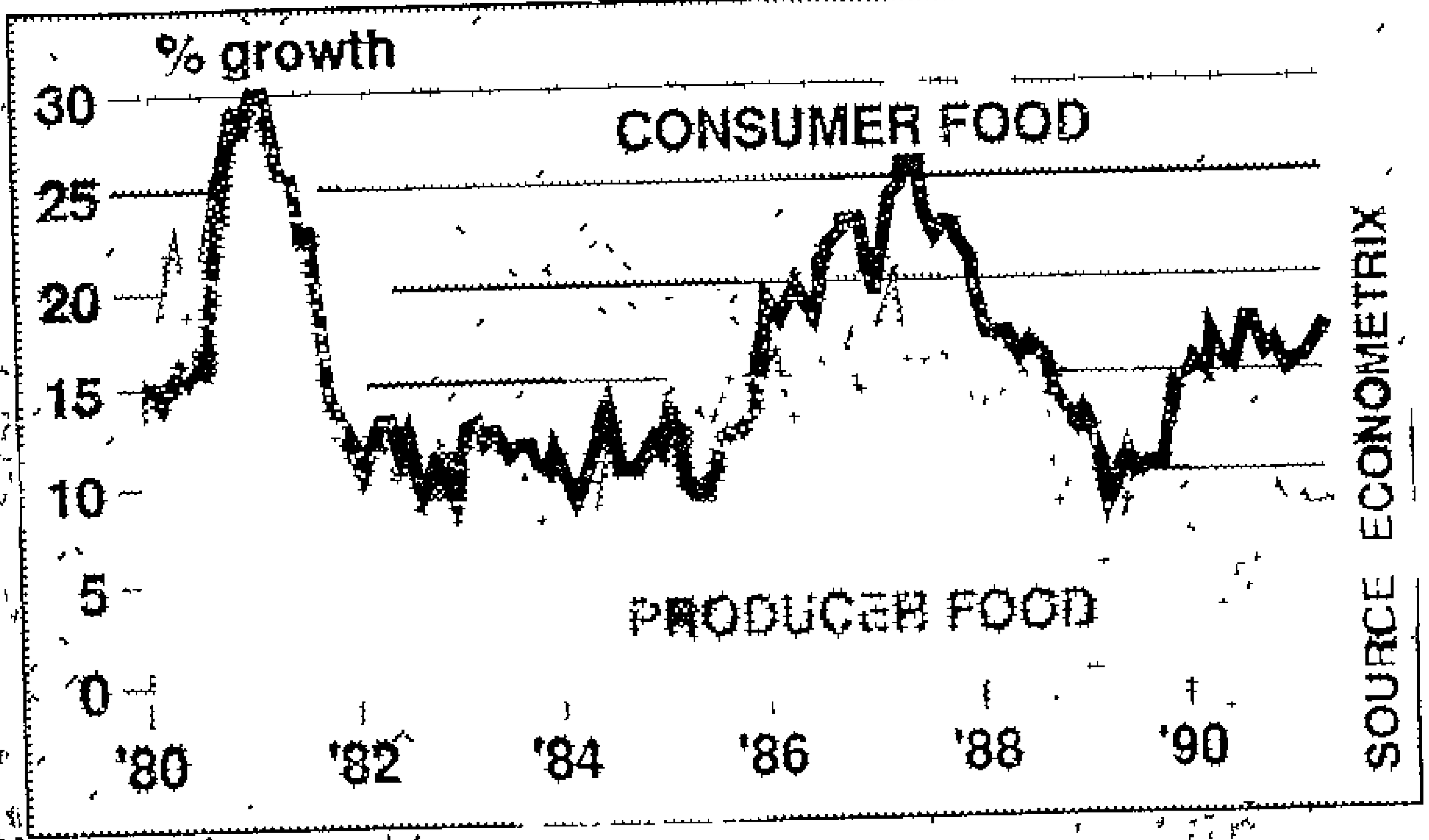
THE HL & H Group does not expect earnings for financial 1992 to increase at the same rate as in the previous year

The directors say in the annual report that earnings growth will be restrained by Rainbow's Bonny Bird acquisition It would require at least a year to bring up Bonny Bird's standards of productivity

Rights issues by Rainbow Chicken, Hunt Leuchars & Hepburn (HL & H) and Huntcor have seen Rainbow becoming the largest single investment of the previously timber-orientated HL & H group

HL & H, whose other interests include Robertsons, Transvaal Sugar and HL & H Timber Holdings, reported an 18% increase in attributable income to R117,6m on an 26,5% turnover increase to R587,1m in the year to end-March.

Directors said the investment and increased stake in Rainbow were "of major strategic importance for the long term sustainable performance of the group", and group earnings were "becoming increasingly dominated by the food sector" of HL & H's activities.



Retailers reject food price index

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(Bus. Times) S Times 7/7/91

By DIRK TIEMANN

RETAILERS are angry about figures from Central Statistical Services (CSS) that show their prices to be the main culprit for the rocketing cost of food

According to CSS, the producer price index for food — processors' costs — rose by only 8,2% for the year to April But the consumer price index for food rose by 19,2%

This suggests either that retailers increased their mark-ups or that the CSS figures are wrong If the CSS numbers are at fault, doubts could be raised about the reliability of all its figures

Most economists accept the CSS figures But they are unable to explain the puzzling discrepancies between the consumer and producer food price indexes

Haggle

Checkers managing director Serge Martinengo says he does not agree with the CPI

"The index must wrong The manufacturing sector is responsible for food price rises, Only two or three manufacturers can supply nationwide"

"We haggle and negotiate, but in the end we must pay the price they ask and lift our mark-up"

The problem might be with the mindset on the return on capital investment

"Volumes are generally low, but producers try to recover their investment in plant and equipment in a short time Maybe they should recover their costs over a longer time"

Checkers financial director Francois Rossouw says retailers may be taking higher margins now because they are already the lowest in the world But they would increase by "only a comma of a percent" and do not explain the huge difference between the CSS's producer and consumer prices

OK food director Mervyn Kraitzick says profits are hardly different from last year

"The CSS graph showing a diverging CPI and PPI must be wrong I question the basis of these figures Certainly this gap is not reflected in our profits Our costs have gone up by more than inflation this year Kelloggs cereal is up by 18%, sugar 14,5%, canned fruit 28%; canned jams 18% and dried milk and margarine 16%

Figures from Pick 'n Pay show that frozen fish is up by 19% and frozen vegetables 20% Managing director Raymond Ackerman says the CSS figures are artificial.

"The cost of food to Pick 'n Pay has risen by 30% in six months because producers have to report their profits in dollars to their international head offices," he says

CSS director Treurnicht du Toit defends the CPI and PPI figures, saying "Two factors determine the indexes the weightings of the goods and the prices

"It can happen, as it did in 1987, that a higher weighting is given to certain goods and the prices then drop, giving the wrong picture for inflation Current CSS figures are based on 1985 weightings, but they are due to be updated this year"

● The Board of Trade and Industry is to investigate why consumer prices are rising faster than those for producers

Premier 'handles 10% of SA trade to Africa'

B Day 9/7/91

MARCIA KLEIN

PREMIER International, the Premier Group's offshore trading arm, handled an estimated 10% of all trade between SA and the rest of Africa, the group said in a statement.

The company exported products primarily manufactured by the Premier Group, and also handled the group's import requirements.

Premier International marketing director, Katerina Yiannakis said Zambian President Kenneth Kaunda's recent praise of the firm marked "a successful 10-year effort by the company to establish itself as an African presence".

Kaunda, who officially opened 10-year-old Premier International's new International Bonded Warehouse (IBW) at Ndola, praised the company's "continued efforts towards economic reform and of easing the problem of shortages and exorbitant pricing".

The IBW stand took the prize for the best commercial stand at the Zambian International Trade Fair, where various other Premier group divisions also exhibited.

Yiannakis said most of the company's trade in Africa was through its six bonded warehouses, which offered goods in Mozambique, Zaire and Zambia. Commodities included well-known brands of foodstuffs, stockfeed and chemicals.

In the group's annual report, chairman and CE Peter Wrighton saidthe imminent removal of sanctions placed Premier International "in a highly favourable position to take advantage of the crumbling political divisions between SA and its neighbours".

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FOOD PRICE INCREASES FM 12|7|91 (186)

WHO'S THE GUILTY PARTY?

Food prices continue to outpace inflation The consumer price index (CPI) for May rose at an annualised 15,2%, but food prices jumped 17,5%, compared with May 1990 It was the same story the year before the CPI rose 14,4% for the year through June 1990, but food prices soared 16,1%.

In fact, food prices have, on average, outstripped inflation for at least 15 years The CPI grew by an average of 13,8% from 1975-1990, food by 14,6%

With food making up 22,7% of the basket of goods used to compute the CPI, accelerating food prices underpin the stubbornly high inflation rate. Why does this keep happening and who is to blame?

Government also would like to know Last week, the Cabinet appointed a five-member investigation committee led by Japie Jacobs, special economic adviser to the Finance Minister, and overseen by the Board of Trade & Industry

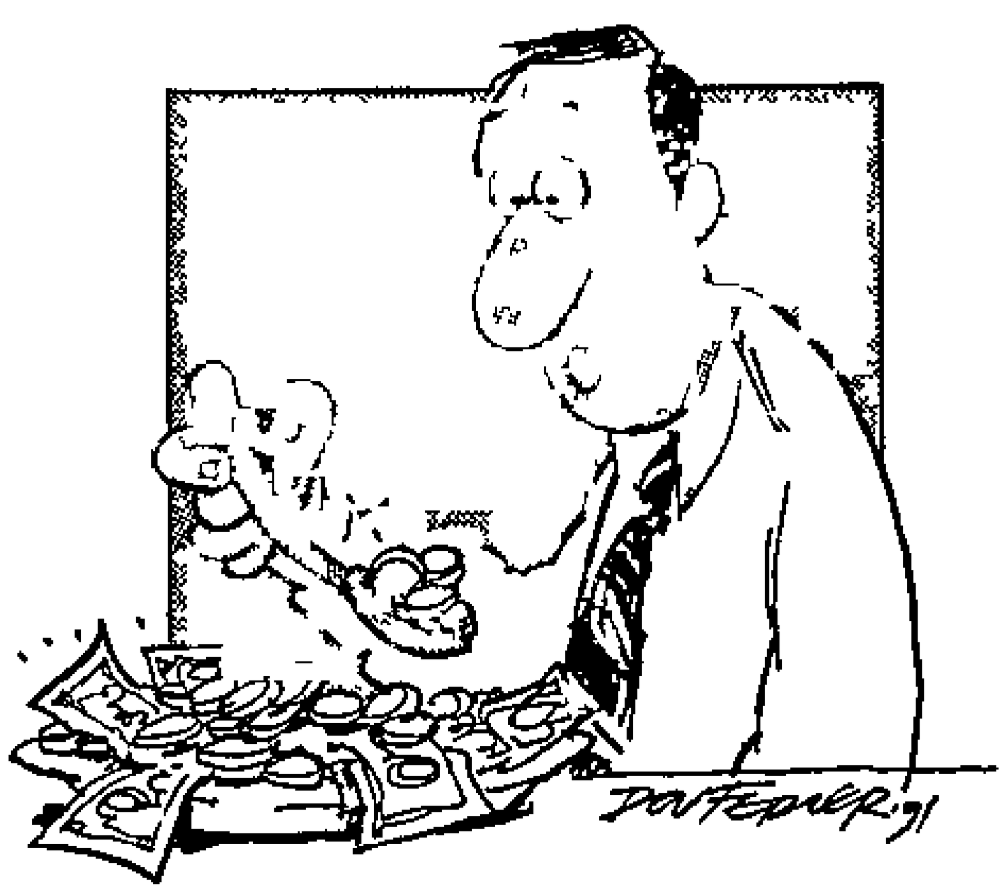
Traditionally, farmers and agricultural control boards have been regarded as the villains But the evidence does not support this In the year through June 1990, food prices at the producer, or farm, level rose by 7,3%, barely half the CPI rate Since 1975, the producer price index for food rose 11,7% a year, on average — more than two percentage points below CPI each year

The other end of the food chain, supermarkets and other retailers, does not seem a likely suspect either Margins are tiny and the market is fiercely competitive So instead of farmers and food stores, fingers are pointing at the middlemen, transport and packaging companies, wholesalers, processors and others Many of these firms have little or no competition, so when costs rise, they are free to raise prices at the same rate, or more

Maize Board economist Johan Willemse says a distinction must be drawn between processed foods, which cost far more now than a decade ago because of more sophisticated consumer demands, and the continual push towards higher overall food prices

"Foods obviously cost more prepacked and vacuum-sealed than raw But sharp rises in overall food prices can be ascribed to factors such as transport, packaging and labour One needs to investigate why price increases exceed the inflation rate."

Willemse adds that the high growth in profits by food, packaging and processing companies (*FM* July 5) in a recession and against the background of punitive interest rates also must be questioned



"There may even be hidden collusion between companies in these areas Confidential kickbacks (rebates paid by food-chain suppliers to retailers to get the best shelf space) must be looked at, as must competition policy Tariff protection for paper companies such as Sappi and Mondi, for example, may prevent competitively priced products from reaching consumers "

Unifruco MD Louis Kriel says rises in the price of deciduous fruits over the past two years were caused partly by sharp increases in the prices of packaging (cartons, paper, plastics and wood crating), chemical sprays, transport, labour and farm housing for workers

"A weak rand and import tariffs prevented us from importing cheaper paper products, while higher oil prices pushed up domestic and export transport costs More sophisticated housing demands force farmers to pay out more on infrastructure, while higher wages also added to the total cost increase of 18,5%-22% over the past three years "

Nevertheless, he adds, there is a free market in fruit and prices tend to rise and fall as the market determines "Few other sectors also show price falls."

Langeberg Foods, the food canning division of Tiger Oats, complains that its cans are provided by "a monopoly served by another monopoly " It is talking about Metal Box, which buys tin plate from Iscor The two are not exactly monopolies, but they face severely limited competition So Langeberg says it was forced to pay price increases of 18,5% in 1989, 17,1% last year and 17% this year

Trevor Knowles of Metal Box's food can division, which has a stranglehold on that market, says its prices rose last year by "three percentage points above inflation" and this year "just on inflation " But, he adds, can prices have risen well below inflation over the last 10 years

Langeberg manager Garth Ward says his group also is subject to dramatically higher wage demands — about 20% in each of the last three years Distribution, transport, labels, packaging and sugar and other additives all contributed to the cost spiral — leaving a 2% profit margin before interest "Food manufacturers are not making big profit margins," he says

Premier Food Industries' Willem de Kock concurs "In our basket of food products (maize and wheat flour, vegetable oils, bread and margarine), prices rose 10%-12% in each of the last two years The increase to 12% this year was mainly caused by the Wheat Board's 16,8% increase in the wheat price."

But, he claims, retail bread prices surged after deregulation at the end of February He says the regulated 4c profit on a loaf has widened to 14c in some cases So are retailers to blame after all?

Not me, says Pick 'n Pay CE Raymond Ackerman, who claims that food prices in his supermarket group rose only 12,1% in the year through June He adds that some foreign suppliers have sharply boosted local prices to offset the depreciating rand — up to 35% in one case

He sees more bad news on the horizon. "I must warn about the potential impact of VAT The fact that government sanctioned the 'add-in' method of calculation will be an excuse for many to hike food prices We should have the 'add-on' system, as in Canada, so that consumers can see how much they are charged " ■

TAKING LEADERSHIP

Times Media Ltd (TML) has acquired 100% of Leadership Publications with the purchase of the 50% held by Churchill Murray Publications Leadership Publications produces *Leadership* magazine, *The Executive* and a number of local and international special editions.

It was founded 10 years ago by Hugh Murray, former group public affairs director of Barlow Rand and a TML senior journalist.

FM 12/7/91 (186)

TONGAAT-HULETT FM 12/7/91

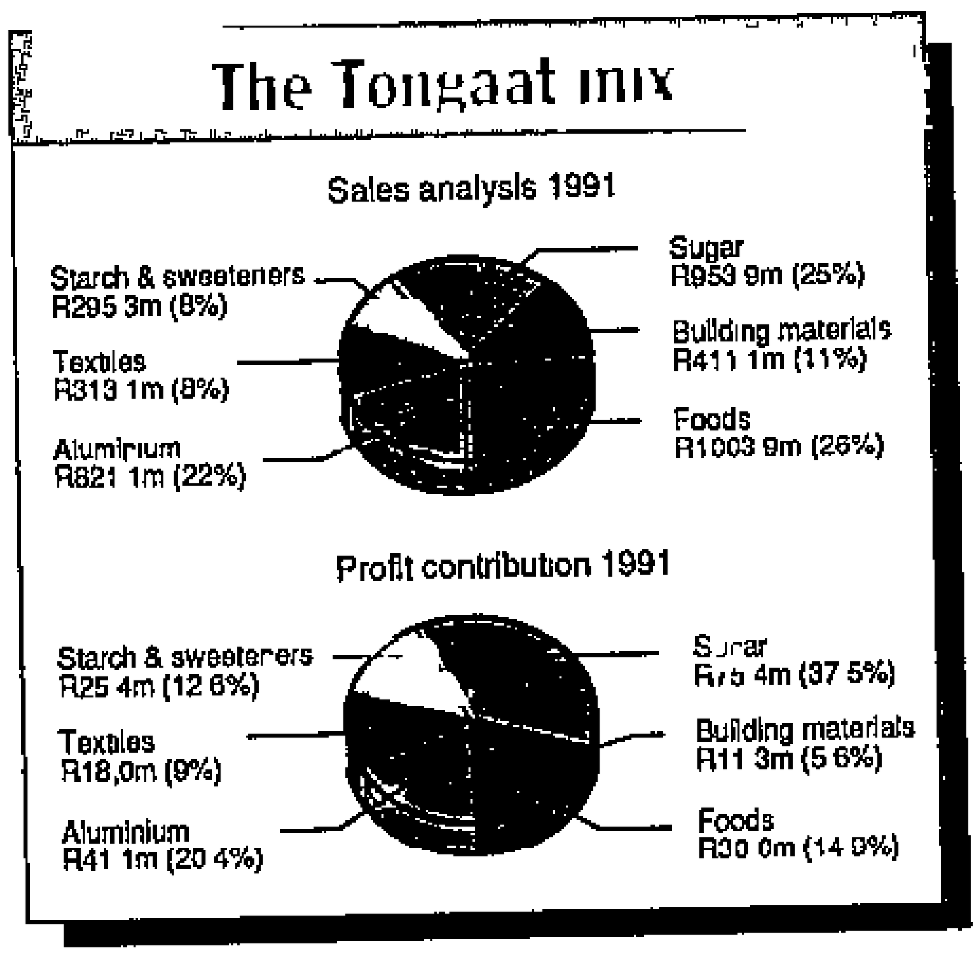
BRITTLE MIX (186)

Activities: *Manfuactures basic goods, such as sugar, building materials, foods, aluminium, starch and sweeteners and textiles*
Control: *Amic 23%, Anglo American 20%*
Chairman: *C J Saunders, MD T G Cleasby*
Capital structure: *75m ords Market capitalisation R1,22bn*
Share market: *Price 1 625c Yields 4,5% on dividend, 11,8% on earnings, p e ratio, 8,5, cover, 2,6 12-month high, 1 780c, low, 1 250c Trading volume last quarter, 962 000 shares*

Year to March 31	**'88**	**'89**	**'90**	**'91**
ST debt (Rm)	63,5	56,7	87,5	105
LT debt (Rm)	89	121	238	272
Debt equity ratio	0,16	0,11	0,20	0,22
Shareholders' interest	0,54	0,64	0,61	0,59
Int & leasing cover	4,3	4,4	3,9	2,8
Return on cap (%)	14,3	14,0	14,1	11,1
Turnover (Rbn)	2,62	3,16	3,71	3,80
Pre-int profit (Rm)	241	328	374	317
Pre-int margin (%)	9,2	10,4	10,1	8,4
Earnings (c)	162,3	214,3	236,6	190,6
Dividends (c)	54	71	79	73
Net worth (c)	1 189	1 998	2 133	2 260

At the halfway stage, Tongaat-Hulett predicted full-year earnings would fall by a quarter, following the interim decline of 30% Pre-tax profit was down by 25%, but thanks to a reduction in the effective tax rate from 36,3% to 32,3%, earnings fell by only 19% Turnover increased by just 2,4% and only the starch and sweeteners division increased sales in real terms However, the dividend was cut by less than a tenth, to 73c

The share has consistently underperformed the Industrial index since 1986, as Tongaat has been unable to smooth out its traditionally volatile earnings pattern Chairman Chris Saunders says he expects



1991 earnings to be maintained A report from stockbroker Simpson McKie suggests he may be conservative and it predicts EPS will increase by 7% in 1992

The balance sheet looks sound Though gearing has risen, it remains low at 0,22 The capital programme will be more modest in the year ahead, having been reduced from R203m to R115m It is notable, however, that stocks increased by more than 5% and net working capital grew by about 15%

This year the recession devastated three divisions bricks, where earnings fell 38%, aluminium, down 42%, and textiles, down 22% Aluminium in particular was hit by falling world commodity prices Tongaat Textiles, on the other hand, held up better than many of its competitors, helped by increased exports of furnishing to Europe and the Far East

The biggest disappointment for Tongaat was the small number of new, low-cost houses built, despite injection of R3bn of public money into this area Activity remained low mainly because of township violence and, according to the report, because the majority of SA's population cannot afford even the lowest quality housing

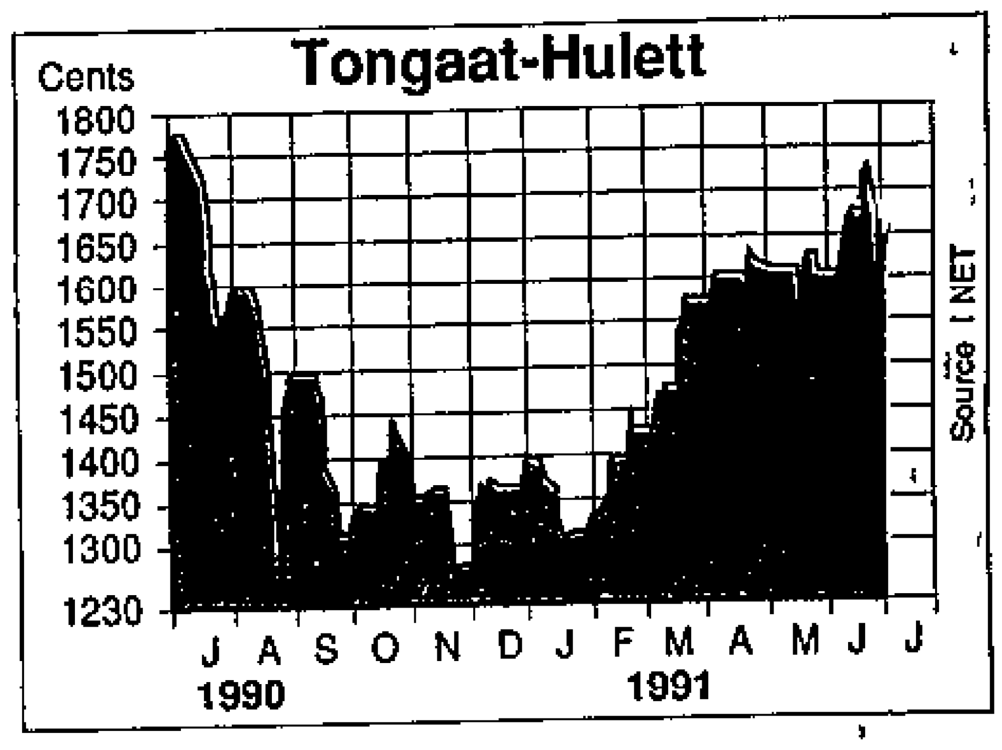
The sugar division became an even bigger percentage contributor to group profit, increasing its share of taxed earnings before

Tongaat-Hulett's Saunders *expects maintained earnings*

interest from 32% to 37% Thanks to forward selling, SA sugar producers escaped the full effect of the halving of the international sugar price Even so, the profit from sugar was slightly lower Higher profits were posted by only two divisions, foods and starch and sweeteners These are the low-risk part of the business and now contribute 28% of earnings, but their growth has not been enough to level out group earnings

At 1 625c, the share stands on a p e of 8,5 and discounts net worth by almost 30% The dividend yield of 4,5% is fairly generous in the present market Benefits should be seen from the recent capital expenditure programme that included R50m spent on expanding African Products' starch production and R75m on new mushroom facilities

But Tongaat is unlikely to attract strong investor interest with its existing portfolio Incoming MD Cedric Savage is not ruling out changes to the balance of activities Ton-



gaat, as a diversified consumer-based group, remains more volatile than food conglomerates such as Tiger and Premier, yet it does not provide the spectacular growth enjoyed in the good years by, say, Barlow Rand

The share is still a little underpriced, but its volatile record largely justifies the discount *Stephen Cranston*

Sale of loss-makers will 'help Fedfood growth'

(186)

BDay 15/7/91

MARCIA KLEIN

FEDFOOD believes it is well placed to achieve real growth following the sale of loss-making companies, and investments in some strategic companies

The food group recently reported that it had raised earnings by 12% to R57m on a 13% turnover rise to R1,29bn in the year to end-March

MD Jan du Toit told investment analysts last week that the 20% compound annual growth rate of Fedfood's share price over the past five years had indicated that the group was achieving an improved rating by the market The share closed on Friday at a high for the year of 1 700c, after reaching a low of 750c in August 1990

Balanced

Du Toit said Fedfood had been criticised in the past for investing in areas of the food industry which had low returns, but the 1991 portfolio showed the group was growing its investments in value added areas.

During the year the group disposed of biscuit and breakfast cereal company Febisco, three small mills and its fishing interests in Namibia. It acquired 71% of abalone company Sea Plant Products, Patoma Foods and Mango Man — in the atchar market and the processing of subtropical fruit — and Mageu Number One

In terms of future growth strategies, Du Toit said the portfolio was now better balanced, and the operating base would be broadened by acquisitions or joint ventures. Acquisitions would be in profitable and growing market niches, with value added products and strong brand names.

There were also opportunities in Fedfood's small and sound export base, including frozen vegetable exports and diversification into canning. Patoma could also become a major player in exports

The biggest challenge to the Simba business was the informal sector and spaza shops.

Du Toit said Fedfood had been talking to Pepsico — it was associated with Pepsico Foods International through Simba — about bringing Pepsi back to SA. Although this was an exciting prospect, the magnitude of the Pepsi venture was overwhelming and he had reservations about Fedfood's ability to handle a project of this size

Directors said the snacks division, which increased earnings by 19% on a 20% turnover rise to R382,9m, performed well despite high potato prices and "the considerable loss incurred by the biscuit and breakfast cereal operation".

Frozen Foods showed a 42,7% rise in earnings and a 14% rise in turnover to R207m. Sales were under pressure at the beginning of the year, but the division recovered well to end off on a high note.

The marine resources division was rationalised, and there were cash flow benefits from the sale of the Namibian interests and the purchase of Sea Plant. This division reported a 13,5% earnings increase and a 5,4% turnover rise to R108,2m.

The baking and milling division was affected by losses at Boerstra's old bakery, but other bakeries performed well Turnover in the division increased by 20% to R403,5m and earnings rose by 50%

Grain-based foods and edible oils showed a 1,8% decrease in turnover to R284,4m, and earnings grew by 3,4%.

Star 16/7/91

CG Smith boosts yeast exports

(186)

Finance Staff

Fish farming in the Far East has led C G Smith Chemicals to invest more than R1 million on the upgrading of its food yeast plant in Merebank, Durban

The upgrading has increased the plant's capacity to 2 000 tons a year, half of which has been allocated for burgeoning export markets.

General manager of the Merebank plant, Mike Buchanan, says "At this stage we have tapped into the demand in Taiwan and Korea only Upgrading the volume of the plant will make further products available for the exploitation of worldwide demand for Torula yeast

"Taiwan and Korea continue to indicate strong demand and previously identified outlets in Europe, including Germany and Italy, remain to be revisited and re-tested.

"I also have hopes that the lifting of sanctions in the United States will once again create an opportunity in some sophisticated applications"

Torula yeast is widely used as a specialised protein supplement in foods

Premier's pharmacy unit widens its focus

BIDay 17/7/91

WILLIAM GILFILLAN

PDC Holdings, the Premier Group subsidiary which sold pharmaceuticals wholesale to retail pharmacies, will now sell its products to the entire health care industry following its disastrous results for the year to end-March 1991.

PDC's income before tax fell 74% to R4,3m from the previous year's R16,6m, with turnover up 2% to R522,3m from R511,7m. (186)

PDC chairman Gordon Utian said in the annual report that the change was a logical step as retail pharmacists, which were usually heavily geared, were coming under increasing pressure through the prevailing interest rate

Furthermore, chain stores might soon be permitted to dispense medicines following increasing evidence of deregulation and privatisation in the industry

Utian said PDC came under pressure from manufacturers supplying goods to doctors, private clinics and other pharmaceutical-buying groups at prices lower than those supplied to wholesalers

This was worsened by the present tender system, whereby provincial hospitals and other institutions were able to buy products at prices cheaper than those available to wholesalers

These and the issuing of free samples to doctors had led to an investigation by the Competitions Board into the practices of pharmaceutical manufacturers, a move welcomed by Utian.

FM 19/7/91

SUGAR INDUSTRY (186)

NAIL-BITING TIME

The sugar industry, eager to hear who will get the contract for a new R300m mill in the Onderberg region of the eastern Transvaal, fears that if a Cabinet decision is not made by the end of the month, a season's crushing could be lost.

Growers are concerned too. It will probably take at least two years to get the proposed mill up and running. And any further delays from government will affect the calculations of the big growers on how much cane to plant and keep small growers from KaNgwane out of the industry for another year

On top of this, the costs of the mill are escalating by an estimated R3m a month "If the mill is going to come, it must come now, it's getting more expensive by the day," says Jan Lourens, a Komatipoort grower and former part-owner of the Ntumeni mill "Growers here are very disappointed that a decision has not yet been taken"

The new mill is integral to the industry's expansion and deregulation programme and once built, it should account for an additional 130 000 t of sugar a year The increased production will ultimately allow thousands of new, small, mainly black growers into the industry. The hold-up is that government must approve the mill, a throwback to the days of more restrictive sugar regulation

Three companies are bidding for the mill — Barlow Rand's C G Smith Sugar, Rembrandt's Transvaal Suiker Beperk (TSB), and Nkomati, backed by London-based Lonrho The SA Sugar Association forwarded the proposals to the Department of Trade & Industry in February and expected a decision by mid-year. But the change in Ministers in April has delayed the process.

The department now has forwarded its recommendations to the Cabinet and a decision could come when Cabinet sits on July 25. It is not known, however, whether the proposed mill is on the agenda for that meeting and the announcement could be postponed until next month.

All three contenders for the mill believe they have a fair shot, though a strong feeling is emerging from eastern Transvaal growers in favour of C G Smith, which accounts for 37,5% of SA's total production of just over 2 Mt a year Says Lourens. "It is unlikely the new mill will be economically viable for about the first five years and you need a big company to carry that cost."

Also working in C G Smith's favour are the benefits offered to growers in its bid, including a proposed scheme to allow farmers 25% equity in the mill and a financing plan for the proposed storage dam

A strong argument in favour of TSB is that government might favour a smaller company to promote more competition The newcomer to the industry produced 212 000 t of sugar last year, just over 10% of total production. Government may also con-

FM 19/7/91 (186)

sider that TSB's existing mill at nearby Malelane could mean easier rationalisation

But that, in turn, doesn't please many eastern Transvaal growers They fear that if TSB gets the contract it might run the new mill from Malelane, without bringing significant new facilities to Onderberg C G Smith, they argue, has already indicated it would run an autonomous operation with its own staff and facilities

It is also being argued that while TSB is small in the national sugar market, the new mill could give it the clout of a regional monopoly in the eastern Transvaal.

In Natal, C G Smith is balanced out by Tongaat-Hulett Sugar, the industry's biggest producer, accounting for about 42% of total production. Tongaat-Hulett decided not to bid for the new mill.

And while Lonrho-backed Nkomati, formed by miller Jan Henn, has not featured as prominently in the race, it could win if government seizes the opportunity of attracting the overseas funds of the London-based conglomerate that has sugar interests in Kenya, Uganda, Malawi and Swaziland. ■

ADVERTISING COLUMN

The *FM*'s advertising and marketing columnist, Tony Koenderman, is in the Far East. His column resumes next week.

Premier share price runs ahead of forecast increase in earnings

186

Star 23/7/91

By Derek Tommey

Shares in Premier, one of SA's two major food producers, have risen more than 26 percent in the past two months

But those who have been buying the shares must be taking a fairly long-term view because the rise is far above the expected increase in earnings in the current year

Group chairman Peter Wrighton told the Investment Analysts Society in Johannesburg yesterday that times were difficult and the consumer was struggling

He expected earnings to rise by 10 to 15 percent in the current year, provided the economy did not deteriorate further

In the year to March Premier's attributable earnings rose 26 percent and earnings on the enlarged share capital grew by 17 percent.

He said Premier had not caused price inflation in food The company was very worried about a claim to this effect and had invited representatives of the Housewives' League, the Consumer Council and of other consumer bodies to a meeting next week to discuss the matter

Norman Fowler, chairman of Premier Food Industries, told the analysts that in the year to March the overall price of a basket of Premier's food products rose had risen by 13,5 percent, against 10,8 percent previously.

"I don't think we are contributing to inflation in the way people are talking about," he said.

He said that it was not possible to compare increases in wholesale price indices (producer price indices) and retail price indices

The wholesale price index for flour was based on the bulk price, the retail price index was based on a small package and included the cost of packaging and transport — two items that had increased in price

Mr Fowler said there was also uncertainty about whether the consumer price indices were based on the prices charged by the OK, Pick 'n Pay or the corner cafe

Mr Wrighton said that the introduction of VAT later this year was expected to affect Premier's food sales because it would apply to all foods except brown bread and maize meal

He said consumers were under pressure The Government had said it would provide R220 million in poor aid for half a year.

Presumably it would be spent in the basic staples areas because that was how you helped the poor There might be some compensation in that, he said.

Gordon Utian, the deputy chairman, said the acquisition of Metro would not result in any dilution of Premier's earnings this year.

Metro should make a contribution to earnings next year and a substantial contribution in the third year, he said.

Premier is to change its year-end from March to April. This is being done so that the Metro accounts are comparable

Premier striving for R10bn

Business Day 23/7/91 (186)

MARCIA KLEIN

THE Premier Group's projected turnover for 1992 is more than R10bn, Premier chairman and CE Peter Wrighton told analysts at a presentation last night.

This figure took into account the group's recent acquisitions, including the Metro and Score deal, which would see the group "nearly double our turnover", he said. Turnover for the March 1991 year-end was 17% up at R5,09bn.

The Metro acquisition was a strategic move into cash and carry, wholesale and distribution, and Wrighton said Metro would have synergies with and complement other divisions in the Premier group.

In terms of the newly formed Metro Cash and Carry, he said, there would be increased consumer spending and social spending; and the company provided an essential service for the small retailer. He did not believe Premier was losing its focus as the deal was a strategic decision which could extend the group's distribution capacity beyond SA's borders.

He cited past problems in the Metro group as "a leadership crisis, loss of focus, lack of financial discipline, shrinkage and granting credit".

But Wrighton said Metro provided a profit opportunity, and the estimated cost of replacing the business was about R600m. Also, Metro was well positioned for a new SA, and there would be benefits in the rationalisation of distribution.

There were potential problems in terms of management, trade union problems linked with retrenchments, the introduction of VAT, and lost business because of the merged operations.

Wrighton said Premier's core business remained in basic food, and in financial 1991 food contributed 70% of the bottom line. Premier produced about one third of SA's flour, delivered 2-million loaves of bread a day, supplied about half SA's dry food petfood, and exported 80% of its lobster catches to Europe.

Wrighton said only half of the story of a company was manufacturing, and Premier had "the most sophisticated distribution" in SA with 50 warehouses linked by on-line computer. Premier had also extended its expertise to the rest of sub-Saharan Africa, by setting up warehouses, or joint ventures or partnerships.

Wrighton said management objectives were an increase in annual earnings to inflation rate plus one third, and for all divisions to earn at least 25% on capital employed.

Market plays waiting game with Royal

Star 25/7/91 (186)

Diagonal Street
Jabulani Sikhakhane

The market appears to be bidding its time in rerating Royal Corporation (Royal) relative to its underlying assets

Royal's only assets are 65 percent of Royal Foods (Royfood) and 58 percent of Royal Chemicals (Roychem)

Based on Royfood's current share price of 400c and Roychem's 260c, Royal should be valued at 480c

In the past three months Royal's share price has risen to a high of 400c before easing to 380c, where it trades at a 21 percent discount to the underlying holdings in Royfood and Roychem.

Contrast this with the price of 410c for Royal Holdings (Royhold), Royal's holding company

Royhold has 35 million shares in issue, against Royal's 67,8 million and since Royhold owns roughly half of Royal, the two counters should be trading at roughly the same level.

Industrials pyramids do not normally trade at a discount of more than five percent to underlying assets, except if there is debt in the pyramid.

One analyst suggests the market could be waiting for Royal's published accounts for the 18 months to August, which will include figures of the two major acquisitions — SA Preserving Company (Sapco) and Ferro Chemicals.

These acquisitions were followed by a rights issue and a separate listing of the food and chemical interests into Royfood and Roychem respectively

Financial director Jacques Fragis has said that the former US parents of Sapco and Ferro had paid little attention to their profitability in recent years.

In the three years to 1990, Ferro's pre-interest margin fell from 16 to 12,4 percent and Sapco's from 25 to 22 percent.

The market could be waiting to see if the Royal management team can lift the profitability of Sapco and Ferro

Group MD Doug Johnston says the answer he has received from institutions is that it will take time before the market understands the relationship of Royal, Royfood and Roychem.

Mr Johnston adds that is "pretty close" to its forecast profits for the six months to end August. (The year-end has been changed from February to August).

Acquisitions Sapco, Ferro Chemicals and Fedbisco are faring well. Sapco and Ferro were effectively acquired from the beginning of March and Fedbisco in April.

Sapco, which cans fruit for Del Monte Foods International for sale in the UK and Europe, is doing exceptionally well.

Sapco has the right to export canned fruits to Eastern Europe, the US, Canada and the Far East, but not using the Del Monte label.

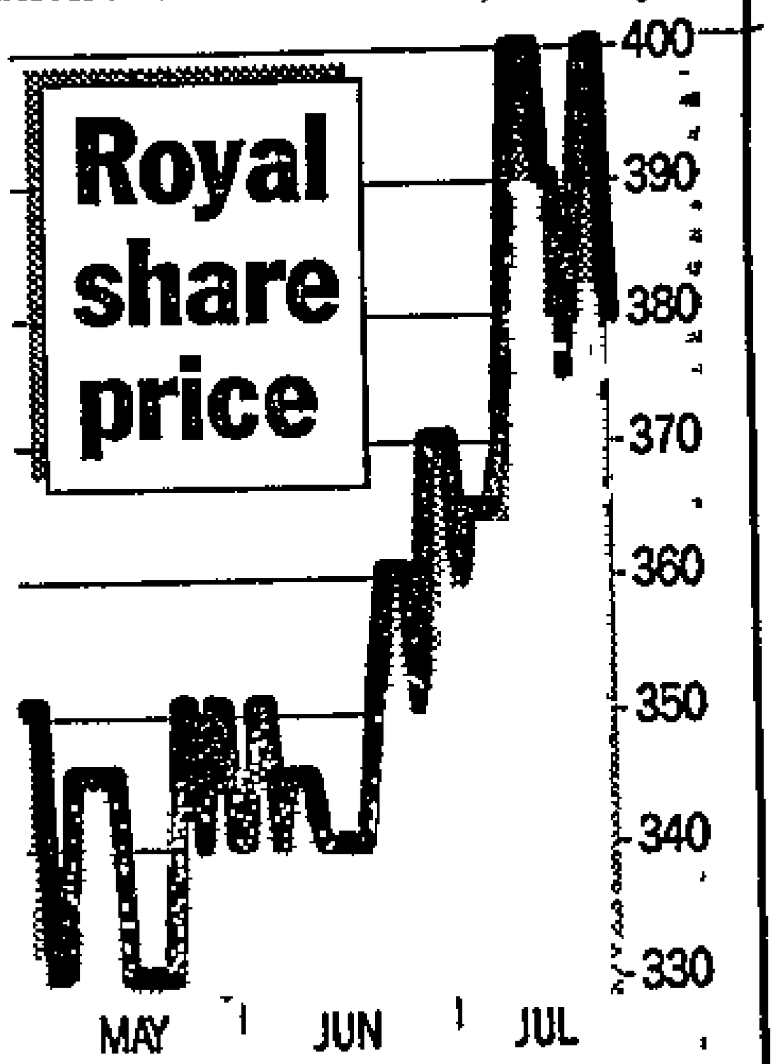
Mr Johnston notes that demand for SA fruit has risen with the easing of sanctions.

"With more fruit available, Sapco could easily double its turnover We are now investing in plant and equipment to be ready by December for the beginning of the next decidous fruit season."

Ferro, a maker of specialty chemicals, is benefiting from the switch from wet to dry powder paints and the shift from imported Italian tiles to locally ones

Fedbisco will make a real contribution to group profits for the six months to August.

"We have had contact with our former parent, Nabisco, and they are sending delegations to help us with the Fedbisco business. We are looking for improved contribution for financial 1992," he says.



Demand for refined sugar sets industry on new tack

Star 25/7/91

186

25/7/91

DURBAN — The sugar industry is considering increasing its refined output to take advantage of higher world demand for white sugar, says Glyn Taylor, chairman of the Sugar Association

He told the association's AGM that SA was traditionally an exporter of raw sugar.

However, in response to improved world prices for refined sugar, the industry was introducing white sugar into its export programmes. In 1989/90 white sugar exports peaked at 205 000 tons

"More recently, the white sugar premium has been remarkably strong at over $100 a ton and a good premium seems set to continue

"As this would be a profit opportunity for the industry, we are busy examining the feasibility of increasing our refining and conditioning capacity still further.".

Outturn

He said that overall it had been a good year for exports.

The industry had sold its full export outturn at remunerative prices, despite continued sanctions.

It was worth noting that in the past three years, the industry had earned close to R1,7 billion in foreign exchange, due mainly to keen demand for sugar overseas.

Mr Taylor reported a serious drop in the world price of raw sugar from $357 a ton just over a year ago to $200 a ton for December 1991 deliveries.

This was mainly due to global production outstripping consumption for the second consecutive year with a concomitant rise in stocks

"With the drop in price, export proceeds will fall well short of the levels enjoyed in recent years and this, in turn, means the B pool prices of sugar and sugar cane will not be every remunerative for producers," he said. — Sapa.

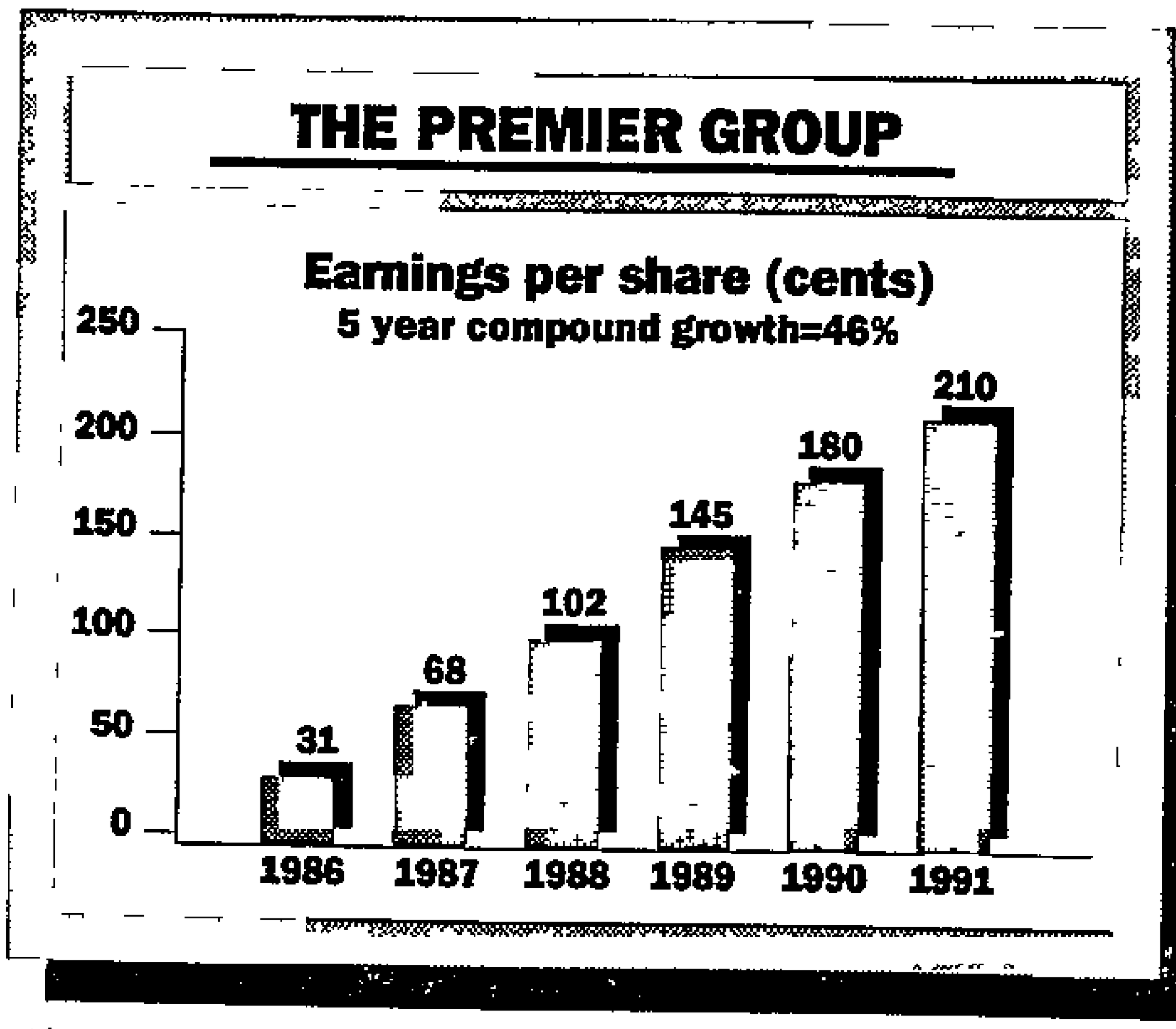
Premier raises its score with Metro, Score deals

S Times (Bus Times) (186) 28/7/91.

PREMIER Group's premier Peter Wrighton describes himself as the corporate public relations man — "It's the operating divisions that make the money."

Nevertheless, the wealth of shareholders has trebled in the two years since Premier under his direction unbundled its 35% holding in SA Breweries into Bevcon.

Mr Wrighton said at a presentation to the Investment Analysts Society this week that after the Metro and Score deals, the enlarged Premier group would achieve turnover of R10-billion and employ 46 000



Mr Wrighton explained why Metro under the guidance of Carlos dos Santos was so welcome aboard Premier

Among past problems at the cash-and-carry operations were a leadership crisis, loss of focus, poor financial discipline, shrinkage and the granting of credit

Premier bought it, he says, because it is a profit opportunity Maybe not this year, maybe a bit next year, but thereafter it should achieve the kind of returns the group desires

Replacement cost is well above book price, it is in a business well positioned for the future and there is room for rationalisation of distribution

On the flip side, Mr Wrighton knows that Metro might struggle in terms of management. But he says there are some excellent people there Retrenchments could cause short-term problems and the merging of operations could lead to some lost business He scotches a view that Premier is losing focus, saying that Score and Metro fit in with its objectives in meeting the needs of the C-D target market

He also dismisses a question that there might be a conflict of interests because Metro and Score sell the products of others Mr Wrighton says that the position already obtains in other groups and in the final analysis it is brands that sell

Premier will ensure that Metro continues to serve the entire food business as it does now

As a result of the acquisitions, Premier will change its yearend from March to April This is because the wholesale and retail arms' results are influenced by Easter sales A March yearend could mean a financial year with no Easter followed by one with two

Deputy chief executive Gordon Utian gave analysts the technical details for the Metro acquisition. He warned members of Metro to expect the share price to fall from tomorrow after the closing date for a swop for Premier shares

Metro will raise R142-million by way of linked units to repay debt Thereafter it will acquire the entire issued share capital of Score Foods Holders of 100 Score Foods shares will exchange them for 269 Metro and 123 Score Supermarkets

In spite of Premier's financial objective of increasing earnings at the inflation rate plus a third, and its operating mission statement to maximise margin, Mr Wrighton denies that his group is contributing to increasing inflation

The rise in price of the group's basket of products was 13,5% in the last financial year and 10,8% in the previous 12 months The Premier basket is only a small percentage of the total food inflation trolley

In fact, the trading margin in the R3-billion-a-year food business fell The dominant milling and baking division's margin eased from 7,2% to 6,8% and fishing's from 16,2% to 14% Edible oils and distribution's rose to a trifling 2,8%.

Margin in the struggling pharmaceuticals arm fell from 9,1% to 7,7%

Mr Utian highlighted some of the problems facing the pharmaceuticals industry, saying that at last the Government is looking at some of the issues

The retail and entertainment arm increased its profitability to 10,5%, retail rising well from 7,4% to 9,1%.

Mr Utian says the introduction of Vat will put consumers under pressure especially in the C-D income groups Only brown bread and maize meal will be zero rated, but compensation could come from State aid to the poor of R220-million on staples

Premier spends the equivalent of 8% of attributable income on corporate social responsibility and training projects Mr Wrighton refers to it as enlightened self-interest — a better-trained literate workforce with the same goals as management's is bound to be more productive

Exporting to Africa is not a new concept for Premier, which has been active there for years Other exports will be developed

Mr Wrighton expects Premier to achieve satisfactory growth in earnings in the current year When pressed to be more specific, a figure of 10% to 15% was given

Cadswep sweetens dividend

186

Star 30/7/91

By Sven Lunsche

Despite tight trading conditions, Cadbury Schweppes (Cadswep) managed to report earnings growth of 33 percent in the first half of this year.

Turnover in the interim period increased by 9,6 percent to R240 million (R219 million).

Operating profit improved by 20,2 percent to R21,6 million (R18 million).

Earnings per share increased by 33,1 percent from 47,8c to 35,9c on a sharp reduction in the effective tax rate and a 23,4 percent rise in the contribution from associated companies to R4,95 million (R4 million).

The interim dividend has been lifted by 26,3 percent to 12c (9,5c) a share.

Commenting on the results, the directors say that the acquisition of Chapelat Humphries in 1989 had allowed the group to improve internal efficiencies and reap rationalisation benefits.

Chapelat itself reported good sales and improved operating profits.

Most of the group's other divisions, particularly Schweppes, Amalgamated Beverage Industries and Bromor, boosted sales and held on to market share.

However, Cadbury lost some market share as a result of an extended strike in certain depots, which unhappily coincided with a period of intense competition in the chocolate market.

On prospects for the remainder of the year, the directors say that as a result of tight trading conditions, the first-half performance is unlikely to be matched in the second half of the financial year.

"However, for the year as a whole Cadbury Schweppes will show satisfactory earnings growth in real terms," the directors confidently predict.

Return of US quota delights sugar industry

Star 31/7/91

By David Canning

Sugar executives yesterday welcomed news that the US has restored South Africa's sugar quota for the financial year starting on October 1

SA Sugar Association export manager David Hardy confirmed in Durban that the US had decided to give SA back its annual stake, amounting to 2,3 percent of the total US quota

"We are very pleased the wheel has turned the full circle and will definitely be taking up the quota," Mr Hardy said.

The amount of the quota for the coming US year has not been announced For the current year the total US import quota is about 2,1 million tons

It was estimated some time ago that SA's share of this — if it had received a quota in the current year — would have been about 48 000 tons.

The most attractive aspect of the US quota is that the US price (now around 21 US cents a pound — which is the CIF duty-paid price) is more than double the world spot price of around 9,3 cents

FM 2/8/91 (186) FOX

CADBURY SCHWEPPES FM 2/8/91

Profit surge (186)

In the last Cadbury Schweppes (Cadswep) annual report, CE Peter Bester said last year was spent developing a structure to accommodate the expanded group "These steps, while adding to costs, will yield considerable benefit in future years," he said.

He has been proved right The one-third increase in earnings for the six months to June 15 beat market expectations It was achieved despite a strike at a factory and certain depots in the second quarter.

But it's very unlikely this growth can be matched in the second half The 28,9% tax rate for the full 1990 year was much lower than that year's interim rate of 38,6% Cadswep had successful prior year claims and claimed more allowances after changes in tax legislation. This year, according to financial director John Buchanan, the tax rate will be maintained at first-half levels of 31%

The operating margin improved from 8,2% to 9%, about the same level as the second half As trading in this market becomes more competitive, margins are unlikely to increase significantly. Cadswep is now reaping some benefits from the absorption of confectionery manufacturer Chapelat-Humphries into group management and marketing Bromor Foods set up a distribution centre and achieved better stock control and tight control of costs Buchanan says further improvements in productivity and working capital management can still be achieved.

Cadswep now has broad penetration of a range of consumer markets, from the more upmarket Cadbury's slab bars and Schweppes drinks, through middle market lines to more downmarket squashes and bubblegums. It will benefit even if consumers switch to cheaper sweets and drinks.

The balance sheet, though, still needs tidying up. Interest payments look set to increase, they had almost quadrupled in the previous interim and this time increased by a fifth. Buchanan says gearing rose from 38% to 44% (if the 19% holding in ABI is calculated at book value) and will fall to the low forties but no further. Interest cover remains a healthy 4,8. To help control gearing, the dividend cover was increased from 3.8 to 4

Analysts have pushed up their full year forecasts from EPS growth of 20% to about 25% for the full year, but they expect no

Tollgate sells off Gants

Star 7/8/91

186

By Blaise Hopkinson

CAPE TOWN — Back-in-the-black Tollgate has sold its loss-making Gants operation for R80 million to three parties including former major rival Langeberg.

Chairman Julian Askin told the group's annual meeting yesterday the sale would greatly reduce the group's debt pressure and was a prelude to an announcement to be made next month about a major offshore acquisition.

Langeberg, the Bellville-based R600 million a year canner, bought the deciduous fruit operations of Gants for roughly R30 million while Spekenham bought the meat canning business and private investor Gary Watson the vegetable canning arm.

Tollgate took out the Gants minorities earlier this year for about 60c a share, about the same as it made from the R80 million sell-off.

The group has retained the Swazi Can operation which it hopes will be returned to significant profits this year.

Mr Askin said Tollgate would report its interim figures for the six months to June next month and these would show "a significant turnaround" which saw the company firmly back in the black.

In a sometimes ruthless programme Tollgate, under Mr Askin's stewardship, has disposed of all non-performing assets and he said today all divisions were now contributing profits.

Debt is almost half — at about R200 million — what it was when the Askin-led consortium bought control and injected more than R70 million of their own cash into the business.

In response to a question from Issy Goldberg, chairman of the Shareholders' Association of SA, Mr Askin said negotiations "with the authorities" were well underway for the eventual change of control of subsidiary City Tramways.

Mr Askin added the recent "taxi wars" had meant a large number of passengers had returned to using the City Tramways services which had also allowed the company to defer a price hike for two months.

In the year to December the restructured group reported after-taxes losses of R34,7 million on a turnover of R598 million.

Mr Askin would not say whatUK acquisition was planned but indicated it was in the distribution and service related sectors.

Fedfood profits from change

186

Star 7/8/91

By Jabulani Sikhakhane

A change in accounting policy and capital profit realised on the disposal of subsidiaries made a major impact on the Fedfood's results for year-ended March

According to the annual report, Fedfood in previous years did not place realisable value on consumable stores and some of the items were accordingly written off in the year of purchase

But due to changes in generally accepted accounting principles (GAAP), all consumable stores are now valued at the lower of cost or realisable value

This change in accounting policy added R2,7 million to pre-tax income and 4,7c to earnings Without this change, group earnings would have been up only nine percent compared with 12 percent

During the review period, Fedfood sold Fedbisco and its Namibian Fishing interests, realising capital profit of R24,9 million which helped boost the group's cash flow

Another interesting feature is the analysis of the contributions to the group by the various divisions Group services, which comprises packaging operations (Quix) and corporate office, accounted for about 35 percent of total group earnings

The division had an operating loss of R4,3 million But at the earnings level it showed a positive R32,7 million, an increase of some R16,2 million over the previous financial year

Group financial director Charl Kocks explains that the group has investments in preference shares of which the rates are linked to the prime bank rate From preference dividends and other investments, the group realised income of R16,5 million.

These preference share investments were sold to an independent party just before year-end and the proceeds used to reduce borrowings by R95,3 million Without this transaction the risk-bearing gearing ratio would have been 67 percent, instead of the 37 percent ratio reflected in the balance sheet

Just after year-end these preference shares were bought back for the same amount

This procedure will be repeated every six months until the redemption of the prefs in March 1993 The after-tax return on these prefs was R5,4 million compared with R600,000 the previous year

Mr Kocks says this procedure is common

COMPANIES

Tollgate Holdings sells off Gants

(186)

LINDA ENSOR

CAPE TOWN — Diversified industrial holdings group Tollgate Holdings this week sold its Gants subsidiary for R80m and is presently negotiating with the authorities for the sale of City Tramways, its public transport operation in the Western Cape.

The deciduous fruit processing, meat and vegetable divisions of Gants were sold at roughly equal prices, with Langeberg buying the fruit division and two separate buyers the other divisions

City Tramways has 1 100 buses valued at R8 000 each, so the sale could bring in an estimated R88m B/Day 7/8/91

The Autolease subsidiary has been sold for between R10m-15m reducing the off-balance sheet exposure of Tollgate in a joint finance company with Senbank by R65m, chairman Julian Askin said at Tollgate's agm yesterday

Askin also announced the group had returned to profitability in the six months to end-June and would be paying a dividend at the year-end Last year Tollgate lost 119,8c a share on a turnover of R599m

"Each subsidiary is trading profitably and we will see a turnaround in group profits," said Askin, who together with a consortium of Mervyn Key and Hugo Biermann bought a majority stake in Tollgate last March

Askin said an announcement would be made in September about the purchase of a distribution and services company in Britain, which would be the first step in the development of the group as an international industrial holding company with a considerable offshore base of earnings

"We intend to build a group with about 50% of its earnings coming from non-rand currencies in about two to three years," Askin said The first acquisition would be financed with facilities in Britain

Askin said after City Tramways was removed from the group, hopefully within the next six months, Tollgate would have finished pruning off the loss-making and highly geared businesses and would be ready to launch other projects

The Empangeni bus operation is also to be sold shortly

The effect of the disposals will be to reduce gearing considerably Borrowings at year-end stood at R204m, giving a gearing, excluding convertible debentures, of 215% This was about half the debt owed when the consortium took over the group

Askin said borrowings would shortly be reduced to a level required only to cover working capital needs The year-end should also see a dramatic improvement in the liquidity position

He said the Swaziland grapefruit and pineapple business had turned around and should be profitable this year

Other disposals disclosed by Askin in the annual report for the year to end-December were the sale of the Transvaal and Port Elizabeth bus operations which were significant loss makers, as well as Norths and Arwa

Serving up Europe's veggies

FM 9/8/91 (186)

Many companies have sat back over the past decade with a very convenient excuse not to export Why bother when faced with sanctions? Nevertheless, there have been some notable export success stories during this period, such as stainless steel and fresh fruit

A lower-profile success has been frozen vegetables Europe has a well-developed frozen vegetable industry that produces 1,3 Mt a year and features major exporters such as Belgium, Spain and Italy Yet Fedfood's Table Top group has been able to triple its exports — to 6 000 t — since 1983 And export revenue totaled R24m last year

Juan Southey, MD of Table Top George, the biggest vegetable processor in the group, says exports contribute fully to the bottom line, they are not sold at a price that covers marginal costs only Nor is Table Top a stop-and-go exporter, dumping on foreign markets when it has a surplus Exports now represent 18% of Table Top's production and the company intends to increase this share each year

SA produce *into the deep freeze and off it goes*

Frozen-vegetable exports differ from most food exports, which are primarily commodities Southey says products must be tailored to customers who want specific vegetable cuts Moreover, the recent growth in prepared meals — for caterers, airlines and TV dinners — has added to the complexity There is little standardisation of pack sizes or even of the required packaging materials And the product itself is difficult to standardise — it is wrong to assume that a successful stir-fry brand in SA can be exported The average stir fry contains several vegetables in which SA is not competitive, such as leeks, peas and peppers In all, Table Top turns out 26 different products

In the home market, Table Top can afford a full-scale advertising and marketing campaign, but in the export market it relies entirely on past performance and word of mouth Table Top started vegetable production in 1965 as part of Union International, the multinational food production and distribution group owned by the British Vestey family In 1980, the Vesteys sold their local vegetable interests and Table Top went to Fedfood The Vestey connection gave Table Top its access to international markets.

"But over the past four years, the political objections to SA products have made selling tough," says Brian Hamill of Fisher Frozen Foods, Table Top's UK agent "The UK supermarket chains called off in-store demonstrations of SA products and many withdrew overt support But we could continue to import bulk vegetable mixes and include SA products without disclosing the country of origin in these bulk orders "

Hamill points out that certain SA goods have remained on the shelves because they are the best available product This applies to Cape fruit and to frozen vegetables For instance, the UK's number two supermarket chain, Tesco, now buys 36% of its frozen broccoli from SA In spite of the SA stigma, Table Top started to export significant quantities of sweetcorn over the past 10 years, replacing lost sales in other areas

The UK remains Table Top's most important export market, but it is the most mature frozen vegetable market in Europe Sales of frozen vegetables declined 2% by volume last year, though they increased in value by 8%

In Germany, on the other hand, frozen food sales (excluding ice cream and poultry) increased 9,2% in volume in 1989 Until 1982, the frozen food industry was primarily concerned with ice cream, but, since then, demand has virtually doubled There are additional opportunities in the former East Germany Almost half of eastern households already have home freezers, but they tend to be filled with produce from home gardens Now that West German chains have invested in eastern distributors, demand for frozen foods is taking off People in German-speaking regions are big eaters of several Table Top export products — principally broccoli, Brussels sprouts, cauliflower and corn

Hans Nolting, the Table Top agent for continental Europe, says, "The demand for frozen vegetables is fairly predictable The uncertainty in our lives is the competitiveness of the competing supply sources "

Table Top George's Southey and his export manager, John Crook, pound the pavements for new business They invariably take a stand at the major international fairs, such as Ciel in Paris and Anuga in Cologne In June, they were the only SA food company representatives at Poland's Poznan international fair, the most important trade fair in eastern Europe Says Crook "Having an agent is no substitute for regular contact with customers yourself We like to visit customers with our agents, but our agents accept that we often find business off our own bat " Crook spends up to half the year overseas with customers

SA has several competitive pluses One is its labour force, which makes hand-trimmed vegetables cost-effective One is the weak rand, but high inflation is rapidly eroding this advantage Another plus is having the opposite seasons Like other sectors, the European frozen food industry keeps stock levels low, so shortages can arise If there is no stock available and the season is some months away, SA can step in Recently, Table Top has been selling cut and sliced beans to the UK

In the southern hemisphere, Australia and New Zealand are occasional exporters, but Latin America, particularly Mexico, Guatemala and Chile, are more serious competitors Hamill says produce from Chile is very cheap, but he questions whether it is competing without government support

Fortunately for SA, it exports vegetables that are growing in value — broccoli, sweetcorn and carrots The traditional mainstay of frozen vegetables — peas — is actually in decline The local climate is not considered ideal for pea production, so peas are not exported in large volumes

A major worry is whether a fortress Europe will emerge after 1992, which will make exports from SA more difficult Nolting, however, describes the single European market as gimmickry "For the importer of merchandise, the single market has been here for 20 years The only material effect will be the standardisation of packaging and pesticide laws " It is very likely that the German packaging law will become the EC norm From 1993, 50c deposits will be introduced and at least half of the packaging should be recycled by 1993

Nolting says that if legislation is too tight, it could mean a great deal of capital expenditure for Table Top Nevertheless, tougher standards have a beneficial spin-off for Table Top they ensure high standards for all its products

Table Top has overcome the problem of distance from the European market by concentrating on the high-quality end of the market Exporting is by no means a way of getting rich quick, but it is a vital contributor to the bottom line Table Top entered foreign markets without an expensive export sales infrastructure Just John Crook works full-time on exports As overseas customers become more favourable towards SA, they are likely to turn to already-familiar suppliers Companies not yet in the game will be left even further behind ■

RAINBOW (186) FM 9/8/91

Benefits ahead

Activities: *Integrated broiler chicken producer*
Control: *HLH 40,3%*
Chairman: *D J Loch Davis, MD J B Geoghegan*
Capital structure: *368,5m ords Market capitalisation R1 363m*
Share market: *Price 370c Yields‡ 1,2% on dividend, 5,4% on earnings, p e ratio, 18,5, cover, 3,0 12-month high, 380c, low, 205c Trading volume last quarter, 3,4m shares*

Year to Mar 31	*'88	*'89	*'90	†'91
ST debt (Rm)	—	—	—	316,4
LT debt (Rm)	—	—	—	144,3
Debt equity ratio	—	—	—	0,83
Shareholders' interest	0,82	0,80	0,81	0,45
Int & leasing cover	—	—	—	—
Return on cap (%)	11,0	12,1	8,8	2,5
Turnover (Rm)	454	554	635	523
Pre-int profit (Rm)	56,9	81,4	65,0	30,2
Pre-int margin (%)	12,5	14,7	10,2	5,8
Earnings (c)	19,6	26,8	31,3	13,0
Dividends (c)	8,8	7,5	10,7	4,3
Net worth (c)	170	195	216	187

* Year to June 30 † 9 months to March 31
‡ Based on pro forma 12-month figures

Rainbow Chicken was hit hard by a slump in chicken prices and high broiler mortality in its 1991 year Earnings this year are likely to be pedestrian, but shareholders should be

COMPANIES

FM 9/8/91

rewarded in financial 1993, when the benefits of recent strategic investments flow through (186)

Comparisons with financial 1990 are problematic owing to the change in Rainbow's year-end, 1991 figures relate to a nine-month period But a steep downward trend in turnover growth and in the operating margin remains apparent The cause, says MD John Geoghegan, was a combination of selling price volatility and cost increases resulting from the higher than normal incidence of broiler mortality

At the beginning of the financial year there was a shortage of chicken on the market because of the higher number of deaths — caused by a viral epidemic — and selling prices rose fast This rapidly turned into a surplus as bird mortality decreased after the epidemic ended, and as additional industry capacity came on to the market

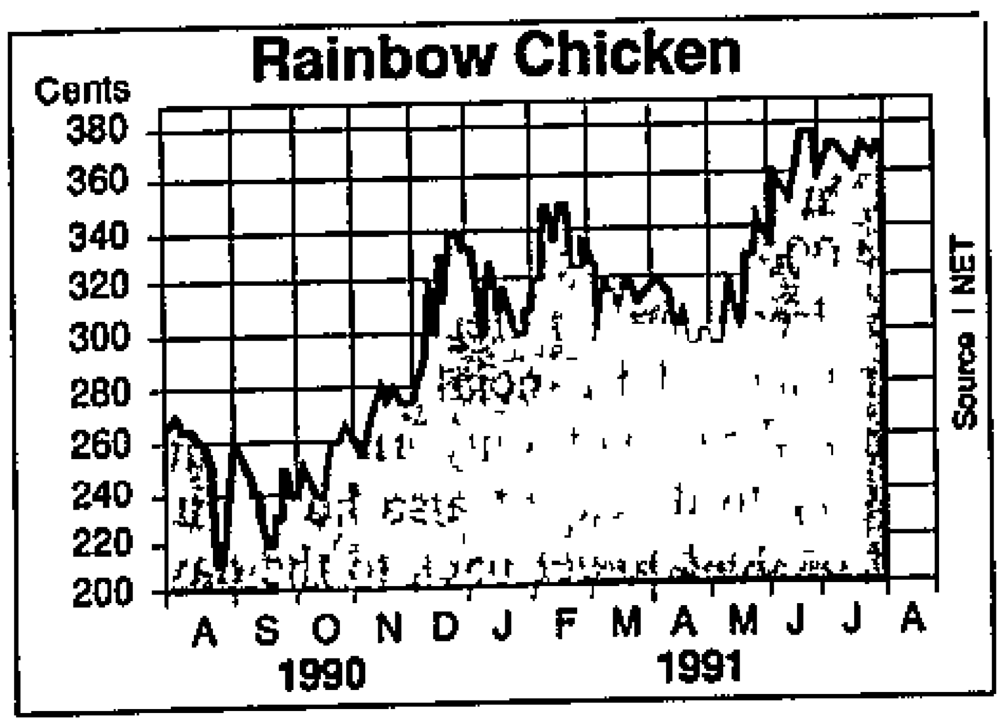
Stocks built up as prices were cut to boost sales and reduce stocks Financial director Chris Wells says Rainbow's stocks are now at "normal levels " The demand-supply balance has been restored, and prices have upward potential Operating margins are improving, but a return to the 10%-11% range will take some time

Two strategic investments made by Rainbow last year will, it is hoped, help in limiting market fluctuations and containing costs

The purchase of Bonny Bird Farms for R224m, payable over three years, increased production capacity by about 50% to 4m chicks per week, and these assets were acquired at an attractive price Geoghegan estimates the replacement cost at some R700m. This gives the group nearly half the total chicken market (including the informal sector), and substantially more clout

In its quest to be the lowest-cost producer, Rainbow acquired 50% and management control of Premier's Epol Animal Feed division for R20m This, and the construction of its own feedmill at Rustenburg, is expected to improve feed cost control These costs constitute 85% of live bird production costs and 55% of total costs

Acquisitions were funded by a R252,5m rights issue, at R2,70 per share Receipt of the funds in June relieved the distortion in long-term debt seen at year-end Debt equity is now about 0,25 The rights issue also strengthened the influence of HLH, whose shareholding rose from 25% to 40,3% Issued shares were increased by 35%, causing a dilution in EPS



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COMPANIES
FM 9/8/91 (186)

Geoghegan and Wells reckon this year will be spent integrating the new acquisitions and restoring operating margins — building the base for "extremely positive growth" in the next two financial years Benefits of last year's actions, plus continued growth in the white meat market, should then be evident

The share price is just off its 12-month high, and is R1, or 37%, up on the rights issue price It may still have a way to go before medium-term prospects are fully discounted

Pam Baskind

TOLLGATE HOLDINGS

FM 9/8/91

Cleaning up

(186)

For the first time since 1989, there is more than mere hope to substantiate Tollgate Holdings (TGH)'s return to profitability

Gants has now been sold (*Fox* June 28) By the time the deal is completed at the end of this month, its three components will realise about R79m. The equity of the deciduous fruit and canning operation, including Helderberg Peas, has been sold to Langeberg for R7m Spekenam has bought the meat section, while Gary Watson (of the Watson family that controlled All Gold) has bought the vegetable canning operation Together, they realised R12m

To this total of R19m must be added proceeds from the stock and debtors of each, which is expected to realise about R60m This information was divulged at the Tollgate Holdings' AGM on Tuesday by chairman Julian Askin

Interest-bearing debt, excluding compulsorily convertible debentures, in the end-1990 balance sheet amounted to R205m. When TGH bought out Gants, Norths Industries and Entercor minorities, this was extended to R240m.

The Gants sale will thus cut interest-bearing debt to about R160m. The cost of finance will fall and profitability rise as a result.

In addition, car-leasing operation Budget Autolease has been sold for a nominal sum. This will not alter balance sheet debt exposure, but does eliminate R65m of off-balance sheet contingent liabilities.

Questioned about the value of the buses, Askin disclosed that each of the 1 100 owned in the Cape is worth at least R72 000 — the price received by TGH when buses in the eastern Cape were sold to the authorities

continue →

FOX

FM 9/8/91 (186)

there. Askin assured ~~the meeting that~~ there is no intention of selling off the buses in a Putco-like scheme, though he intimated that negotiations are proceeding with an undisclosed party. Should Tramways be sold, the organisation will have no debt.

But the most significant point is that all remaining TGH operations are running profitably and producing positive cash flows It is the first time that Askin has been unequivocally optimistic about activities Just as encouraging is his statement that "things are looking good for the future " He added that an offshore acquisition is likely to be announced in September.

In recent weeks, the share price has hardened to 500c on small volumes The share has been heavily discounted for some time and is probably firmly held (the directors' consortium holds about 32%). If the overall market remains firm and a determined buyer appears, the price could appreciate in leaps and bounds as investors begin to realise that TGH may have good earnings potential, especially with the debt burden minimised.

Gerald Hirshon

FEDFOOD

More from the brand names

FM 9/8/91 (186)

Activities: *Food processor with major subsidiaries in salty snacks, frozen foods, fishing, milling and baking and edible oil products*
Control: *Fedvolks 70%*
Chairman: *P J J van der Walt, MD J C du Toit*
Capital structure: *29,75m ords 239 000 7% pref shares Market capitalisation R521m*
Share market: *Price 1 750c Yields 3,0% on dividend, 10,9% on earnings, p e ratio, 9,2, cover, 3,6 12-month high, 1 800c, low, 750c Trading volume last quarter, 525 000 shares*

Year to	'88	'89	'90	'91
ST debt (Rm)	46,6	51,7	82,9	45,1
LT debt (Rm)	17,0	9,2	17,2	100,5
Debt equity ratio	0,25	0,21	0,29	0,39
Shareholders interest	0,54	0,53	0,55	0,50
Int & leasing cover	4,7	5,6	4,9	4,4
Return on cap (%)	16,1	18,2	15,3	14,4
Turnover (Rm)	1 010	1 157	1 140	1 285
Pre-int profit (Rm)	77,5	100	96,6	108,8
Pre-int margin (%)	7,5	8,4	8,5	8,5
Earnings (c)	129,3	156,6	170	190
Dividends (c)	38	45	47	53
Net worth (c)	893	967	1 129	1 237

Earnings grew roughly in line with inflation last year, despite the large losses from the Fedbisco biscuits and breakfast cereal subsidiary Under the present MD, Jan du Toit, Fedfood has been steadily refining its portfolio by moving into higher margin products About half the operating income is derived from Simba and Table Top, whose margins are among the highest in the food business

Fedfood made branding the major theme of its annual report, as it believes its most valuable assets are brand names such as Simba chips, Niknaks extruded products, Bobtail dog food and Table Top and Harvestime frozen foods

Snacks is the biggest earnings contributor, having overtaken fishing Sales increased by a fifth, though the operating margin fell from 10,1% to 8,7% It has been difficult to determine Simba's overall profitability, as the divisional figures include Fedbisco's losses

The weather was not kind to Simba, as it had to pay higher prices for potatoes Table Top, on the other hand, had suffered from droughts in the eastern Cape in the previous year Last year, weather conditions led to a record pea and broccoli crop Table Top's earnings increased by 43%

Fedfood's Du Toit *higher margin products*

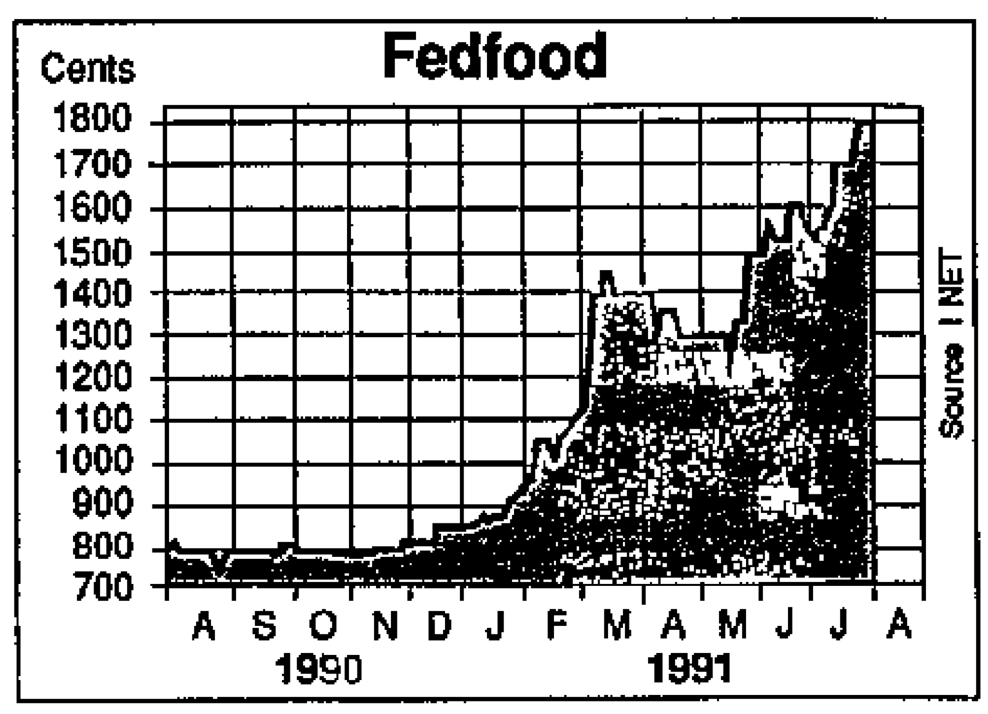
The traditional backbone of the food business, generic products such as government bread and maize meal are becoming less important to the group Nevertheless, the ending of the bread subsidy presented a major challenge Du Toit says that the Sunbake brand was built up to counter this The first few months since deregulation have passed "without problems"

Fedfood closed five of its 20 bakeries and there was major rationalisation at the Boerstra bakery in Pretoria Earnings from baking and milling increased by a half, but earnings from the grain-based foods division rose a bare 3% Fishing was the only sector in which earnings declined Though the operating profit of domestic fishing operations increased, the contribution of the equity-accounted subsidiary company in Chile fell by R3,5m

The group acquired Patma and Mango Man, which both produce atchar and citrus products and command loyalty in the black market Fedfood also acquired 71% of abalone company Sea Plant Products and 100% of Mageu Number One The group has spent R40m on acquisitions in the year Fedbisco, a management headache for more than two years, was sold to Royal Beech-Nut just before year-end The Namibian fishing interests were also sold There was a R24,9m capital profit from these transactions

Results were bolstered by a reduction in the effective tax rate from 37,2% to 29,9%; exempt income almost doubled Pre-tax profit advanced by a less promising 9% Gearing was up substantially to 39%, mainly because of the cost of acquisitions Still, gearing is down from 44% at the interim stage Perhaps of more concern is that net cash flow from operations fell from R25,2m to R4,5m and the net cash outflow increased from R20,1m to R32,4m The new companies are, however, generating positive cash flows Gearing will decline unless further acquisition possibilities present themselves

Fedfood has enjoyed a substantial rerating and, since last October, the share price has more than doubled from 750c to 1 750c It is trading at a premium to net worth, which it has not done for a sustained period before



Fedfood is purely a food company It does not enjoy the margin sweeteners, such as pharmaceuticals and stationery, that appear in the portfolios of rivals Tiger and Premier But Fedfood has not enjoyed dividend growth comparable with the other major companies in the sector, so it will continue to trade at a lower multiple At present yields, the share looks fully priced *Stephen Cranston*

Royal sells off Trimpak

Star 9/8/91

(186)

By Jabulani Sikhakhane

Royal Beech-Nut (RBN) has sold Trimpak-Crystallizers for an undisclosed sum to Robertsons, a subsidiary of Hunt Leuchars & Hepburn (HLH), with effect from August 30

Trimpak manufactures industrial catering products, such as salt, pepper, tomato sauce and jam sachets.

RBN managing director Errol Frielick says Trimpak could not blend with RBN's core consumer business because the industrial and catering market served by Trimpak have different distribution channels

Robertsons will absorb Trimpak into its existing industrial catering division

Trimpak-Crystallisers was acquired in 1988 by the then Lovasz group. It was sold to RBN for R5 million cash in 1989 as part of the re-organisation of the group following the Lovasz acquisition of RBN from its divesting US parent

In financial 1990 RBN strongly rationalised Trimpak's product range, while Trimpak's manufacturing facilities were absorbed into RBN

Snacks a health food for Utico

ROBERT LAING

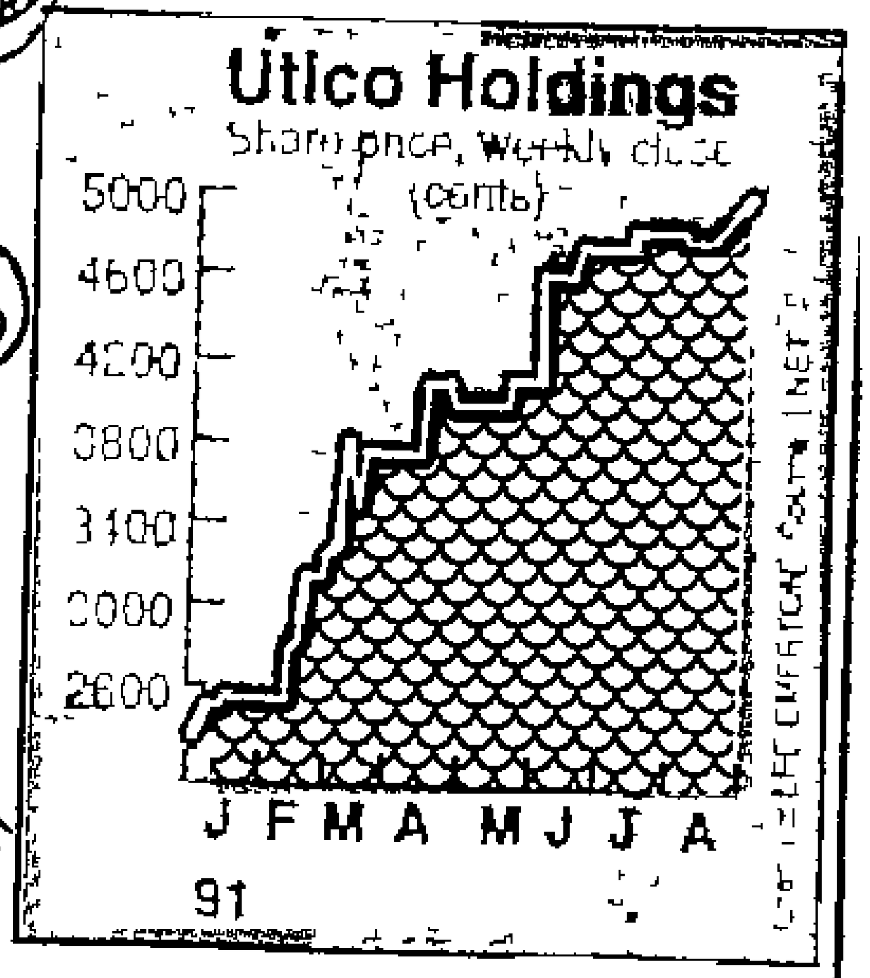
UNITED Tobacco Holdings' (Utico's) interim results show the group's attributable earnings grew a healthy 29% to R10,6m compared with R8,2m in the same period last year.

Directors said turnover increased 20% to R242m (R202m) despite reduced consumer spending and ever increasing competitive pressure.

Utico boosted its interim dividend 40% to 105c (75c) a share, dropping its dividend cover to 1,6 from 1,8. Directors said this was done "in view of satisfactory trading results and the group's comfortable gearing".

The group also produces snacks and fruit juices. Brand names include Benson & Hedges, Willards Chips, Stimorol gum and Fresh-Up juice.

Directors said much of the turnover increase was attributed to snacks. The group expanded its Willards factory in Rosslyn and is constructing a second factory.



The second half's earnings are not expected to be as high. "Consumer spending continues to tighten and turnover is therefore not maintaining current levels of growth. The trend will undoubtedly be exacerbated by the initial impact of VAT."

COMPANIES

Crown's good results unexpected

B/Day 16/8/91

186

MARCIA KLEIN

CROWN Food Holdings (Crown) has increased its earnings by 33% to 10,1c (7,6c) a share in the year to end-June on the back of a substantially better performance in the second half.

Earnings at the December interim stage had declined slightly to 3,8c (3,9c) a share, and directors expected only "marginally better results for the full year"

However, improved efficiencies saw the Murray & Roberts subsidiary, whose core businesses are butchery supply and catering equipment, achieve a 20% improvement in operating profit to R9,8m (R8,2m) despite a turnover rise of only 8% to R121,4m (R112,5m)

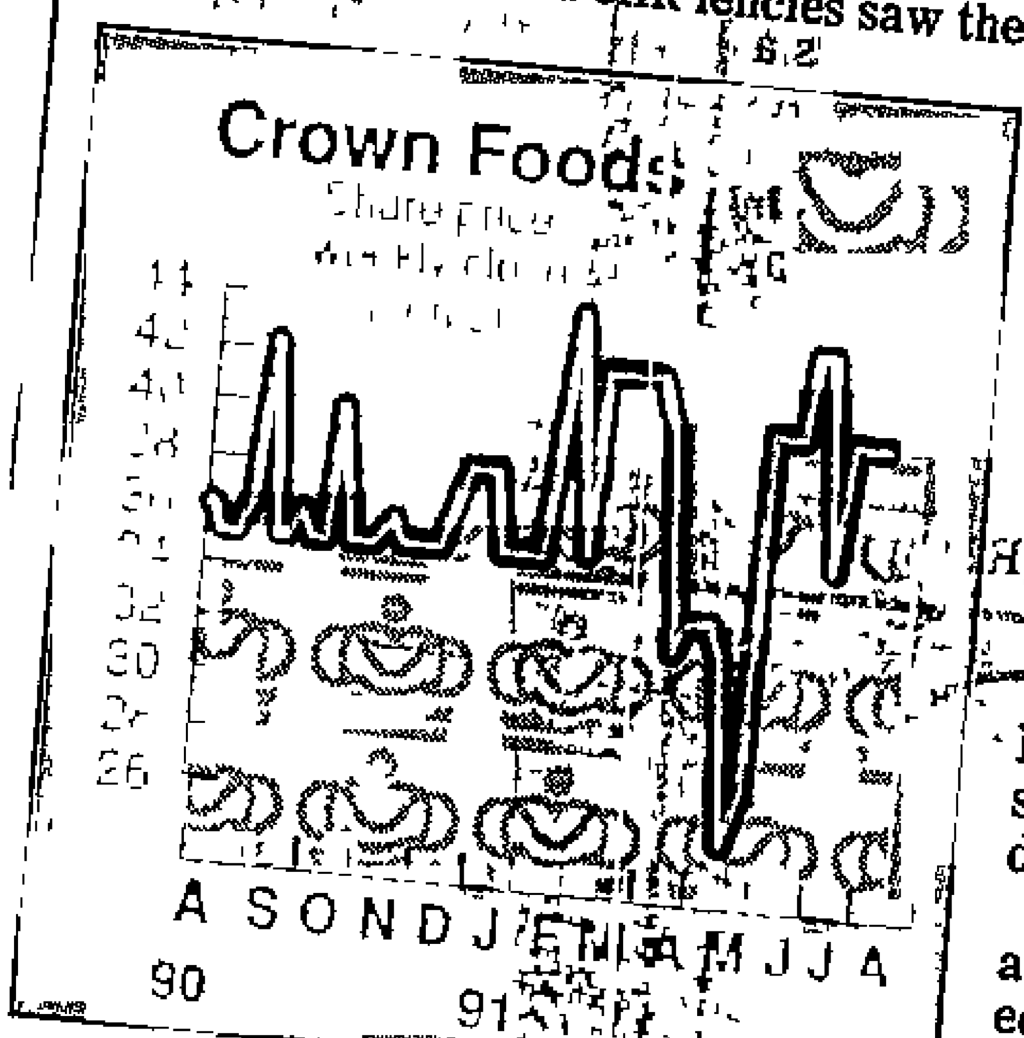
Higher average borrowings saw financing costs increase by 18% to R3,7m (R3,2m), but MD David Fowlds said these had been "substantially reduced by year-end"

Gearing was reduced from 79% to 49%.

Pre-tax profits were up by 20% to R6,0m (R5,0m), and taxation was up by only 6,8% to R2,5m (R2,4m) The tax rate was reduced to 42% (47%) due to the Ciskei factory becoming fully operational This rate was expected to be maintained "for the forseeable future".

Attributable profit increased by 32% to R3,5m (R2,7m) A final dividend of 2c a share was declared, bringing the full year dividend up by 16,7% to 3,5c (3c) a share

Fowlds was "cautiously optimistic" about future prospects, mainly due to the economic climate, but expected bottom line growth "through aggressive marketing and stricter controls"



Graphic LEE EMERTON Source INET

Crown shows healthy growth 186

Finance Staff Star 16/8/91

Murray and Roberts subsidiary Crown Foods showed a healthy 33 percent growth in earnings a share to 10,1c (7,6c) in the year to end-June and the total dividend is up from 3c to 3,4c

The trading profit improved by 20 percent to R9,8 million (R8,2 million) on an eight percent rise in turnover to R121,4 million (R112,5 million)

Managing director D G Fowlds says that while turnover may not show any real increase in the current year, bottom-line profits should continue to rise

Kanhym adds value and a new era dawns

S Times (Bus T) 25/8/91 (186)

DIAGONAL STREET by David Carte

THE JSE is slow to forgive any company that disappoints it

A case in point is Kanhym, which has thoroughly rehabilitated itself after the disasters of 1983-1986 but still trades at a PE of 7,6 compared with a market average of 13

Population growth, urbanisation and increasing black affluence are strongly in the company's favour

By aggressively concentrating on value-added products, Dirk Jacobs' new management team has succeeded in making the company less vulnerable to volatile meat prices

Kanhym does not break down profits by company But it does differentiate between the commodity side — Karoo Ochse, the farms, fresh meat and Checkor butcheries — and the value-added division, comprising meat processors Enterprise and Herti, leather tanner Hanni, and poultry producer Mieliekip

Last year the value-added division lifted operating income by 26% to R27,1 million and commodity income fell 3% to R16,5-million

In spite of the reorganisation, Kanhym watchers appear to remember too vividly the taxed losses of R664 000 in 1983, R28,1-million in 1984, R13,5-million in 1985 and R2,9-million in 1986

That four-year debacle was the result of drought, high gearing and interest rates and heavy borrowing abroad shortly before the rand's plunge from $1,35 to $0,35

In Mr Jacobs' first year as executive chairman, the company reported earnings of R14,3-million Head-office staff numbers were cut from 220 to nine. In 1988 taxed profits increased to R19,7-million The next year was a bonanza with a bottom line of R31,7-million and last year was pretty good at R30-million

In the six months to February, a 13% decline to R17,5-million (1990 R20,2-million) was reported But excluding discontinued operations, the fall was only 2% The directors predicted "a significant improvement" for the second half and an earnings rise for the year

If the company achieves this, it will be unusual among industrials generally

One analyst says that Kanhym made too much money in 1989 It might have been well advised to have adopted ultra-conservative accounting that year so that the earnings record since 1986 could have been kept undented

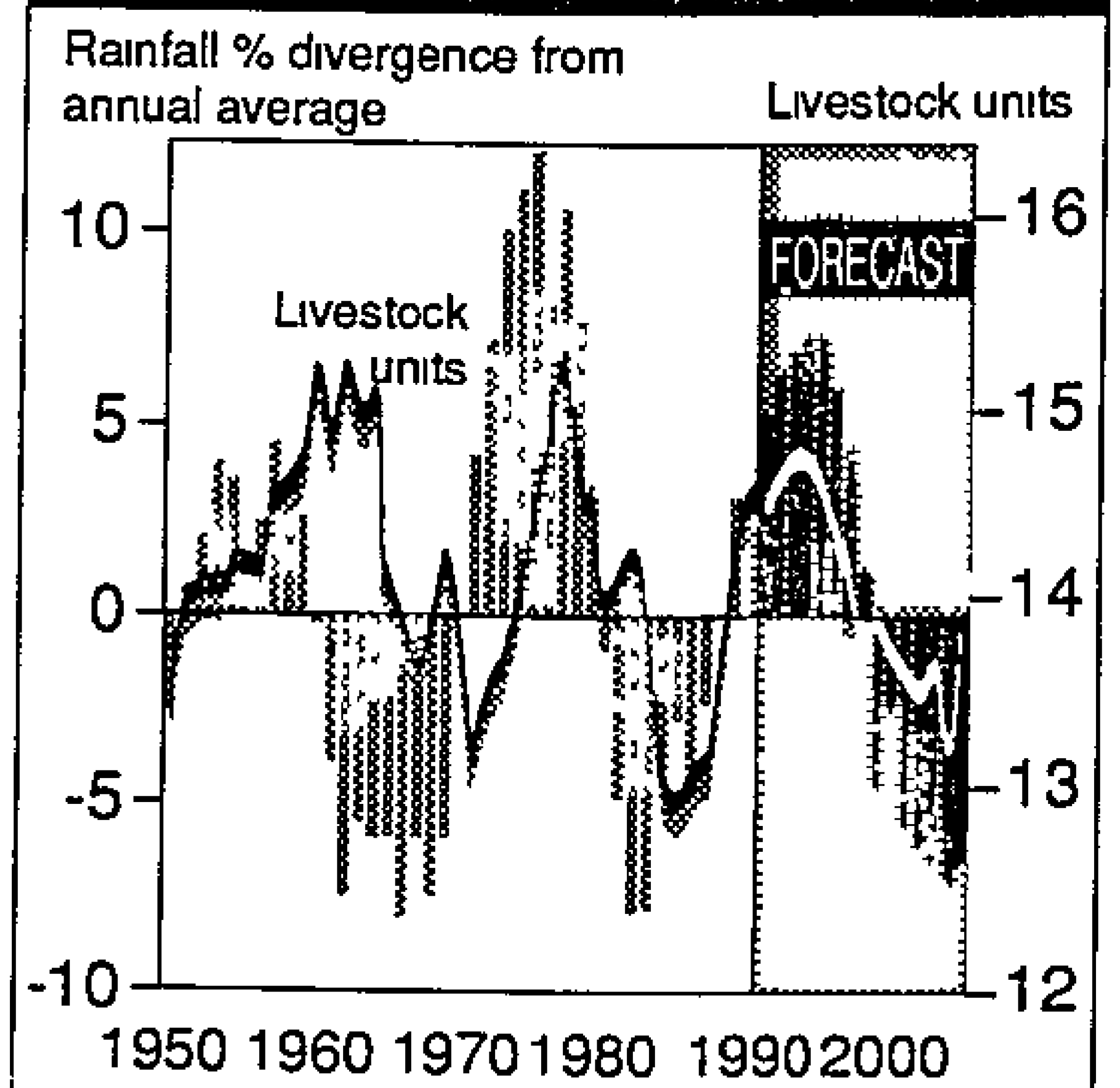
Kanhym's resuscitation under Mr Jacobs started with a R86-million rights issue in 1984 It was underwritten by Gencor and most other shareholders declined their rights Malbak has thus come to hold 85% The coal companies were sold for R20-million 18 months ago to reduce gearing

Serviced debt was reduced from R177,6-million in 1984 to R54,5-million in 1990 Equity rose from R111-million in 1984 after the rights issue to R177,9-million

Debt.equity has thus fallen from 161% to 30,6% That is after funding rising working capital, the acquisitions of Hanni, Herti and Mieliekip and writing off R42-million of revaluaton

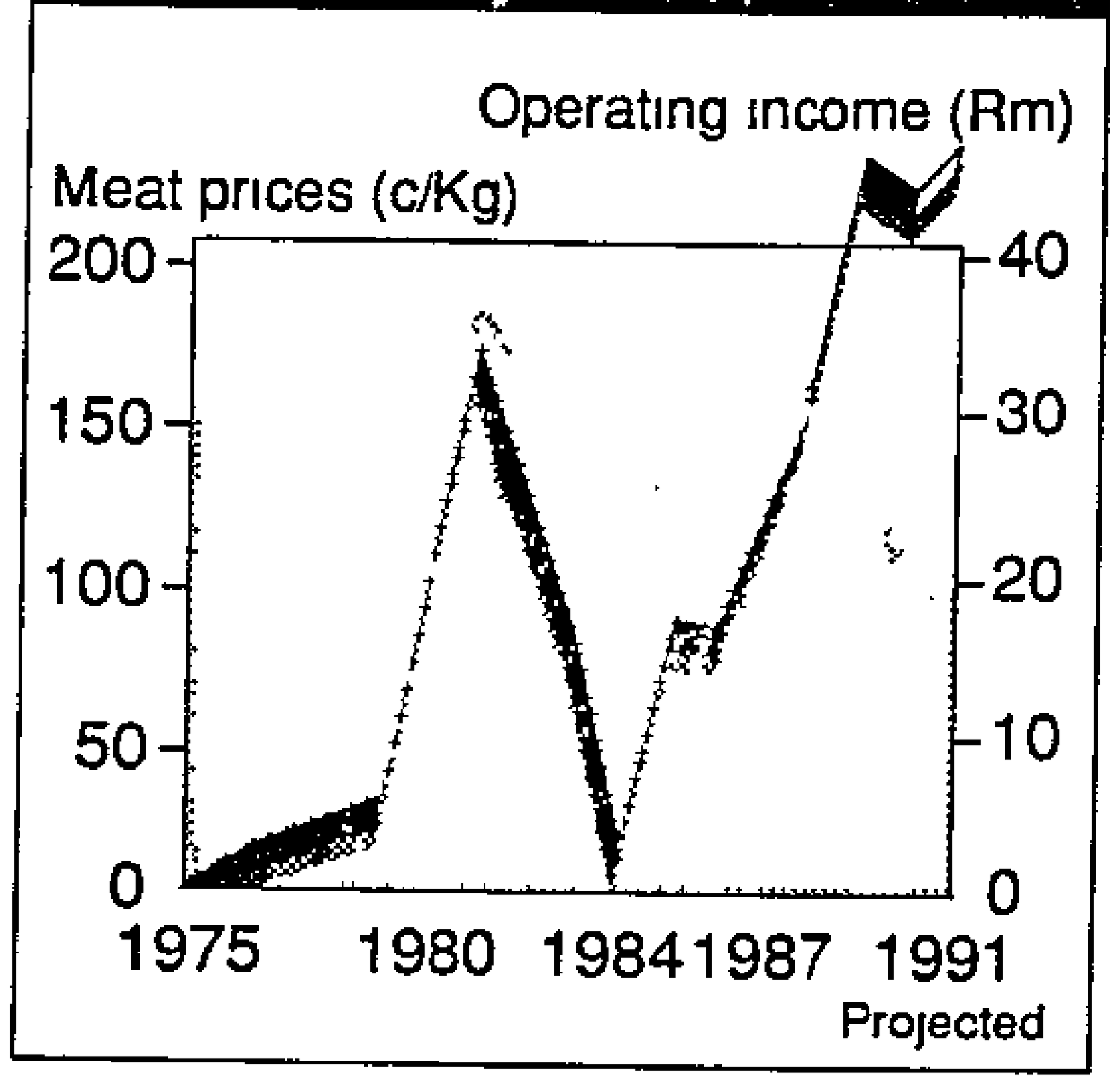
Mr Jacobs tells me that debt was further reduced this year by lowering the number of cattle in the feedlot from 51 000 to 30 000 This reduced debt by R15-million and will save R3-million a year in interest Debt equity is now about 25%

RAINFALL AND NATIONAL FLOCKS AND HERDS



Source Lanvokon

INFLATION ADJUSTED MEAT PRICES



In addition to the 30 000 cattle in the feedlots, the company has a breeding herd of 4 500 cows, 10 000 ewes and produces 95 000 porkers a year It is by far the largest farmer in SA

Achieving some of the highest yields in SA, Kanhym produces enough maize on a 15 000 ha farm to be virtually self sufficient in animal and chicken feed

About 55% of the cost of a chicken is the maize it eats in its short life In having its own maize, Kanhym's Mieliekip is at an advantage of R100/ton over vaunted rivals such as Rainbow, which has a PE of 13

Rainbow, as market volume leader, is locked into chickens as a commodity, but Mieliekip, as a niche player, sells 150 000 birds a week mainly in chilled, not frozen whole birds, crumbed portions and in marinade to add value.

Mr Jacobs says the feedlot and breeding sheep, cattle and pigs are regarded as the pantry, to which value is added by Enterprise

Enterprise is No 1 in its market, claiming 40% of it in bacon and processed meats Kanhym's up-market "Like-it-Lean" meats, endorsed by Weigh Less, are another hit.

Enterprise has obtained the rights to a revolutionary meat treatment process from Bernard Matthews plc of the UK.

Mr Jacobs describes the process "We take choice cuts and extrude whole muscle to form joints The proteins come to the surface so the meat comes together Then the joint is frozen in a brine mixture

"We co-extrude it with a thin layer of fat, freeze it and cut it into portions for roasting When cooked, it doesn't lose its moisture It is always juicy It looks lean and there is no bone In Europe it has been a runaway success and we expect the same here "

With leather car seats and lounge suites in vogue, the Hanni tannery is highly profitable While leather goes for R30 a square metre in general applications, up-market upholstery fetches R80 a metre

With quality hides hard to get, Hanni takes great comfort from the access it enjoys to hides from Kanhym's abattoirs and Karoo's agency activities

The two graphs throw interesting light on Kanhym One shows how good rainfall cycles increase the size of national flocks and herds In dry cycles livestock numbers fall

In drought, farmers offload sheep and cattle — and meat prices fall The reverse applies when they rebuild flocks and herds by withholding animals from abattoirs

Wits University's renowned meteorologists, Peter Tyson and Tom Dyer, have found that summer rain comes in fairly predictable eight- to nine-year cycles On that basis, one can forecast stock numbers and meat price trends

At present, thanks to reasonable rains in the past few years, animal numbers are in balance with demand and meat prices rising


DIRK JACOBS Recovery road

If the Tyson-Dyer rainfall pattern holds, meat prices can be expected to go on rising, with obvious benefits for Kanhym Long-time Kanhym watchers have not forgotten that last time meat prices rose the company's operating income soared from R6,2-million in 1979 to R32,8-million two years later

The second graph shows how Kanhym has successfully insulated itself from inflation-adjusted meat prices Earnings have increased since 1984 even though meat prices have fallen by nearly a half

According to stockbroker Davis Borkum Hare, Kanhym achieves the third-best return on capital in the food sector after I&J and Tiger Oats They are on PEs of 16,7 and 18,2 respectively

Kanhym boasts better debt equity, operating margins and returns on capital than that other frequent disappointment in food, ICS — yet ICS has a PE of 10,4

Now that Kanhym has dispelled notions that it cannot manage its balance sheet and that it will always be a victim of the meat cycle, a closing of the gap seems inevitable

I & J cashes in on seafood market

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Star 29/8/91.

The moderately buoyant seafood market enabled Irvin and Johnson, the frozen food company in the Anglovaal Group, to increase earnings by 20 percent and raise its dividend by 11 percent for the year ended June

According to financial results released yesterday, the reduction of 2,0 percent in the South African corporate tax rate contributed to the improvement in earnings which rose to R69,4 million (R58,0 million), equivalent to 243c (203c) a share This was achieved on a 15 percent increase in turnover to R1444 million (R1257 million).

The dividend increased to 78c a share from the previous 70c This reflects a dividend cover of 3,1 times (2,9 times)

Capital expenditure during the past year amounted to R46,9 million (R30,9 million), the highest in the company's history Group borrowings remained relatively unaltered at R44,2 million after declining in 1990 to R46,1 million. Debt equity reduced to 14,4 percent (18,2 per cent)

The directors say that in spite of the difficult local trading conditions and the depressed international markets, the seafood market was moderately buoyant, and this, combined with the effect of a strengthening of the US dollar during the latter four months of the financial year, helped compensate for the depressed domestic trading conditions — Sapa

International sales help I&J deflect depression

(186)

B Day 29/8/91

LINDA ENSOR

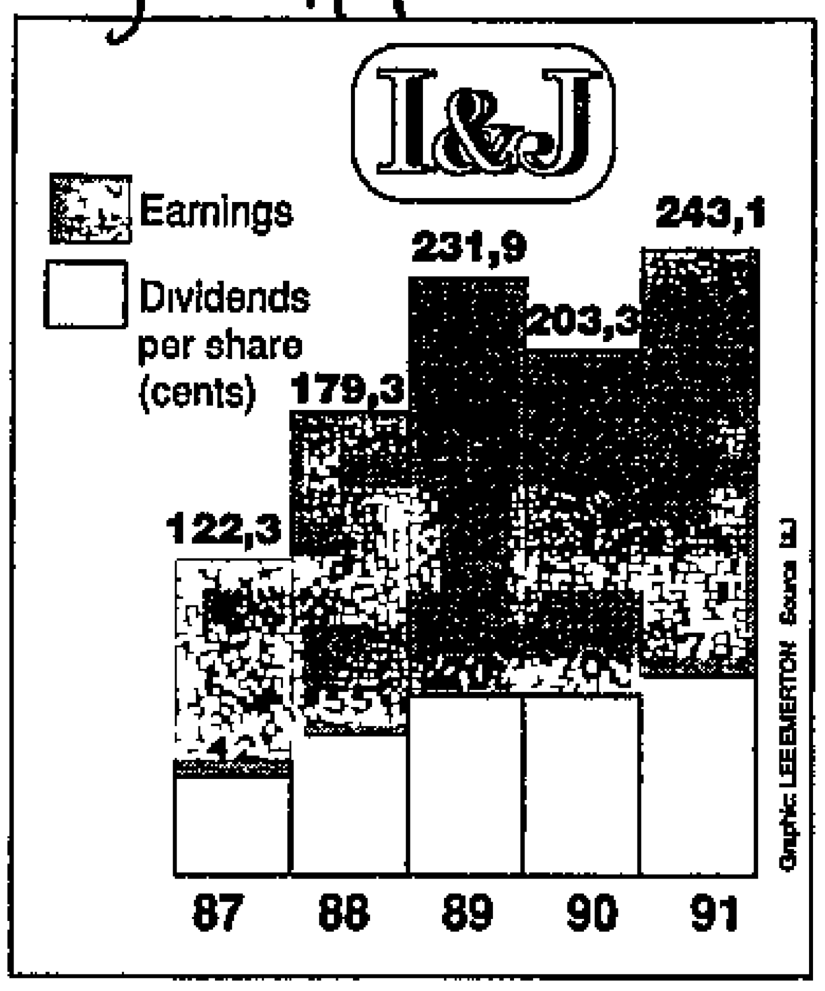
CAPE TOWN — Anglovaal's fishing and frozen food group Irvin & Johnson (I & J) produced a 20% growth in earnings in the year to end-June with a buoyant international seafood market and a favourable rand-dollar exchange rate towards the end of the year, offsetting the depressed local market.

A significantly lower tax rate of 31% (35,7%) and a decline in the interest bill, played a large part in counteracting the lower margins and reduced interest income

"Effective management attention to cost controls and cash flow also contributed to the significant improvement in earnings," chairman Jan Robbertze said

A dividend of 78c (70c) covered 3,1 (2,9) times — more in line with group targets — was paid on earnings of 243,1c (203,3c) a share

Turnover rose 15% to R1,4bn (R1,3bn), operating income increased by 12% and interest income and finance charges both fell 11% Attributable earnings reached R69,4m (R57,9m), with little change in the



relative contributions of fishing and frozen food to bottom-line profits

Margins from fishing improved along with the strengthening of the dollar and overseas markets

Robbertze said the deep sea hake quota in SA waters was marginally increased and I & J also received a substantial horse mackerel quota for the first time for the six months to end-December 1990 and a further quota for the 1991 year

"The introduction of appropriate fishing controls in Namibia has led to considerably improved fishing Hake fishing in SA waters has also improved in terms of size mix and catch per unit of effort."

Local conditions in the frozen food market were difficult, with volume growth in the retail market during the year of only 1% compared with the average annual compound growth over the past 10 years of 8% But the group managed to improve market share, Robbertze said

Vegetable crops were good and the pea harvest was the best in five years. Market share improvements were achieved in the seafood, vegetable and prepared food sectors"

Debt equity was reduced to 14,4% (18,2%) as long-term debt dropped to R23,9m (R35m) and short-term interest bearing debt increased to R20,3m (R11m) Net asset value improved to 1 078c (886c)

Robbertze said a further improvement in earnings was expected this year

Capital expenditure for the year totalled R46,9m (R30,9m) — the highest in the company's history — with a further R32m (R25,3m) authorised at year-end

Violence-hit firm resumes operation

WILSON ZWANE

LANGEBERG Corporation and Canning's Boksburg factory, which closed down last week following violence which left seven people dead, is back in operation

Langeberg spokesman Dev du Toit said at the weekend the factory was operating "at a reasonable rate" on Friday after more than 70% of the workers reported for work

The factory stopped operating on Wednesday after workers belonging to the Cosatu-affiliated Food and Allied Workers' Union (Fawu) said they feared for their lives

At least seven people were killed and two seriously injured when fighting broke out between members of Fawu and Inkatha-supporting United Workers' Union of SA (Uwusa) more than two weeks ago

Du Toit said Langeberg management had agreed to let the workers stay away until discussions on security between it and Fawu had been concluded

But the workers had been told that they were free to come to work if they chose to do so, Du Toit said, adding "that is exactly what happened on Friday"

Langeberg management and Fawu were, however, still working on security measures, he said B/Day 2/9/91

Fawu's Ernest Buthelezi said the clashes began after Langeberg management dismissed Uwusa workers.

Uwusa spokesman Duke Sennakgomo said his union would soon negotiate the reinstatement of its members

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Labour costs blamed for high food prices

Star 4/9/91

Labour costs were a major cause for increasing food prices, Anthos Yannakou, Fedfood's general manager (planning), said at a meeting in Pretoria of the South African National Consumer Union.

He said the consumer price index for food remained above the overall CPI.

However, wages had risen at an alarming 17 percent a year, lowering productivity to an "abysmal" 40 percent of that in the developed world.

Other cost inputs in the R14 billion-a-year food industry that had increased were transport, packaging and distribution.

In the retail trade, large increases were recorded in rentals and shrinkage, while sales had declined due to the recession.

The country's food industry was mostly domestically orientated. Only five percent of production was exported.

The industry did not make unreasonable profits.

Figures relating to the four major participants (Tiger, Premier, ICS and Fedfood) showed shareholders had received 1,1 percent of sales as dividends, 2,3 percent of sales had been retained for future expansion and R552 million had gone into capital expenditure. — Sapa

BUSINESS DAY, Friday, September 6 1991 3

Manufacturers, suppliers blamed for food inflation

(186)

LIZ ROUSE

AN INVESTIGATION into the rising cost of food says control boards are ineffective and food manufacturers lack the competition necessary to keep prices in check.

The report, compiled by corporate database and research organisation McGregors Online Information, lays the blame for rising food costs squarely at the doors of food manufacturers and industries supplying the farming sector.

A table of price increases over 10 years (1980 to 1990) shows that state and private oligopolies as well as control boards, are equally responsible for leaps in prices of commodities and services.

The petrol price rise of 138%, with five producers supplying 75% of the market, appears mild when compared with the control boards' 263% hike in egg prices and a 298% rise in the milk price. Price control is responsible for the 347% hike in the bread price, the report says.

The public sector is responsible for a 316% rise in railage and 350% in postage, beaten only by two large manufacturers' 406% boost in the price of aspirin.

"Essentially the food manufacturing industry is a series of oligopolies (a few large players) as per a number of industries supplying farmers such as animal feeds, fertilisers and fuel.

"The farmers are being squeezed between high input costs from the suppliers to their industry and low prices for their products from the food manufacturer or the control board," the report says.

Monopolistic situations exist in a number of industries supplying farmers with animal feed, fertiliser and fuel.

"Suppliers in an oligopoly can, in theory, increase costs to maximise revenue without having to improve quality, service or efficiency due to a lack of competition.

"Control boards were originally established to keep the farmer on the farm by regulating prices. The farmers are now going bankrupt at a rate of 15 a month and the consumer cannot afford to eat."

The report says that control boards are placing huge costs on the consumer to fund their operations, and yet there appears to be no benefit. "The Meat Board alone employs 1 600 people and those costs are carried by the consumer. They are bureaucratic bodies with no pressure to operate effectively or efficiently," it says.

Muscle

"Control boards should be restricted to international marketing alone and should be excluded from interfering with the local markets."

McGregors says the food manufacturing industry is also a series of oligopolies.

"Therefore they are able, in theory, to use their cohesive muscle to pass increased costs directly to the consumer and, possibly, even contribute to that increase. Once again, lack of competition negates the pressure for better performance, as well as quality and price."

Food prices, the report says, are dictated primarily by weather conditions, agricultural productivity, marketing efficiency and vigorous competition among processors and distributors.

In SA, control boards dictate what and how much a farmer should produce and what he should be paid for his crops. There is little or no competition among processors and distributors.

Why food prices keep on soaring

Star 7/9/91

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DES PARKER

Food price rises outstrip other contributors to inflation for a variety of reasons, including pressure on farmers from suppliers and manufacturers, lack of competition and bureaucratic agricultural control boards

This is the view of market researcher Andrew McGregor, who appeared on this week's John Berks M-Net show delving into the question Can we afford to eat?.

"Food prices are dictated primarily by the weather, agricultural productivity, marketing efficiency and vigorous competition among processors and distributors", he said after the screening of the show

"In South Africa, control boards dictate what and how much a farmer should produce and what he should be paid for his crops," he said"

"Essentially the food manufacturing industry is a series of oligopolies — meaning it is dominated by a few large players

"They are able, in theory, to use their cohesive muscle to pass on increased costs directly to the consumer and possibly, even contribute to that increase."

Control boards, established to keep farmers on the land by regulating prices, now served only to place "huge costs" on consumers in order to fund their operations — from which there appeared to no benefit.

While 15 farmers a month were going bankrupt, the meat board alone had swelled to the point where it employed 1 600 people.

Mr McGregor said the boards should be restricted to the field of international marketing and kept out of domestic markets.

Katlehong residents angry over wrong bills

B Day 10/9/91

THEO RAWANA

RESIDENTS of the East Rand township of Katlehong are angry after receiving exorbitant electricity bills because because of faulty meters.

And they claim that town councillors personally severed power cables to homes when township youths illegally switched electricity back on in the wake of punitive power cuts.

People in the township's upmarket satellite suburb of Spruitview held a march in the area last Friday to present a memorandum to the Transvaal Provincial Administration (TPA) and President F W de Klerk complaining of the local council's incorrect billing

They said June and July's electricity accounts ranged between R400 and R1 000 for each month and amounts that had already been paid were not credited.

Katlehong Mayor MacDonald Mhlana admitted on Friday that the meters were faulty, and said the council had now decided that the 500 000 residents should pay an interim monthly rate of R86,91 a month while the council's technical department tried to fix the meters

The Spruitview Ratepayers Association said in the memorandum that it had offered the services of two chartered accountants to assist the council's treasurer, but the council had failed to take advantage of this.

"As a result of the glaring inefficiency and unmitigated incompetence of the Katlehong Town Council, the residents of Spruitview have no option but to cast a vote of no-confidence against it"

It said the residents had resolved to ignore the council's accounts and pay a flat monthly rate of R100

But Katlehong Civic Association (KCA) president Paul Sehloho said the residents he represented had resolved to continue with a total rent and services boycott, pending the resumption of talks with the TPA and the Germiston City Council

He said negotiations on services had broken down earlier this year when money paid to the council for electricity had failed to reach the supplier, Eskom

Sehloho said his executive was working on a date to resume talks with the TPA

He also alleged that councillors had cut cables to households which had not been paying the bills

Union declares disputes at Mama's Pies

VERA VON LIERES

THE Food and Allied Workers' Union (Fawu) has declared a dispute at three Mama's Pies factories in Cape Town, Johannesburg and Durban

Spokesman Ernest Theron said yesterday the union had, in the course of negotiations, dropped its wage demand from a 35% across-the-board increase to 15,9% in an effort to reach an early settlement.

Negotiations, which started in June, affect about 800 workers

He said Mama's Pies had offered 8% during the second round of talks, but then told Fawu it planned to withdraw and remove the 8% offer

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After the union lobbied all Premier Food Industries divisions, the company agreed to continue wage talks and reinstated the offer, Theron said

However, the parties failed to reach agreement

A spokesman for Premier Food Industries said yesterday it was premature to comment on the dispute as a meeting between the parties had been scheduled in Cape Town for today

BRENMILL FM 13/9/91 (186)

Another fall

For the third successive year, Brenmill's earnings have declined — from 16,2c a share in financial 1988, to less than half of that last year. But the fall in profit in financial 1991 was apparently worsened by losses of product due to "irregularities" by senior staff. This has only been discovered recently and police are investigating

Chairman Arnold Brenner says turnover and margins remained under pressure in financial 1991 because of keen competition in the industry, as well as boycotts and labour unrest in the company's markets.

Turnover figures are not revealed, but a 11,2% increase on the previous year is reported — about the same in volume terms, reckons Brenner This annual increase compares to a 3,9% rise at the August interim stage, indicating an improvement in the latter half of the year However, profit figures suggest the opposite. operating profit fell 7,5% in the first half, but plunged 40,5% in the second six months compared to the same periods in financial 1990.

This, hopefully, reflects the irregularities "perpetrated by senior executive personnel acting in collusion at the two mills in Louis Trichardt" and not other underlying problems

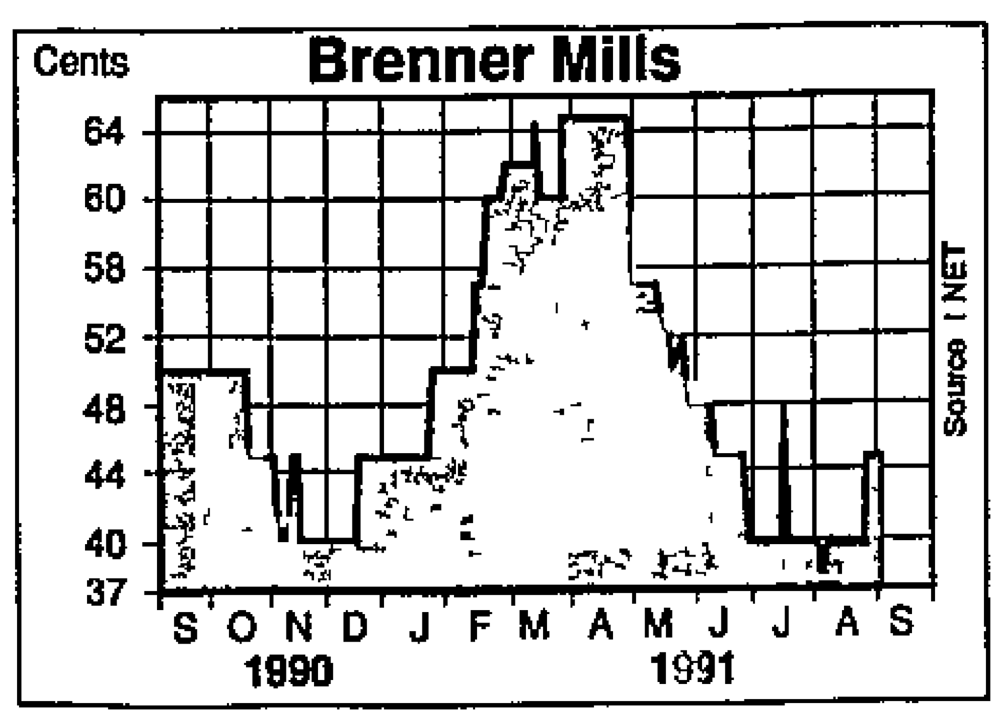
Brenner is reluctant to elaborate on the nature and extent of the losses, saying the matter is sub judice, but it seems that it will still affect results at the 1992 year's interim stage

The balance sheet remains sound, though there has been a run-up in interest-bearing debt over the past two years This, explains Brenner, is a result of offering extended credit to customers. An improvement in stock and other asset management is already helping to curb debt and a further improvement is expected this year

Brenmill is a small operator in the maize milling and animal feed markets, which are dominated by several giants, Premier, Fedfood and Tiger Oats. To prosper in these fairly static and competitive markets in financial 1992 will require innovation Brenner will venture no more than that management is hoping for earnings on a par with last year, but the halt in stock theft alone may serve to sweeten the bottom line

The Brenner family still controls 81% of the issued shares and the counter is not well traded At 45c, the market capitalisation is less than the value of the fixed assets Until the problems at Brenmill are clarified the share is unlikely to be in favour, though there may be interest in its underlying assets

Pam Baskind



Activities: *Maize meal, malt and animal feeds manufacturer*
Control: *Brenner family 80,8%*
Chairman: *A Brenner, Joint MDs M Brenner, Z Brenner*
Capital structure: *23,3m ords Market capitalisation R10,5m*
Share market: *Price 45c Yields 8,3% on dividend, 16,0% on earnings, p e ratio, 6,3, cover, 1,9 12-month high, 65c, low, 38c Trading volume last quarter, 167 000 shares*

Year to Feb	'88	'89	'90	'91
ST debt (Rm)	—	—	1,7	4,1
Debt equity ratio	—	—	0,06	0,16
Shareholders' interest	0,81	0,77	0,72	0,67
Int & leasing cover	—	—	9,3	5,3
Return on cap (%)	27,0	13,4	14,1	10,5
Turnover (% change)	18,9	8,3	18,7	11,2
Pre-int profit (Rm)	7,5	4,2	4,9	4,0
Earnings (c)	16,2	11,8	9,9	7,2
Dividends (c)	6,5	5,0	5,0	3,75
Net worth (c)	96	103	107	109

FOCUS: *So who is creaming it? The butter or the marge producers?*

W/Mail 13/9 – 19/9/91;

Vying for the buyers' hearts

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CRITICAL CONSUMER

Pat Sidley

THE butter and margarine manufacturers are at each other's throats again. This time, the butter people have dared to say in advertisements that their product contains fewer kilojoules than its rival , margarine.

The marge manufacturers have not exactly challenged this assertion but have cried "foul" at the notion of comparative advertising.

Consumers would be helped more if they could get hard information about products, whether or not it involved a comparison. And in this market — which in more ways than the obvious is a fight for the hearts and minds of consumers — hard, factual information is a scarce commodity.

The current row affects people who are in the main concerned about their weight. Will you getter fatter on butter or marge?

Even on the basis of the butter manufacturer's figures, there is not much difference. They state in each 500 grams of butter there are 15 000 kilojoules, compared to 16 000 kilojoules in marge. Any consumer can see that this means overdoing the butter or the marge will provide for extra weight in roughly the same quantities.

However, this does not deal with the different types of margarine available; it only holds good if the margarine at issue is ordinary margarine, whether in brick or tub form A claim that a margarine contains less fat is, by definition, a claim that it is less fattening.

But here again, the consumer is led into problem territory. "Low fat" often means the margarine contains between 40 and 56 percent "moisture" — the supermarkets refer to it as water — in place of the fat and the price goes up, not down.

The cholesterol story is a bit more complicated and involves the use of the terms consumers see on marge tubs all the time.

For "polyunsaturated fat" and "saturated fat", read "good fat" and "bad fat" on the cholesterol war front.

For those consumers watching their cholesterol, the aim of the game is to avoid saturated fats, usually found in animal fats as well as in certain vegetable fats. Unsaturated fats are desirable for high cholesterol sufferers because they can bring cholesterol down. At the very least, when they are used in place of saturated fats, they remove the threat of further damage.

However, warns Wits professor Harry Seftel, certain chemical processes are used in the manufacture of hard brick margarines which means the fats become saturated. This is not the case in soft "tub" margarines, he says. Butter, says Seftel, contains saturated fats and will elevate cholesterol.

The purists among medical specialists urge their patients to avoid all saturated fats whenever possible and get used to the idea of eating bread with no spread at all. Consumers, said one specialist, will inevitably get saturated fats in the meat that they eat, and life can be lived quite comfortably without butter or marge.

For many consumers, the issues are not life-threatening. Some like the taste of butter more and its versatility in cooking. Others like the spreadability of tub margarines.

Very few would like the prices of any of these commodities

A random sampling this week at one supermarket showed that the product with most "moisture" in it at 56 percent and "half the fat" — it's called Enjoy — cost R4,09 for 500gms This basically means paying double (most margarines cost about R4 for 500gms) for the small amount of actual margarine found in the tub.

Enjoy does not boast polyunsaturated fats, as does Floro Light, its stable-mate, also made by Unilever in Durban: 50 percent polyunsaturates and 48 percent "moisture" It also claims to have half the salt but most other margarines do not state the quantity of salt, so no comparison can be made

Many of the margarines have nutritional information printed on the tub (often only in one official language per tub) and most of it is unintelligible to the normal consumer. A great deal of it is missing, such as: which emulsifiers are used, which colourants and which flavourants.

The butter story is quite simple. It contains about four percent polyunsaturated fat, the rest of the fat is saturated and the product costs up to R4,50 for 500 gms.

One product with more information on the tub than others was "Butro" butter spread. It's not really for cholesterol watchers but would give butter addicts who want a spreadable, less fattening product a look-in. It contains 60 percent butterfat, 20 percent plant oils and 20 percent "moisture" as well as fat-free milk solids, and it lists the colouring agent

If producers are hoping to change consumers' buying habits in an advertising campaign, perhaps they could find something more persuasive than the fact that marge is 6,66 percent more fattening than butter. And by the same token, consumers are hardly served by the hysteria that seems to have generated in the other camp.

Hard information is more useful for consumers — whose lives might depend on it

ON THE SOUTHERN TIP

Why poor eat less

S/Times, 15/9/91

A MARKED drop in the sale of maize and maize products since May this year indicates that poorer people are eating less

Premier Food Industries chief executive, Mr Willem de Kok, said one of the reasons for the drop — which could be as high as eight percent — could be blamed on the economic recession and rising unemployment.

A statement from Premier said there was "abject poverty and burgeoning unemployment throughout the country" which indicated that people at the lower end of the market were eating less

Maize Board spokesman Peter Cownie said sales had dropped by 11 000 tons during May, June and July compared to the same period last year. However, he noted that sales frequently dipped at this time of the year.

Tiger Oats spokesman Patrick McLaughlin said his company had experienced a "marginal drop" in recent weeks

"There has been a downturn in manufactured foodstuffs generally — from wheat and maize products to rice and pasta.

(186)

"Times are tight, we anticipate that the food industry will be going through a difficult time for quite a while yet.

"It seems that people, particularly those at the bottom of the economic ladder, are eating less," he said.

Pot of gold awaits Rainbow shareholders

186

By Des Parker

Star 18/9/91

A pot of gold awaits Rainbow Chicken shareholders in 1993 as the Natal-based poultry producer reaps fuller benefits from the acquisition this year of its biggest competitor, Bonnybird.

Frankel Max Pollak Vinderine researcher Teigue Payne says that apart from the company's greater ability to influence production and price of chicken — because it has more than 50 percent of the formal market — its level of risk is lower, while it has the enviable task of doubling output within 10 years to meet demand

Likening its situation to that of monopoly softdrinks bottlers, he says in an analysis of the group. "No other major food group is so focused on such a high-growth market, so Rainbow is in an exciting relative position"

While earnings in the current year to end-March are forecast to dip from 20c to 19,5c a share, the price-earnings ratio is expected to drop sharply in financial 1993 as earnings take an expected turn for the better to 32,5c a share.

Although the current share price of around 375c appears to be discounting longer-term potential, its "rarefied" 1,6 percent dividend yield is based on abnormally low dividends — which, in turn are based on the group's temporarily weak position last March

Mr Payne says advantages stem not just from the group's monopoly but also its dominance in key areas of the country, such as the Cape, the West Rand and Natal Midlands.

In addition, fierce competition and discounting between Rainbow and Bonny Bird has disappeared, making the composite group less cyclical.

At the same time, assessed losses of about R175 million for Bonny Bird all but rule the Natal group out of the tax-paying league for up to five years, while the huge capital expansion of its feed division and its takeover of 50 percent of Epol — although expensive in the short-term — will reap great benefit.

Apart from the need to fuse the cultures of the two former competitors, the Hammarsdale-based company has to change its marketing approach from that of a dedicated commodity producer to one with a greater interest in "value-added" and niche markets"

Competition

External threats to the group emanate from competition from other producers "sheltering in Rainbow's price maintenance" and the prospects of greater competition from the unlikely prospect of Barlow Rand merging its Festive and Country Fair companies.

Some adversity stems from the reduced tradeability of its shares since this year's rights offer as a result of the greater concentration of ownership among very firm holders, who are unlikely to sell before Rainbow realises its long-term potential.

Only 2,4 percent of shares are held by individuals and 4,6 percent by institutions, while HLH has raised its stake to an effective 40,3 percent.

While the transfer to HLH of overall control of the group via the SC Methven Holdings trust established by late founder Stanley Methven is certain eventually, its occurence may be some way off because of other large capital commitments by HLH.

Bread price rise imminent

Pretoria Bureau Star 25/9/91

A rise in the bread price is looming, according to the South African Chamber of Baking

President of the chamber Fanie Ferreira yesterday announced that the price of bread "is likely to rise later this year due to substantial rises in bakers' input costs"

The implementation date and the new prices had not yet been determined

This announcement came shortly after the chamber's annual in-depth cost investigation of a representative sample of 56 bakers countrywide

According to the chamber, the wholesale price of bread was determined by the price of flour — which at present constituted 57 percent of the cost of a loaf — as well as production and delivery costs.

Mr Ferreira said in a media release that investigations had revealed that production and delivery costs alone had already risen by 8c a loaf with increasing wages being the biggest contributor (186)

This excluded the cost of an increase in the price of flour — which is mainly affected by the rise in the price of wheat.

ILO 'impressed' by labour developments

B/Day 25/9/91

VERA VON LIERES

THE International Labour Organisation (ILO) was "impressed" by developments in the SA labour field over the past year and was considering giving SA technical co-operation, Manpower Minister Eli Louw said yesterday

Louw was addressing a news briefing in Pretoria after a six-day visit to Western Europe and the UK The aim was to maintain contact with the ILO and to establish contact with tripartite bodies representing employers, the state and unions in the UK, the Netherlands, Germany and Switzerland

He said the ILO was considering using its experience and information resources in guiding SA labour relations from abroad At the moment, membership of the ILO was not a high priority, he said

Louw is the first SA Manpower Minister to have met the British Trades Union Congress and the tripartite Netherland's Socio-Economic Advisory Council The Dutch body impressed him and confirmed "the need for all major players in the labour field to act in unison"

In Geneva, Louw had talks with international trade union secretariats where, he said, it became clear that SA labour legislation compared favourably with the rest of the world

The political and economic failures of Africa, Eastern Europe and the Soviet Union had generated understanding for the NP's constitutional and economic proposals, he concluded during the visit One of the main criticisms of the proposals — levelled by trade unions — was that they did not meet the approval of the ANC

SA could learn from Germany's current success in the upgrading of industries and skills in East Germany, Louw said

Bakers warn of rise in bread price

GERALD REILLY

PRETORIA — A "substantial" bread price increase had become unavoidable later this year because of soaring input costs, SA Chamber of Baking president Fanie Ferreira said yesterday

His announcement follows the chamber's annual investigation into costs incurred by 57 bakeries across SA An industry source said an immediate price increase could be justified

B/Day

The source said further rises this year could not be ruled out

25/9/91.

However, there was concern in the industry about consumer resistance to rising prices In the past eight months bread sales had fallen 5% and further rises could accelerate this trend

The source said a major swing away from white to brown bread was expected when VAT was introduced on Monday Unless a last-minute concession is made, white bread will be subject to VAT

There could also be a wheat price rise in November, after a Wheat Board meeting next month to decide on a price recommendation

Unless there are good rains the current crop could fall below the 2,2-million tons needed for local consumption and wheat imports may be needed

Goods, service hikes outstrip food

B/Day 25/9/91

(186)

CAPE TOWN — The sharp rise in food prices may not be the major player in the stubbornly high inflation rate in SA, says Sanlam in its latest economic review

Chief economist Johan Louw says "It is disturbing that recent sharp price hikes have not been limited to food products only, but the prices of non-foodstuffs have also increased considerably

"On average it would appear that the prices of various goods and services rose even faster than food prices in general during the first seven months of 1991"

Sanlam shows that the highest increase for the period compared to the first seven months of 1990 came from household consumables which rose by a hefty 24%

Next were alcoholic beverages at 22,6%, cigarettes and tobacco at 21,8%, public transport at 21,6% and medical care with an increase of 21,3%

Food was about halfway down the list with an increase for the period of 16,2%. Bottom of the list were communications and housing at about 5,5%

Sanlam expects inflation to still be around 15% at the end of this year, but to decline gradually to about 12% by the end of 1992 The group sees an improvement in general economic activities for 1992. The upswing will progress slowly, however,

Louw warns

The recession can largely be attributed to the weak and uncertain growth of the agricultural sector

Louw regards the following as signs that the economic downswing is bottoming out

- The leading economic indicator has shown an upward tendency since January;
- The public sector's current expenditure is showing a reasonably sharp and expansionistic increase,
- The change to VAT forms part of a fiscal package that should encourage private consumer spending as well as capital investment by companies,
- The continued improvement in the balance of payments, and
- The lifting of sanctions

On the other hand, the next upswing is being retarded by the stubbornly high inflation rate, increases in wages and salaries that exceed the inflation rate, and the continuously uncertain political climate

Louw expects this year's growth rate to be negative at about 0,6%, and predicts a positive real growth rate of 2% for 1992 The balance-of-payments position remains fragile over the short term, resulting in the maintenance of strict exchange-control measures for the immediate future, he says No significant drop in long-term interest rates is expected in the next few months — Sapa

Ensuring they're making ends meat

186

Star 26/9/91

By John Miller

Boerewors butchers beware — that's the message from meat laboratory head Dr Willem Botha.

Dr Botha said that once municipal health inspectors began checks on butchers, he expected the number of offences to increase

He said that since the regulations on boerewors and braai wors or sausages changed several months ago, there had been a slight increase in the amount of below-standard products tested

Unscrupulous

He believed that soya was still being used by certain butchers to supplement meat in the making of boerewors even though a small percentage of the vegetable protein is permitted in braai wors.

"At least the public now has the law on their side since the regulations were introduced"

He said unscrupulous butchers would continue to get around the regulations until municipalities stepped up inspections

None of the three major supermarket chains has reported an increase in sales since the quality of boerewors and braai wors was gazetted

Blue Ribbon managing director Gareth Ackermann agreed that proper policing of the boerewors and braai wors market was needed to maintain standards.

The new regulations have not led to any changes in the standard of these products sold at Checkers, Pick 'n Pay and OK as they have for a few years continued with the same recipes

Johannesburg City Council's deputy medical officer Dr Claude Newbury said inspectors regularly visited butchers and took samples for testing

Since the new regulations were gazetted there had not been any fines imposed, he said

A first-time offender is subject to a R100 admission-of-guilt fine

Anyone who wishes to complain about the standard of boerewors or braai wors may telephone the city council on (011) 407-6111

Bread price shock for consumers

Star 28/9/91. (186)

PAULA FRAY

CONSUMERS are facing a series of price increases that could see the price of a loaf of bread top R2 by the end of the year

On Monday, the price of white and wholewheat bread rises by 10 percent as a result of VAT Only brown bread and mielie meal will be zero-rated when the new tax is implemented

Pass

Some shopkeepers have already said they will pass their increases and 10 percent VAT on to consumers

Earlier this week the South African Chamber of Baking announced the price of baked bread was "likely to rise later this year due to substantial rises in input costs"

Chamber President Fanie Ferreira said investigations showed production and delivery costs alone had already risen by 8c a loaf with increasing wages being the biggest contributor

Yesterday, the Winter Grain Producers' Organisation recommended an 18 percent increase in the selling price of wheat The farmers' request will be sent to the Wheat Board and the Minister of Agriculture The possible increase in the bread price is an

● TO PAGE 2.

No haste to save on tax

THE expected rush by shoppers to beat the VAT deadline did not take place yesterday.

Normal sales were reported by the larger chainstores in the northern suburbs but some managers said sales started to drop after 3.30 pm because of the approach of the Jewish Sabbath.

In the western suburbs, especially at Highgate shopping centre, most shops were open until 7 pm. Many customers said they were doing their normal shopping for the month and expressed little concern about VAT.

● More reports on Pages 6 and 12.

(186) Bread

● FROM PAGE 1.

added burden for embattled consumers already battered with fluctuating prices after the deregulation of the industry and the dropping of the bread subsidy.

Winter Grain Producers' Organisation chairman Chappie Ferreira said yesterday the group had recommended a basic selling price for wheat of R614 a ton to the Wheat Board for the 1991/92 season. This is 18 percent more than the present selling price of R520 a ton.

While she sympathised with the farmers, Housewives' League president Lyn Morris said the timing of the announcements was "incredibly insensitive".

Mrs Morris said the farmers' request for an 18 percent increase was now in the hands of the Minister, who would decide before November

"It is the retailer who decides on the final price," she added.

● There is also growing concern over the effects of VAT on bread. A shopkeeper told Radio 702's Vatline this week his bread price would increase from R1,30 to R1,56 as a result.

He said his present cost price was R1,18 before his mark-up. He had already been informed that the new cost price as a result of VAT would be R1,29 After his normal mark-up this would be R1,42 plus VAT, bringing the price to R1,56.

Bread price rise call insensitive

Star 20/9/91.

By Paula Fray
Consumer Reporter

Consumer bodies have criticised the "insensitive timing" of calls for increases in the bread price — as shoppers face a 10 percent rise in the cost of white and wholewheat bread today as a result of the introduction of VAT.

This follows an announcement on Friday that the Winter Grain Producers Organisation had recommended an 18 percent increase in the selling price of wheat

Last week the SA Chamber of Baking said the price of baked bread was "likely to rise later this year due to substantial rises in input costs"

While she sympathised with the farmers, Housewives League president Lyn Morris said the timing of the announcements was incredibly insensitive

(186)

Mrs Morris said the farmers' request for an 18 percent increase was now in the hands of the Minister of Agriculture

She said retailers, who made the final decision on the price, would not necessarily pass on the increases to consumers

Consumer Union chairman Lillibeth Moolman said there should be a 30c difference in the price of white and brown bread after the implementation of VAT

The announcements by farmers and bakers could mean an extra 5c and 8c on top of VAT and the retailers' margins, she said

This was after the size of bread was reduced from 850 g to 800 g when the industry was deregulated and the subsidy dropped.

Low bread consumption worries baking industry

B/Day 15/4/91

186

GILLIAN HAYNE

THE consumption of standard bread has decreased since the November 1 price increase and the removal of the government subsidy, but has not been followed by a commensurate increase in the consumption of mealie meal — a situation which does not augur well for social stability, baking industry sources say

And with government's failure to zero-rate standard white bread, which comprises 50% of the bread consumption of the poor, the burden looked set to increase, Premier CE Peter Wrighton added

More than 80% of the standard bread produced in SA is consumed by the poor, with an equal preference between white and brown The baking industry is expecting a change in buying habits after the implementation of VAT, but some members are still dissatisfied about the distinction between white and brown bread.

However, Tiger Oats public affairs spokesman Patrick McLaughlin said the distinction between white and brown bread was government's way of continuing with its previous subsidy — which was much higher on brown bread than white — and as such the group believed it was a good move

He said an estimated 35% of the expenditure of the lower income population was spent on food, and the extension of the zero-rating to maize meal and maize-based cereals was welcomed

Wrighton expressed concern that the R220m voted for food assistance would be swallowed up in administration and not reach the people it was intended to help.

He also noted that R220m seemed an inadequate amount in the light of the substantial profit government was making on importing wheat

Although the industry is disappointed that rice and milk powder will not be zero-rated, it has admitted they are not major staple foods in SA

● See Page 8

Rights issues to raise R636-m

Finance Staff Star 19/4/91 186

To fund Rainbow Chicken's recent acquisition of Bonny Bird Farms and a 50 percent stake in Epol Animal Foods, a total of R636,45 million is to be raised in three related rights issues

Rainbow is offering shares at 270c a share on the basis of 34 for every 100 held to raise R252,45 million.

Hunt Leuchars and Hepburn Holdings (HL&H), which has a 25 percent interest in Rainbow, will raise R223 million, to follow its rights and underwrite the issue

It is offering 14 shares for every 100 held at R11,50 a share.

Huntcor, the holding company of HL&H, will in turn raise R161 million to take up its rights and underwrite HL&H's offer

It is offering 14 shares for every 100 at R23 a share This issue is underwritten by Rembrandt Group.

Premier Group 'poised to buy Metro'

MARCIA KLEIN

186

FOOD giant Premier Group was set to acquire Tradegro subsidiary Metro, a market source said yesterday

The source said Premier was about to buy the wholesale and retail group for 300c a share Bday 24/4/91

The market reacted yesterday to the possible acquisition with shares being offered at the last traded price of 350c.

Premier chairman Peter Wrighton would not comment last night

Speculation has been rife for some time that Premier was looking at Metro, which would be sold in terms of Sankorp's proposed unbundling of the Tradegro group

Premier and Sankorp have not previously confirmed or denied possible deals Sankorp has said it would not conclude any deals until after the Tradegro unbundling, but if an offer was made to Tradegro, it would have to consider it.

Another market source said Premier and Bidcorp were the major players involved in negotiating for Metro

Tradegro subsidiaries Smart Centre and the Frasers mine stores chain have already been sold to Pepkor

Chocolate giant may swallow a bitter pill

(186)

W/mail 26/4-2/5/91

By GLENDA DANIELS

CHOCOLATE giant Cadbury may have to swallow a bitter pill — a consumer boycott of its products.

About 500 Food and Allied workers at Cadbury plants in Johannesburg, Pretoria, Durban, East London and Port Elizabeth are striking — and they have strong support for their call to boycott Cadbury products.

Eastern Cape representatives from the African National Congress, the SA Communist Party, the Port Elizabeth Black Civic Organisation and the Congress of South African Students this week attended a Cosatu meeting where it was decided to boycott Cadbury products.

Fawu official Sebastian Hempe said the boycott would probably take on a national flavour once "higher structures" were consulted.

The company is prepared to pay the workers a minimum of R7,07 per hour, while the union is demanding R7,82 per hour across-the-board.

The group personnel manager Malcolm Ackhurst said: "We believe the offer we made was fair and reasonable."

Hembe said they were not satisfied as the group made a "profit of R36-million after taxation last year."

FM 26/4/91 (186)

TIGER FOODS FM 26/4/91 (186)

AN INTEGRATED DIET

Maritzburg has been hard hit by the plague of violence in Natal, so Tiger Foods' decision to invest R120m in its plants there is arousing both interest and some puzzlement in the local business community

The University of Natal's Indicator report estimates that the violence has cost the province about R2,5bn over the past four years, excluding incalculable losses such as diverted investment, productivity and reduced business confidence The report claims that an unidentified industrialist planned to invest about R110m in a new complex but decided to locate in the Transvaal

At the centre of Tiger's project is a new R100m maize and wheat mill for Tiger Oats, which will replace KSM Mill in Durban when it comes on stream late next year

KSM Milling MD Martin Lowry, who will make the move from Durban to Maritzburg, says that in line with Tiger's policy of vertical integration of different staple food plants, the Maritzburg complex offers advantages in transport and distribution.

"Maritzburg is more centrally placed for getting the different products distributed across the country It will also make it easier to supply our bakeries, like the new Albany Bakery being built across the road "

Another key factor in the decision was that Tiger has owned the vacant land for nearly three years

The rationalisation will integrate four factories that run as individual business units The new mill, now about half finished, will be capable of processing 24 t/hour of maize and 16 t/hour of wheat It will have a grain storage capacity of about 30 000 t in 20 silos and bins It is on a 5 ha site next to Tiger's Meadow Feeds plant, which supplies Natal with animal feeds

Adjacent is the group's Tastic Rice mill, which is getting part of Tiger's R265m budget for plant, machinery and upgrading projects this year Across the road, Albany is converting the premises for a new R14m bread plant that will produce 6 000 loaves an hour

The integration follows a similar process in Randfontein at Tiger's biggest complex, a 25 ha site with maize, wheat and feed mills — capable of a combined monthly average output of 68 000 t — bakeries, and plants that produce edible oil and margarine, pet food, soya and peanut butter

While the integration at Maritzburg is on a smaller scale, it's a big investment for the city and will combine locally and nationally distributed Tiger products For example, the Tastic, maize and wheat mills produce only national brand products, Albany Bakery has just under 50% of the Maritzburg market, and Meadow Feeds, despite some exports to the Seychelles and Comores, concentrates on the Natal agricultural market

With its long contract with Rainbow Chickens due to expire in two years, Meadow is starting to look at new markets Rainbow, which is contemplating mixing its own feeds, now accounts for about 30% of Meadow's production

"Up to now we have not had to market very aggressively, there was no need," says Meadow MD Guy Bestel "But there is a bigger market out there, for example in Zululand and northern Natal We are also keen on increasing exports The end of sanctions makes our prospects look pretty good "

Albany's Ray Mooney says the bakery in Maritzburg was becoming too small for the operation "In the early Seventies we began as a 3 000-loaves-an-hour plant, which was pretty significant in those days Now we are producing 6 000 loaves an hour in three shifts." The new bakery should start by October ■

RAINBOW/HLH FM 26/4/91 . (186)

FUNDING THE POULTRY EXPANSION

As expected, Rainbow Chicken has announced a rights issue to fund its large acquisitions from Premier Group It remains to be seen how many of the shareholders will take up their rights. But for Rembrandt-controlled Hunt Leuchars & Hepburn (HLH), which owns about 25% of Rainbow, the effects will include an increased exposure to the poultry industry, with its low margins and fluctuating earnings — though the long-term growth has been good

HLH maintains an almost ungeared balance sheet but is raising R223m in its own rights issue to underwrite Rainbow's R252m issue Rainbow's issued shares will be increased by 34%. The ultimate underwriter is Rembrandt, which will inject more than R100m into Huntcor, which controls HLH

HLH is able to exercise the rights of S C Methven, which owns 68% of Rainbow The Methven family realised some of their interests in Rainbow at the time of the listing, and HLH considers the family "less than likely" to take up their rights in this offer Should HLH take up its own rights and those of the Methven family, it will increase its shareholding in Rainbow to 42%

The Rainbow year-end will change from June to March, to bring it into line with the Rembrandt stable. HLH will continue to equity-account Rainbow But HLH executive Andrew Gallow stresses that the group intends to increase its holding in Rainbow but not to take control.

This is the second time HLH has held a rights offer to fund its investment in Rainbow In June 1989 it issued shares worth R148m, at a price of 775c, when it acquired the 25% stake. It was almost fully subscribed with just 0,5% of the shares not taken up. The HLH price has risen to 1 300c, so shareholders have not done badly since then

HLH has evidently proved to be a useful partner which gave full backing to two key Rainbow moves the decision to integrate backwards into feed mills; and the recent acquisition of Rainbow's main competitor, Bonny Bird, and 50% of Epol animal feeds The present rights issue is designed to fund this deal

However, the new Rainbow shares, at 270c, are being pitched 15c below the June 1989 issue price of 285c. Because of the legendary reputation of the company's founder, Stanley Methven, and Rainbow's reputation for efficiency, it was awarded instant blue-chip status. The issue at the listing was 92% oversubscribed, though most brokers considered them expensive at a p e of 10,9 on the forecasted earnings.

But Rainbow's performance as a listed company has been bumpy EPS for financial 1989 of 26,8c exceeded the forecast of 26,1c, but Rainbow was 1c short of its 1990 EPS target of 32,3c More significantly, earnings declined by 11% at the December interim compared with the December 1989 interim

Analysts agree that Rainbow's offer at 270c does not offer value in the short term One broking firm predicts EPS of 20c in the year to March 1991 — giving a p e of 13,5 — and 23,6c in 1992, well down on 31,3c for the year to June 1990

But there is disagreement about Rainbow's long-term prospects One analyst argues that Rainbow is at the bottom of its earnings cycle and will enjoy the benefits of the Bonny Bird acquisition by 1993

"Much of Bonny Bird's older capacity had been shut down before it was sold to Rainbow," he says "Rainbow's tight management systems should ensure the former Bonny Bird operations make a full contribution by the beginning of financial 1993 (April 1992) "

The long-term growth in demand for white meat, which has grown almost as rapidly as the demand for red meat has declined, underpins the optimistic view The pessimistic view, held by Ed Hern, Rudolph's Sid Vianello, is that Rainbow's decision to build its own feed mills for R237m — instead of continuing to buy feed from Tiger subsidiary Meadow Feeds — has turned Rainbow from an interest earner to a borrower He says the potential profitability of the mills is difficult to assess

Rainbow's strong cash position has enabled it to ride out economic downturns in the past Says Vianello· "The key to Rainbow has always been that it has been a highly-focused business which concentrates on just one product."

As for HLH, analysts fear that its earnings from Rainbow will be of lower quality than those from its interests in sugar, spices and timber

Nevertheless, Vianello believes the HLH offer is more promising than is Rainbow's — largely because a diversified portfolio should have better long-term prospects than a counter dedicated to the volatile poultry industry.

Stephen Cranston

CONS MINING FM 26/4/91

LAING DEPARTS

In an unexpected and sudden parting of ways, Consolidated Mining Corp (CMC) MD Glenn Laing has split from the group's controlling consortium led by Norman Lowenthal, Gerald Rubinstein and his original Southgo partner, Roy Flowerday.

Laing has formed a new mining company

FM 26/4/91

called Revere Resources SA, with an overseas partner he declines to identify He intends building a mining group concentrating on surface and opencast mining operations, but will not provide further details of his plans at this stage

Reason for the split, according to both Laing and Consolidated Mining director Norman Lowenthal, was an irreconcilable

Cons Mining's Laing ... *a difference of opinion*

difference of opinion on how CMC should be managed and on the group's longer-term objectives Both stress the parting is amicable

Says Laing. "The essential difference between me and my former partners is that I turn 40 this year while the rest of them are aged between 53 and 60 In my planning I'm looking 20 to 25 years ahead, while they are looking five to 10 years down the road

"I want to go for long-term growth while they are looking at setting-up the group to cash in their stakes in about five years," adds Laing. "I am not prepared to stay with the group if it's going to be sold out from under my feet in five years' time."

Lowenthal confirms this difference in viewpoint but denies the group would be sold in five years "Five years is a long time in SA," says Lowenthal "We've been through a rough time and the group cannot simply keep on growing We have to consolidate and make money for the shareholders In five years we can reassess CMC's future."

Laing says the structure of the Wolhuter

continue —17

Premier moves on Score and Metro

(186) (3a) BDay 29/4/91

MARCIA KLEIN

FOOD giant Premier Group is to acquire Score Food Holdings in addition to Tradegro subsidiary Metro in deals estimated to have a value of about R300m

The transactions will see the merging of the businesses of Metro and Score Food Holdings

The Metro acquisition — estimated by analysts to be at 300c a share — will be followed by Metro undertaking a rights offer underwritten by Premier for more than R100m.

In an announcement today Premier, the Score Food group, the Tradegro group and Metro say that agreement in principle has been reached for Premier to acquire 70% of Tradegro's 36% shareholding in Metro It will extend an offer to acquire 70% of each minority shareholder's holding.

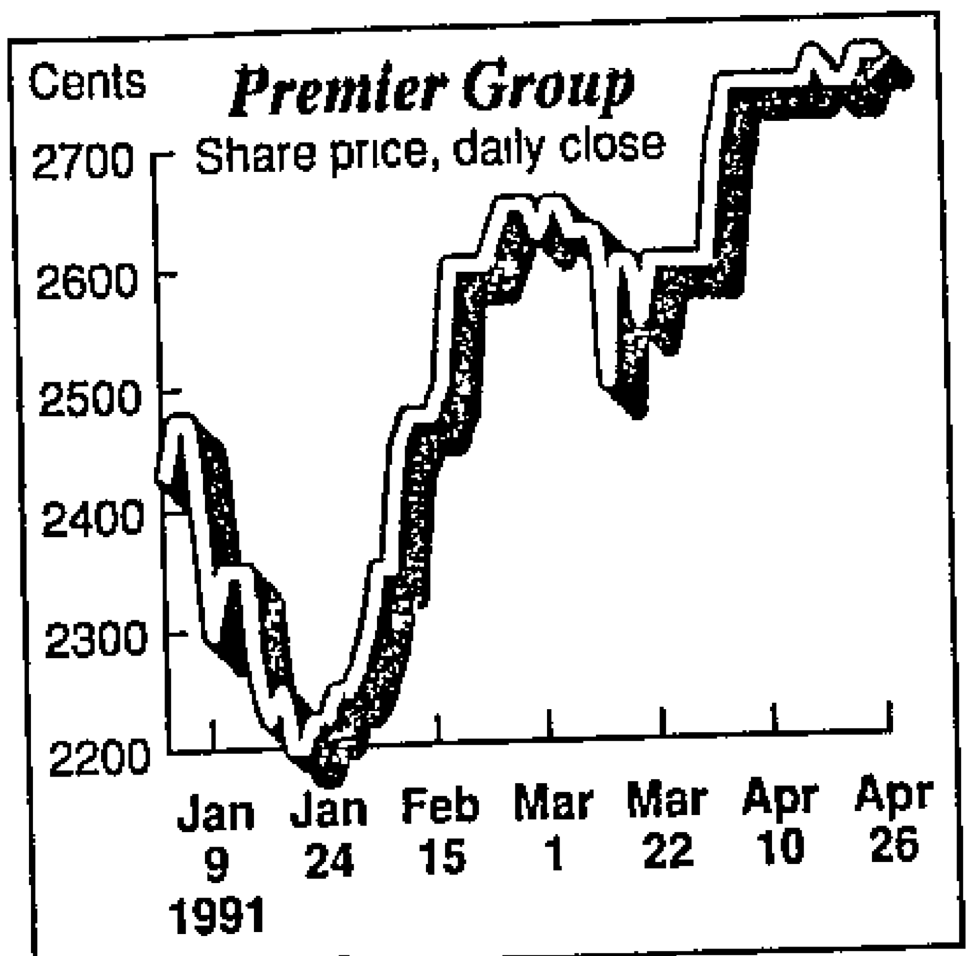
This would leave Premier with an effective 50% to 60% holding in Metro

Cash and carry group Metro's rights offer — estimated at over R100m — will be undertaken in order to reduce its debt Metro's interest-bearing debt increased by 45% to R124,6m (R86m) in the 26 weeks to end-December, contributing to the group falling into the red. It reported an attributable loss of R342 000 (earnings of R15,5m) on a 23,5% increase in turnover to R2,14bn (R1,73bn)

Following the completion of the rights offer, the entire issued share capital in Score Foods — 15,1-million shares — will be exchanged for shares to be issued in Metro, thereby merging the businesses of Metro and Score All transactions are subject to the conclusion of formal agreement

Premier CE Peter Wrighton said yester-

☐ To Page 2



Graphic FIONA KRISCH Source JSE

Premier in huge deal with Metro and Score-Clicks

186

Star 29/4/91

By Ann Crotty

Industrial/food conglomerate Premier has announced its intention to acquire control of Metro and the Score-Clicks group in a massive deal that will involve a rights issue by Metro and the merging of the country's two largest cash-and-carry operations.

If the transaction is concluded, it will give this food-manufacturing group control over the biggest cash-and-carry operation in SA.

There are no details about the price at which the deal will be struck, but at this stage market sources believe the Metro leg of the deal will be priced at around 300c a share and payment is likely to be effected through Premier shares Metro is the country's largest cash-and-carry wholesale operator.

Score-Food which owns Trador, the country's second-largest cash-and-carry operation, had a net asset value of just over 300c a share at end-financial '90

Today a joint cautionary was issued by the seven companies involved in the deal — Premier Group, Hi-Score, Score-Clicks, Score Food, Tradehold, Tradegro and Metro

It says Premier will acquire 70 percent of Tradegro's shareholding in Metro and will extend an offer to acquire 70 percent of each minority holding

A rights offer will be undertaken by Metro to reduce debt. And the entire issued share capital in Score Foods will be exchanged for shares in Metro.

The third leg of the deal will result in Premier getting effective control of Hi-Score, which is the listed controller of Score Foods and Score-Clicks

(Premier's interest in this group has been built up over the last ten years and at end-March '90 it included a 20 percent stake in Score Foods, a 24 percent stake in Score-Clicks and a 25 percent stake in Score Discount Food Holdings — an unlisted company that has ultimate control of the group).

Peter Wrighton . . planning deal for some time

The size of the Metro rights issue will not be known until Premier has got a better hold on the debt position of the company

This will involve completing a due diligence and identifying divisions of Metro that will not fit into a much more focused operation

Indications are that Premier will focus on the cash-and-carry wholesale outlets of both Metro and Score.

For Metro this means the possible disposal of Frasers, Trade Centre and Fairways

For Score it means, the possible disposal of its retail outlets. These operations may be sold off or given a separate listing

It is likely that the rights issue will be around R100 million and be pitched at about 300c a share. The issue will be underwritten by Premier.

The enlarged Metro operation (including Trador) will have more than 200 wholesale cash-and-carry warehouses and be headed by Score's Carlos Dos Santos.

Premier chairman Peter Wrighton said at the weekend that the group had been planning a deal of this sort for some time.

He referred to the one 1c redeemable preference share in Tradehold which was issued to Premier in the late Seventies as part of the conditions surrounding a R9 million loan made by Premier to Kimet. (Kimet was a predecessor of Tradehold)

The share carries considerable rights in the event of a break-up of Tradehold.

In addition, Mr Wrighton noted the steady investment that Premier had undertaken in the Score group over the past 10 years.

It is unlikely that any of the other manufacturers will make much fuss about a manufacturer (Premier) getting control of a distributor (Metro)

There is a great need for a strong cash-and-carry market in SA. Metro and Trador are major customers of some of these manufacturers The deteriorating management situation at Metro and Trador has been the cause of considerable concern among the manufacturers.

As Mr Wrighton pointed out "For us the effective distribution to smaller retail customers is becoming as important as manufacturing"

Because of the relative ease of entry into the C&C market, Premier will not be able to abuse its control position.

For Premier, the move will add a new division to a group that some analysts believe is becoming too dependent on the manufacture of mealie meal and bread.

Premier acquisitions draw mixed reaction from analysts

186 (98)

B Day 2/5/91

MARCIA KLEIN

ANALYSTS have differing views of Premier Group's acquisition of Metro and Score, which will see Premier becoming a dominant player in SA's wholesale cash and carry industry.

Industry observers said on Tuesday that the deal, at about R300m, would only benefit Premier if the group could turn Metro and Score around and if excellent management skills were employed.

It made sense for Premier to control its own distribution, and the enlarged group would have greater buying power.

This and less competition would improve margins. However, Metro and Score were "in a bad way".

Metro recently reported an attributable loss of R342 000 and Score's earnings dropped 47,6% to 52,2c a share.

One analyst said Metro and Score's wholesale divisions, Metro and Trador, as well as Premier, would gain from the deal as Premier would increase its wholesaling ability, and Metro and Trador would get top management

Other analysts were concerned about what management would be put in place.

As wholesale was generally not profitable unless managed particularly well — as was Makro — analysts said the deal would be cheap for Premier only if it could get wholesale divisions to work profitably.

Metro and Score "had taken their problems on the nose" The more they took now, the less Premier would pay for them. As next year's results would come off a low base the acquisition might look good in the short term, an analyst said. Both groups had begun rationalisation programmes, and with Metro's rights offer of about R100m they would be recapitalised.

Analysts were not optimistic about the retail operations Metro's Fairways was largely rural-based compared with Score's stores, which were in cities.

However, the retail division would be small compared to the wholesale operation, with retail turnover at R750m to R800m The retail group would also have more financial muscle following a rights issue

While one analyst was "reasonably pessimistic" about the deal, another said "All that Metro and Score needed was direction from the top, a good parent group in Premier, and a reduction in debt."

Most said the issue for concern in the long term was management's strength.

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(186)

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Ocfish earnings slide

The Oceana Fishing Group (Ocfish) reported a 38 percent drop in earnings and a lower dividend for the six months to end-March, in spite of an improvement in turnover.

Net operating income decreased to R5,2 million (R8,5 million) although sales increased to R144,2 million (R130,2 million).

The decrease in operating income was mainly as a result of the reduced carry-over fish-meal stock from 1990, non-recurring restructuring expenses and lower margins in the trading activities, the directors say.

Attributable income, after taking outside shareholders' interests into account, accordingly decreased to R4,1 million from R6,6 million, equivalent to a decrease in earnings per share from 70,9c to 43,9c. The interim dividend was dropped from 30c to 25c.

The directors say that it is unlikey that the group will catch its full rock lobster quota during the 1991 season and the forecast made in the 1990 annual report of improved earnings in the current year are not expected to be achieved.

However, they expect that subject to any unforeseen circumstances, the second six months will show better results that those reported for the half-year. — Sapa.

Imperial family sells out

(186)

Star 3/5/91

By Ann Crotty

In a number of deals done on and off the market yesterday, almost six million Imperial Group shares — representing 43 percent of total equity — changed hands at a price of R12,50

According to an official announcement, a group of seven of SA's largest institutions and the MD of Imperial, Bill Lynch, were the buyers

The sellers were the family shareholders, many of whom are non-resident.

Mr Lynch bought 2,7 million of the shares off the market at R12,50

Although the R12,50 represented little advance on this week's trading level, it is sharply ahead of the level of 750c that was dominant a few months ago

Control has passed from the family shareholders, but there has been no mention of a change of control or an offer to minorities

This suggests that the seven institutions and Mr Lynch did not act in concert

It seems that the previous controlling shareholders were holding out until the share price reached a level at which they were prepared to sell

When the R12,50 level was reached, they quickly offered their shares to the institutions

After yesterday's transaction Mr Lynch has around 25 percent of the group's shares Ahead of yesterday's deal, Momentum had around 25 percent. It is not known if Momentum was involved in yesterday's buying

Prodigals on their way back to the Premier fold

(186)

S1 Times (Bus Times) 5/5/91

By JULIE WALKER

PREMIER GROUP chief executive Peter Wrighton says there are no magic wands to restore pride and profit to the Metro group.

He believes the core businesses are strong enough to return to glory under the leadership of Carlos Dos Santos.

Agreement in principle has been reached among Premier, Tradegro and Score-Clicks Subject to the conclusion of formal agreements, Premier will buy 70% of Tradegro's 47% holding in Metro and underwrite a rights offer to reduce its debt

Salvage

To bring Mr Dos Santos back aboard the group he and his team ran so well a decade ago, the issued share capital of Score Foods will be exchanged for shares in Metro. The businesses will be merged

Mr Dos Santos is managing director of Score Foods

Tradegro will sell only 70% of its Metro holding Possibly it hopes to salvage something by holding on to the balance as an investment managed by Premier Premier will make a bid for 70% of minorities' Metro stakes

Mr Wrighton and Premier deputy chief executive Gordon Utian this week recalled the historic associations of Premier, Tradegro, Score and Metro

Metro was jointly controlled in the 1970s by Kirsh, Katz and Tiger Oats, among whom there was a pre-emptive rights agreement

Kirsh circumvented the rights by buying out the Katz family interests through which they were held Tiger cried foul, but lost a court battle in which the judge was Mervyn King. He later left the bench and joined Kirsh He is still a director of Metro.

Thereafter, Kirsh approached Premier for financial help involving Metro, and was issued with R9-million in preference shares through Kimet

Premier was granted rights to Metro which did not lapse with repayment

As time passed, Sanlam group's Sankorp bailed Kirsh out of financial difficulties The Kirsh name was changed to Tradegro.

Now that Sankorp has decided to unbundle much of its group, Premier was approached about its rights

Mr Wrighton says "It was entirely fortuitous Perhaps management by institution has not been good for Metro."

More than 10 years ago, the then Metro chief Mr Dos Santos left the group, reportedly after a disagreement with the two Ks He took four managers with him and set up Score Foods His backers were David Tabatznik and Premier.

"We were one of the original backers of Carlos Dos Santos," says Mr Wrighton "We have built up our stake to an effective 36% of Score Food Holdings"

Backers

Score did well for many years, but Metro struggled through management and policy changes and ill-conceived acquisitions.

Then Score became involved in imprudent diversions, and its results suffered in the past two years Both companies lost their blue-chip labels

"Carlos is one of the best hands-on managers around," says Mr Wrighton. "The big mistake at Score was the foray into retailing through Grand Bazaars It took management's eye off the ball"

Premier's motivation for the Metro-Score deal is to improve its distribution to smaller customers Premier already has 50 warehouses throughout SA and Metro's 183 outlets plus Score's 37 allow for synergy

"With the economic downturn there is no shortage of management Metro's middle management is good There is a shortage of good leadership Carlos will be back doing what he does best"

Mr Utian says it is in the interests of manufacturers for SA to have well-managed wholesalers

"This deal provides the key to unlocking the wealth in Metro As the new South Africa develops and wealth is spread, businesses like Metro will benefit.

"Distribution is a separate business In the end, brand names are what count"

He dismisses suggestions of a vertically integated Premier Group.

"Only about five of our product groupings are sold through cash-and-carry outlets It is an absurd notion that we manufacture, wholesale and retail our goods"

Cultures

Mr Wrighton says Metro will be refocused, merged with Score and recapitalised

Details of the rights offer are not available because the deal has not been concluded Metro's debt is well over R100-million.

Premier shares are at a high of 2 825c ahead of results due on Wednesday

PETER WRIGHTON. Brand names count

Metro's are off their low at 300c and Score's are 500c

Mr Utian expects the first set of results from the new grouping to be neutral There will be many changes, disposals, merging of cultures and teething problems

That is, if the deal goes ahead.

Mr Utian says "We had to issue the warning and we did not do so lightly We are going through everything I can't say if we'll go ahead or walk away."

● **Metro workers intended to strike at the weekend in protest against retrenchments**

Shield follows right road

BDay 7/5/91

MARCIA KLEIN

SHIELD Trading's results for the year to end-February, in which earnings grew by 34,4%, reflected the correctness of its decision to concentrate on strategic franchising, said a director

Shield, which distributes food and allied products to its 385 retail and wholesale franchise members, increased its turnover by 26,7% to R648,9m (R512,2m), and boosted its operating income by 47,3% to R18,2m (R12,4m)

Group director Mark Smith said yesterday that results at the turnover and operating income level were "a clear indication that the group's disinvestment from straight retailing or wholesaling proved to be correct"

In 1989 the group decided to sell its Success outlets and to concentrate on strategic franchising. Smith said the concept of franchising had proved to be "a good formula for Shield, with each store's management control being as good as possible"

He said that operating income included interest earned for the year, which was substantial because of tight management control

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This was also a reflection of effective management contol at head office

Rebates of R10,2m (R7,3m) reflected a 39,7% increase in rebates paid to franchise members

Smith said many listed companies did not make at the bottom line what Shield gave out to its members in benefit payouts

Income before tax was nearly 60% up at R8,1m (R5,1m), and increased tax of R3m (R2m) resulted in a 34,4% rise in income after tax to R4,2m (R3,1m)

Earnings increased similarly to 12,6c (9,4c) a share At the February 1990 year-end Shield forecast earnings "well in excess of 25%"

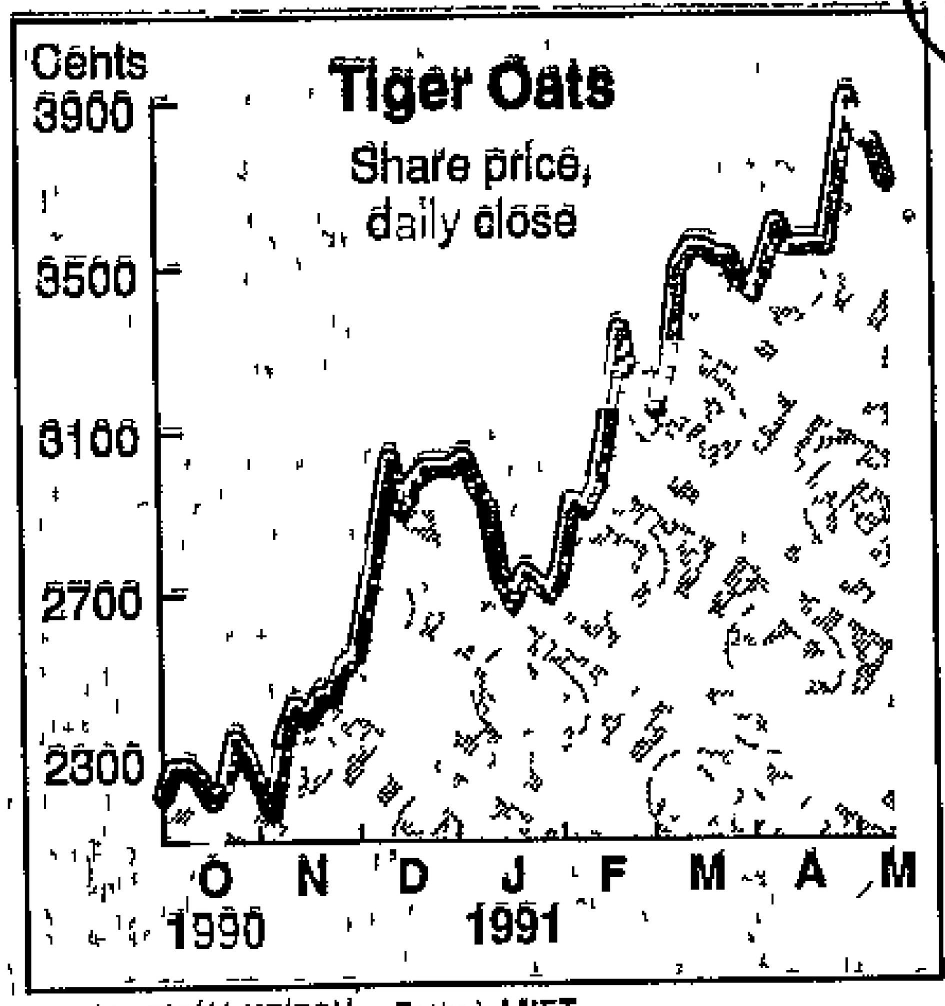
A dividend of 6c a share — including an additional dividend of 1c a share — was declared, 33,3% up on the dividend of 4,5c a share declared at the end of financial 1990

Chairman and MD Theo Muller forecast that good results would again be achieved for the year ending February 1992"

Tiger Oats finds the right mix

(186) 8 Day 8/5/91

MARCIA KLEIN



Graphic FIONA KRISCH Source I-NET

FOOD giant Tiger Oats, benefiting from its broad mix of activities and its recent acquisitions, has reported a 21% increase in after-tax profit to R163,0m (R134,6m)

However, an increase in minority interests following the Beacon Sweets acquisition diluted earnings, and attributable earnings grew by 13% to R136,1m (R120,8m), with earnings increasing similarly to 98c (87c) a share.

Turnover rose by 21% to R3,9bn (R3,2bn), and operating income came up by 23% to R289,7m (R236,3m) Tiger chairman Robbie Williams said yesterday that margins had been maintained at a time when conditions made it difficult to improve margins.

☐ To Page 2

Tiger Oats

8 Day 8/5/91

(186) ☐ From Page 1

Net interest paid increased from R27m to R44,9m, bringing pre-tax profit up by 16,2% to R246,5m (R212,2m) An interim dividend of 25c was declared, 14% up on the 22c declared for the same period in financial 1990.

The directors said yesterday: "The broad and balanced mix of activities, including the positive contributions of recent acquisitions Beacon and Langeberg, is evident in the interim results."

MD Clive Wolpert said the value-added acquisitions had improved the balance in the group's portfolio.

Williams said "Beacon has certainly performed well, as have certain of the other subsidiaries, particularly Langeberg, the distribution and shipping companies and Tastic Rice"

Tiger Foods was the major contributor to after-tax profits, with an increase of 20% to R123m.

Fishing interests, housed in Oceana, contributed R5m, a decline of 35%. Tough trading in the bakery division — Albany — was "a function of the unrest situation".

In terms of the broiler division — County Fair — Williams said there was an oversupply in the market which had had the effect of substantially lowering prices

Pharmaceutical interests, including Adcock Ingram and Logos, contributed R35m to profits after tax, representing an increase of 42%.

Short-term trading conditions were not expected to improve and Williams said the group's performance in the second half would be in line with the first six months.

Tiger Oats lifts profits by 21%

CAP-TIMES 8/5/91

From MARCIA KLEIN

JOHANNESBURG. — Food giant Tiger Oats, benefitting from its broad mix of activities and its recent acquisitions, has reported a 21% increase in profit after tax to R163,0m (R134,6m).

However, an increase in minority interests following the Beacon Sweets acquisition diluted earnings, and attributable earnings grew by 13% to R136,1m (R120,8m), with earnings increasing similarly to 98c (87c) a share

Turnover rose by 21% to R3,9bn (R3,2bn), and operating income came up by 23% to R289,7m (R236,3m) Tiger chairman Robbie Williams said yesterday that margins had been maintained at a time when it was difficult to improve margins due to current conditions

Net interest paid increased from R27m to R44,9m, bringing pre-tax profit up by 16,2% to R246,5m (R212,2m). An interim dividend of 25c was declared, 14% up on the 22c declared for the same period in financial 1990

Gearing went up from 39% at year-end to 47%, but Williams said this was merely a question of timing, and gearing would be down to last year's level by the September year-end.

Directors said yesterday that "the broad and balanced mix of activities, including the positive contributions of recent acquisitions Beacon and Langeberg, is evident in the interim results"

MD Clive Wolpert said the value-added acquisitions had improved the balance in the group's portfolio, and Beacon, Langeberg and the pharmaceutical division were all strategic in this sense

Williams said "Beacon has certainly performed well, as have certain of the other subsidiaries, particularly Langeberg, the distribution and shipping companies and Tastic Rice"

However, trading conditions remained difficult in the broiler, bakery and fishing companies

Tiger Foods was the major contributor to profits after tax, with an increase of 20% to R123m

Fishing interests, housed in Oceana, contributed R5m, showing a decline of 35% Williams said the group was hoping that the anchovy quota would be increased, giving the fishing division a better second half

Tough trading in the bakery division — Albany — were "a function of the unrest situation, as sales were lost if distribution areas were not accessible", Wolpert said

In terms of the broiler division — County Fair — Williams said there was currently an oversupply in the market which has had the effect of substantially lowering prices.

Premier in line for re-rating after excellent performance

Star 9/5/91.

By Ann Crotty (186)

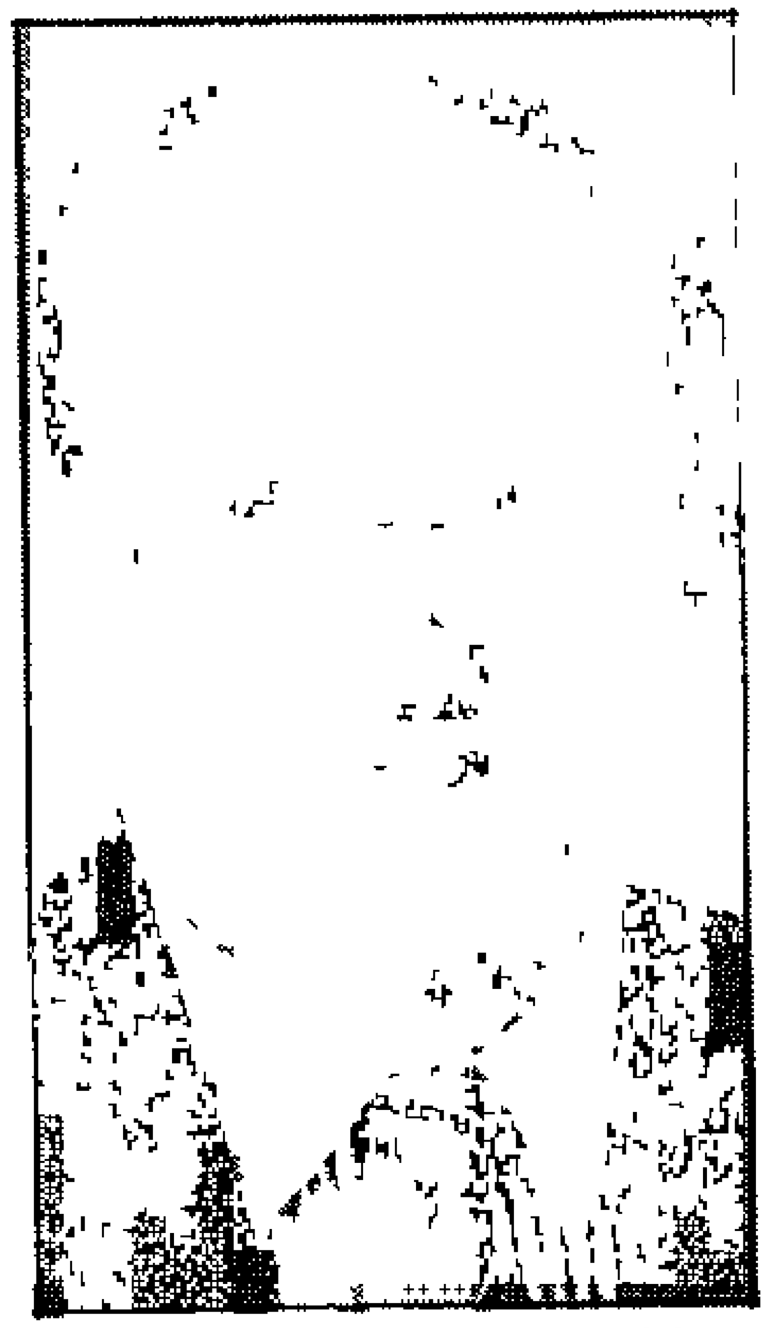
Premier's better-than-expected 17 percent hike in earnings to 210c (180c) a share should help to sustain a move towards a stronger rating for this share.

It's not so much that the strong '91 results alone could earn Premier an improved rating. It is the fact that the group has been turning in solid earnings improvements for a number of years now This is the sort of thing investors expect from blue chip companies

However it may be a long time before Premier achieves a similar rating to that of Tiger On these latest figures Premier is on an historic p/e of 13,2 times compared with Tiger's 20,4 times (historic for the year to end-September)

If another 25c is added to Premier's eps to allow for its more conservative treatment of tax (on a comprehensive and not partial basis as Tiger does), then Premier's p/e drops to 11,8 times

This could mean that the scope for share price advance is that much greater (Although it should be noted that this sort of arguement usually precipitates counter arguments relating to the differences in derivation of earnings figures between any two companies)



Peter Wrighton . Looking for satisfactory growth again

	12 mth to 31/3/91	12 mth to 31/3/90	% Change
Turnover (Rm)	5094	4342	14
Operating profit (Rm)	374,7	336 2	11
Operating margin %	7,35	7,74	–
EPS (c)	210	180	17
Dividend (c)	70	60	16 6
Share price	2775	1600	–
PE ratio	13,2	8 9	–

And it may be that the difference in ratings not only reflects Tiger's more solid long-term performance but also perceptions about the differences in strategy Tiger has a much more diversified food basket with a strong emphasis on value-added items

Looking to the review year it seems that the second half performance was down on the first half chiefly because of a deterioration in trading conditions in the food division and also the dismal results from pharmaceuticals A major turnaround is expected from pharmaceuticals in '92

As the results from the non-food listed interests are known, emphasis is now on the performance of Premier's food division

This division accounted for R2,96 billion (R2,5 billion) of group turnover Operating profit was up 13,2 percent to R189 million (R167 million) and margins were squeezed to 6,4 percent (6,6 percent)

There are four sectors within the food division Milling and baking (which includes agribusiness) is by far the dominant It contributed R2,18 billion (R1,87 billion) in turnover, R148 million (R136 million) in operating profit and margins were down to 6,8 percent from 7,2 percent The slight deterioration reflects the weakness in the second half as adverse socio-economic took their toll on activity

Chief executive Peter Wrighton notes that a drop in volume sales of standard bread was countered by a move to special breads Plans for a major new milling plant in Pietermaritzburg have been put on hold until the market looks stronger

Meanwhile whatever market growth is anticipated will be handled by additions to existing plants This decision has reduced the group's capex outlay (This helped to keep gearing at a low 24,6 percent (23 percent)

Edible oils (which includes distribution) contributed R677 million (R599 million) to turnover, R19 million (R14 million) to operating profit and margins were up to 2,8 percent (2,3). Mr Wrighton is looking for continued although probably slow improvement from this front

The fishing figures were R106 million (R68 million) turnover, R15 million (R11 million) operating profit, with margins down to 14,1 (16,2) percent The stronger than expected performance here is attributable to the strength of recently acquired Atlantic Fishing

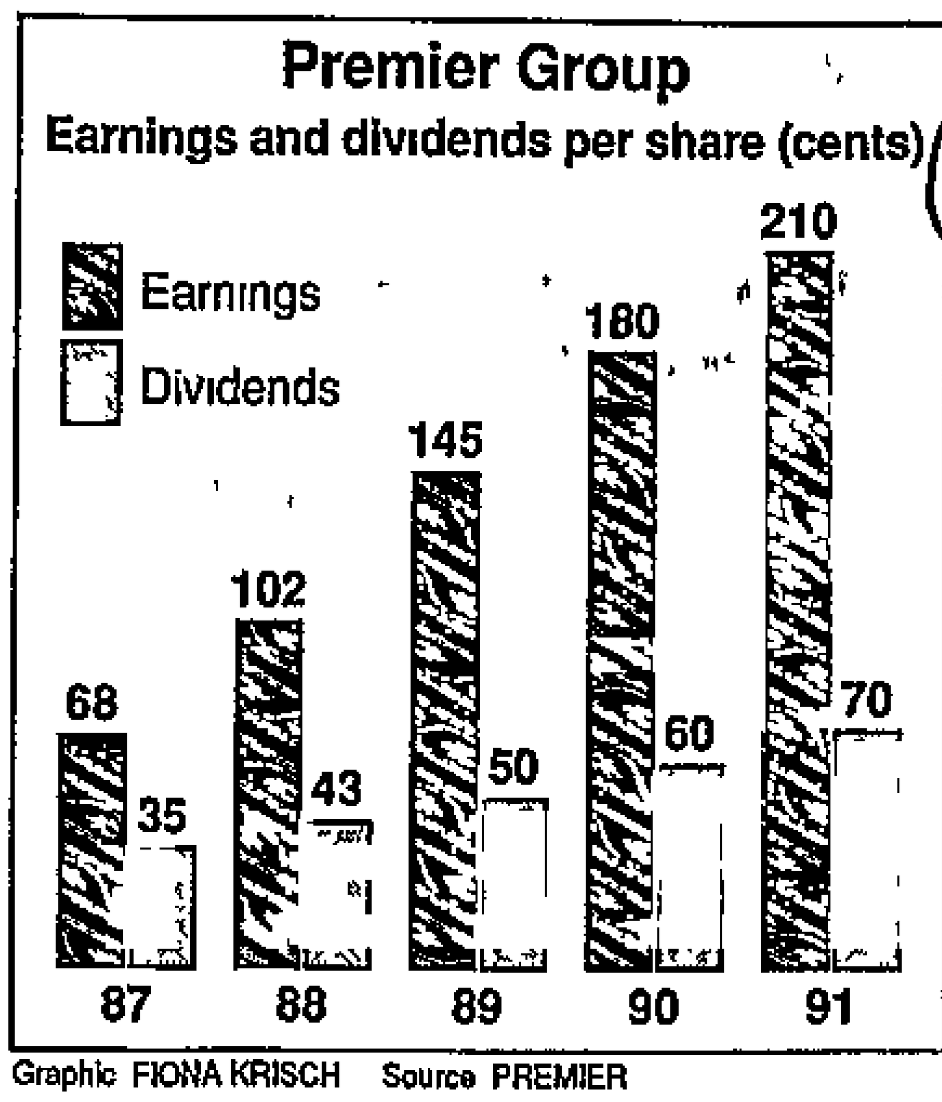
(The fourth sector — services — accounted for the remainder)

A break-down of the R153,6 million attributable profit figure shows a very strong contribution from associates

The Food Division provided R82 million of attributable profit; pharmaceuticals R21,6 million, CNA Gallo R18 million and, associates about R34 million which is sharply up from the estimated R20 million from associates in '90 Strong performances from international trading and Teltron are part of the explanation

For financial '92 Mr Wrighton is looking for "satisfactory growth again" In the absence of major adverse developments this could mean some real growth

Premier's earnings jump 26%



MARCIA KLEIN

(186) FOOD giant Premier has turned in record results with a 26% rise in attributable earnings to R153,6m for the year ended March, despite chairman and CE Peter Wrighton's recent remarks that it would take an enormous amount of effort to meet budgets. B Day 10/5/91

Premier's results, bolstered by sterling performances from the food division and CNA Gallo, were "particularly pleasing given the difficult trading conditions", Wrighton said. Over the past five years Premier had shown a 46% compound growth in earnings

Turnover rose by 17% to R5,1bn (R4,3bn), and trading profit was 11% up at R374,7m (R336,2m) Margins had de-

□ To Page 2

Premier B Day 10/5/91

(186) □ From Page 1

creased to 7,4% from 7,7% and were under pressure especially in the second six months with the substantial increase in the price of bread and flour, Wrighton said

A 7,2% increase in the interest bill to R81,5m (R76,0m) saw net profit before tax 13% higher at R293,2m (R260,2m) Gearing increased marginally from 23,1% to 24,6%, reflecting "continued financial discipline"

An increase in Premier's tax rate from 42% to 43% resulted in taxation of R125m (R110,3m) The group provides on a comprehensive basis for deferred tax

Profit after tax — after dividend income and equity accounted earnings — was up by 20% to R219,6m (R183,7m).

Wrighton said this was boosted by a strong performance by Premier's international trading division and Teltron, as well as increased contributions from the additional investment in Score, Walhold and Nu Metro

Minority and preference dividends of R66m (R61,6m) reflected flat earnings from pharmaceutical groups Twins and Gresham

Earnings per share, which were diluted by the rights offer in September 1989 and the ordinary shares issued to fund the Atlantic fishing acquisition, increased by 17% to 210c (180c)

A final dividend of 42c a share was declared, with the full-year dividend increasing by 17% to 70c (60c) a share.

Premier's share closed on Wednesday at R27,74, not far off its yearly high of R28,25, and a long way from its 12-month low of R14,75

Food interests boost HL&H (186)

MARCIA KLEIN

FORMER timber-orientated firm Hunt Leuchars & Hepburn's (HL & H) continued emphasis on its food interests has proved a good move for the group.

HL & H, whose interests include Robertsons, Transvaal Sugar, Rainbow Chicken and HL & H Timber Holdings, increased its attributable income 18% to R117,6m (R99,9m) in the year to end-March.

An increased number of shares in issue resulted in earnings growing by 12% to 91,2c (81,4c) a share for the group in the Rembrandt stable.

CE Neil Morris said results were most satisfactory, given difficult trading conditions experienced by all companies in the second half. At the interim stage attributable income had increased by 30%.

The group's focus on food would be sharpened when it increased its 25% stake in Rainbow Chicken to 40% following proposed rights offers by Rainbow, HL & H and Huntcor.

Turnover in subsidiary companies increased by 26,5% to R587,1m (R464,2m), operating income rose by 23,5% to R117,8m (R95,4m), and income before interest and tax was 23,3% up at R141,3m (R114,7m).

Subsidiary companies maintained operating margins at levels close to those of

☐ To Page 2

Food boost

BDay 10/5/91

financial 1990 "despite the increased write-off to trademarks acquired during the year", Morris said.

During financial 1991 borrowings increased by only R50m despite the acquisition of Bovril, Marmite and the Monate brands and businesses, as well as the expansion of the milling and citrus activities at Transvaal Sugar.

A 72% hike in interest to R24,8m (R14,4m) and an 8% decrease in taxation to R33,0m (R35,8m) — due to tax allowances on capital expenditure — saw income after tax 29,5% up at R83,5m (R64,5m)

Income from associated companies fell by 4% from R35,4m to R34,1m because of pressures on all the group's timber markets, difficulties in the mining industry and high mortality and lower selling prices in the broiler chicken industry

(186)

☐ From Page 1

Robertsons increased its sales by 40%.

A final dividend of 19c a share was declared, bringing the full year dividend up by 12,8% to 32,5c (28,8c) a share.

HL & H recently announced a R223m rights offer following the proposed R252,5m rights offer by Rainbow Chicken. This follows Rainbow's acquisitions of 100% of Bonny Bird and 50% of Epol Animal Feeds.

Holding company Huntcor, with a 77% interest in HL & H, would raise R161m in a rights offer underwritten by Rembrandt.

Investment holding company Huntcor's net attributable income was 17,8% up at R91,3m (R77,5m) A final dividend of 38,3c a share was declared, bringing the full year dividend up by 12,8% to 65,5c (58,1c) a share

Premier lifts earnings 26%

Cape Times 10/5/91 (186)

Own Correspondent

JOHANNESBURG. — Food giant Premier has turned in record results with a 26% rise in attributable earnings to R153,6m for the year ended March, in spite of chairman and CE Peter Wrighton's recent remarks that it would take an enormous amount of effort to meet budgets.

Premier's results, bolstered by sterling performances from the food division and CNA Gallo, were "particularly pleasing given the difficult trading conditions", Wrighton said.

Over the past five years Premier had shown a 46% compound growth in earnings.

Turnover rose by 17% to R5,1bn (R4,3bn), and trading profit was 11% up at R374,7m (R336,2m)

Margins had decreased to 7,4% from 7,7% and were under pressure especially in the second six months with the substantial increase in the price of bread and flour, Wrighton said.

A 7,2% increase in the interest bill to R81,5m (R76,0m) saw net profit before tax 13% higher at R293,2m (R260,2m).

Gearing increased marginally from 23,1% to 24,6%, reflecting "continued financial discipline"

An increase in Premier's tax rate from 42% to 43% resulted in taxation of R125m (R110,3m).

The group provides on a comprehensive basis for deferred tax.

Profit after tax — after dividend income and equity accounted earnings — was up by 20% to R219,6m (R183,7m)

Wrighton said this was boosted by a strong performance by Premier's international trading division and Teltron, as well as increased contributions from the additional investment in Score, Walhold and Nu Metro.

Minority and preference dividends of R66m (R61,6m) reflected flat earnings from pharmaceutical groups Twins and Gresham.

Earnings per share, which were diluted by the rights offer in September 1989 and the ordinary shares issued to fund the Atlantic fishing acquisition, increased by 17% to 210c (180c).

A final dividend of 42c a share was declared, with the full-year dividend increasing by 17% to 70c (60c) a share

Earnings of Premier's food interests increased from 67,2% to 74% of group earnings, representing R114m of the R153,6m attributable earnings.

In terms of financial 1992, Wrighton said Premier was in a good position for satisfactory growth

Premier's share closed on Wednesday at R27,74, not far off its yearly high of R28,25, and a long way from its 12-month low of R14,75

More than a million chickens snapped up

B/Day 13/5/91 (186)

MARCIA KLEIN

MORE than 1-million chickens were sold by two supermarket chains in a flurry of activity last week.

The Rainbow and Bonny Bird chickens were sold by OK Bazaars and Checkers.

More than 800 000 chickens were sold during the OK's three-day special offer — at R2,99/kg Shoppers clamoured so furiously that some of the birds did not even touch the shelves.

Checkers sold about 900 tons of chickens at R3,69/kg during the week of its nationwide promotion, a spokesman said.

The retail chains' special offers arose from producer Rainbow wanting to move an oversupply of about 1-million chickens.

Rainbow national marketing manager Bill Brown said on Friday that the chicken price was totally determined by supply and demand, and there had a sales slump after Easter Rainbow had to move its stock — mainly whole birds — which could not keep for a long time.

Brown said the lower prices generated "store traffic", and Rainbow was "extremely happy with the results". Other producers might well come up with special offers in other chain stores, he added.

OK marketing director Mervyn Kraitzick said the OK sold about 80% more chickens than expected The promotion was "an unbelievable success and indicated that the consumer was looking for an opportunity to save money".

At the OK's selling price it actually lost money, but the promotion was a "loss leader" It was an opportunity to give the consumer a good deal and to draw customers. As the opportunity arose, the OK would have more promotions, he said

ICS associates help to shore up income

B|Day 14|5|91 . (186)

MARCIA KLEIN

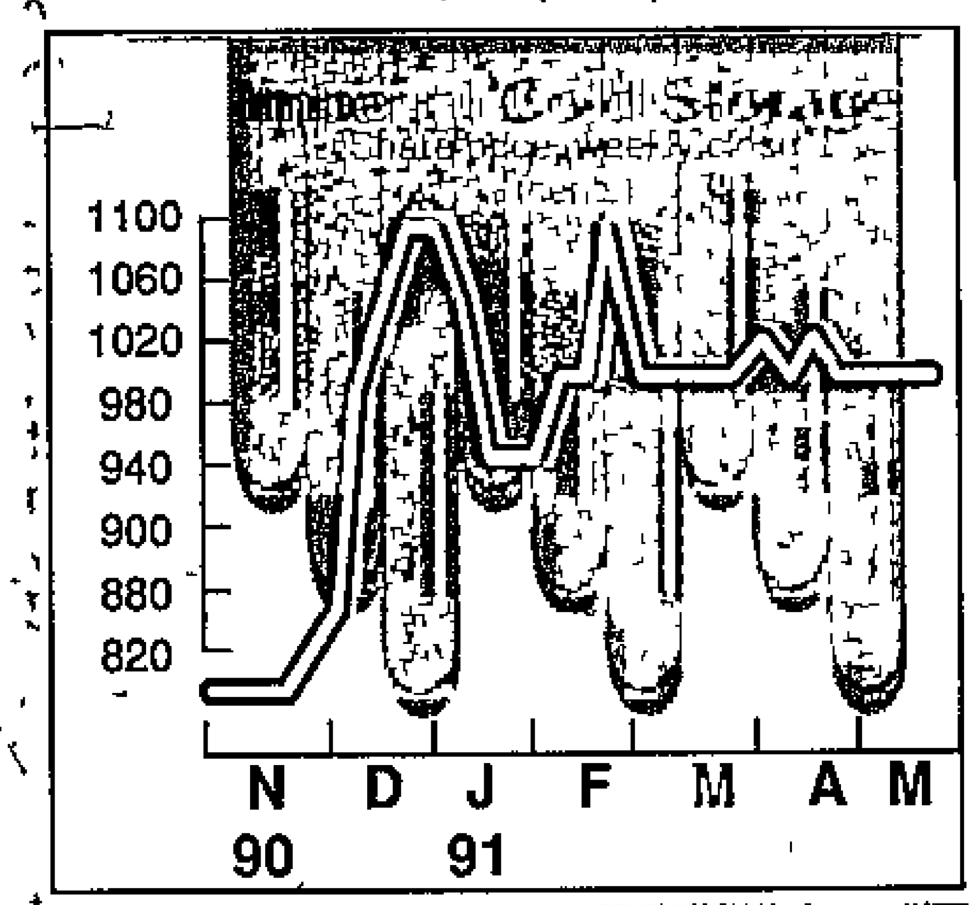
GOOD performances from Imperial Cold Storage's (ICS's) associated companies, including Sea Harvest, Bull Brand, Fedics and Chandling International, helped the food group almost maintain earnings in the six months to end-March.

Attributable earnings decreased by 1% to R24m (R24,3m) with earnings down similarly to 63,1c (63,8c) a share

ICS, whose other interests include Renown, DairyMaid and Festive, maintained its interim dividend of 14c a share.

Turnover increased by 3% to R1,08bn (R1,05bn), but operating profit was down by 19% to R18,6m (R23,0m), reflecting a pressure on margins.

Directors said difficult trading experienced during financial 1990 had continued during the six months A 14% rise in the interest bill to R10,2m (R9m) resulted in a 40% decline in operating profit after interest to R8,4m (R14,0m)



Graphic LEE EMERTON Source INET

After income from investments and an abnormal item of R4,4m (R3,0m) — representing the final dividends released on disposal of a foreign subsidiary — pre-tax profit was down by 28% to R14,7m (R20,4m)

After a reduction in taxation to R3,8m (R5,2m) profit after tax was down by 28% to R11,0m (R15,2m)

The slight 2% reduction in profits after tax and associated companies to R26,0m (R26,5m) resulted from a 33,6% increase in ICS's share of associated companies' retained profits to R15,1m (R11,3m)

Directors said depressed market prices resulted in a loss in the poultry operation housed in Festive, and results were also affected by the closure of the processing plant during March for maintenance and the installation of equipment which would improve efficiencies

Despite static market prices, restructuring within the meat division — in line with the restructuring programme announced by the group last year — contributed towards an improvement in profitability

Results in the dairy division, DairyMaid, were badly affected by the surplus of milk during the period, while the distribution division suffered from reduced volumes

Directors expected results for the full year to be lower than those of financial 1990, when the group reported attributable profits of R36,6m reflecting a 35% fall from the previous year

Mixed fortunes for CG Smith sectors

B Day 16/5/91. 186

MARCIA KLEIN

A MIXED bag of results from its operating companies saw investment holding company C G Smith, in the Barlow Rand stable, report a 6% growth in earnings for the interim period to end-March.

Directors said reasonable profit growth from the two major divisions — food and pharmaceuticals and packaging and paper — was partly retarded by a sharp decline from carpets and textiles

There was a 6% rise in earnings to R188,2m (R177,5m).

Earnings were 6% up at 400,6c (378,2c) a share after adjusting for associated companies and outside shareholders, and the interim dividend was increased by 6% to 111c (105c) a share

The group increased its turnover by 15% to R7,9bn (R6,9bn), and its operating profit by 8% to R627,3m (R579,8m)

The interest bill was 15,5% higher at R131,3m (R113,7m), and income from investments came down from R43,6m to R42,4m. On a slightly lower tax bill of R184,4m (R193,1m), reflecting the lower company tax rate, taxed profit increased by 12% to R354m (R316,6m)

Earnings

The food and pharmaceutical division, housed in C G Smith Foods, increased its contribution to 62% of the group's attributable profits at R116m, directors said.

C G Smith Foods' attributable earnings rose by 10% to R142,5m (R129,3m) and from 136,9c to 150,8c a share Directors said the group's pharmaceutical division, including Adcock Ingram and Logos Pharmaceuticals, showed the strongest growth, increasing the division's contribution to taxed profits from 13% to 15%.

Food companies retained their contribution at 61% with a "satisfactory increase in profits from Tiger Foods"

Sugar profits improved due to increased local sales and a reduction in their effective tax rate

Low rock lobster catches and "a reduced carry-over of fishmeal stocks from 1990" saw the fishing companies, including Oceana, drop their profit by 35% and their contribution to group profits by 2%.

A shorter production period reduced chemical division Smithchem's earnings, resulting in its contribution declining marginally to 22%

This division should show a recovery in the next six months, directors said

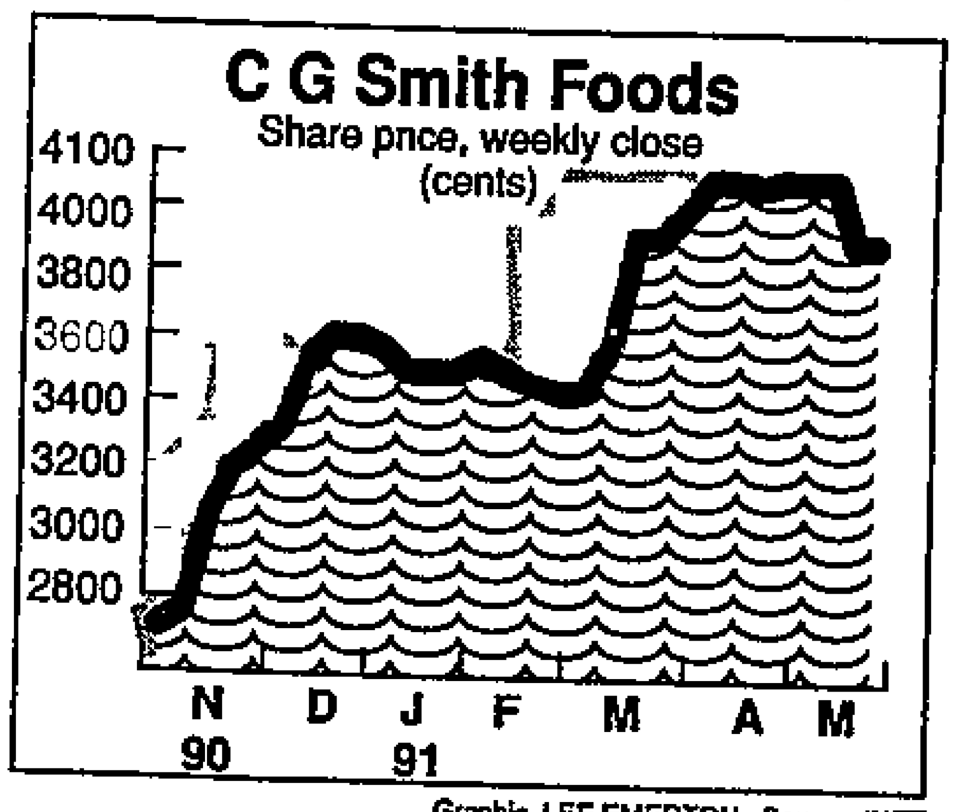
Imperial Cold Storage's performance was affected by depressed market prices, especially for dairy and poultry

Turnover for C G Smith Foods was up by 16% to R5,6bn (R4,8bn) and operating profit grew by 13% to R396,5m (R349,6m), reflecting a pressure on margins Taxed profits rose by 18% to R236,1m (200,2m), but earnings rose by 10% after adjusting for associated companies and outside shareholders A 9% higher interim dividend of 37c (34c) a share was declared.

C G Smith's packaging and paper division increased its attributable profits by 12%, contributing 37% to the group's profits Directors said trading conditions varied considerably across Nampak's divisions, and while strong growth in segments of the beverage industry benefited operations supplying those markets, other areas of the economy were less buoyant

The recession and high interest rates, "aggravated by a surge in textile imports", caused the carpet division, housed in Romatex, to drop sharply Its contribution to attributable profits fell 1%

Directors expected current levels of growth to be maintained for the full year



Graphic: LEE EMERTON Source INET

Anglo leads the way as suitors line up for Gants

B Day 16/5/91 186

ZILLA EFRAT

VARIOUS parties have been looking at buying loss-making food processing company Gants from Tollgate Group Holdings

An Anglo American spokesman confirmed yesterday that the corporation had held discussions about buying Gants' Venda, Bophuthatswana and Somerset West operations

But Gants financial director Olé Wilk said there were also other parties looking at buying Gants's operations

He could not confirm if there were any buyers at this stage

Earnings of Gants, which was delisted and incorporated in the Duros Group in February, have shown a steady decline over the past few years

Earnings a share of 21,7c in 1987 and 24,8c in 1987 plunged to 2,2c in 1989 after the company was acquired by Tollgate Group Holdings from the Gant family

The company turned in a loss of R3,4m, or 5,7c a share, in the six months to June 1990.

Directors said a loss of R15m was made for the full year to December because of high levels of stock

Tollgate has initiated legal proceedings against the Gant family claiming a R6m reduction in the price it paid for Gants

Sugar saves Tongaat from sliding further

16|5|91 BDay 16|5|91 (186)

BRENT VON MELVILLE

NATAL-based Tongaat-Hulett's sugar interests helped the medicine go down, but this was not enough to remedy a 19% drop in earnings to 190,6c (236,6c) a share for the year to end-March

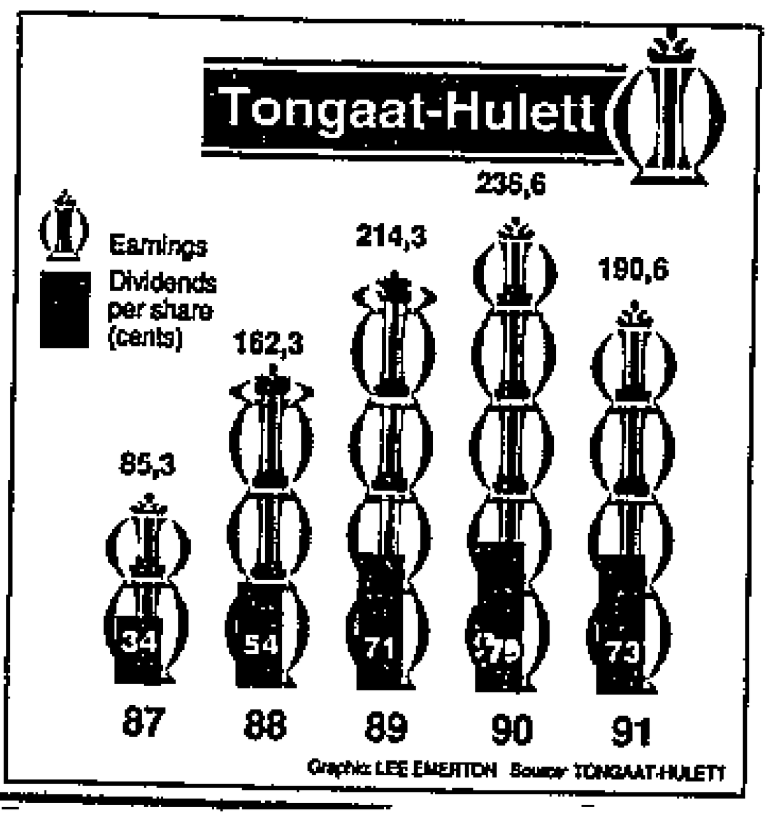
A poor performance in non-core divisions saw turnover up 2% to R3,8bn (R3,7bn) while trading profit was down 15% to R317,6m (R373,6m) At the bottom line earnings were down 19% at R142,6m (R177,1m) The total dividend was reduced 8% to 73c (79c)

The year's performance was ahead of the 25% drop forecast by directors at the interim juncture, prompted by a 29% dip in profits at the halfway point off a 3% rise in turnover However, a marginal recovery in world sugar prices and relatively strong performance from the sugar division helped bolster second-half earnings

However, the performance underlines the dependence of the group on its core sugar, starch and sweeteners businesses The performance of the food division, which headlines Tongaat's interests in mushrooms, edible oil processing plants, cotton gins, maize and animal feed mills, dehydrated food stuffs and industrial and commercial catering, was described by directors as "satisfactory"

Sluggish performances were recorded from all other divisions. A Tongaat spokesman said the building materials division (represented by Corobrik) continued to be burdened by the slumping building industry

He said Corobrik had mothballed 14 of its existing 41 plants over the past two years and was running at about 60% capacity "The division is very well-poised for any recovery in the industry, and particularly in low cost-housing, however"



Tongaat's textile division was hit in the first half of the year from unrest conditions in Natal and continued to post mediocre returns which were blamed on the "high incidence of low-priced imports" in the industry The division boasts one of the biggest integrated textile factories in the country in David Whiteheads.

Aluminium sales, through Hulett Aluminium (the largest manufacturer of semi-fabricated aluminium products in Africa) faltered as demand and export prices continued to drop.

Directors said that capex of R200m over the year would have little effect in the short term Borrowings for the year rose R51,7m to R377m (R325,3m), pushing gearing to 19,3% from 17,9% The interest bill moved up 17% to R105m (R89,6m)

Largely because of allowances on capital spending the tax rate was reduced to an effective 32% from 36%, to R68,8m (R102,9m)

At its current share price of R16 the results put Tongaat on a p e of 8,4 times and a dividend yield of 4,6%, which compares favourably with the sector averages of 6,0 and 6,8% respectively.

Food keeps PPI high

S1 Times (Buss Times) 19/5/91

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By DIRK TIEMANN

FOOD IS the strongest factor keeping the domestic producer price index (PPI) at a year-on-year 15,9%

The producer price inflation rise for food was 3,7% in March and for a year 27,9%

Nedbank chief economist Ted Osborn describes this as a shocking figure "Food nas a 8,64 weighting, which is significant"

The PPI is the index of prices which enter production or the market directly from abroad The imported component of the PPI fell from 15,3% in February to 8,3% in March The total PPI declined from 15,2% in February to 14,5%

Mr Osborn says imported prices are likely to drop even further in April when the full benefits of the lower oil prices are felt

"The oil component in the March index was high probably because of contracted deliveries and we were not getting the benefits of the lower spot price"

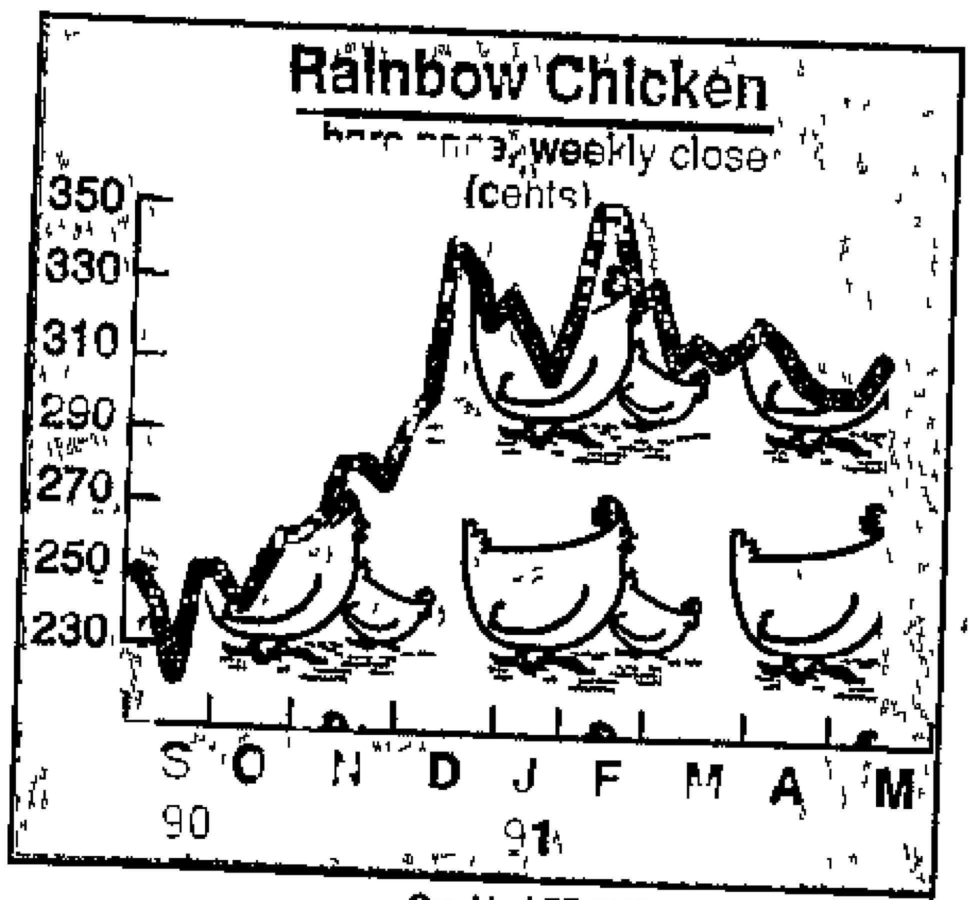
Domestically, the outlook for a decline in the PPI is less optimistic Wages are outpacing productivity, the rand is weakening and the cost of capital is high

Mr Osborn says the Reserve Bank has tried to break the spiral, in which inflation feeds on a rising PPI, by stabilising the rand There is a trade-off Inflation can be stabilised through a steady rand, but the cost is declining income for exporters

He says VAT will lift the consumer price index by 2,5% points

Hard times knock Rainbow

BDay 20/5/91.



Graphic LEE EMERTON Source INET

MARCIA KLEIN

WEAK consumer demand and oversupply in the broiler industry took the chirp out of Rainbow Chicken's results for the year to end-March (186)

SA's major chicken producer Rainbow's earnings dropped 36% in what MD John Geoghegan described as "the most difficult period of its history"

Because of a change in the group's year-end, results for the year to end-March were compared with those for the year to end-June 1990 Depressed selling prices resulting from weak consumer demand and an "all time high" production in the industry

☐ To Page 2

Rainbow

BDay 20/5/91

(186)

☐ From Page 1

were reflected in an 8,7% increase in turnover to R690,5m (R635,3m) and a drop in margins from 10,1% to 6,8%. Margins were also affected by higher broiler mortalities than usual because of disease Operating profit fell 27% to R47,1m (R64,2m)

Overproduction and weak demand led to "severely depressed prices" and yielded "disappointing results", Geoghegan said.

The utilisation of cash resources to fund Rainbow's expansion programme at Rustenburg and the inclusion last year of R9,9m in respect of the surrender value of an insurance policy saw interest and other income fall R18,7m from R28,1m to R9,4m.

Pre-tax profits plunged 38,7% to R56,5m (R92,3m). After tax of R1,4m (R6,2m), attributable profits were down 36% to R55,1m (R86,1m) and earnings declined similarly to 20c (31,3c) a share

No dividend was declared for the three months to end-March.

Major increases in the group's assets and liabilities arose from consolidation of acquisitions and capex of R84m.

Geoghegan said Rainbow was in the process of assimilating the acquisition of Bonny Bird and 50% of Premier's Epol animal feed division The trading results of both acquisitions would be brought into account from April 1.

Significant rationalisation benefits were expected to materialise from this.

Growth in earnings a share "would be difficult to achieve for the coming year"

With gearing of 24,6% after a R252,5m rights issue, Rainbow was "soundly structured for the future"

Rainbow Chicken feathers ruffled

Star 20/5/91

(186)

By Ann Crotty

The effects of weak market conditions have been aggravated by the need for Rainbow Chicken to use its cash resources to fund its Rustenburg expansion

In the year to March, earnings fell 36 percent to 20c (31,3c) a share

(The company has changed its year-end from end-June to end-March)

No dividend is being paid for the three months to end-March

An interim, based on results for the six months to September, will be considered when the interim results are announced

The directors say weak demand and excessively high production volumes in the industry resulted in depressed selling prices

The end-March balance sheet shows a major increase in assets and liabilities after the consolidation of the Bonny Bird and Epol acquisitions Gearing is up from nothing to 24,6 percent.

Management is not expecting earnings growth in financial '92 But of the medium term, it says "Significant benefits of the acquisitions and the major capital expenditure programme will be realised and prospects remain very positive."

Strong divisions make Fedfood healthy

B Day 21/5/91

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MARCIA KLEIN

SOUND performances from nearly all of its divisions resulted in a 12% rise in earnings for food giant Fedfood in the year to end-March

Earnings grew to R57m (R51m) or from 170c to 190c a share on a 13% rise in turnover from R1,14bn to R1,29bn Operating profit rose similarly to R109m (R96m)

A 45% rise in investments and financing to R29m (R20m) saw income before tax up by 5% to R80m (R76m) — which MD Jan du Toit said was a temporary situation partly caused by increased marketing expenditure to develop the group's exports

A reduced tax bill of R26m (R32m), due to a combination of non-taxable income and special tax allowances, resulted in a 23% rise in income after tax to R54m (R44m)

The lower tax rate was not expected to continue

Du Toit said the results of operations sold during the year — reflected in an amount of R2m — were shown seperately so the future earnings potential of the remaining divisions could be assessed

The dividend of 53c a share was 13% up on last year's 47c a share

Du Toit said the frozen food division, housed in Table Top and Harvestime, had done particularly well

Results for Nola and Fedpro, the grain based foods and edible oils companies, were sound despite lower malt contracts and unsatisfactory prices for edible oil

In terms of the group's fishing activities, rationalisation of the white fish activities, the purchase of abalone processor Sea Plant Products and positive cashflow from the sale of the division's Namibian interests contributed to "the most satisfactory results" for Marine Products

In the snack division Simba turned in "excellent results" despite the considerable loss suffered by the biscuit and breakfast food divisions (Febisco), and the sporadically high potato prices

Du Toit said improved results in real terms were expected in financial 1992.

Capital profit for Fedfood

Star 27/5/91

(186)

With satisfactory performances from almost all its divisions, the Fedfood group lifted attributable income 12 percent from R51 million to R57 million for the 1991 financial year-end

Earnings a share showing a corresponding increase to 190c (170c)

The dividend was up 13 percent to 53c from the previous year's 47c.

Managing director Jan du Toit says that despite the current operating climate, almost all the divisions performed well

Commenting on Fedfood's sale of its fishing interest in Namibia in December 1990, and of its interests in breakfast foods and biscuits, Mr du Toit said that these two transactions resulted in a capital profit of R24,9 million "against which certain provisions have been made for rationalisation costs"

Mr du Toit said that the five percent increase in income before tax was a temporary situation, partly caused by increased marketing expenditure to develop group's exports

The low tax rate was the result of a combination of non-taxable income and special tax allowances This was not expected to continue

"I have no illusions that the coming year is going to be difficult, economically, socially and fiscally. We possess the competitive advantages, management and market leader brands to achieve improved results in real terms, provided market conditions do not deteriorate drastically" — Sapa

Royal lifts earnings by a solid 18,4%

(186) (182)

GILLIAN HAYNE

ROYAL Corporation, the food and chemical group which has been hot on the acquisition trail over the last six months, has turned in a solid performance with operating income up 30,2% to R23m for the year to end February 1991

An 18,7% increase in attributable income to R14,9m was also achieved without the benefit of the latest acquisitions which only became effective on March 1, 1991 BDay 24/5/91

Royal bought US-owned chemical company Ferro Industrial Products in January for R38m and SA Preserving Company (Sapco) from Del Monte Foods International in December 1990 for R113m In March 1991 the group was substantially restructured with the separate listings of Royal Foods and Roychem

Earnings a share rose 18,4% to 21,9c, which translated into a 7c a share dividend declared on February 12

If one were to examine the group's results including Ferro and Sapco on a pro-forma basis, earnings a share would rocket 87,6% to 34,7c on an attributable income of R23,6m — despite a 67,5% increase in interest obligations.

The share price has jumped from around 150c in October 1990 to a current level of 330c

The 12-month interim report for Royal is the same as for Royal Group Holdings (Royhold) which has a controlling stake in Royal

Examining authority and qualification	*Abbreviation for registration*
University of the Orange Free State—	
Tertiary Education Diploma	Dip Tersiêre Ond Oranje-Vrystaat
Honours Bachelor of Science in Physiotherapy	BSc Hons (Fis) Oranje-Vrystaat
Master of Science in Physiotherapy	MSc (Fis) Oranje-Vrystaat
University of Pretoria—	
Diploma in Physiotherapy Education	Dip PE Pret
Diploma in Tertiary Education	DTO Pret
Baccalaureus Honores in Physiotherapy	BPhysT (Hons) Pret
Master of Physiotherapy	MPhysT Pret
Philosophiae Doctor (Physiotherapy)	PhD Fisioterapie Pret
University of South Africa—	
Tertiary Education Diploma	Dip Tersiêre Ond Suid-Afrika
Higher Education Diploma (Technical)	HOD (Tegnies) (AGD) Suid-Afrika
University of Stellenbosch—	
Honours Bachelor of Science in Physiotherapy	Hons BSc (Fisio) Stell
Master of Science in Physiotherapy	MSc (Fisio) Stell
Honours Bachelor in Medical Sciences (Epidemiology)	Hons BSc Geneeskundige Wetenskappe (Epidemiologie) Stell
Master of Business Administration in Health Management	MBA Gesondheidsbestuur Stell
Master of Public Administration in Health Management	MPA Openbare-gesondheidsbestuur Stell
Doctor of Philosophy (Med)	PhD (Med) Stell
University of the Western Cape—	
Honours Baccalaureus Scientiae in Physiotherapy	Hons BSc (Phys) Western Cape
Physiotherapy	Hons BSc (Phys) Western Cape
Magister Scientiae in Physiotherapy	MSc (Phys) Western Cape
University of the Witwatersrand—	
Diploma in Advanced Physiotherapy	Dip Advanced Phys Witwatersrand
Diploma in Physiotherapy Education	Dip PE Witwatersrand
Advanced Diploma in Physiotherapy Education	Advanced Dip PE Witwatersrand
Master of Science in Physiotherapy	MSc (Phys) Witwatersrand
Doctor of Philosophy	PhD Witwatersrand

3 The regulations published under Government Notice No R. 583 of 18 March 1983, as amended by Government Notices Nos. R. 1387 of 9 July 1982, R 1748 of 14 August 1987, R 75 of 22 January 1988 and R. 2234 of 4 November 1988, are hereby withdrawn.

No. R. 1128 **24 May 1991**

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HEALTH ACT, 1977

REGULATIONS RELATING TO INSPECTIONS AND INVESTIGATIONS

The Minister of National Health has, in terms of sections 33, 34, 35, 37 and 38 of the Health Act, 1977 (Act No 63 of 1977), and, where necessary, after consultation with the Minister of Water Affairs and Forestry and the Minister of Environment Affairs, made the regulations in the Schedule.

Eksaminerende liggaam en kwalifikasie	*Afkorting van registrasie*
Universiteit van die Oranje-Vrystaat—	
Tersiêreonderwysdiploma	Dip Tersiêre Ond Oranje-Vrystaat
Honneurs-Baccalaureus Scientiae in Fisioterapie	Hons BSc (Fis) Oranje-Vrystaat
Magister Scientiae in Fisioterapie	MSc (Fis) Oranje-Vrystaat
Universiteit van Pretoria—	
Onderwysdiploma in Fisioterapie	Dip PE Pret
Diploma in Tersiêre Onderrig	DTO Pret
Baccalaureus Honores in Fisioterapie	BPhysT (Hons) Pret
Magister in Fisioterapie	MPhysT Pret
Philosophiae Doctor (Fisioterapie)	PhD Fisioterapie Pret
Universiteit van Suid-Afrika—	
Tersiêreonderwysdiploma	Dip Tersiêre Ond Suid-Afrika
Hoër Onderwysdiploma (Tegnies)	HOD (Tegnies) (AGD) Suid-Afrika
Universiteit van Stellenbosch—	
Honneurs—Baccalareus van Wetenskap in Fisioterapie	Hons BSc (Fisio) Stell
Magister Scientiae in Fisioterapie	MSc (Fisio) Stell
Honneurs—Baccalaureus in Geneeskundige Wetenskappe (Epidemiologie)	Wetenskappe (Epidemiologie) Stell
Magister in Besigheidsadministrasie Gesondheidsbestuur	MBA Gesondheidsbestuur Stell
Magister in Publieke-administrasie Openbare gesondheidsbestuur	MPA Openbare-gesondheidsbestuur Stell
Doktor in Wysbegeerte (Med)	PhD (Med) Stell
Universiteit van Wes-Kaapland—	
Honneurs-Baccalaureus Scientiae in Fisioterapie	Hons BSc (Phys) Western Cape
Magister Scientiae in Fisioterapie	MSc (Phys) Western Cape
Universiteit van die Witwatersrand—	
Diplomas in Gevorderde Fisioterapie	Dip Advanced Phys Witwatersrand
Diploma in Fisioterapie-onderwys	Dip PE Witwatersrand
Gevorderde Diploma in Fisioterapie-onderwys	Advanced dip PE Witwatersrand
Magister Scientiae in Fisioterapie	MSc (Phys) Witwatersrand
Doktor in Wysbegeerte	PhD Witwatersrand

3. Die regulasies afgekondig by Goewermentskennisgewing No. R 583 van 18 Maart 1983, soos gewysig by Goewermentskennisgewings Nos R 1387 van 9 Julie 1982, R. 1748 van 14 Augustus 1987, R 75 van 22 Januarie 1988 en R 2234 van 4 November 1988, word hierby herroep.

No. R. 1128 **24 Mei 1991**

WET OP GESONDHEID, 1977

REGULASIES BETREFFENDE INSPEKSIES EN ONDERSOEKE

Die Minister van Nasionale Gesondheid het kragtens artikels 33, 34, 35, 37 en 38 van die Wet op Gesondheid, 1977 (Wet No 63 van 1977), en, waar nodig, na oorleg met die Minister van Waterwese en Bosbou en die Minister van Omgewingsake, die regulasies in die Bylae uitgevaardig.

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SCHEDULE

Definitions

1. In these regulations any word or expression to which a meaning has been assigned in the Act, shall bear such meaning and, unless the context otherwise indicates—

"food" means any article or substance [except medicine as defined in the Medicines and Related Substances Control Act, 1965 (Act No 101 of 1965)] ordinarily eaten or drunk by man or purporting to be suitable, or manufactured or sold, for human consumption, and includes any part or ingredient of any such article or substance, or any substance used or intended or destined to be used as a part or ingredient of any such article or substance; and "foodstuff" has a corresponding meaning;

"inspector" means a person contemplated in section 53 (1) of the Act,

"package" means anything by or in which any foodstuff is covered, enclosed, contained or packed; and

"the Act" means the Health Act, 1977 (Act No. 63 of 1977)

Inspection powers

2 (1) An inspector may, with regard to premises in respect of which any provision of the Act is applicable—

(a) demand that the owner or occupier or the person in charge or apparently in charge of, or any employee on or in, such premises, submit to him any book, document or thing that must be kept or displayed in terms of the Act or that relates to any matter provided for by the Act and that is or was in the possession or in the custody or under the control of such owner, occupier, person or employee or that is on or in such premises;

(b) make an extract from or a copy of a book or document referred to in paragraph (a),

(c) question the person referred to in paragraph (a) with regard to any matter provided for in the Act and obtain information regarding any activity or process or entry in a book or document referred to in paragraph (a);

(d) for the purpose of combating a communicable disease, demand any information from a person referred to in paragraph (a) or from any other person who has at any time been on or in such premises,

(e) examine any foodstuff that is found in or on such premises, and any appliance, product, material, object or substance that is so found and that is or is suspected to be used, or destined or intended for use, for, in or in connection with the manufacture, treatment, grading, packing, marking, labelling, storage, conveyance, serving or administering of any foodstuff, or for, in or in connection with any other operation or activity with or in connection with any foodstuff, and open any package or container of such foodstuff, product, material, object or substance, and

BYLAE

Woordomskrywing

1 In hierdie regulasies het 'n woord of uitdrukking waaraan 'n betekenis in die Wet geheg is, daardie betekenis en, tensy uit die samehang anders blyk, beteken—

"die Wet" die Wet op Gesondheid, 1977 (Wet No. 63 van 1977),

"inspekteur" 'n persoon bedoel in artikel 53 (1) van die Wet,

"pakket" enigiets waarmee of waarin 'n voedingsmiddel omhul, bedek, bevat of verpak is; en

"voedsel" enige artikel of stof [behalwe medisyne soos in die Wet op die Beheer van Medisyne en Verwante Stowwe, 1965 (Wet No. 101 van 1965), omskryf] wat gewoonlik deur die mens geeet of gedrink word of wat vir menslike verbruik geskik heet te wees of vervaardig of verkoop word, en ook 'n gedeelte of bestanddeel van so 'n artikel of stof, of 'n stof wat gebruik word, of bedoel of bestem is om gebruik te word, as 'n gedeelte of bestanddeel van so 'n artikel of stof, en het "voedingsmiddel" 'n ooreenstemmende betekenis.

Inspeksiebevoegdhede

2. (1) 'n Inspekteur kan met betrekking tot 'n perseel ten opsigte waarvan enige bepaling van die Wet van toepassing is—

(a) eis dat die eienaar of okkupeerder of die persoon in beheer of oenskynlik in beheer van, of enige werknemer op of in, sodanige perseel enige boek, dokument of ding aan hom voorlê wat ingevolge die Wet gehou of vertoon moet word of wat betrekking het op 'n aangeleentheid waarvoor die Wet voorsiening maak en wat op of in sodanige perseel is of in besit of in bewaring of onder beheer van sodanige eienaar, okkupeerder, persoon of werknemer is of was,

(b) 'n uittreksel uit of 'n afskrif van 'n boek of dokument bedoel in paragraaf (a) maak,

(c) die persoon in paragraaf (a) bedoel ondervra betreffende enige aangeleentheid waarvoor die Wet voorsiening maak en inligting inwin oor enige werksaamheid of proses of inskrywing in 'n boek of dokument bedoel in paragraaf (a),

(d) vir die doeleindes van die bekamping van 'n oordraagbare siekte eis dat enige inligting verstrek word deur die persoon in paragraaf (a) bedoel of deur enige ander persoon wat te eniger tyd op of in sodanige perseel was;

(e) 'n voedingsmiddel wat in of op sodanige perseel gevind word en 'n toestel, produk, materiaal, voorwerp of stof wat aldaar gevind word en wat wel of vermoedelik gebruik word, of bestem of bedoel is vir gebruik, vir, by of in verband met die vervaardiging, behandeling, gradering, verpakking, merk, etikettering, berging, vervoer, bediening of toediening van 'n voedingsmiddel of vir, by of in verband met 'n ander werksaamheid of bedrywigheid met of in verband met 'n voedingsmiddel, ondersoek en 'n pakket of houer van sodanige voedingsmiddel, produk, materiaal, voorwerp of stof oopmaak; en

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(f) without making any payment take so much of such foodstuff, in whatever kind of package or container it may be, as he may reasonably require as a sample for the purpose of testing or analysing it if the inspector has reason to suspect that such foodstuff is unsound or unwholesome or unfit for human consumption

(2) (a) A sample contemplated in paragraph (f) of subregulation (1) shall be taken by an inspector in the presence of—

(i) the owner of the foodstuff concerned; or

(ii) the person in charge of such foodstuff if such owner is not in or on the premises; or

(iii) any other adult person as a witness if neither such owner nor such supervisor is so present.

(b) If such owner or supervisor is present at the taking of a sample, the inspector shall ascertain from the owner of supervisor, as the case may be, whether he requires a part of such sample for examination or analysis.

(c) The inspector shall—

(i) if such owner or supervisor requires a part of such sample as referred to in paragraph (b), or

(ii) in the case where a witness in the circumstances referred to in paragraph (a) (iii), is present,

without delay divide the sample in such manner as its nature permits in the presence of the owner, supervisor or witness, as the case may be, into two separate parts as near as possible identical

(d) an undivided sample or each of the two parts referred to in paragraph (c) shall be packed and sealed by the inspector in the presence of such owner, supervisor or witness, as the case may be, and marked with—

(i) an identification number allocated by the inspector,

(ii) concise details regarding—

(aa) the contents, and

(bb) the nature of the examination or analysis required;

(iii) the date on which the sample was taken; and

(iv) the name and work address of the inspector

Detention of foods

3. (1) (a) An inspector may, pending the examination or analysis of a sample, by written order signed by him, detain the whole lot or consignment of food in whatever kind of package or container it may be, on or in the premises concerned from which that sample was taken.

(b) The inspector may lock up, seal, mark, fasten or otherwise secure such detained food in or upon such premises or any other premises

(f) sonder om daarvoor te betaal soveel van sodanige voedingsmiddel, in watter soort pakket of houer dit ook al mag wees, as wat hy redelikerwys nodig het, as 'n monster neem met die doel om dit te toets of te ontleed, indien die inspekteur 'n redelike vermoede het dat sodanige voedingsmiddel bederf of ongesond of ongeskik vir menslike verbruik is

(2) (a) 'n Monster bedoel in paragraaf (f) van subregulasie (1) word deur 'n inspekteur geneem in teenwoordigheid van—

(i) die eienaar van die betrokke voedsel,

(ii) 'n persoon wat toesig het oor sodanige voedsel indien sodanige eienaar nie op of in die perseel is nie; of

(iii) enige ander volwasse persoon as getuie waar sowel sodanige eienaar as sodanige toesighoudende persoon nie aldus teenwoordig is nie

(b) Waar sodanige eienaar of toesighoudende persoon by die neem van 'n monster teenwoordig is, verneem die inspekteur van die eienaar of toesighoudende persoon, na gelang van die geval, of hy 'n gedeelte van sodanige monster vir ondersoek- of ontledingsdoeleindes verlang

(c) Die inspekteur moet die monster—

(i) waar sodanige eienaar of toesighoudende persoon 'n gedeelte van sodanige monster verlang soos bedoel in paragraaf (b); of

(ii) in die geval waar 'n getuie in die omstandighede bedoel in paragraaf (a) (iii) teenwoordig is,

in teenwoordigheid van die eienaar, toesighoudende persoon of getuie, na gelang van die geval, onmiddellik op sodanige wyse as wat die aard daarvan toelaat, in twee afsonderlike gedeeltes wat so na as moontlik gelyk is, verdeel.

(d) 'n Onverdeelde monster of elkeen van die twee gedeeltes bedoel in paragraaf (c), word deur die inspekteur in teenwoordigheid van sodanige eienaar, toesighoudende persoon of getuie, na gelang van die geval, verpak of verseel en gemerk met—

(i) 'n uitkenningsnommer wat deur die inspekteur toegeken word;

(ii) beknopte besonderhede betreffende die—

(aa) inhoud, en

(bb) aard van die ondersoek of ontleding wat nodig geag word,

(iii) die datum waarop die monster geneem is, en

(iv) die naam en werkadres van die inspekteur.

Aanhouding van voedsel

3. (1) (a) 'n Inspekteur kan, hangende die ondersoek of ontleding van 'n monster, by skriftelike bevel deur hom onderteken, die hele lot of besending voedsel op of in die betrokke perseel waarvan daardie monster geneem is, in watter soort pakket of houer dit ook al mag wees, aanhou.

(b) Die inspekteur kan sodanige aangehoude voedsel op of in sodanige perseel of 'n ander perseel toesluit, verseel, merk, vasmaak of andersins beveilig

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(2) An order referred to in subregulation (1)—

(a) shall be served on the owner or occupier or any other person in charge or apparently in charge of the premises concerned;

(b) is binding for the period stated in the order, which shall not exceed a period of 30 days,

(c) may—

(i) during that period be withdrawn; or

(ii) if it was not issued for the full period of 30 days, be extended to such period,

by the inspector who issued the order or any medical officer of health or any medical practitioner or health inspector in the service of the State

(3) No person may, without the written permission of the inspector referred to in subregulation (1) or of a person referred to in subregulation (2) (c), remove any food detained in terms of this regulation from the place where it is being detained, or deal with it in any other manner.

Seizure of food

4. (1) An inspector who is a medical officer of health, medical practitioner, health inspector or veterinary surgeon may—

(a) If, after an examination of any food contemplated in regulation 2 (1) (e), he is satisfied that such food is unsound, or unwholesome or contaminated; or

(b) where it appears from an examination or analysis of a sample referred to in regulation 2 (1) (f), that the sample or any part of it is unsound unwholesome or contaminated,

by written order signed by him seize the food concerned or, in the case of an unsound, unwholesome or contaminated sample, the lot or consignment of food from which the sample was taken if he is satisfied that the food in that lot or consignement is in the same condition or possesses the same properties as the sample.

(2) An order referred to in subregulation (1)—

(a) shall be served on the owner or occupier or any other person in charge or apparently in charge of premises referred to in regulation 2 (1);

(b) is binding from the time of such service until such food that has been seized—

(i) has been used for purposes other than human consumption;

(ii) has been destroyed; or

(iii) has, in terms of subregulation (6), been released for human consumption;

(c) may at any time be withdrawn by the inspector who issued such order or by a medical officer of health or a medical practitioner or health inspector in the service of the State; and

(d) shall clearly set out the provisions of this regulation.

(3) Wherever food has been seized under subregulation (1), the owner thereof may choose at his expense and with the permission of the inspector, to have such food treated, disposed of or used for purposed other than human consumption or destroyed in a manner approved by the inspector.

(2) 'n Bevel in subregulasie (1) bedoel—

(a) word beteken aan die eienaar of okkupeerder of enige ander persoon in beheer of oënskynlik in beheer van die betrokke perseel,

(b) is geldig vir die tydperk in die bevel gemeld, wat nie 'n tydperk van 30 dae oorskry nie; en

(c) kan te eniger tyd gedurende daardie tydperk deur die inspekteur wat die uitreiking gedoen het of deur 'n mediese gesondheidsbeampte of 'n geneesheer of gesondheidsinspekteur in diens van die Staat—

(i) ingetrek word, of

(ii) indien die bevel nie vir die volle tydperk van 30 dae uitgereik is nie, verleng word tot sodanige tydperk

(3) Niemand mag, sonder skriftelike verlof van die inspekteur bedoel in subregulasie (1) of van 'n persoon genoem in subregulasie (2) (c), enige voedsel wat kragtens hierdie regulasie aangehou word, van die plek van aanhouding verwyder of op enige ander wyse daarmee handel nie.

Beslaglegging op voedsel

4. (1) 'n Inspekteur wat 'n mediese gesondheidsbeampte, geneesheer, gesondheidsinspekteur of veeärts is, kan—

(a) waar hy na 'n ondersoek van voedsel bedoel in regulasie 2 (1) (e) oortuig is dat daardie voedsel bederf, ongesond of besmet is, of

(b) waar dit uit 'n ondersoek of ontleding van 'n monster bedoel in regulasie 2 (1) (f) blyk dat die monster of 'n gedeelte daarvan bederf, ongesond of besmet is,

by skriftelike bevel deur hom onderteken, beslag lê op die betrokke voedsel of in die geval van 'n monster wat bederf, ongesond of besmet is, op die lot of besending voedsel waarvan die monster afkomstig is, indien hy oortuig is dat die voedsel in daardie lot of besending in dieselfde toestand is of dieselfde eienskappe besit as die monster.

(2) 'n Bevel in subregulasie (1) bedoel—

(a) word beteken aan die eienaar of okkupeerder van of enige ander persoon in beheer of oenskynlik in beheer van 'n perseel bedoel in regulasie 2 (1);

(b) is geldig vanaf die tydstip van sodanige betekening totdat die voedsel waarop beslag gelê is—

(i) vir ander doeleindes as vir menslike verbruik aangewend is;

(ii) vernietig is; of

(iii) ingevolge subregulasie (6) vir menslike verbruik vrygestel is;

(c) kan te eniger tyd deur die inspekteur wat die uitreiking gedoen het of deur 'n mediese gesondheidsbeampte of 'n geneesheer of gesondheidsinspekteur in diens van die Staat ingetrek word, en

(d) moet die bepalings van hierdie regulasie duidelik weergee.

(3) Wanneer daar ingevolge subregulasie (1) op voedsel beslag gelê word, kan die eienaar daarvan kies om op sy koste en met die toestemming van die inspekteur, sodanige voedsel te laat behandel, vir ander doeleindes as vir menslike verbruik vervreem of aangewend te laat word of op 'n wyse soos deur die inspekteur goedgekeur, vernietig te laat word

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(4) A choice referred to in subregulation (3) shall be made known in writing to the inspector within 24 hours after seizure.

(5) If the owner of food which has been seized by an inspector in terms of subregulation (1)—

(a) refuses or fails to exercise a choice referred to in subregulation (3) within 24 hours after such seizure; or

(b) exercises such choice but thereafter refuses or fails to act in accordance with that choice within a further period of 24 hours,

the inspector may, at any time thereafter, and for the account and risk of such owner, destroy such food or cause such food to be destroyed or otherwise disposed of.

(6) A medical officer of health or a health inspector, medical practitioner or veterinary surgeon in the service of the State or a local authority may release for human consumption food which, after treatment referred to in subregulation (3), is in his opinion fit for human consumption, by withdrawing or amending the order pertaining to such food that was issued in terms of subregulation (1).

(7) Subject to the provisions of this regulation no person shall, without the written authority and direction of a medical officer of health or a health inspector, medical practitioner or veterinary surgeon in the service of the State or a local authority, remove any food seized in terms of subregulation (1) from the premises referred to in that subregulation, sell such food or deal with it in any other manner.

(8) A medical officer of health, health inspector, medical practitioner or veterinary surgeon who grants a written authority referred to in subregulation (7) may, in such authority, impose any condition regarding the transportation and further storage of the food concerned.

(9) An inspector acting in terms of this regulation shall, at the request of any person who is affected by such action, issue to such person a written document under his signature and designation stating the kind and quantity of food seized and the reason for the seizure.

Rectifying of certain conditions

5. If an inspector is of the opinion that, in relation to—

(a) premises or articles contemplated in section 33 (1) (p) of the Act;

(b) buildings, caravan parks, camping sites, holiday resorts, places used for public gatherings, swimming baths and premises contemplated in section 34 (m) of the Act;

(c) dairy-cattle, animals intended for human consumption, dairies, milking sheds, milk shops and milk vessels, and factories, stores, shops and other places where food is handled, processed, manufactured, prepared, kept, packed, displayed, sold or served, contemplated in section 35 (1) (n) of the Act;

(d) premises, systems or processes used in connection with the provision of water, contemplated in section 37 (l) of the Act;

(4) 'n Keuse bedoel in subregulasie (3) moet binne 24 uur na beslaglegging skriftelik aan die inspekteur bekendgemaak word.

(5) Indien die eienaar van voedsel waarop 'n inspekteur ingevolge subregulasie (1) beslag gelê het—

(a) weier of in gebreke bly om binne 24 uur na sodanige beslaglegging 'n keuse bedoel in subregulasie (3) uit te oefen; of

(b) sodanige keuse uitoefen maar daarna weier of in gebreke bly om ooreenkomstig daardie keuse binne 'n verdere tydperk van 24 uur op te tree,

kan die inspekteur te eniger tyd daarna, vir rekening en risiko van sodanige eienaar, sodanige voedsel vernietig of laat vernietig of anders daaroor beskik.

(6) 'n Mediese gesondheidsbeampte of 'n gesondheidsinspekteur, geneesheer of veearts in diens van die Staat of 'n plaaslike bestuur kan voedsel wat, na behandeling bedoel in subregulasie (3), na sy oordeel vir menslike verbruik geskik is, vir menslike verbruik vrystel deur die bevel, kragtens subregulasie (1) uitgereik wat op daardie voedsel betrekking het, in te trek of te wysig.

(7) Behoudens die bepalings van hierdie regulasie mag niemand enige voedsel waarop daar kragtens subregulasie (1) beslag gelê is, sonder die skriftelike magtiging en aanwysing van 'n mediese gesondheidsbeampte of 'n gesondheidsinspekteur, geneesheer of veearts in diens van die Staat of 'n plaaslike bestuur, van 'n perseel bedoel in daardie subregulasie verwyder nie, sodanige voedsel verkoop of op enige ander wyse daarmee handel nie.

(8) 'n Mediese gesondheidsbeampte, gesondheidsinspekteur, geneesheer of veearts wat 'n skriftelike magtiging bedoel in subregulasie (7) uitreik, kan die vervoer en verdere berging van die betrokke voedsel onderworpe stel aan enige voorwaarde, wat in die magtiging vermeld moet word.

(9) 'n Inspekteur wat kragtens hierdie regulasie optree, moet aan enigiemand wat deur sodanige optrede geraak word en om so 'n bewys vra, 'n skriftelike bewys onder sy handtekening, met vermelding van sy hoedanigheid, gee waarin die soort en hoeveelheid voedsel waarop beslag gelê is en die rede vir beslaglegging vermeld word.

Regstelling van sekere toestande

5. Indien 'n inspekteur met betrekking tot—

(a) persele of voorwerpe bedoel in artikel 33 (1) (p) van die Wet;

(b) geboue, karavaanparke, kampeerterreine, vakansie-oorde, plekke wat gebruik word vir openbare byeenkomste, swembaddens en persele bedoel in artikel 34 (m) van die Wet;

(c) melkvee, diere wat vir menslike verbruik bestem is, melkerye, melkstalle, melkwinkels en melkhouers, en fabrieke, pakhuise, winkels en ander plekke waar voedsel hanteer, verwerk, vervaardig, voorberei, gehou, verpak, uitgestal, verkoop of bedien word, bedoel in artikel 35 (1) (n) van die Wet,

(d) persele, stelsels of prosesse wat aangewend word in verband met die voorsiening van water, bedoel in artikel 37 (1) van die Wet; of

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(e) activities contemplated in section 38 (1) (j) of the Act and any waste or product contemplated in section 38 (1) (a) of the Act before or after its treatment, purification, utilization or disposal,

conditions exist which are dangerous or harmful or likely to be dangerous or harmful to health or which are likely to favour the spread or impede the eradication of a communicable disease, he may issue a written order signed by him and addressed to the owner or occupier or any other person in charge of such premises, in which he instructs that—

(i) any condition stated in the order shall be rectified immediately or within a specified period determined by the inspector; or

(ii) if such a condition is due to failure to comply with the requirements of the Act, such owner, occupier or other person shall comply with the requirements of the Act.

Inspection report

6 An inspector shall, within 14 days after completing an inspection or an investigation referred to in these regulations, compile an inspection report and hand or send by registered post a copy thereof to the owner or occupier or the person supervising the premises concerned

Withdrawal

7. The regulations published under Government Notices Nos R. 963 of 24 June 1966 and R 2127 of 22 November 1974 are hereby withdrawn

(e) bedrywighede bedoel in artikel 38 (1) (j) van die Wet en enige afval of produk bedoel in artikel 38 (1) (a) van die Wet voor of na die verwerking, suiwering of aanwending daarvan of beskikking daaroor,

van oordeel is dat daar toestande op 'n perseel aanwesig is wat vir die gesondheid gevaarlik of nadelig is of waarskynlik gevaarlik of nadelig sal wees, of wat waarskynlik die verspreiding sal bevorder of die uitwissing sal bemoeilik van 'n oordraagbare siekte, kan hy 'n skriftelike deur hom ondertekende bevel uitreik, gerig aan die eienaar of okkupeerder of enige ander persoon in beheer van sodanige perseel, waarin hy gelas—

(i) dat enige in die bevel vermelde toestand onverwyld of binne 'n deur die inspekteur bepaalde tydperk reggestel word; of

(ii) waar so 'n toestand te wyte is aan versuim om die vereistes van die Wet na te kom, dat sodanige eienaar, okkupeerder of ander persoon die vereistes van die Wet moet nakom.

Inspeksieverslag

6. 'n Inspekteur moet binne 14 dae na die afhandeling van 'n inspeksie of ondersoek in hierdie regulasies bedoel, 'n inspeksieverslag opstel en 'n afskrif daarvan oorhandig of per geregistreerde pos stuur aan die eienaar of okkupeerder van of die persoon wat toesig het oor die betrokke perseel.

Herroeping

7. Die regulasies wat by Goewermentskennisgewings Nos R. 963 van 24 Junie 1966 en R. 2127 van 22 November 1974 uitgevaardig is, word hierby herroep

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No. R. 1129 **24 May 1991**

FOODSTUFFS, COSMETICS AND DISINFECTANTS ACT, 1972 (ACT No 54 of 1972)

ENFORCEMENT BY LOCAL AUTHORITY

I, Elizabeth Hendrina Venter, Minister of National Health, hereby authorise under section 23 (1) of the Foodstuffs, Cosmetics and Disinfectants Act, 1972 (Act No. 54 of 1972), the local authority of Drummond to enforce the relevant provisions of the said Act within its area of jurisdiction and through its duly authorised officers

E. H. VENTER,

Minister of National Health

No. R. 1129 **24 Mei 1991**

WET OP VOEDINGSMIDDELS, SKOONHEIDSMIDDELS EN ONTSMETTINGSMIDDELS, 1972 (WET No. 54 VAN 1972)

TOEPASSING DEUR PLAASLIKE BESTUUR

Ek, Elizabeth Hendrina Venter, Minister van Nasionale Gesondheid, magtig hierby kragtens artikel 23 (1) van die Wet op Voedingsmiddels, Skoonheidsmiddels en Ontsmettingsmiddels, 1972 (Wet No 54 van 1972), die plaaslike bestuur van Drummond om binne sy regsgebied en deur middel van sy behoorlik gemagtigde beamptes die toepaslike bepalings van genoemde Wet uit te voer.

E. H. VENTER,

Minister van Nasionale Gesondheid.

No. R. 1181 **24 May 1991**

EXCLUSION OF MEDICINES FROM THE OPERATION OF CERTAIN PROVISIONS OF THE MEDICINES AND RELATED SUBSTANCES CONTROL ACT, 1965 (ACT No 101 OF 1965)

I, Elizabeth Hendrina Venter, Minister of National Health, hereby, under section 36 of the Medicines and Related Substances Control Act, 1965 (Act No 101 of

No. R. 1181 **24 Mei 1991**

UITSLUITING VAN MEDISYNE VAN DIE TOEPASSING VAN SEKERE BEPALINGS VAN DIE WET OP DIE BEHEER VAN MEDISYNE EN VERWANTE STOWWE, 1965 (WET No. 101 VAN 1965)

Ek, Elizabeth Hendrina Venter, Minister van Nasionale Gesondheid, sluit hierby kragtens artikel 36 van die Wet op die Beheer van Medisyne en Verwante

RAINBOW FM 24/5/91 (186)

IN THE TROUGH

Despite its 36% decline in earnings, Rainbow Chicken still has strong supporters on the JSE The organic growth in demand for chicken is so strong, the argument goes, that anyone who is prepared to buy Rainbow now will be well rewarded in two to three years

Nevertheless, Rainbow is looking expensive at 310c. Based on the unaudited results for the year to end-March, the p/e on the EPS of 20c is more than 15, and the dividend yield on the 4,3c payout is a feeble 1,4%

Rainbow, historically a production-driven company, has apparently overestimated the much-punted growth in demand for chickens Financial director Chris Wells, however, says the group deliberately increased output to place pressure on its competitors. There

FM 24/5/91 (186) FOX

was a huge overhang of stock after Christmas and Easter Retail chains recently sold 1m excess chickens at firesale prices

Increasing competition in the industry led margins to decline from 10,1% to 6,8% and operating profit to decline by 27% Interest income fell by two-thirds to R9,4m and, despite a much lower tax rate, after-tax profit fell 39% About 25%-30% of Rainbow's turnover is accounted for by the contract market, which includes Kentucky Fried Chicken and industrial clients Retrenchments in the mining industry will have a marked effect on industrial sales Bulk sales to mines account for 10% of turnover But Wells says the margins for this business are relatively low, so Rainbow would not be unhappy to make it up elsewhere

Rainbow's financial position remains strong, even though it has spent R180m over the past 20 months on capital expenditure. Gearing is at 25%, and Wells says it is unlikely to rise above the company's 30% ceiling The feed mill at Rustenburg comes on stream in June 1992, and this is expected to reduce the costs at the Rustenburg plant considerably All further feed mills will be 50 50 joint ventures with Premier

With the 34% increase in issued shares after the current rights issue, even Rainbow supporters are predicting a further decline in EPS to, at best, 18c. Red meat prices are expected to stay soft this year and the Bonny Bird interests acquired from Premier are not expected to contribute until the second half of the year Bonny Bird will keep its own marketing infrastructure and the brand names such as Farmer Brown will be preserved

Rainbow is expected to underperform the Industrial index over the next two years Broker Martin & Co, however, predicts growth of more than 25% from the year to March 1993 onwards. Wells says that as the industry is rationalised demand will eventually match supply, and margins will increase. After the Bonny Bird acquisition Rainbow has a market share of 55% in the poultry industry and it should be able to lead prices to some extent

Still, some nervous investors are likely to sell their Rainbow shares, analysts predict a weak performance at the September interim The Rainbow share price thus could well decline. If the future of the chicken industry is indeed so rosy, this could be an excellent buy towards the end of the year

Stephen Cranston

TONGAAT-HULETT FM 24|5|91 186

STILL VOLATILE

Tongaat-Hulett's diversification strategy is likely to come under renewed scrutiny from investors after the group's 19% drop in earnings for the year to end-March

Chairman Chris Saunders warned in the last annual report that earnings this year were unlikely to exceed those achieved in

Continue —D

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financial 1990 However, few shareholders could have expected EPS to have slumped 29% four months later at the interim By then, management was forecasting a drop in annual earnings of 25%

A strong second-half performance at Tongaat's sugar operations, bolstered by a good crop and some recovery in export prices, probably kept earnings from plunging that low — but the decline is sufficiently steep to cause investors to worry about the effectiveness of the group's spread of businesses.

Management has yet to release details of the profit contributions of the group's six divisions (these will presumably appear in the annual report), but it is clear that the strong earnings growth reported by the sugar and starch and sweetener operations fell far short of countering the profit slumps at the building materials, aluminium and textile operations Tongaat's other division, general foods, is unlikely to have made up much lost ground, according to management, it merely recorded satisfactory results.

NOT SO SWEET

Year to March 31	1990	1991
Turnover (Rbn)	3,7	3,8
Pre-tax profit (Rm)	284 0	212,5
Attributable (Rm)	177,1	142 6
Earnings (c)	236,6	190,6
Dividends (c)	79	73

Trading profit slipped 15% to R318m, on turnover that was almost static at R3,8bn — thus tightening operating margins from just over 10% to less than 8,5% As a result of the group's capital expenditure programme (though the capex budget was cut by R50m it still totalled R200m) and reduced cash flow, borrowings climbed 16% to R377m, with gearing edging up to 19,3% (17,9%) Interest charges increased 17% to R105m.

While management says Tongaat is in the business of meeting man's basic needs for food, clothing and shelter, the composition of the group means it is far from immune to fluctuations in the economy Management is looking to expand into more lucrative niches within the group's sphere of business But there is little sign of any major departure into new areas that would give Tongaat greater stability of earnings

The share has steadily improved since the beginning of the year On these results, the counter, at 1 550c, giving a p e of 8,1 and dividend yield of 4,7%, looks fully priced

Simon Cashmore

Non-regulation bakers ordered out of kitchen

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GERALD REILLY

PRETORIA — More than 30% of bread loaves failed to conform with weight requirements, according to an SA Bureau of Standards (SABS) survey BDay

During a two-week period about 2 000 loaves from 76 bakeries nationwide were weighed. 29/5/91

At bakeries in Port Elizabeth and Bloemfontein loaves were so much off standard that the bakers were prohibited from further baking until they complied with regulations

Regulation bread weights set out by the Trade Metrology Act are 400g, 800g or 1 200g Variations of 5% less or 10% more are allowed

The region with the smallest weight variations was the PWV

Bakers warned to clean up act

Bread weighed, found wanting

Star 29/5/91 (186)

By Shirley Woodgate and Jacqueline Myburgh

More than 30 percent of bread on sale in South Africa has been found by the SA Bureau of Standards to be under the weight required by law

The SABS recently conducted a countrywide survey involving about 2 000 loaves at 76 bakeries in the PWV area, Cape Town, Durban Bloemfontein and Port Elizabeth

At two bakeries — one in Bloemfontein and the other in Port Elizabeth — loaves were so off-standard that the bakers were prohibited from further baking until they complied with the regulations, a chief director of the bureau, Martin Kellerman said in Pretoria yesterday

A spot check by The Star yesterday revealed that Johannesburg bakers were also not complying with regulations

Variation

Two out of four loaves of standard bread were below the required weight of 800 g, taking into account the permitted variation One loaf weighed 725 g and another 755 g

In its statement the SABS referred to underweight and overweight loaves A spokesman later explained that a loaf was deemed overweight until it was 10 percent over Thereafter it was underweight for the next category this prevented a baker claiming that a 600 g loaf was, in fact, an overweight 400 g bread and not an underweight 800 g loaf

Bakers who were found by the SABS to be producing bread far under the required weight had been warned to correct the situation, Mr Kellerman said This was a general warning to all bak-

Just checking Helené Dannheisser of The Star's Promotions eyes an under-weight loaf of bread which The Star bought at a Johannesburg delicatessen. It weighed 75 g below the required 800 g. Picture Karen Fletcher

allowed A loaf of 800 g must therefore weigh between 760 and 880 g and the average weight of 10 loaves must be more than 800 g

Non-standard bread such as rye loaves must be packed individually with the weight on the packaging

"The greatest variation had been found in Port Elizabeth, where loaves had an average weight of 635 g," Mr Kellerman said

of bread was produced by 3 000 smaller bakers not controlled by the chamber

James Dippenaar, executive director of chamber, said the chamber was pleased with the initiative taken by the SABS It would benefit both the consumer and the bakers The chamber would now take to task those found by the SABS investigation to be contravening the regulations

Mr Kellerman called on the public to report instances of underweight bread to the SABS

Housewives League president Lyn Morris reacted by calling for severe punishment to be meted out to defaulting bakers

"The whole bread situation has been badly bungled since the Government deregulated the bread price and removed the subsidy"

She was, however, pleased the probe had taken

Crookes ups dividend

B/Day 30/5/91

LIZ ROUSE

SUGAR group Crookes Brothers' investment income almost halved in the year to March, but operating income rose 22%.

Crookes declared a final dividend of 11,5c which, with the 7,5c interim payment, makes a total of 19c — higher than the forecast 18,75c

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The group earned an operating income of R5,3m (1990 R4,3m) on a turnover of R37,66m — up 7% on the previous year's R35,1m

However, as a consequence of the distribution of CG Smith shares by way of a special dividend to shareholders in August 1990, dividend income was reduced to R1,8m from R3,4m

Interest paid was higher at R974 000 and tax amounted to R65 000 (R39 000) This left net income down 15% at R6,2m (R7,3m), equivalent to 52c (60,8c) a share The earnings are in line with Crookes' forecast

At the current market price of 525c, earnings yield is 9,9% and dividend yield 3,6%

Bakers query survey

Star 30/5/91 (186)

Pretoria Correspondent

Major bakers have questioned claims by the South African Bureau of Standards that more than one-third of all South African bread is underweight.

South African Chamber of Baking executive director James Dippenaar yesterday said the SABS findings were based on a sample of only 2 000 loaves, whereas more than 1 700 million loaves were produced in South Africa each year

"It was an inadequate sample as far as we are concerned," Mr Dippenaar said.

"While it may be true that 30 percent of loaves tested by the SABS were underweight, it is far-fetched to say 30 percent of all bread in South Africa does not comply with weight requirements.

"The bulk of bread baked is of the correct weight and the majority of bakers are playing the game"

However, the chamber, which represents about 450 bakers across the country, welcomed the SABS survey

Consumers who were unhappy about the size of their loaves could complain to the chamber, he added

Reacting to Mr Dippenaar's statement that the SABS sample in five metropolitan centres — the PWV area, Cape Town, Durban, Bloemfontein and Port Elizabeth — was inadequate, an SABS spokesman said the organisation regarded its sample as representative

FM 31/5/91 FOX

FEDERALE GROUP 186

SLIMMER BUT FITTER

There has been considerable improvement in the results of Federale Volksbeleggings Though Federale itself was delisted last year it has 70% of listed Fedfood and 68% of **SA Druggists**, and unlisted services and motor components arms

The decision to take Federale off the boards and clean it up quietly appears to have been vindicated Attributable earnings for the year to end-March rose by 30% to R124m, even though turnover of the slimmed-down group fell more than 15% to R3,2bn

Federale MD Peet van der Walt says a relisting of Federale itself is not being considered; but either the leisure services arm (which includes Avis, Interpark, Fedics, Interleisure and Teljoy), or Firestone, with or without the other motor component interests, may be listed

Fedfood is still the largest contributor Until recently it was one of the more pedestrian companies in the food sector. However, after EPS growth of just 3,7% in 1990, latest growth is a much more creditable 12%, despite more difficult trading conditions. This is almost on par with Tiger Oats, and is well ahead, for instance, of ICS.

MD Jan du Toit says a slight improvement in operating margins was thanks to cost-cutting rather than raising prices The strategy is to improve the quality of assets by increasing its portfolio of high-margin products. Fedfood is fortunate that it has no poultry interests, other than animal feeds

In line with the clean-up strategy, Fedfood disposed of loss-making biscuit company Fedbisco and the risky Namibian fishing interests Capital profit on these deals was R25m, though much was swallowed by rationalisation costs. Overall gearing was up from 29,2% to a still comfortable 36,7%

The company is certainly no longer the sum of top performer Simba and a hodge-podge of underperforming assets. The share was around R8 last year, offering a p·e of between four and five for most of the year It is now R12,50, with a p·e of 6,6. Analysts say it deserves rerating, to between eight and 10, though this may need a strong 1992

Sister company SA Druggists may suffer the opposite fate. Turnover passed R1bn but EPS fell by 12% from 28,8c to 25,3c This puts the company on a p e of almost eight, expensive for a company reporting its second earnings drop in a row — stark contrast to SA's other large domestic pharmaceutical company, Adcock Ingram

SA Druggists' new executive chairman, Johan van der Walt, says R10m was wiped off the bottom line by theft in the wholesaling division A new security system, commissioned this month, has already helped

The company has maintained sound gearing at 27,5%, with tight control on capital employed and debt. Both rose by less than 11% *Stephen Cranston*

PREMIER/METRO/SCORE FOODS

Fm 3/5/91 (186)

WILL THE OLD MAGIC RETURN?

Premier's decision to create a new wholesaling and retailing empire out of Metro and Score Food Holdings surprised few people Rival Tiger Oats has made wholesaling and retailing a lucrative arm of its business It attributes profit of R70m to its control of the Spar group, and wholesalers Radue-Weir and W G Brown, so it is not surprising that Premier sees potential in this area.

Figures have not been released, though it is believed the deal will cost upwards of R200m. Premier will acquire 70% of Tradegro's shareholding in Metro, and will extend

Premier's Wrighton .. *a lack of leadership*

an offer to minorities to acquire 70% of each minority shareholders' holding Premier will also underwrite a Metro rights offer — possibly around R100m — to reduce debt, and then the entire issued share capital in Score Foods will be exchanged for shares to be issued by Metro, resulting in a merger of Metro and Score Foods.

Premier chairman Peter Wrighton says that the cost of distribution is approaching the level of the cost of production. Wrighton sees important cost savings and synergies between Premier's own network of 50 warehouses and the enlarged chain And, he says, as both companies were once blue chips there is no reason why they should not be once again — provided they are refocused on their core businesses.

But the key to the merger between Metro and Score Food Holdings will be the management skills of Score MD Carlos dos Santos, who will head the combined company and seek to turn Metro around

Before the 1987 Crash, Score and Metro were among the most highly rated shares in the retail and wholesale sector Both fell from grace, though for different reasons. Metro never recovered after the death of founder Lionel Katz, and the entrepreneurial culture he had fostered was replaced by Sankorp's institutional culture

Says Wrighton "There has been a lack of leadership in Metro over the past couple of years, which I believe Dos Santos can provide " Wrighton is not being specific, but he considers divisions such as Frasers and Greenstein & Rosen wholesalers to be outside the core Metro business

Dos Santos was a product of the Katz era at Metro, and he had a good record at Metro in the Seventies But the results from Score Food Holdings, released this week, must raise some doubts about the ability of Score's overall management to achieve a turnaround. Earnings declined by 47% to 52,2c Earnings at holding company Score-Clicks declined by 13%, despite a 25% earnings advance by its other trading arm, Clicks

Though the sale of Grand Supermarkets last August netted R20m, interest-bearing debt held by Score Food Holdings at year-end increased from R31m to R48m Dos Santos says the debt burden will disappear once the company is recapitalised He says the wholesale operations made a reasonable profit, but this was offset by a large loss in retail operations, mainly Grand He also says the debt burden increased as part of the cost of rationalisation, certain Score supermarkets have been closed and head office staff numbers reduced.

Dos Santos says most of his efforts will concentrate on sorting out the problems of Metro, as Score is now "lean and mean " The first stage of rationalisation will be to merge the two groups' wholesaling interests into the new Metro Score Food Holdings will be absorbed into Metro, but the plan is to float off Score supermarkets and Metro's Fairways as a separate retail arm

He is expecting closure or disposal of certain operations, though he says it is too early to elaborate The existing trading names will be preserved for the time being. "All I can say is that it will be a very busy 12 months," he says

Sankorp must be relieved to have Metro off its hands It has already acknowledged that it has given up trying to turn the business around. Score-Clicks and Premier will have joint control in both Score Food and Metro But it remains to be seen if Premier will benefit from the deal — and how long it will take to restore Metro to the company it once was *Stephen Cranston*

LOW SCORE

Year to	Feb 23 '91	Feb 24 '90
Turnover (Rm)	1 352	1 360
Operating income (Rm)	22,5	33,1
Attributable income (Rm)	7,9	14,7
Earnings (c)	52,2	99,6
Dividends (c) ...	13,0	40,0

GENCOR Fm 3/5/91

FUNDING POWER

Interim results from Gencor for the six months to end-February are unexciting, but they underline how well placed the group is to cope with whatever its cyclical businesses may do in the year ahead

It also appears the group's mining arm, Genmin, will strike a deal with Rand Mines over that house's troubled platinum mine, Barmine Says Gencor chairman Derek Keys "If we were going to turn the deal down flat we would have done so by now "

He declines to say how long it will take before any deal is finalised "Negotiations with Western Platinum over Karee lasted three months and that deal was a lot simpler than the situation concerning Barmine," he says "We won't be rushed and it will take as long as it requires "

Keys stresses the negotiations with Rand Mines concern only Barmine and do not involve other parts of that mining house's operations

Acquiring Barmine would be yet another large demand on Gencor's available resources But Keys says the group has the funds to handle whatever comes its way. Developments at Engen and Impala Platinum (Implat) have turned out far better than expected Net current assets stood at R1,64bn at February 20, compared with R1,58bn a year previously, as Gencor continued to hold cash balances of more than R1bn Gencor intends using the R522m raised from its recent placing of Engen shares to pay for the bulk of its share of Engen's R1,1bn rights issue.

"When Gencor had its own rights issue I believed Engen would be the company in which we would have to commit our resources to the greatest extent. But Engen has performed much better than expected. That means we can easily carry the Oryx gold mine to completion whether this involves a rights issue, or loans or whatever is finally decided upon," says Keys

A rights issue from Implat is not needed at present because of the group's sharply improved financial situation Keys estimates Gencor's commitment to the Samancor/Highveld Columbus stainless steel project at around R200m if and when it gets the go-ahead Columbus currently does not meet the threshold Keys has set for the required

continue →

FM 31/5/91 (186) **FOX**

FEDERALE GROUP

SLIMMER BUT FITTER

There has been considerable improvement in the results of Federale Volksbeleggings Though Federale itself was delisted last year it has 70% of listed Fedfood and 68% of **SA Druggists**, and unlisted services and motor components arms

The decision to take Federale off the boards and clean it up quietly appears to have been vindicated Attributable earnings for the year to end-March rose by 30% to R124m, even though turnover of the slimmed-down group fell more than 15% to R3,2bn

Federale MD Peet van der Walt says a relisting of Federale itself is not being considered, but either the leisure services arm (which includes Avis, Interpark, Fedics, Interleisure and Teljoy), or Firestone, with or without the other motor component interests, may be listed

Fedfood is still the largest contributor Until recently it was one of the more pedestrian companies in the food sector. However, after EPS growth of just 3,7% in 1990, latest growth is a much more creditable 12%, despite more difficult trading conditions This is almost on par with Tiger Oats, and is well ahead, for instance, of ICS

MD Jan du Toit says a slight improvement in operating margins was thanks to cost-cutting rather than raising prices The strategy is to improve the quality of assets by increasing its portfolio of high-margin products Fedfood is fortunate that it has no poultry interests, other than animal feeds

In line with the clean-up strategy, Fedfood disposed of loss-making biscuit company Fedbisco and the risky Namibian fishing interests Capital profit on these deals was R25m, though much was swallowed by rationalisation costs. Overall gearing was up from 29,2% to a still comfortable 36,7%.

The company is certainly no longer the sum of top performer Simba and a hodgepodge of underperforming assets The share was around R8 last year, offering a p.e of between four and five for most of the year It is now R12,50, with a p e of 6,6. Analysts say it deserves rerating, to between eight and 10, though this may need a strong 1992.

Sister company SA Druggists may suffer the opposite fate Turnover passed R1bn but EPS fell by 12% from 28,8c to 25,3c This puts the company on a p e of almost eight, expensive for a company reporting its second earnings drop in a row — stark contrast to SA's other large domestic pharmaceutical company, Adcock Ingram

SA Druggists' new executive chairman, Johan van der Walt, says R10m was wiped off the bottom line by theft in the wholesaling division A new security system, commissioned this month, has already helped

The company has maintained sound gearing at 27,5%, with tight control on capital employed and debt Both rose by less than 11%

Stephen Cranston

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ı 29 June to 5 July 1991, inclusive

By order of the board
D C Dykes
Secretary

INCE

Biscuitmaker invests in SA

ZILLA EFRAT 186

FAMILY members who own Cuetara, the well-known Iberian confectioner, are set to invest in a biscuit and wafer factory in SA through their new local company, Continental Biscuits

Acting Continental Biscuits MD and a member of the family, Luis Murillo, said yesterday Cuetara dominated the Portuguese and Spanish biscuit markets and also had a biscuit factory in Costa Rica

Construction of the SA factory would start in the industrial area of Aeroton, near Johannesburg, shortly This followed two years of investigations by the family BDay 7/6/91

Murillo declined to indicate how much would be invested in SA

While there were large players in the SA market, he believed the market was full of possibilities

Exports to southern Africa were part of a longer term plan

FOX FM 7/6/91 (186)

METRO/PREMIER FM 7/6/91

CLEARING THE DECKS (186)

Whatever doubts the market has about Premier's investment in Score Foods and lowly rated Metro, or in the patchy track record of incoming group CE Carlos dos Santos, Metro is gaining two things it sorely needs management and capital, though whether it is getting enough of each is a moot point

Analysts are recommending Metro shareholders take up their rights, and they describe the share exchanges and prices on offer as realistic Premier is offering to buy 70% of minorities shares in Metro, in line with its offer to Tradegro It is offering one Premier share for nine Metro shares Since the deal with Metro was announced, Metro's share price has fallen about 12%, from 340c to 300c, but it still trades at around a ninth of the Premier share price

The rights issue price of 250c is a discount of 16,7% on the current market price but is a premium of 23% on NAV, after write-offs, of 203c Metro is offering to buy Score Foods' entire share capital by exchanging 2,69 Metro shares for every Score share, compared with a ratio on current prices of 2,33 to one There is a premium of R16m on Score's current R105m market cap

The Metro rights issue and acquisition of

continue →

Score Foods will increase Metro's issued shares by more than 145% The R142m raised in the rights issue will virtually eliminate a punishing interest burden on both companies In the half year to December 31 1990, Metro paid interest of R20,3m on an operating profit of R25,9m In the year to February 23, Score Foods paid interest of R14m on operating profit of R22,5m

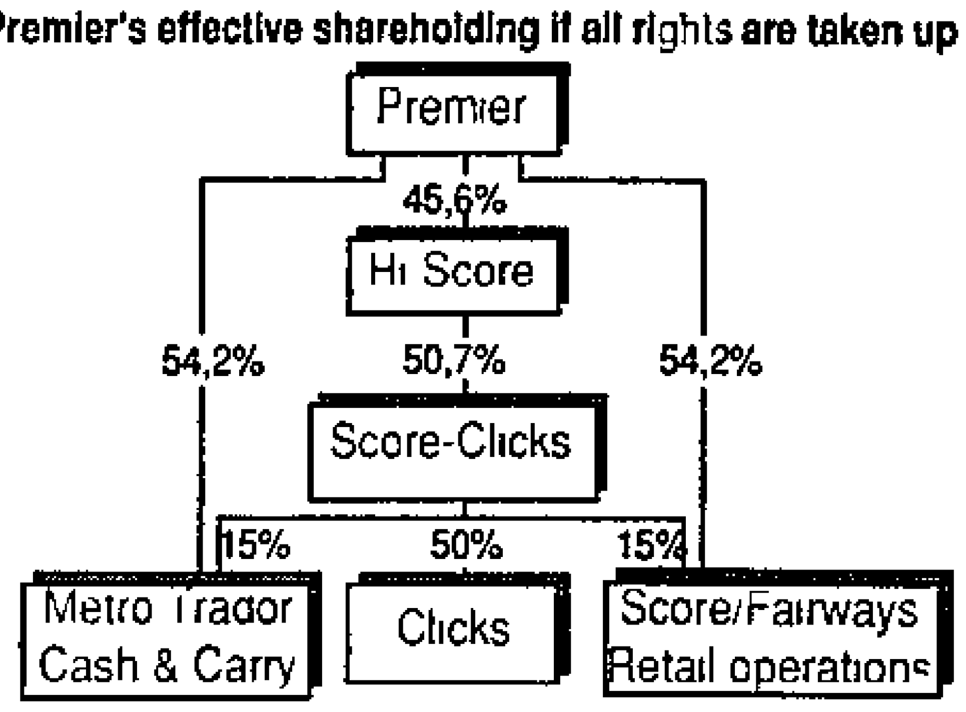
Premier deputy CE Gordon Utian says debt held by the combined group will be no more than R30m once the exercise is completed, leaving a maximum gearing of 10% "We are leaving some debt to get through the first six months," he says, "but once the core cash 'n carry business is up to speed, it will be a major cash generator and won't need gearing It carries 35 to 40 days of stock and gets average terms of 45 to 50 days from its creditors "

Frankel Max Pollak retail analyst Chris Gilmour forecasts EPS in the year to June 1992 will be 40c (a R66m bottom line), up from an expected 44c loss for the existing Metro operations this year, and 5c pro forma EPS for the combined group this year

Metro is disposing of the last of its non-core businesses, Frasers Greenstein & Rosen to a consortium headed by former Metro MD Tony McDiarmid

Premier goes wholesale

Premier's effective shareholding if all rights are taken up



Write-offs of R170m have been made These relate to the Frasers deal and other provisions. Utian says the loss incurred in the Frasers deal accounts for R80m of this, a further R40m was written off trademarks and the rest was accounted for by a higher debtors' provision and a provision for the losses in the first six months of calendar 1991

Premier could increase its own share capital by about 7% to finance the deal If all minorities accept the Metro/Premier share swap, Premier's shares in issue will rise by 5,2m, worth R145m at the present price According to Utian, however many shares are accepted, it will have a neutral effect. He says there will be no dilution of Premier's earnings.

Ultimately, the future of the new Metro will be determined by management. Dos Santos was successful at Score from 1981 until 1987, but then Score had poor results, apparently because Dos Santos took a less hands-on approach Also, the acquisition of Grand Bazaars brought a large debt burden and caused a drag on earnings Premier will aim to prevent any distraction from the core business

Stephen Cranston

NESS

186

Sugar industry set for a more stable decade

BDay 12/6/91.

PAUL ASH

WHILE sugar prospects for the medium term were not as rosy as they were in the "sweet Seventies", this decade would see a more stable sugar industry after the depressed progress of the Eighties, SA Sugar Association (Sasa) chairman Glyn Taylor said on Friday

Taylor's optimism came shortly after Sasa announced a 13% hike in the industry price of sugar from July 1

This will raise the industry price of white sugar R160 from R1 236 a ton to R1 396 a ton and that of brown sugar R146 from R1 122 to R1 268 a ton

Sasa says it has managed to keep the price of sugar below the inflation rate for the past five years

In real terms, the price of sugar "is significantly lower" than it was in 1986, Taylor said

Internationally, the sugar industry enjoyed a high degree of agricultural protection

Taylor said local producers hoped for some relaxation of protection

However, until steps were taken by all countries concerned to ease protective measues, any change in the status quo was unlikely, he said

A fluctuating world sugar price had added to the industry's woes

In the meantime, Sasa had appealed to the Bureau of Trade and Industry for added protection

Taylor said current protection might have been satisfactory at a world price of $360 a ton, but a lower price necessitated more protection

Last week the sugar price dipped to $180 a ton from a peak of $357 a ton last season

A sugar industry observer said Swaziland, protected by the Lome Convention and a substantial US quota, was an example of a protected producer

Swazi sugar labourers reputedly earned wages equivalent to a third of those taken home by SA's sugar workers

The absence in the market of China and the Soviet Union, two major sugar importers, could have negative repercussions on the industry, he said

Russia was experiencing political problems and China was faced with a surplus of production

Sasa was optimistic that every ton of export sugar produced this season would be sold without any price sacrifice, despite a 10% rise in the crop estimate on last year

A good season would help Sasa reduce its R87m debt support loan to R57m, Taylor said

C G Smith is on the road to improvement, says analyst

186

B Day 14/6/91.

MARCIA KLEIN

BARLOW Rand subsidiary C G Smith is expected to show earnings growth of 7% at the September year-end and 14% in financial 1992, says Davis Borkum Hare's Pierre Greyvenstein in his analyst's report

The mixed fortunes of its group operations, including earnings at Imperial Cold Storage (ICS) and Romatex declining by 1% and 72% respectively (Romatex's contribution to group earnings decreased from 6,9% to 1,6%) saw the holding company report a 6% growth in earnings at the March interim stage, he said

The group's two major divisions, food and pharmaceuticals and paper and packaging had shown reasonable profit growth

Greyvenstein said the C G Smith share had been a better performer relative to the industrial index The share also had outperformed Barlows over the past two years, because of its "less cyclical exposure"

However, C G Smith's share had declined relative to the performance of C G Smith Foods This trend was expected to reverse because of the expected adverse effect of the sugar division's earnings on C G Smith Foods next year

In terms of the group's divisions, Nampak, which contributed about 38% to group earnings, had increased its earnings at the interim stage by 12% Greyvenstein said Metal Box operations's earnings were up by 59%, meaning that the rest of the group recorded a decline of 19%

Nampak's earnings were expected to be maintained at year-end, and there would be a 20% increase in financial 1992

Tiger Oats, which contributed about 33% of group earnings, remained a consistent performer, with subsidiary Langeberg being the star of the show at the interim stage with a 71% rise in attributable earnings

Greyvenstein said the poor state of the broiler industry should damp earnings in the food division in the remainder of the year

Tiger Oats' earnings were expected to increase by 21% in financial 1992

Greyvenstein forecast a 10% drop in financial 1992 for C G Smith Sugar, which contributed about 21% to group earnings, because of the deterioration of world sugar prices

ICS had suffered from losses in the poultry division and the surplus of milk. Its earnings for this financial year should remain static and should improve by at least 15% in 1992 off a low base

He expected earnings growth of 9% for C G Smith Foods in financial 1992

Romatex should make a sound recovery in financial 1992 with at least a 20% rise in earnings off a low base, while earnings this year were expected to be down by 52%

11

Three in race to build sugar mill

S Times (Buss Times) 16/6/91. 186

By IAN SMITH

THE GOVERNMENT is expected to decide before the end of the month which of three major groups wins the right build a R300-million sugar refinery in the Eastern Transvaal.

The three are Barlow's CG Smith, Rembrandt's Transvaal Suiker Beperk (TSB) and Lonrho-backed Nkomati.

The SA Sugar Association sent bids from the groups to the Department of Trade and Industry, which has to approve any new mill

Expansion

Time is pressing because if the decision does not come before the end of July the mill will miss out on a full season's crushing, say experts

The successful bidder is likely to need at least three months to get the project going Construction will take another 18 months to two years

The project has attracted interest because the Eastern Transvaal has good prospects for increased sugar production Many small growers have joined the established TSB and major expansion is envisaged in KaNgwane

CG Smith chairman Glyn Taylor says the area is attractive because of increasing urbanisation in Natal, timber encroachment on sugar land and the long distance of canelands from mills

The mill, to be sited near Onderberg, will produce about 120 000 tons of sugar a year, a small part of SA's total output of 2-million tons last year But it will account for nearly half of the industry's planned expansion

The plant is considered to be of strategic value because it will add to SA's export surplus, currently about 35% of production The domestic market is growing by about 4% a year

The mill will be the first additional crushing plant to be commissioned since TSB's mill was built at Malelane in the Eastern Transvaal in 1965

The last new mill, commissioned by Tongaat-Hulett at Felixton in Northern Natal in 1984, replaced two old ones which were closed

TSB, which started sugar production about 25 years ago, hopes that its close links with growers in the Eastern Transvaal will support its claim to the new mill

The company has embarked on the second phase of a R22-million expansion programme The increased capacity would enable TSB to crush the expanding crop from existing quota growers It would also be able to handle cane being grown in anticipation of the mill

Waste

TSB produces hardboard and animal feeds and is involved in promising trials with the Sugar Milling Research Institute and CSIR to produce a single-cell protein from bagasse, the waste fibre from cane, which will be suitable for animal feed

The Department of Water Affairs plans to build a dam at Driekoppies to irrigate enough cane for a mill with a capacity of 150 000-tons a year

BUSINESS

All aboard the food price express

wlmail 146 – 26/6/91. 186

Vhat, or who, is behind persistently high food prices? Are the farmers, food processors, or retailers the cause?
REG RUMNEY reports

TRYING to find out who is responsible for persistent food price inflation is like being a detective in a whodunnit. Clues abound, all the participants are suspects, and everyone blames everyone else.

'st look at the problem

e inflation rate, as measured by the consu- price index (CPI), for food last year was 16 ent, two percentage points higher than the ral inflation rate of 14 percent.

is noted by the most recent Boland Bank re- / "Average food price increases stubbornly ined above the average rate of CPI inflation the greater part of the past 12 months A -on-year increase of 15,7 percent in food es was registered for the first quarter of 1 "

lso, food price increases at the consumer lev- the CPI) have outpaced food price increases the producer level (as measured by the pro- ducer price index, or PPI)

"The CPI has exceeded the PPI for the past five-and-a-half years non-stop," says Econometrix head Azar Jammine And the gap has widened in the past year, he adds

The three most important subindices or parts of the inflation rate (as measured by the Central Statistical Services CPI) are food at 22 percent, housing at 21 percent, and transport at 17 percent

Stubbornly high food prices underline the difficulty of combating inflation.

So who's to blame?

One could easily point one's fingers to the many control boards which by definition protect the interests of the farmer rather than the consumer and distorted the market through, for example, the "one-channel marketing system" With maize this dictates that maize must be sold through the Maize Board at prices determined by the board

South African Agricultural Union (SAAU) economist Koos du Toit admits that in the past prices rocketed "from time to time" by say 25 or 28 percent, for example wheat and maize

'Fortunately, we have progressed away from fixed price methods and are increasingly taking cognisance of the facts of the market."

The government has stopped short of actually scrapping the control boards, however In the past they along with other power concentrations would seem to have been responsible for remarkable price surges

But the SAAU has launched an investigation into the widening gap between producer and consumer prices Du Toit says farmers' share of the consumer rand has shrunk steadily over the past two decades with farmers getting as little as three percent of the consumer price for their products

If the farmers are not (entirely) responsible for high food prices, are food processors taking advantage of cartels, monopolies, and financial muscle to put up prices?

Jammine, who believes there is something fundamentally wrong in the food business, points out there is such a high degree of concentration one cannot even be sure there is collusion by the big producers Three producers supply more than 75 percent of the market for quite a few products, for example mealie meal

The chain stores which dominate the retail market have long contended that they compete fiercely for the consumer's rand, and that their suppliers are responsible for inflation.

However, a look at some statistical information *seems* to show they are responsible for keeping food prices high

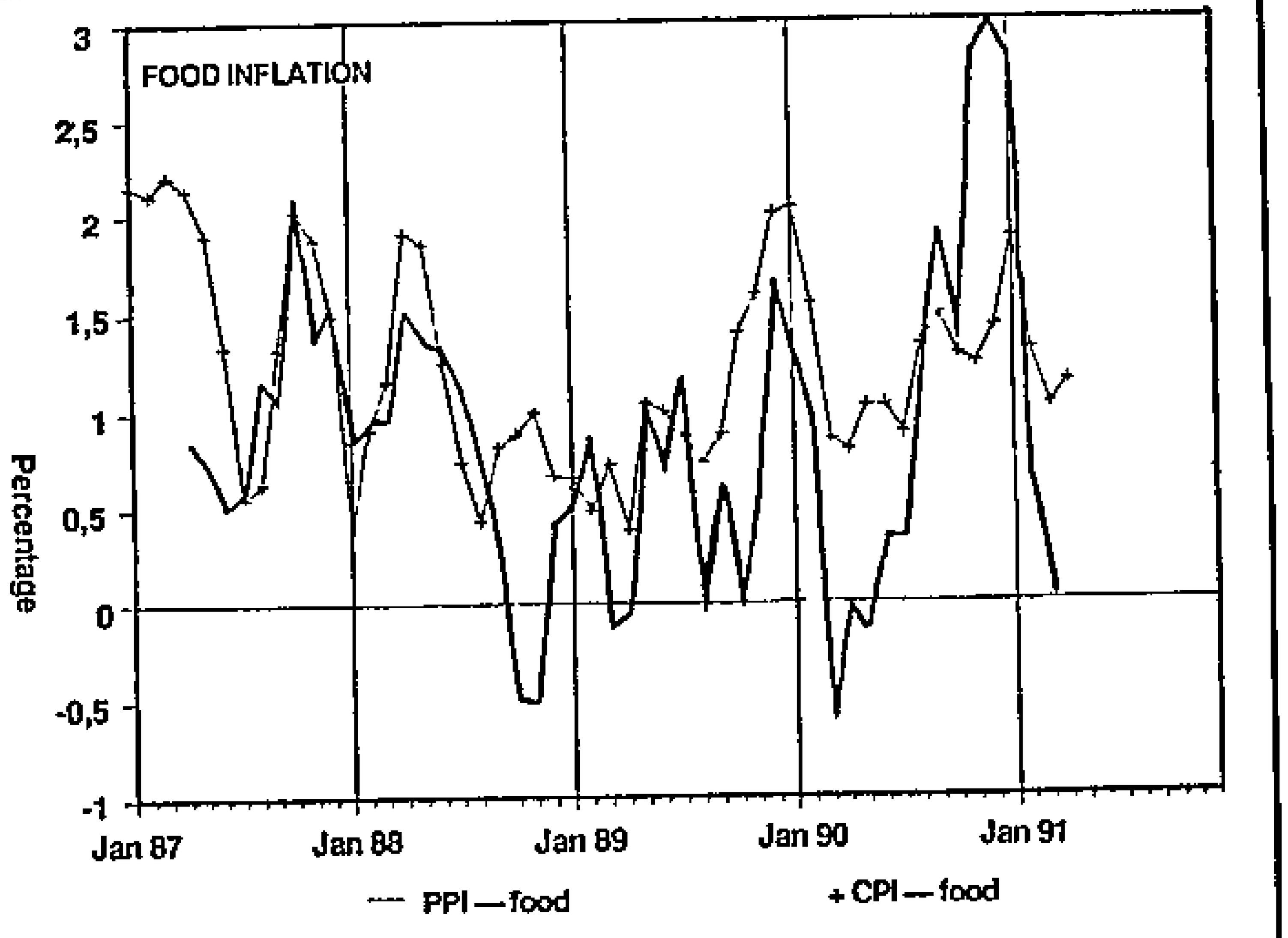
Food prices as measured by the CPI, ie at retail level, seem to be unresponsive to downward pressure on producers Simply put, that producers getting a lower rate of increase for their food products isn't being translated into the price the consumer pays for food

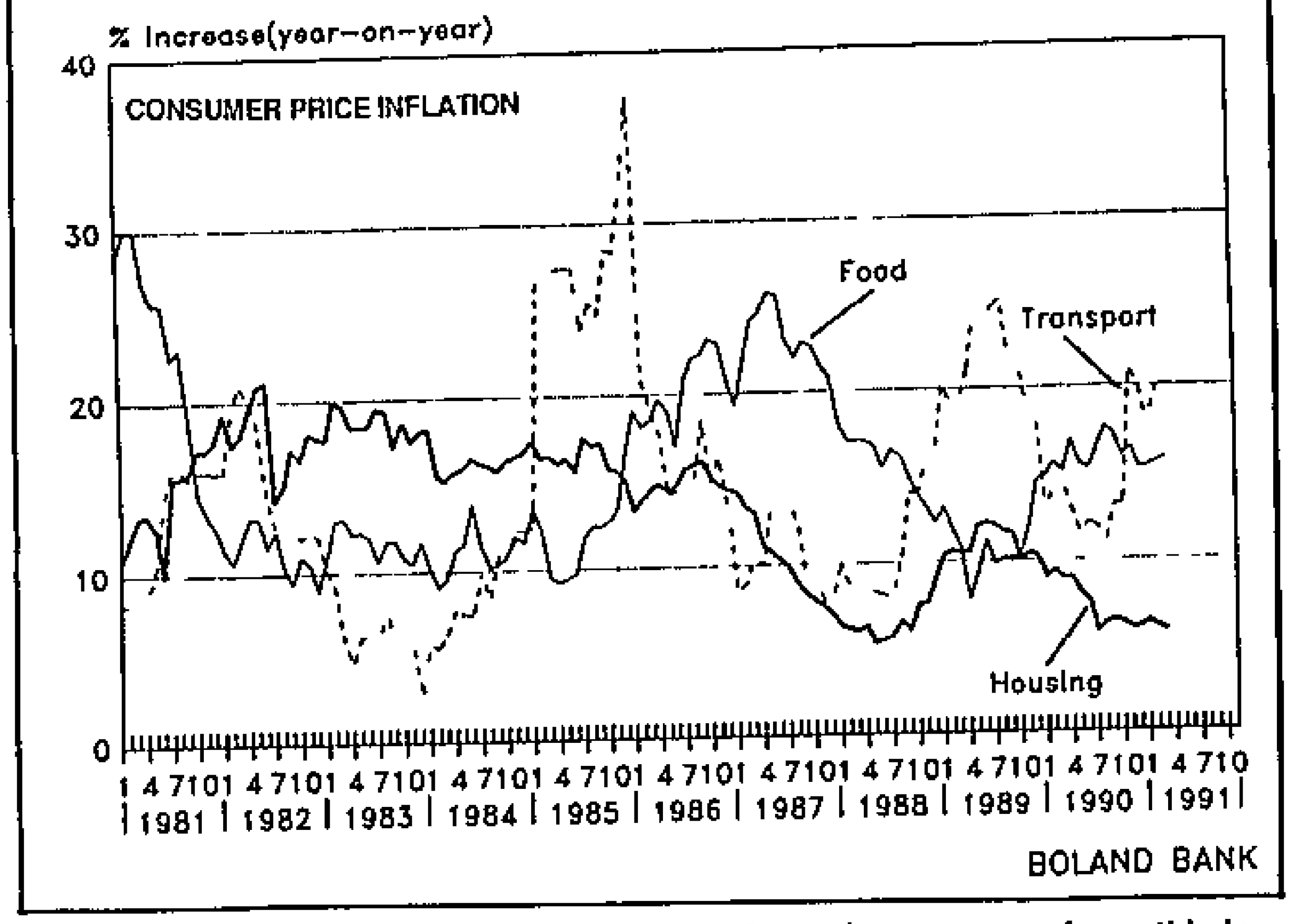
The accompanying graph produced by Southern Life illustrates the point.

It shows food price inflation measured on a three-month moving average, according to the PPI and CPI

Southern chief economist Mike Daly points out that while the food prices increase from producers have surged above the CPI, *the rate of increase in food prices for consumers has almost never fallen when producer prices have fallen.*

"When there is a sharp fall in the month on month increase in the PPI it isn't followed by a smaller rate of increase in the CPI "





RIDING HIGH The top graph, a three-month moving average of monthly increases, shows that while retail food prices increase in line with producer prices, they seldom fall when producer prices fall The bottom graph shows disparities in the inflation rate of three major sectors food, housing and transport

The way the two indices are made up is likely to differ, explaining some of the difference, with the CPI being much broader than the PPI

It is puzzling, as Nedbank chief economist Edward Osborn remarks, why falls in the price of particular foods have not had a greater impact on food inflation This may be because falls in one type of food are often offset by sharp rises in other foods A drop in the price of meat, for instance, was accompanied by a 44 percent rise in the price of fruit, Osborn says

The retail chains are not increasing their traditionally thin margins, ie the difference between the price they pay and the price they receive for goods sold

A submission by the South African Chamber of Business to the Competition Board on the supply and distribution of foodstuffs exonerates the big chains, despite their ability to put pressure on small retailers, concluding that competition in food retailing in white-dominated business areas is fierce, though opportunities exist for small entrepreneurs

Pick 'n Pay food director Sean Summers lays the blame for food price inflation directly at the feet of the big food processors

One has only to compare the profits being made by the manufacturers and processors of the goods Pick 'n Pay sells with the profits of the chain

Retailers are often forced to deal with one supplier, for example with sugar and canned fish.

Summers refers indignantly to suppliers who announce profit increase of 72 percent and are even bullish about the prospects for next year

"In canned goods we have seen price increases of 30, 40 and 50 percent over the past eight months " A can of baked beans has risen in price from 79c to R1,29 in one year

Sanctions have kept South African companies uncompetitive, says Summers, and he looks forwards to the return of multinationals Jammine, however, says the big chains have cut prices on loss leaders and made profits on all their other lines

They have tended to give big wage increases to their staff and have passed this on to the consumer Also, they are faced with rising rentals from the owners of the properties out of which they operate

The chains, says Jammine, may not be increasing their margins, but could be passing on the actual increased costs to consumers

The discrepancy between the food PPI and food CPI need not imply an increase in the retailer's profit margins, says Jammine Other costs such as the distribution, wages, leases, and, importantly, packaging may all have increased out of proportion to the inflation rate

"It is nevertheless hard to account not only for the consistency over almost six years with which food CPI inflation has exceeded food PPI inflation but also for the fact that the gap has been widening in the past two years

Even if the mitigating factors such as packaging costs were valid at times it seems some of the effects of high input inflation would have had to be absorbed sooner or later had there been a more competitive retailing environment

In the food processing industry, the accusation is that in part the chains have overinvested in property and buildings, particularly in white areas The difference between the CPI and PPI is put down to efficiencies in manufacturing not being passed on to the consumer

The food processing industry will naturally enough claim there is no co-operation between the various divisions and subsidiaries on pricing, sources in the retail industry, off-the-record, contend they have seen MDs of companies belonging to big groups put under pressure by head office

In the light of the concentration problem at both levels, it is worrying Jammine comments, that Premier s recent acquisition of Metro Cash 'n Carry is a move towards vertical integration in food supply

In the end, a food price detective might be led to conclude, like Hercule Poirot in *Murder on the Orient Express* that they all did it

And this is the point An environment of continued inflationary expectations makes it unlikely that anyone along the food supply chain will be happy about absorbing cost increases to drop prices And concentration of control at all levels must interfere with competition, underlining the difficulty of combating inflation at a macro-economic level alone through monetary and fiscal policy, necessary though this is

PREMIER GROUP FM 28/6/91

(186)

STRATEGIC REFOCUS

Activities: *Food; pharmaceuticals, retail and entertainment, and other activities*
Control: *JCI 32,2%, Liberty Life 33,3%*
Chairman and CE: *P G A Wrighton, deputy CE G M Utian*
Capital structure: *73,6m ords and 621 100 5,5% cum prefs Market capitalisation R2,43bn*
Share market: *Price 3 300c Yields 2,1% on dividend, 6,4% on earnings, p e ratio, 15,7, cover, 3,0 12-month high, 3 100c, low, 1 900c Trading volume last quarter, 602 000 shares*

Year to March	'88	†'89	'90	'91
ST debt (Rm)	84,6	144,8	69,3	123 4
LT debt (Rm)	349,3	320,9	212,2	215,7
Debt equity ratio	0,17	0,53	0,23	0,27
Shareholders interest	0,72	0,53	0,52	0,50
Int & leasing cover	3 90	3 60	3,65	3,76
Return on cap (%)	7,9	14,1	14,2	14,8
Turnover (Rm)	3 204	4 150	4 342	5 094
Pre-int profit (Rm)	276	287	336	375
Pre-int margin (%)	6,6	6,9	7,7	7,4
Earnings (c)	317	145	180	210
Dividends (c)	140	50	60	70
Net worth (c)	3 549	1 000	1 343	1 310

† Adjusted for restructuring and divestment of SA Breweries interest

When Premier Group announced the divestment of its 33,8% stake in SA Breweries in the latter half of 1989, it turned out to be one of a series of steps that have helped to transform the image and profitability of the group since chairman Peter Wrighton and deputy CE Gordon Utian took charge

A steady improvement in the overall efficiency and profitability of Premier's own operations (excluding the SA Breweries interest) can be traced back to 1987, so it is fair to say that a recovery was set in motion during the tenure of the previous chairman, Tony Bloom But over the past two years structural changes and signs of tighter financial controls became more evident

Operations have been disposed of in several sectors, particularly the activities which were dragging down the returns in Premier Food There have also been expansions, the most notable being the recent foray into distribution businesses through Metro and Score-Clicks

Wrighton notes that about two-and-a-half years ago a strategic review identified key areas that required attention. Among the most important was the need to dispose of long-term underperforming assets and reduce debt Disposal of the Bonny Bird broiler operations to Rainbow Chicken at the end of the last financial year largely fulfils this objective — more than R120m had long been tied up in an asset giving no return

Epol Feeds, without the base offtake of a "dynamic and growing" organisation like Rainbow, faced a doubtful future,

Premier's Wrighton .. *disposing of underperforming assets*

Wrighton contends that the 50-50 joint venture entered into with Rainbow to develop the animal feed market remedies this deficiency, and offers the prospect of re-establishing Epol as the pre-eminent animal feed brand in the country within the next few years

In Twins Pharmaceuticals various operations, particularly the remaining Safimed assets, were sold, closed or merged with other divisions

As Wrighton puts it, the string of disposals over the past few years has left Premier comfortably geared, and focused on the manufacture and distribution of food and pharmaceuticals, in addition to its successful joint controlling interest in CNA Gallo.

Various acquisitions were also made last year. Among these, Premier Foods' fishing operations acquired Atlantic Fishing Enterprises, which holds a substantial south coast rock lobster quota More important, the investment in Score-Clicks was increased, bringing Premier's effective holdings in Score Food and Clicks Stores to 36% and 25% respectively

This prepared the ground for the recent agreement to buy 70% of Tradegro's holding in Metro, with effect from June 30 Metro is to raise R142m through a rights issue, and buy the entire issued shares of Score Food, in exchange for Metro shares Premier expects to have a direct and indirect holding of about 50% of the enlarged Metro Wrighton contends that substantial rationalisation benefits expected to result from the merger should greatly improve Premier's distribution capability, as well as the efficiency and profitability of Score Foods and Metro under Premier leadership

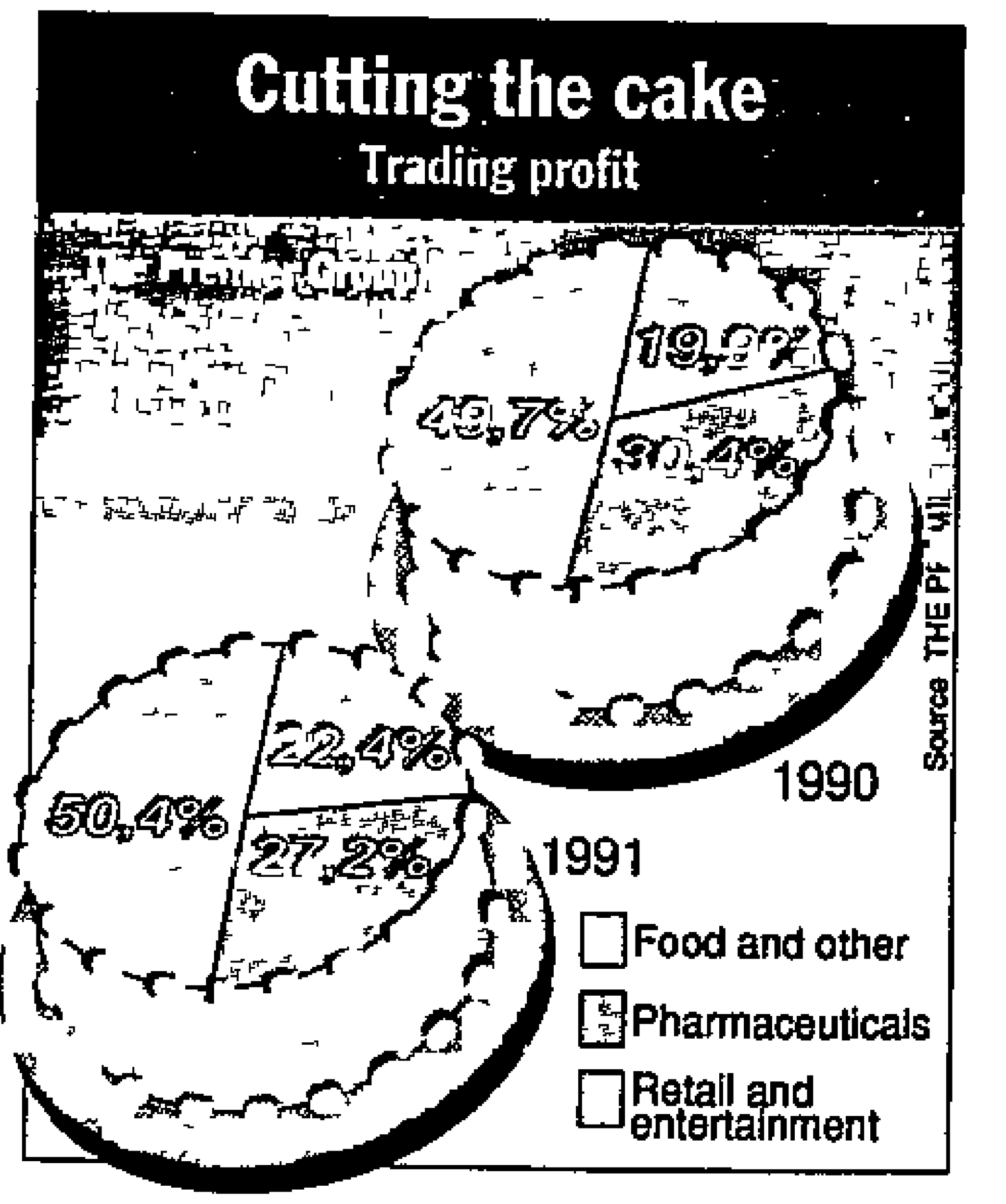
Expenditure on modernising and maintaining the group's plants absorbed R135m last year, while a further R70m was spent on expansion and acquisitions A large new bakery is being built in Aeroton, following the deregulation of the wheat-milling industry And, as a joint venture, a new compact disc plant has been commissioned by CNA Gallo at Midrand Expenditure for the current year is expected again to be about R200m, excluding the Metro acquisition The plan to build a new wheat mill in Maritzburg has been shelved

Emphasis was placed on managing stock levels, which rose by only 8,4% Debtors, however, were up 20% (R116m) and creditors by 8,5% (R56m), and the net working capital requirement rose by 10% (R48m). The current ratio was roughly maintained at just over 1,4 and the debt-equity ratio was only slightly higher at year-end

Wrighton notes the trading operations of Premier International performed well. Foreign subsidiaries (not consolidated) contributed dividend income of R11,1m, out of total dividend income of R23,6m New opportunities are being seen as SA emerges from isolation

However, the bottom-line performance will depend essentially on how well the group can manage its own, refocused operations. Premier's core businesses remain highly capital-intensive Volume throughput, market share and efficiencies will be major factors influencing earnings and dividends

It has yet to be shown that the acquisitions — especially Metro — will be made to work as hoped, but the restructuring should have left the group in a stronger position to



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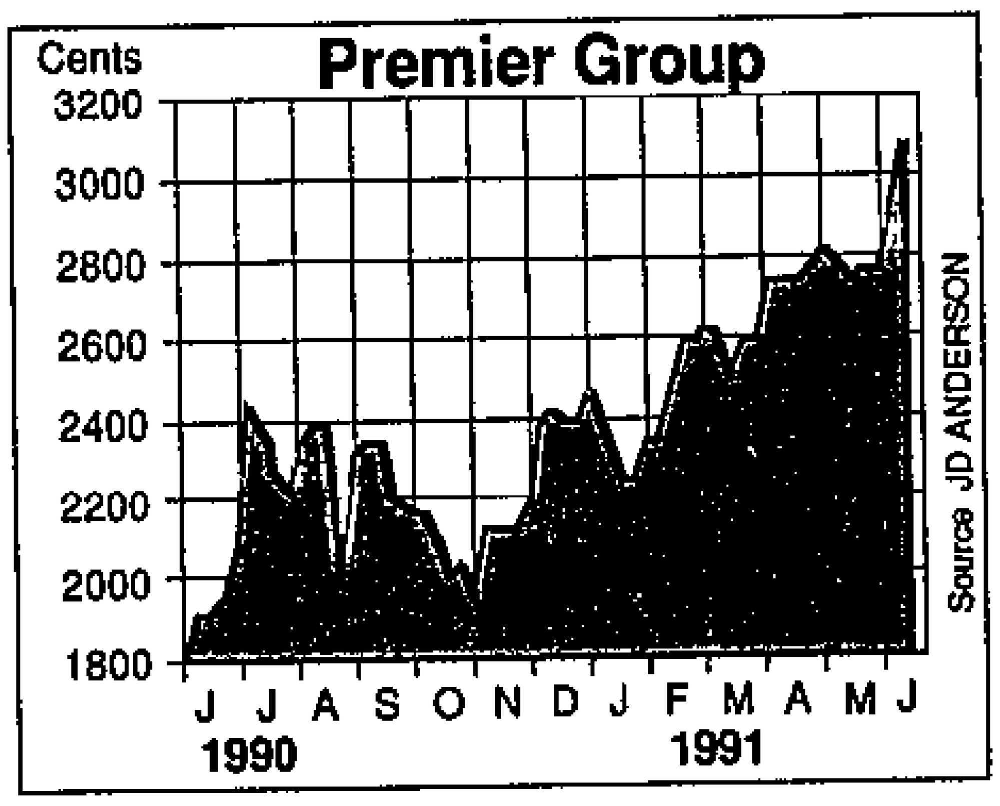


achieve good growth over the next five years The share is expensive but should prove a rewarding investment over time *Andrew McNulty*

Fm 28/6/91 (186)

GANT'S/TOLLGATE

FRUITFUL SALE

Market sources believe that Fedfood is poised to buy Gant's from Tollgate Holdings (TGH), having beaten other suitors to the purchase During the past year, Amfood, a division of Anglo American — possibly fronting for Heinz, whose president is former British Lions rugby player Tony O'Reilly — was rumoured to be interested Now that a deal is imminent, Royal and Langeberg are also said to be contenders But, possibly because of the downturn in the economy, or possibly because O'Reilly was influenced by sanctions, no deal has yet been concluded

TGH chairman Julian Askin confirms that discussions involving the sale of Gant's continue An announcement will be made as soon as finality is reached He won't identify the prospective purchaser ("no comment" on Fedfood) or price, but the *FM* has learnt that the sale involves between R15m-R25m

Gant's annual turnover is about R140m It sells canned meats under the Gant's brand name, is a brand leader in the pea market under the Helderberg label, and canned vegetables, soups and jams are sold under various names, as well as the Gant's generic

It would make sense for Fedfood to capitalise on these brands Because of heavy finance costs, Gant's is not profitable But it retains a quality image in consumers' minds

For Fedfood to buy a well-known trade name with plant and machinery for R20m would be much cheaper in the long run than trying to create its own brands in the face of stiff competition. Moreover, Gant's could complement Fedfood's existing investment in canning through Patoma, which markets subtropical fruit, tomatoes and atjar

For R20m, a buyer is likely to get Gant's name (the goodwill factor), canning machinery and equipment It is expected that, in a separate but simultaneous transaction, stock of about R25m will also be bought by the buyer of the business, as opposed to being sold piecemeal to others Furthermore, Gant's properties, valued at about R25m, may be realised soon

If all this takes place, TGH will receive cash of roughly R70m and still hold Gant's remaining assets a debtors' book of about R30m — to be converted into cash — and the Swaziland canning operation (exports pineapples to the UK), which is not for sale Short-term, therefore, TGH interest-bearing borrowings — over R200m when it reported at end-December — will, after allowing for creditors, be cut by between R70m-R100m

Eliminating this debt will make a meaningful difference to TGH's cost of borrowings and, therefore, pre-tax profits Askin says that as soon as these transactions take place TGH will be able to complete the foreign acquisition that will provide hard-currency earnings In addition, reconstruction and further rationalisation continue to add to the performance of the existing divisions

Gerald Hirshon

TEXTILES VS CLOTHING

NEW BATTLE WEAPONS

The Board of Trade & Industry is investigating a "development programme" that it hopes will end the continuing conflict between the clothing and textiles industries

Textile Federation executive director Brian Brink speculates that the programme could involve a "pipeline approach" that will affect all the industry's players, from wool and cotton producers to textile manufacturers and clothing retailers.

He notes that some interesting thinking seems to be taking place that may involve subsidies, tax breaks or other forms of State assistance to the textile industry, shifting the emphasis from pure tariff protection.

However, board CEO Reuel Heyns says he doubts whether any relief beyond tariff measures will be considered for the package

The historic battle between the two factions essentially surrounds the level of protection that should be given to the capital-intensive textile industry, long kept under the State's protective wing Clothing manufacturers have long argued for freer access to imported inputs, but textile manufacturers fear that government's increasingly liberal import regime may favour the labour-intensive clothing industry

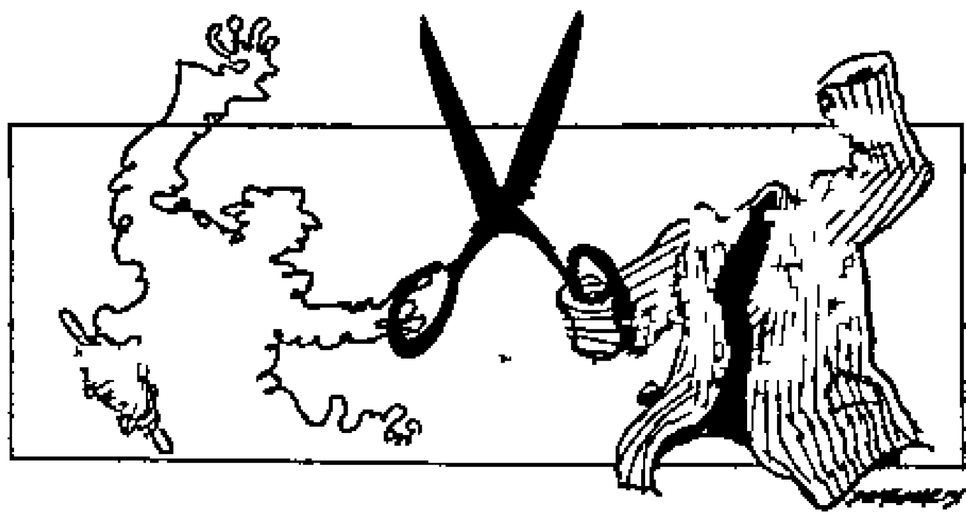
Discussions between the two sectors are now taking place under the auspices of the SA Chamber of Business and are aimed at resolving the conflict over protectionism

But, notwithstanding these moves towards a truce, the textiles versus clothing war (*Leaders* May 31) remains as acrimonious as ever. The latest skirmish involves the federation's rash of applications to the board for antidumping action against a number of Far East textile exporters. The antidumping applications were advertised in the *Government Gazette* of June 21 and complainants were given three weeks to respond

Clothing Federation executive director Hennie van Zyl says about 13 types of cloth from eight Far East countries are involved He describes the move as exerting psychological pressure on the board and government to keep the protectionist issue topical He would like to see a moratorium on any new antidumping applications while the issue is thrashed out

"Trade & Industry Minister Org Marais says he favours greater competition in industry," Van Zyl says "As it's also government policy to strengthen SA's industrial export base, government should instruct the board to reject all antidumping applications because these will only harm both industries."

He says this would allow clothing manufacturers to focus on increasing exports and finding new markets in the post-sanctions era rather than "being forced continually to



put out fires set by the federation's applications "

Ironically, the federation agreed — in the board-sanctioned agreement signed by both parties 18 months ago — to abide by a freezing of all tariffs for five years, after which they would be gradually reduced Now it has lodged its antidumping applications, using the formula duty mechanism it previously rejected Over the past four months it has also asked for higher tariffs on all woven and knitted fabrics The board has granted only one of these applications

Seardel executive director Mike Getz says clothing exports are projected to increase to 6% of total industry output in 1991/1992, from only 2% in 1988/1989 But if the federation's pressures on government succeed in keeping protectionism largely in place, these plans could be thwarted

He says the board is now reconsidering the agreement between the two industries Though government seems determined to increase competitive imports by lowering tariff walls, he fears some textile producers will still plead for strong antidumping measures because they have grown accustomed to 40 years of unbridled protectionism ■

Etam strengthens its defence against Oceana's hostile bid

(184)

Star Bureau Star 16/9/91

LONDON — Etam, the British women's clothing retailer, which is the target of a hostile bid by the South African-controlled Oceana Investment Corporation, has received the backing of Gartmore Investment Management

This was announced by Lizard Brothers, Etam's advisers, at the weekend

Etam's defence document shows Gartmore with a 12,71 percent stake

Etam's directors have also resolved to reject Oceana's offer for their own beneficial holdings, which amounts to about 10,2 percent

Other institutional and private shareholders, including directors' families, have also said they intend to reject the offer

This brings the total to 33,9 percent

John Dear, managing director of Lizard, says two other institutional shareholders — Postel Investment Management and Schroder Investment Management — with about 4,78percent had not yet disclosed their intentions

Oceana, a holding company for the overseas interests of the Lewis family, which runs the Foschini store chain, has a 29,2 percent stake in Etam

It is offering 185p a share for the rest, thereby placing a value on Etam of about £121 million (R605 million)

In the defence document, Etam's directors reject Oceana's claim that Etam failed to justify more than £75 million (R375 million) of capital spending in the past three years

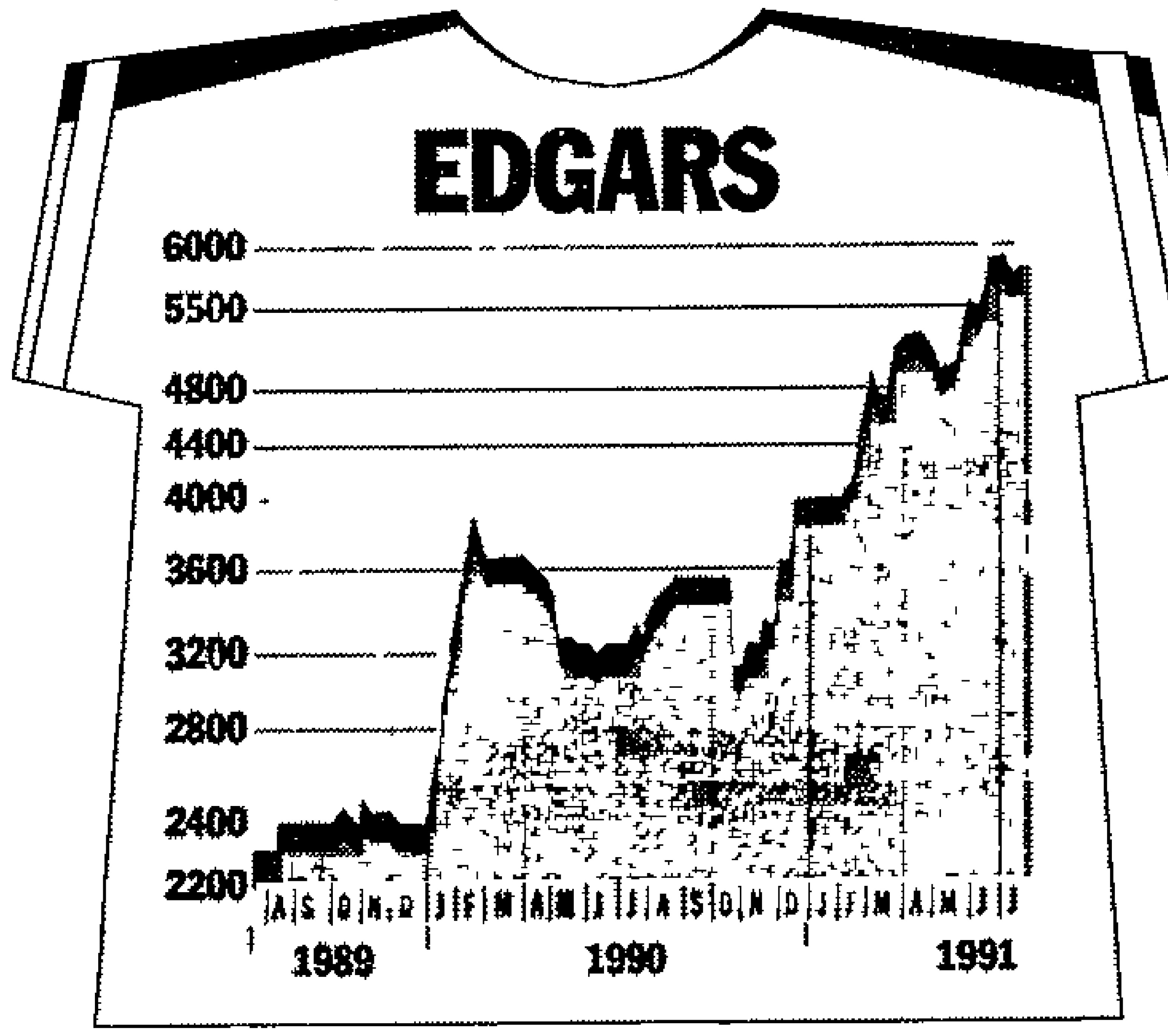
The directors say the investment was spent on increasing retail space, acquisitions in the industry, the development of new Etam brands and the building of a new distribution centre.

Edgars — king of clothing on tick

(184)

S/Times (Bus Times) 21/7/91.

By JULIE WALKER



A WOMAN who had only £1 with which to buy a £4 suit from the first branch of Edgars led the owner to introduce sales on credit

The suit had been £7, but stock had to be cleared The manageress told the customer to bring £1 a month until the suit was paid for

That was in 1929 Today, Edgars — it took its name from Piccadilly's Swan & Edgar — is the showpiece of retail clothing in South Africa More than 85% of its R1,7-billion sales through 167 shops are made on credit to 1,7-million account holders

The Edgars group also owns Sales House with 800 000 account holders and cash underdog Jet as well as a manufacturing company Celrose and two testbed operations Total sales were R2,5-billion in the year to March 1991

The debtors' book puts group gearing at 59% Financial director Mark Bower knows that rapidly expanding companies can "grow" bust in inflationary times if they are not structured and controlled properly

House

Mr Bower goes to great lengths to show how Edgars arrives at its borrowing capacity limit on the basis of sustainable liabilities He estimates how much could conservatively be borrowed against each Actual borrowings are subtracted and Edgars is still in the black on its own terms

New chief executive George Beeton told a presentation to the Investment Analysts Society this week how Edgars had benefited from the use of foreign consultants Over the years, big names from great stores — Maceys, Bloomingdales and Marks & Spencer — had been called on Jack Shewmaker of Wall Mart arrived a week ago

Edgars' marketing is formidable More than 70% of the advertising budget goes on leaflets mailed to account holders

Mr Beeton describes account holders as an enviable asset Goods are never repossessed, but collections are excellent because shoppers want to come again

Premises

Mr Beeton says 70% of sales in Edgars is made up of house brands, largely because there are so few recognizeable labels in women's fashions

He describes the visual marketing theme — pictures rather than words because of language barriers — as the theatre of retailing

Edgars does not aggregate distribution, but maps the assortment for each store Each new range finds a place, so much so that Edgars shops are becoming too small

Mr Beeton says the shops are where people live and where they work, and the firm will look for premises of up to 8 000m² instead of the current 5 000m² in new developments

Since there are so few brands, Edgars makes its own Its Private Collection range of manchester goods already had a third of the market, but a more exclusive line was called for The launch of Goose Bay has outstripped Edgars' highest expectations

The introduction of the Penny C range also helped to boost women's clothing sales The Petite range is also a money-spinner — 40% of Edgars' women customers are shorter than 1,6m

Edgars has been trying to establish Jet for 20 years, but it made only a meagre R1-million in the year to March 1991 The 74-store chain is important because it sells for cash, but it has never been a big success

Mr Beeton estimates it will take another two years before Jet starts to come right Its focus will be shifted from being an Edgars' clone to a chain with its own identity aimed at middle-class South Africans of contemporary or classical tastes

Celrose sells 60% of its production in-house, 25% to other companies and 15% is exported Mr Beeton believes that foreign currency shortages in future will increase Celrose's importance in the group

The two trial businesses are Express — the small-town clothing store chain, and Decisions, a mail-order catalogue-based promotion

"We got into mail order before Truworths did," beams Mr Beeton

He says the group is vulnerable to staff poaching because it trains people so well Extra attention is being given to staff welfare and participative management

Edgars identifies opportunities in footwear The Edgars chain has 7,5% of the shoe market and Sales House 4,2% The group hopes to increase total market share in all its businesses to 20% from the current 17% Shoes cost too much to buy for cash

Campaign

Mr Beeton says the group is always planning Each sales campaign starts 15 months before launch The group adheres to three-year flexible plans Chairman Meyer Kahn asked Edgars management to say where the group would be in 10 years' time, opening a few eyes in the process

Shareholders have much to smile about Earnings a share have grown at a compound annual rate of 49% in the past five years

Mr Beeton was asked whether the client base had reached saturation within an acceptable risk profile He replied that the same comment could have been made 50 years ago when it first accepted blue-collar customers on credit "Those that don't pay, can't pay"

Amies label for Monatic

Star 25/7/91

By Tom Hood (184)

CAPE TOWN — Men's fashion exports from House of Monatic could increase sharply as a result of a deal by the Cape-based controlling company, Lenco Holdings.

Douglas de Jager, Lenco's executive chairman, has confirmed that Lenco bought a 50 percent stake in a British fashion company to establish a presence there and distribute House of Monatic's clothing range to the British and European markets.

The arrangement gives the company the rights to manufacture formal men's clothes under the Hardy Amies label.

"Without a top-class label, our exports would be competing against exports from China and similar countries," he said

"The Hardy Amies name puts us into a higher and more profitable market."

Conditions in the British economy have not been easy and the venture experienced start-up problems.

Lenco had made a small provision against losses in the start-up period

In his annual review, Mr de Jager reports that Monatic, delisted last year, showed an 11 percent margin on sales, which were up almost 35 percent on 1990.

"While this must be the envy of many of its competitors in the clothing sector, it leaves much to be desired in terms of capital employed.

"Borrowings increased by 200 percent to fund a 37 percent escalation in working capital during the year."

Management is restructuring the business to provide a more acceptable return for the future.

"Unfortunately the industry has developed into one in which many retailers have become reliant on manufacturers to fund their businesses through the granting of long repayment terms

"This has influenced the board's decision to delist the company to help in the restructuring."

The benefits the name Monatic has won in the market will be reaped in almost full order books in the year to February 1992

Lenco's subsidiary, Amalgamated Shoes, is also looking at the possibility of exporting to Britain and Europe

The group's Lesotho operation has proved to be one of Amshoe's most profitable ventures and offers potential for exporting.

Amshoe's operating profit dropped 15 percent to R27 million and taxed profit fell 17 percent to R16-million

Business was hit by the recession, while unrest in Natal also took its toll