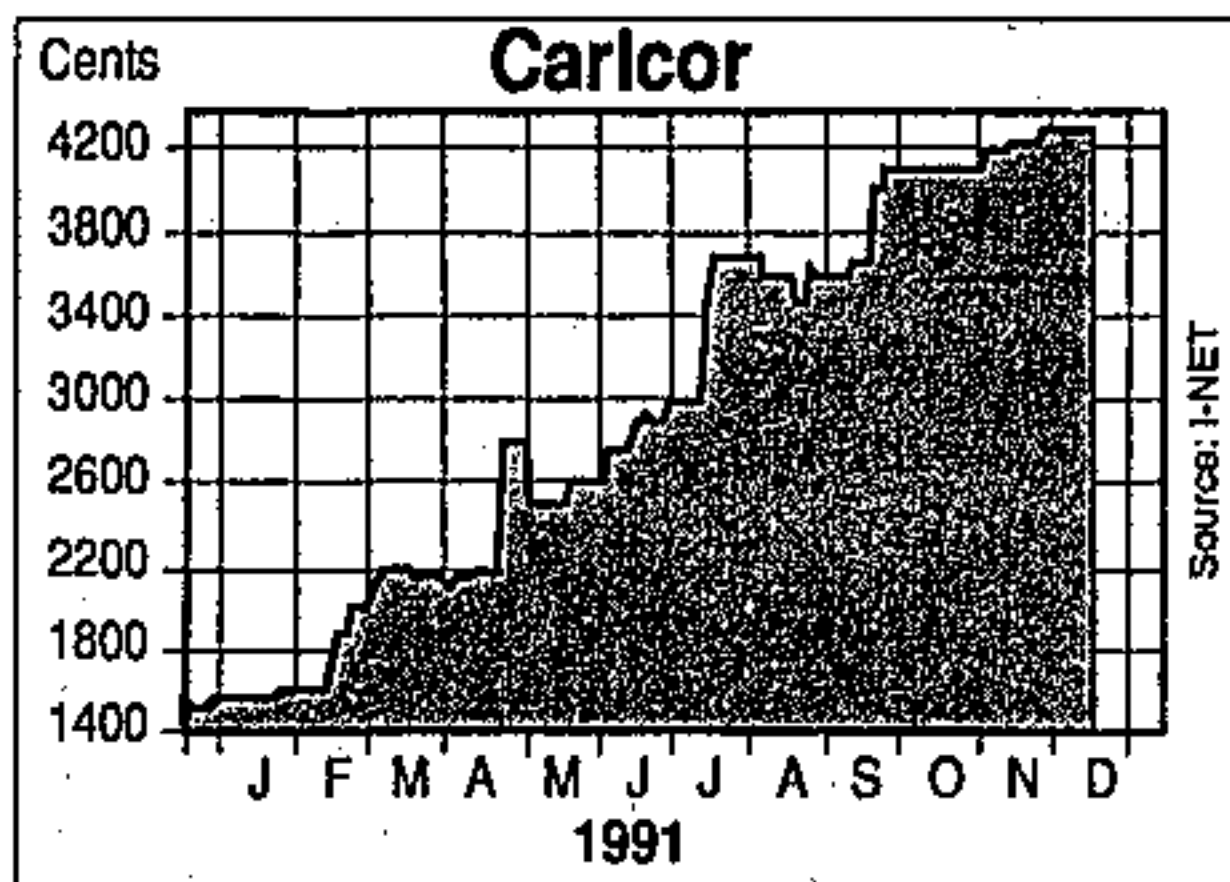


MANUFACT. — Paper & Products

FM 3/1/92 (194)



Activities: Manufactures disposable tissue products.

Control: Malbak and Kimberly-Clark Corp have joint control.

Chairman: I Willis; MD: K J Partridge.

Capital structure: 15,8m ords. Market capitalisation: R679m.

Share market: Price: R43. Yields: 2,6% on dividend; 4,4% on earnings; p:e ratio, 15,3; cover, 2,2. 12-month high, R43; low, R15. Trading volume last quarter, 20 940 shares.

Year to August 31	'88	'89	'90	'91
ST debt (Rm)	3,7	9,5	7,6	4,4
LT debt (Rm)	12,9	19,9	7,8	16,5
Debt:equity ratio	0,19	0,21	—	0,01
Shareholders' interest	0,50	0,49	0,52	0,54
Int & leasing cover	10	6,6	8,3	31,2
Return on cap (%)	21,7	20,7	24,5	28,6
Turnover (Rm)	258	317	394	303
Pre-int profit (Rm)	32,1	37,6	50,3	47,7
Pre-int margin (%)	12,4	11,9	12,8	15
Earnings (c)	95,1	130,9	184,5	187,2
Dividends (c)	52	60	75	75
Net worth (c)	472	564	673	785

50,04%.

Operating income and EPS for the 1991 period were ahead of those for the previous 12-month period. Annualised turnover climbed 17,1%, and the operating margin was significantly better, thanks to higher volumes, stable raw material prices and exports.

After last year's robust results, chairman Ian Willis expects earnings growth will be more modest in coming years. Fortunately, brands like Kleenex, Baby Soft and Huggies have a strong position in growing markets.

Management of working capital contributed to robust cash generation. After further repayment of borrowings, Carlton is effectively ungeared. Interest payments were sharply lower, at R3,3m (1990: R5,9m).

A capex programme to increase capacity is well advanced. A R40m tissue wadding plant scheduled to come on stream by August will be followed by a R50m plant to be completed towards the end of 1993. A third plant is for completion in 1995. In total, these will lift wadding capacity from 60 000 t/year to about 80 000 t/year. The expansion is targeted at exports to Europe and organic growth locally.

Expansion is also planned for the medical care product range, though this will have a marginal impact on profit.

The share is tightly held — Malbak and Kimberly-Clark hold 86,6% between them, and institutions have most of the rest. Even allowing for this, and the rise in the price from R14 to R43 over the past 12 months,

CARLTON PAPER
FM 3/1/92
Expanding capacity (194)

Continuing demand from a growing urban population helped Carlton Paper to produce results ahead of even the most optimistic forecasts. In the eight months to end-August earnings grew in real terms by 34% compared with the same period of 1990.

Comparative figures have been restated following the change in year-end from December. The year-end was moved into line with that of holding company Holdains. Carlcor has become an increasingly important profit contributor to Holdains, which at year-end increased its stake from 41,8% to

FM 3/1/92 (194)



Carlton's Willis ... growth will be more modest

the stock may still have potential. Until now, the demanding rating has been justified, and it seems likely that the company will continue to show real growth.

Basil Barber

220
 194
 270

COPI
 Fm 3/1/92
Currency casualty

194
 270

Activities: Packaging in the Caribbean, UK and East Africa. Also invests in securities and currencies.

Control: The Kalmanson family.

Secretary: M C Johnston.

Capital structure: 17,6m ords. Market capitalisation: R493m.

Share market: Price: R28. Yields: 4,5% on dividend; 11,0% on earnings; p:e ratio, 9,1; cover, 2,4. 12-month high, R30; low, R24,50.

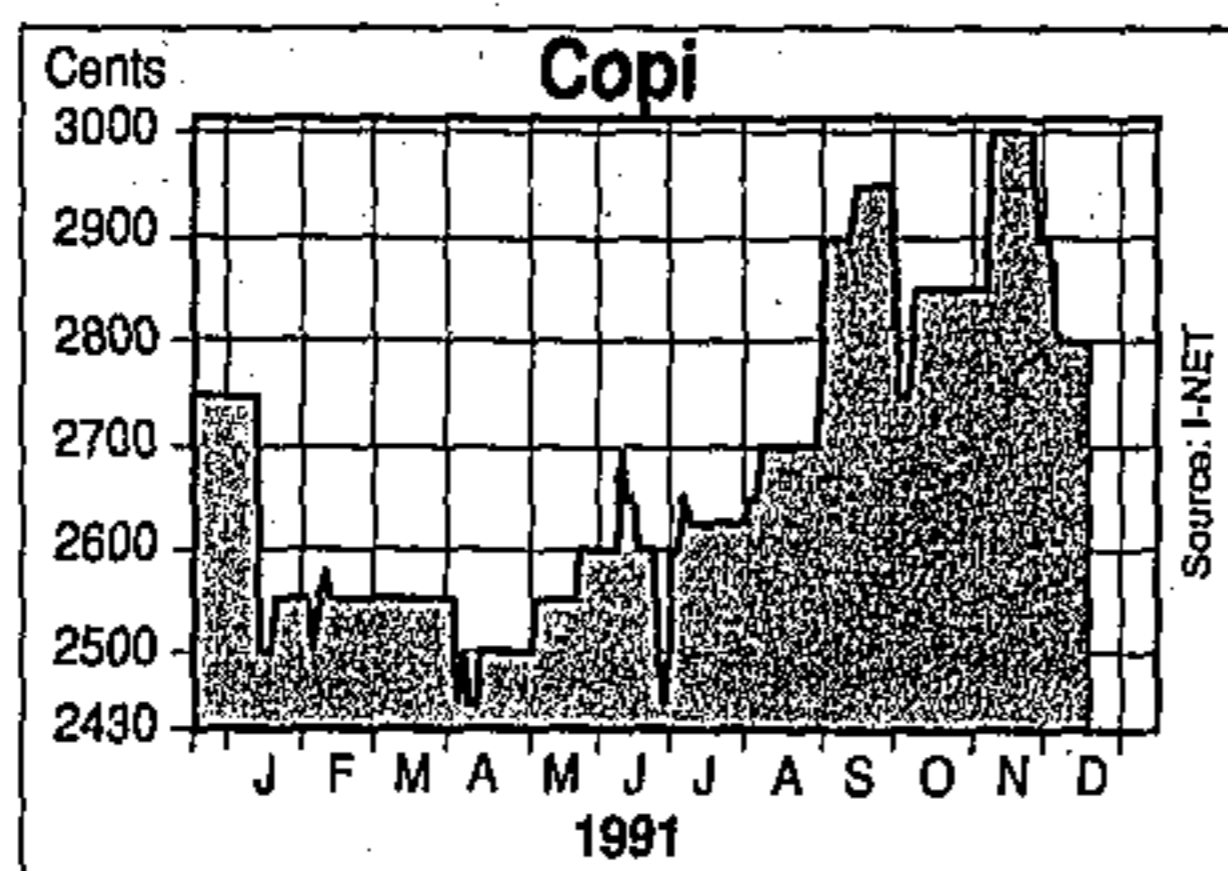
Trading volume last quarter, 83 000 shares.

Year to June	'88	'89	'90	'91
ST debt (C\$m)	7,9	6,9	8,1	5,8
Shareholders' interest	0,85	0,86	0,86	0,87
Int & leasing cover .	16,7	14,7	10,6	9,9
Return on cap (%) ..	8,6	7,8	7,8	9,5
Turnover (C\$m)	103	100	93	107
Pre-int profit (C\$m) .	18,4	17,6	18,1	22,4
Pre-int margin (%) ..	17,9	17,6	19,4	20,9
Earnings (Cc)	90	65,4	88,7	120,8
Dividends (Cc)	44	44	45	50
Net worth (Cc)	1 020	1 088	1 136	1 143

The relative strength of the rand against the dollar didn't help Canadian Overseas Packaging Industries' performance on the JSE over the past year. Against the trend, the share price is actually R1 lower than when we reviewed the 1990 report.

This despite one of the best earnings advances for some years, though absolute earnings are still well below the 1986-1987 peaks. A major contributor was a turnaround from a C\$2m loss to a C\$2,2m gain on foreign currency conversions, despite the fact that the Canadian dollar was one of the world's strongest currencies and it was impossible (because there is no market) to hedge against the weakness of the Jamaican dollar and Kenyan shilling.

Fortunately, East African Packaging Industries (Kenya) had a "satisfactory" year, with higher profit, but profit in Jamaica was badly hit by the poor state of the economy. Other Caribbean interests had mixed fortunes but Encase, in the UK, converted the previous sizeable loss into profit and, the directors say, was the main contributor to the improvement in earnings from operations, from C\$7,4m to C\$11m.



Investment and other income was little changed, at C\$13,4m (C\$14,2m). Directors say it was decided to make the portfolio more global in content. US\$-denominated investments were cut from 65% to 48%, the balance being in Europe (37%) and the Far East (15%). Equities comprise 72% of the portfolio and bonds 28%. Cash and short-term deposits, held mainly in ECUs early in the year, were switched back to C\$, and at year-end combined investments and cash were distributed in North America (73%), Europe (19%) and the Far East (8%).

Directors say that with lower interest rates in prospect, an uncertain stock market outlook and strong recessionary influences affecting all manufacturing operations, "it is difficult to be optimistic" for this year.

Aided by the long-term weakness of the rand, Copi has been a rewarding long-term holding. This may be a standstill year for underlying earnings and dividends, but rand-hedge attractions should underpin the price and it should start to perform again if (when?) the rand weakens against the North American currencies.

Michael Coulson

What plans for the cash?

Activities: Diversified conglomerate with main interests in packaging, consumer products, food and health care.

Control: Malhold (40%).

Chairman/CE: G S Thomas.

Capital structure: 206,6m ords. Market capitalisation: R2,59bn.

Share market: Price: 1 255c. Yields: 2,6% on dividend; 9,9% on earnings; p:e ratio, 10,1; cover, 3,8. 12-month high, 1 300c; low, 600c. Trading volume last quarter, 2,2m shares.

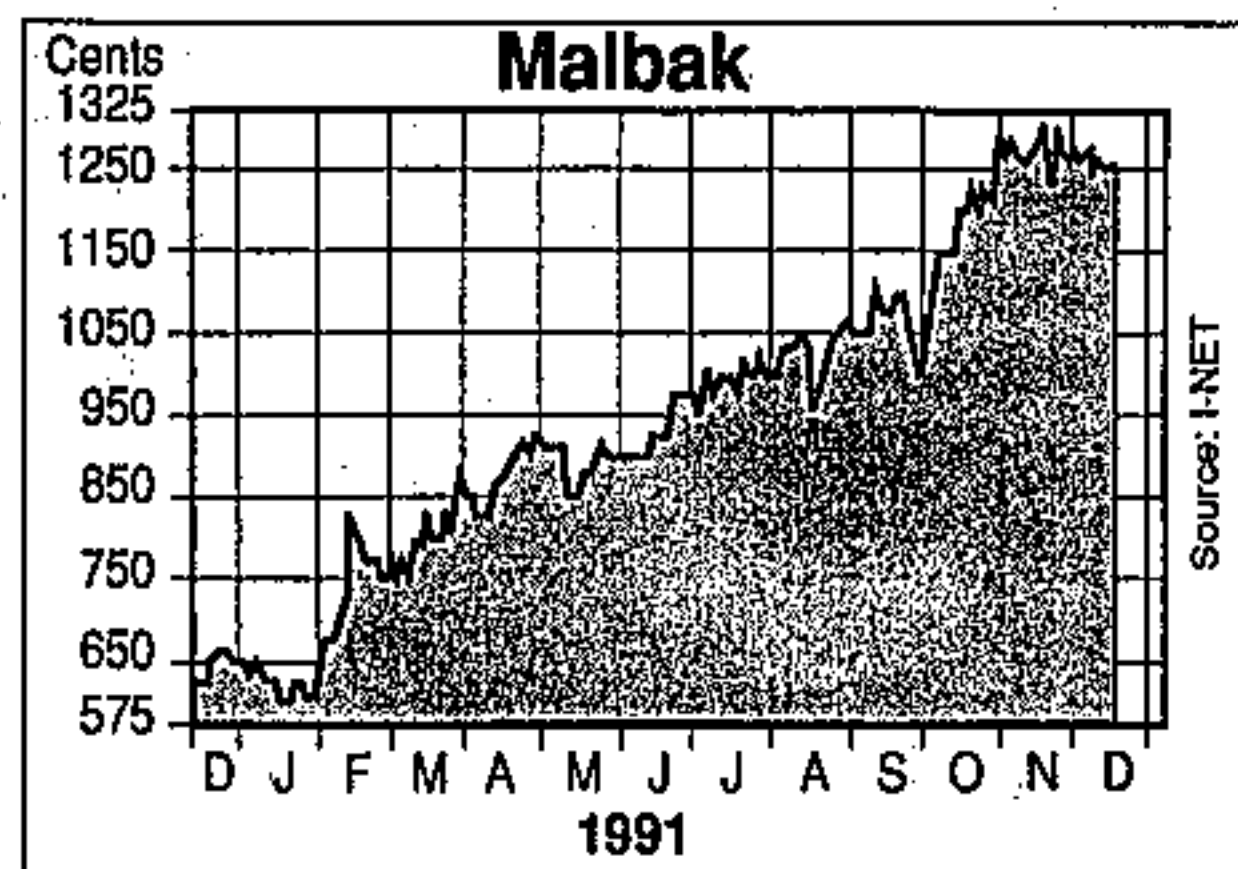
Year to Aug 30	'88	'89	'90	'91
ST debt (Rm)	281	539	656	550
LT debt (Rm)	186	216	171	189
Debt:equity ratio	0,23	0,41	0,38	0,24
Shareholders' interest	0,49	0,46	0,46	0,51
Int & leasing cover	9,3	5,0	3,6	4,8
Return on cap (%)	20,1	17,4	17,2	15,4
Turnover (Rm)	5 234	7 329	8 374	8 441
Pre-int profit (Rm)	560	639	698	686
Pre-int margin (%)	10,7	8,7	8,3	8,1
Earnings (c)	104	136	119	124
Dividends (c)	25	30,5	30,5	32,5
Net worth (c)	566	691	707	776

Reviewing the preliminary results (Fox November 1) the *FM* commented that 1992 prospects would depend strongly on how quickly the group could put its newly acquired cash pile to full productive use.

The cash referred to was R400m from the sale of D&H and half the interest in Standard Engineering as part of the Sankorp asset shuffle. This question, however, has become of even greater significance after the R440m rights issue. This lifted shares outstanding by a further 16% to bring the total increase since the financial year-end to 42%.

The worst-case scenario would be that the R440m spends the rest of the year in a bank. The after-tax return would probably be about 8,6%, when EPS applicable to the rights shares would be about 95c, compared with the 117c Malbak forecast before the issue. This was already 7c (5%) down on 1991 as a result of the Sankorp deal, so on these assumptions the rights issue could depress EPS by a further 3c, bringing the cumulative decline to 10c (8%).

Dilution would be lessened if the funds are



Malbak's Thomas ... facing fresh challenges

temporarily used to replace outside debt in the operating subsidiaries. Using the present overdraft rate as a benchmark, this would increase the return to around 10,5% and EPS on the new shares would accordingly amount to some 115c, a basically neutral situation.

The most optimistic situation would be that, despite the rather vague reasons given for the issue, management in fact has plans to invest the funds, for a relatively short period, in a way that will not only yield better returns than tinkering with interest rates, but may also enhance performance of the group as a whole.

Fortunately, two factors favour this scenario. One is simply pragmatic: without such plans, there was no need for the issue. The Sankorp deal had already effectively de-gearred the balance sheet (the company's calculation of a 20% post-deal gearing ratio is based on gross borrowings and does not take into account cash resources of around R584m), and with a permanent capital base expanded over R2bn it would obviously have the financial capacity to cope with any normal expansion of operations.

The second is chairman Grant Thomas's obvious enthusiasm. Malbak, he says in his annual review, stands poised on a new threshold, facing fresh challenges, and ready to capitalise on the extensive and exciting opportunities that lie ahead.

Coupled with this is that the group now has a more "together" look about it than for some years — in fact, since the Gencor deal in 1987. Operating divisions have been cut from seven to five and in the process a number of minor operations have been sold, allowing management to focus more effectively on the main profit generators.

Just how much any of this can impact on 1992 results remains to be seen. In normal circumstances management's 117c EPS forecast could turn out conservative, especially as there were signs during the second half of last year that earnings were starting to recover despite the continued downtrend in the economy. But this forecast did not take into account extraneous factors such as the prolonged strike at Ellerine and its impact on the Branded Consumer Goods division

which, at 27%, was the largest contributor to earnings last year. Still, the market does not seem unduly worried. The share price has run up from a 1990 low of 450c to 1 255c, which is just 3% off its peak.

The Sankorp deal and rights issue have also had a significant effect on Malhold, whose stake in Malbak has been diluted from 56% to a shade under 40%. Since Malhold's issued capital and holding of Malbak shares are unchanged, the underlying relationship between the two share prices has not been affected and remains at a ratio of 2,8:1 in favour of Malhold. So at R35 Malhold is correctly priced in relation to its erstwhile subsidiary.

Brian Thompson

Creditable growth

194

Activities: Makes and markets a wide range of products associated with the paper, packaging and fibre industries.

Control: Malbak 66,3%.

Chairman: G S Thomas; MD: I Willis.

Capital structure: 24,3m ords. Market capitalisation: R1bn.

Share market: Price: 4 150c. Yields: 2,9% on dividend; 8,63% on earnings; p:e ratio, 11,5; cover, 2,96. 12-month high, 4 250c; low, 1 900c. Trading volume last quarter, 70 275 shares.

Year to August 31	'89	'90	'91
ST debt (Rm)	85,7	118,2	78,5
LT debt (Rm)	11,3	37,9	68,3
Debt:equity ratio	0,3	0,4	0,2
Shareholders' interest	0,97	0,90	0,87
Int & leasing cover	4,23	3,50	4,05
Return on cap (%)	43,14	34,90	29,25
Turnover (Rm)	1 655	1 798	1 952
Pre-int profit (Rm)	145,6	150,8	172,9
Pre-int margin (%)	8,8	8,39	8,86
Earnings (c)	318,2	321,6	358,2
Dividends (c)	106,3	110,0	121,0
Net worth (c)	1 417	1 563	1 677

Malbak's paper and packaging subsidiary, Holdains, notched up another sound performance in the second year since its formation.

Areas made unprofitable by changing circumstances were rationalised. Capital spending was concentrated on investment in technology to keep pace with these changes. The core business was more sharply focused and strengthened with the acquisition of some international agencies.

Chairman Grant Thomas describes Holdains' performance as one of creditable growth. Though turnover increased only 9%,



Holdains's Thomas ... recovery unlikely before year-end

real growth was achieved in some important markets. Main contributors were the Carlton Paper and Kohler Packaging divisions, whose operating profit rose by 41,1% and 24,5% respectively; Graphtec was down 40,8% and Sun Packaging's profit fell 22,2%.

However, management has invested considerable effort in Graphtec, whose interests now include the paper merchandising activities of First Paper House. Organisational and management changes have been made, with paper merchandising rationalised under one management and machinery and Photra-Allgraphics separated.

Operating profit rose by 15%, largely because of a R31m reduction in working capital. CE Ian Willis says tighter asset management, particularly stock turn, enabled an improved operating margin, up from 8,4% to 8,9%. The various businesses operate on very different margins — Carlton Paper 15%; Kohler 10%; and paper merchandising 5%.

The stake in Carlton Paper — the dominant supplier of facial and bathroom tissue — rose to 50,04% (1990: 41,8%). Carlton is now consolidated; previously it was equity accounted. As expected, Carlton was the highlight of the results. With earnings up 52%, it was a major contributor to the 12% advance in Holdains's bottom line.

A 65% shareholding was acquired in Sun Packaging Investments. Sunpack enjoyed reasonable volumes in the buoyant packaging business, but profitability suffered because polymer had to be bought in at high cost; this problem has been resolved.

The label manufacturing operation made a loss, owing to export incentive limitations, lower prices (particularly in the US) and an extensive funding requirement for exports. It's expected that the loss will be reversed this year, following the decision to establish a factory in the US.

Consolidation of Carlton and Sunpak

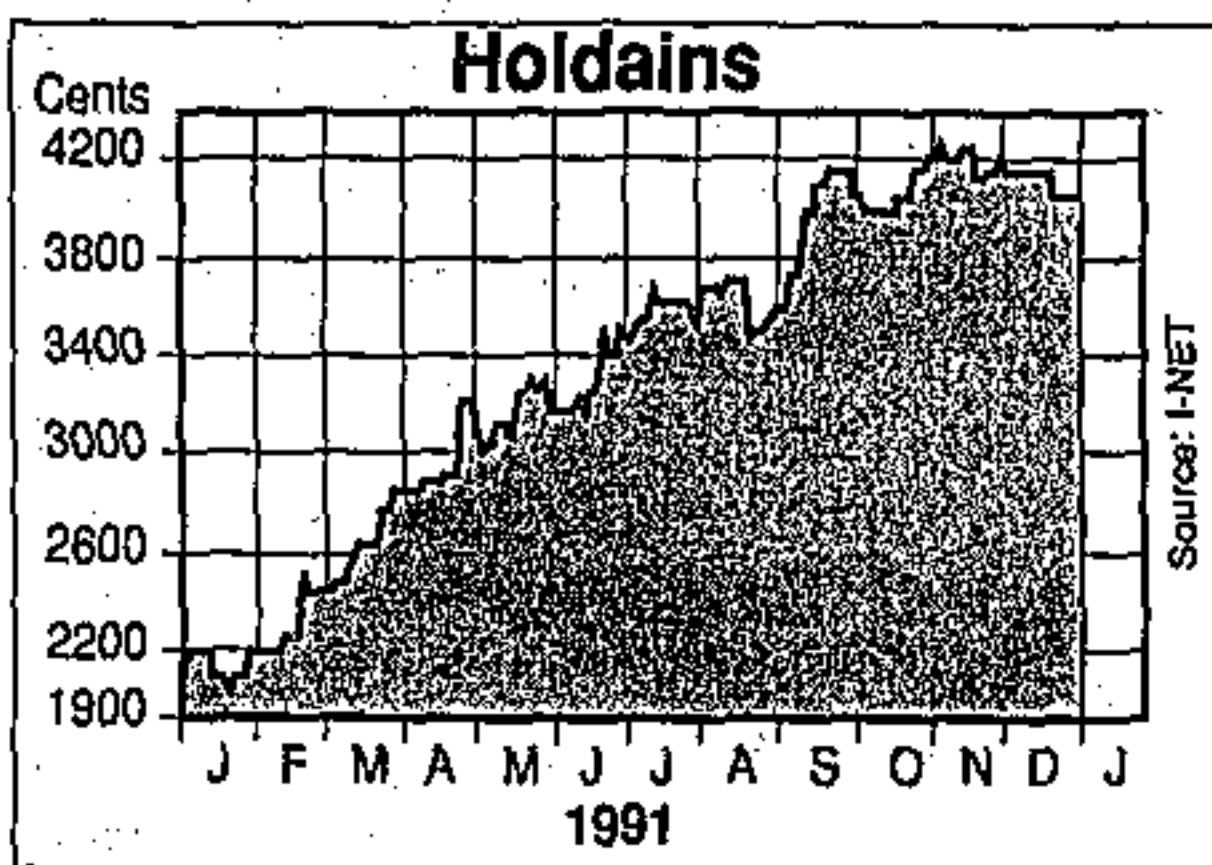
brought a further R35m debt on to the balance sheet. Even so, borrowings fell by R10m, to R146m, while the debt:equity ratio dropped from 42,5% to 28,5%.

Thomas believes economic recovery is unlikely before the end of the financial year, which makes predictions difficult. But, he says, Carlton and Kohler are holding their own, while a recovery is expected in Graphtec and Sunpak. Capital investment in Kohler, particularly in finishing equipment, is continuing and will raise capacity.

Capex of R45m was invested in upgrading Kohler's finishing equipment, which contributed towards better operating margins, and a similar amount has been budgeted for this year. The effective tax rate was held at the previous year's 30%.

While the share has been trading on a weaker rating than larger packaging groups, Nampak and Consol, the gap has been narrowing. The price has firmed from R14 in July to around R41,50. The earnings multiple of 11,5 compares with Nampak's 13,7 and Consol's 18,7. A longer record of growth may result in a share rating more in line with these companies.

Basil Barber



ity technology and back-up service. It has built a reputation for being a service-sensitive company providing efficient and timeous quality service to its customers. "We have service divisions at all distribution centres with highly trained technicians supported by a substantial spare parts inventory," says operations director Colin Stedman (right). "Quality of tools and machines notwithstanding, equipment needs repair and maintenance. Our service departments are on call at all times to service customer's equipment."



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Catering for the handyman

A WIDE range of Afcom products are used in a variety of applications in the home.

"From standard stationery lines to specialised DIY tools and consumables, an Afcom product plays a role in everyday life," says Afcom MD Alan Salomon.

There has been significant growth in the informal home industries sector, with people using a diverse range of products in their houses.

The Sellotape range includes tapes to stop carpets slipping, or to secure vinyl flooring, cork and carpet tiles.

For the more experienced handyman, Afcom offers a range of insulation tape for electrical applications, says Salomon.

Durable

The company offers all-weather tapes for outdoor use. These are durable and resistant to exposure to both sun and rain.

Also in Afcom's range are cloth tapes, which are strong, water resistant and easy to apply, making them versatile for binding, tying, bundling and mending. A wide range of quality masking tape is available for brush and spray-painting jobs.

The Kwikstick range of mirror mounting double-sided foam tapes are designed to replace conventional nails and screws in high sheer bonding applications — particularly suitable for fixing items to vertical surfaces.

Through its Jonrod operation, Afcom manufactures and distributes many stationery items for domestic use, from rubber bands to paper punches, inks, glues and adhesives.

Afcom

194

Way to fasten up from mineshafts to jet aircraft



Afcom fastening director David Riach.

AFCOM serves industry in production with a fine range of pneumatically driven staplers, nailers and pinners using an extensive variety of fasteners.

Its staples, nails and pins are found in jet aircraft, in mine shafts, from prams to coffins and in other industries where timber is used and a fastening application exists.

Afcom commands a large share of the SA market and offers a diverse range of products to the furniture, shoe, pallet, automotive, mining and agricultural markets.

Complete

"Afcom offers a complete fastening system, supported by a nationwide sales force and, most important of all, a service backup, allowing our customers efficient production," says fastening director David Riach.

Behind the company's success lies exclusive licensee/distribution agreements with Senco for staples, Hartco for clips

and Sofragraf for hog rings. Says Riach, "Afcom is a one-stop shop for the customers it serves, being able to satisfy their entire fastening product needs."

Many of the applications in the furniture industry from frame assembly to upholstery, from fastening backs to case goods to the assembly of drawers, require staples and nails.

Included in Afcom's industrial range of fasteners are hog rings for fencing and mattress assembly, clips for joining wire to wire in parallel and decorative studs for replica antique furniture. Afcom sells a variety of collated nails in planing, shank, coated and galvanised in different gauges and lengths.

These nails are used extensively in pallet manufacture, mine-support systems, construction, furniture and many other timber related industries.

"The key to Afcom's success has been its service backup to ensure customer's machines are kept in

good working order. The group has qualified technicians and a substantial spare parts inventory to ensure timeous service to our customers," says Riach.

"Afcom is often requested to manufacture in-house, custom-built, multiheaded machines to meet specific customer applications. Recently, we assembled a multiheaded machine which can fire five fasteners in a single operation.

Closely

"We work closely with customers recommending and designing systems that incorporate our tools and fasteners, which provide the benefit of speed, time-saving and increased productivity," says Riach.

Afcom's current range of fastening tools is state of the art, and it has kept up to date with world trends. In September, Afcom will launch a new Senco finishing brad nailer.

This new pneumatic tool will be able to fire a range of brad nails previously covered by three tools.

Riach expects the new equipment to attract substantial market attention from the furniture and joinery industries.

In addition, Paslode USA is about to launch its cordless power-driven impulse nailer and brad nailer. These are gas-driven systems that complement Paslode's pneumatic range of nailing equipment.

This cordless technology has the advantage of being fully portable and is used in applications where compressors and air lines are not readily available like skirting boards, construction and pallet repairs.

"A large proportion of Afcom's staple and nail range is locally manufactured and we continually look for opportunities to manufacture a product which was previously imported," says Riach.

Buy-home strategy cuts down on imports

AFCOM manufactures a multifaceted range of products at six factories — in City Deep, Cleveland, Industria, Ezakheni and Bloemfontein.

It has endeavoured over the years to manufacture products which were previously imported.

"We promote a buy-home product campaign in all our sales efforts," says production director Frans Fremouw.

Stringent measures are continually implemented to improve productivity and efficiency. This has enabled Afcom to become a low-cost producer and a streamlined manufacturer, which makes it competitive

in markets served both in SA and internationally.

Afcom has numerous licensee agreements with overseas principals, and manufactures products to the fine tolerances and quality standards set by these principals.

Its manufacturing infrastructure has kept abreast with world trends and has sufficient capacity to meet increased need for some years to come.

Meaningful changes have been made by Afcom in its manufacturing programme, which has made some of its products competitive in world markets.

"We are actively pursuing export sales for our products," says Fremouw.



Production director Frans Fremouw talks to a worker at the company's City Deep factory.

Afcom has sold thousands of tools and machines to

LC
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Wide range suits customer needs and specifications

AFCOM, established in 1927, is a leading manufacturer and distributor of fastening, packaging and strapping systems and adhesive tape and stationery products to commerce, industry, mining and agriculture.

Pioneered

From humble beginnings, AFCOM has today pioneered a vast range of products which it manufactures and distributes extensively in commerce, industry and in domestic applications. From rubber bands to a roll of polypropylene strapping to a roll of Sellotape, AFCOM touches your life every day," says Af-

Vital

In commerce and industry, AFCOM is a vital cog in the production line. AFCOM's unique products, in various forms, are found in production systems from fruit farms to car manufacturing plants. The AFCOM philosophy is to offer a range of products to customers which encompasses every need, irrespective of the size of the business.

Tandem

"Buffalo expects the market for self-adhesive tape to grow in tandem with the economy and population growth," says Shein. "With the trend in many industries moving away from mechanical fastening, self-adhesive tape is a good growth area." Sellotape has, over the years, virtually evolved into a generic term for self-adhesive tape.

com Group MD Alan Salomon. In 1986 AFCOM was listed on the Johannesburg Stock Exchange. In November 1989, the Bidvest Group, acquired a controlling interest in AFCOM.

"AFCOM fulfils Bidvest's criteria of selling quality branded products into niche applications and markets," says Bidvest and AFCOM chairman Brian Joffe. "Over the years, AFCOM has built up an experienced and cohesive management team which has contributed to the growth of the group."

"We have the technical and engineering expertise to manufacture consumables and equipment to meet customer needs for both the domestic and export market," he says. AFCOM has a multifaceted product technology distributed through a nationwide network of 15 branches. The group has an extensive manufacturing capacity of six factories covering 20 000 m² of factory space.

Products are distributed through the Buffalo branch network and a large national distributor/client base. Buffalo prints and converts tape to exact customer specification on request. It is increasing sales in the retail sectors and is aggressively increasing brand awareness of the Sellotape name, says Buffalo Tapes MD Jeff Shein. "We hang our hats on quality and our brand name, Sellotape. We provide efficient and timeous service, coupled with product quality," he says.



AFCOM MD Alan Salomon (left) with chairman Brian Joffe.

Buffalo division has the leading brand names tapes

BUFFALO Tapes, a division of the AFCOM group, is one of the major players in the self-adhesive tape market and is the exclusive SA licensee for two of the world's top brand names, Sellotape and Tesa. Buffalo Tapes supplies a wide range of adhesive tapes to commerce and industry, and the domestic and office markets.

Modern

It has a large tape conversion plant equipped with sophisticated, modern machinery and is regarded as one of the biggest independent tape converters in the world. A wide range of polypropylene, polyester, aluminium...



Buffalo Tapes MD Jeff Shein.

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4

Wide range suits customer needs and specifications

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"From rubber bands to a stapler, from a roll of polypropylene strapping to a roll of Sellotape, Afcom touches your life every day," says Af-

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The Afcom philosophy is to



Afcom MD Alan Salomon (left) with chairman Brian

offer a range of products to customers which encompasses every need, irrespective of the size of the business.

This range extends from simple hand-held equipment to the most sophisticated turn-key production line systems.

Afcom continually seeks to find application diversification within its wide product range.

To assist market penetra-

tion in vertical growth, Afcom produces many more products locally. It employs a total of 100 people.

"Notwithstanding Afcom has a deep business philosophy with a great emphasis on specialisation," says Salomon.

"The group is a leader in most of the countries it serves, and its management is enthusiastic in exercising product leadership."

Buffalo division has the leading brand names tapes

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Modern

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A wide range of polypropylene, polyester, alumin-

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says.

Buffalo regards itself as privileged to benefit from the considerable research and development offered by its international principals in the production of self-adhesive tapes.

Tandem

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"With the trend in many industries moving away from mechanical fastening, self-adhesive tape is a good growth area."

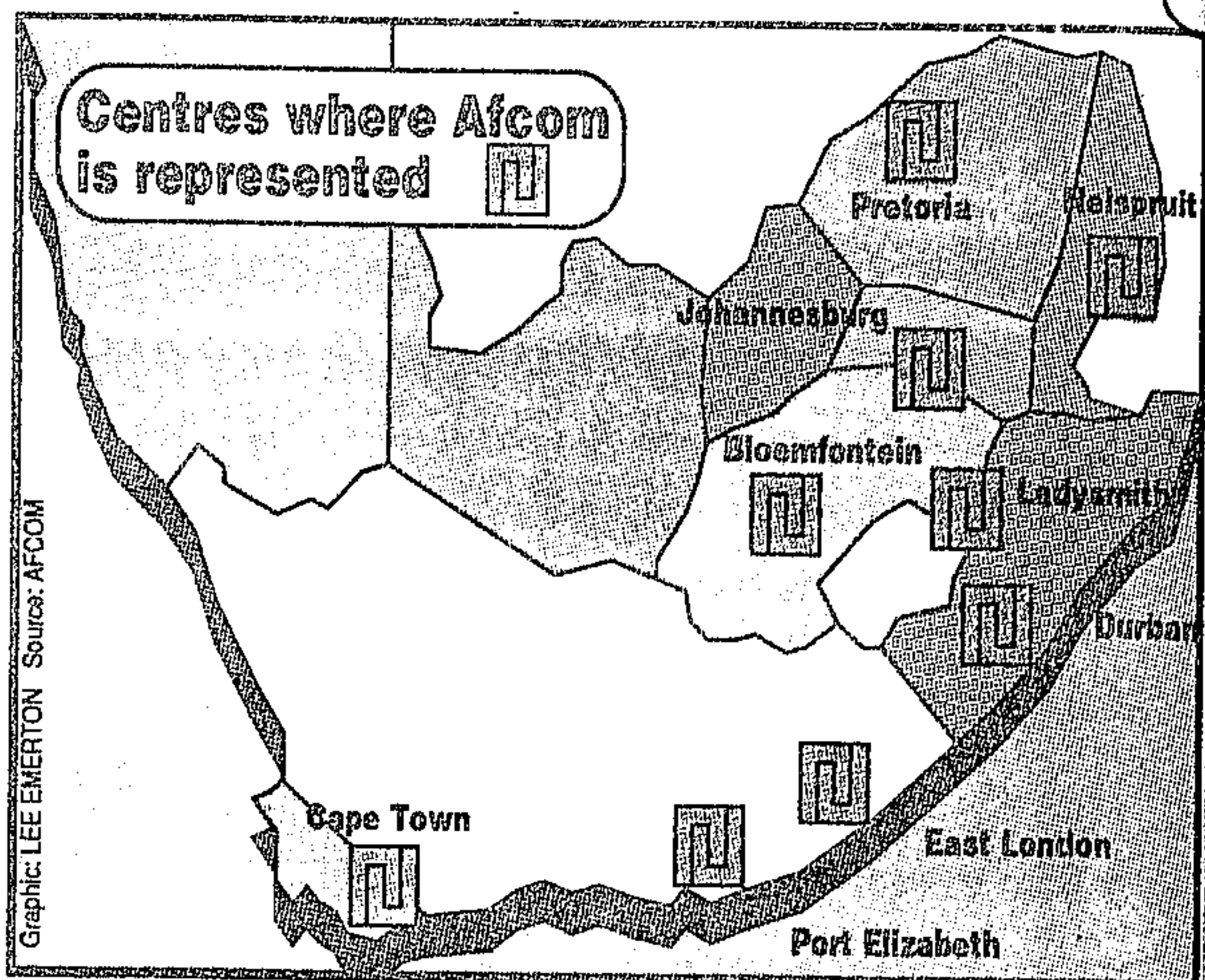
Sellotape has, over the years, virtually evolved into a generic term for self-adhesive tape.



Buffalo Tapes MD Jeff Shein.

Business Day SURVEY

From humble beginnings, Afcom has pioneered a range of over 4 000 products, from Sello-tape to fully automated strapping machines, which it manufactures and distributes in all SA's major centres. Behind the company's success lie a number of exclusive licensee/distribution agreements. JONOTHAN REES reports.



National network ensures customer care and service

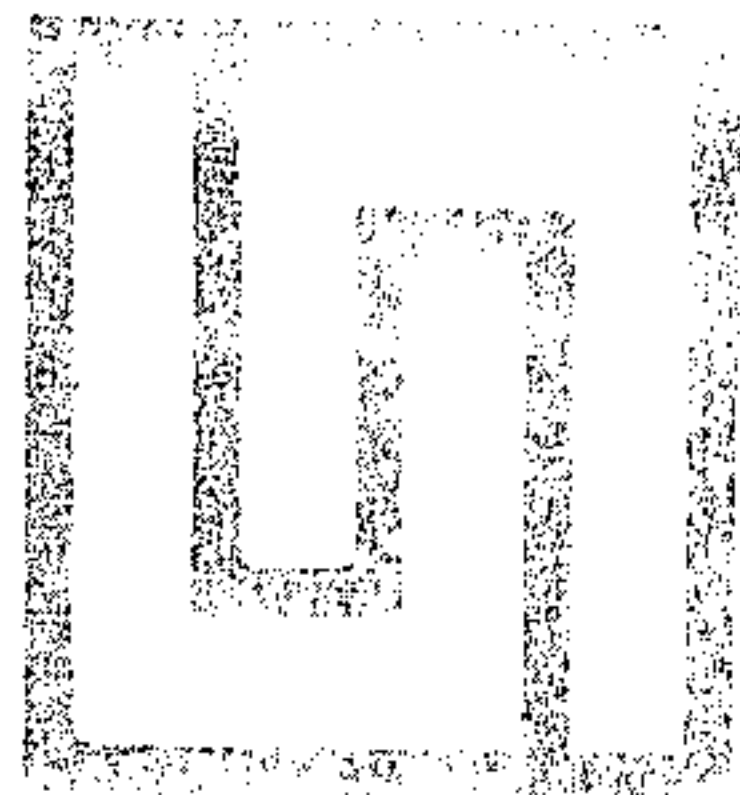
FROM Cape Town to Tzaneen, Bloemfontein to Durban, an Afcom branch can be found in all the major industrial, commercial and agricultural centres.

"Our national distribution network consists of 10 Afcom and five Buffalo Tapes/Jonrod Stationery branches, ensuring prompt service to meet all customer requirements," says Afcom financial director Bernard Berson.

Sensitive

Afcom is sensitive to the specific requirements of the markets in which it operates, and the wide geographical spread of its branches enables it to maximise customer care.

"Our extensive range consists of over 4 000 products, from a roll of Sello-tape to a fully automated strapping machine," says Berson.

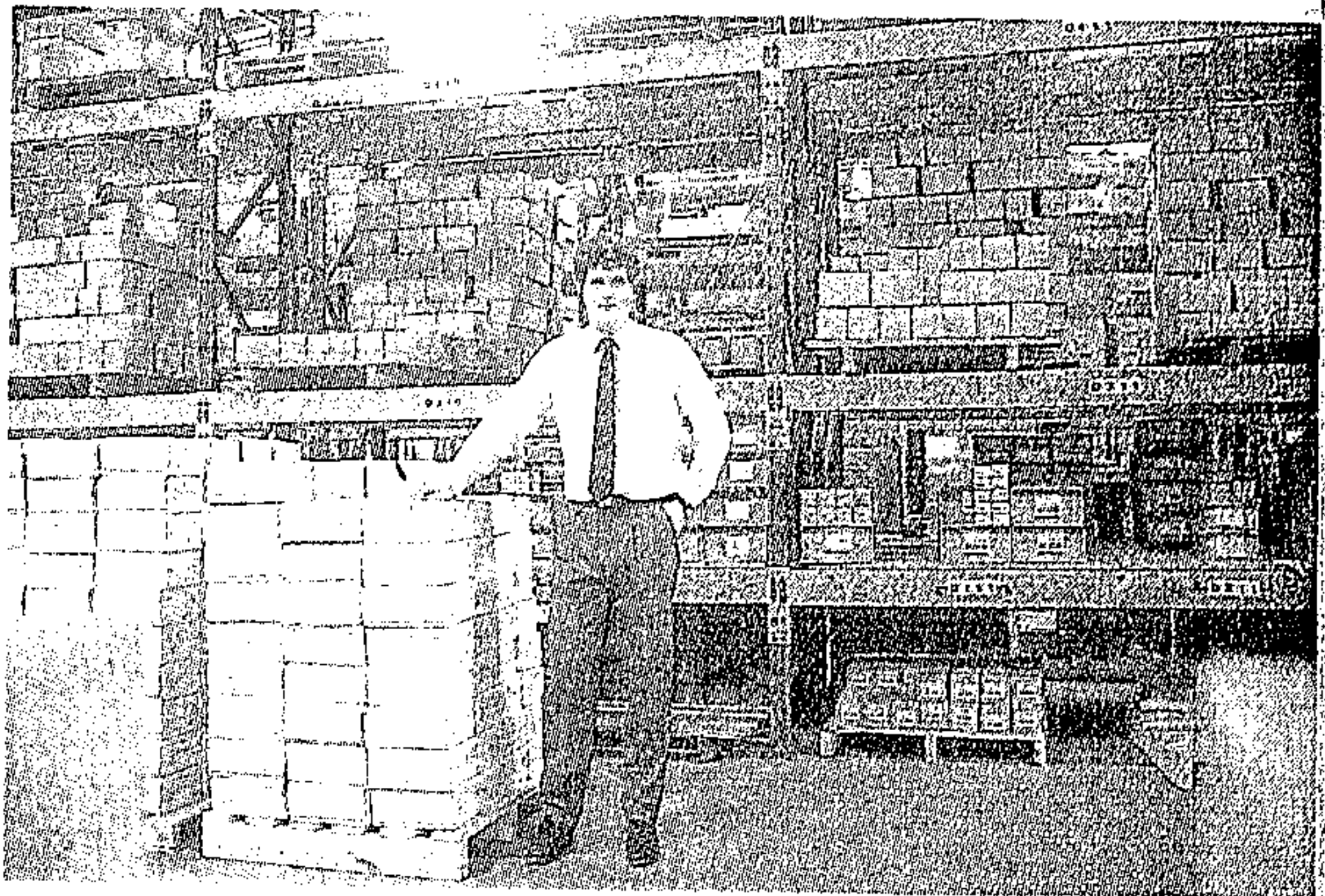


Afcom also carries over 10 000 spare-part line items for the large variety of equipment it maintains.

Sophisticated computer systems have been installed and implemented in order to control and monitor the spares range.

This ensures that optimal stockholdings are maintained in each branch, providing maximum service for customer needs.

Central warehouses regularly supply Afcom's branches with all their stock requirements.



Afcom financial director Bernard Berson in one of the company's warehouses.

A computerised stock tracking system facilitates the transfer of stock between branches on a 24-hour, turnaround basis.

From each branch, a large fleet of vehicles distributes products to Afcom's many customers around the country, thereby achieving its goal of service to the customer, a cornerstone of Afcom's business philosophy.

"People are our most important asset and Afcom

prides itself on the high calibre of its sales, service, distribution and administrative staff at its branches," says Berson.

Wealth

"Our large sales force has a wealth of product knowledge and experience, and provides our customers with ongoing advice and solutions. We believe in building permanent business relationships with our

customers, enabling us to gain an in-depth understanding of their operations and providing added value through our quality products and service."

The extensive national infrastructure of the Afcom group, coupled with world renowned products and dedicated branch personnel, enables Afcom to supply and service its customer base efficiently and with a commitment to excellence.

HORTORS FM 14/8/92 (194)

More focus on printing

An impressive 68% growth in sales may be attributed to the fact that Hortors has become a more focused printing business. Niche markets have been identified and this has compensated for smaller orders and tighter operating margins experienced by some of the subsidiaries.

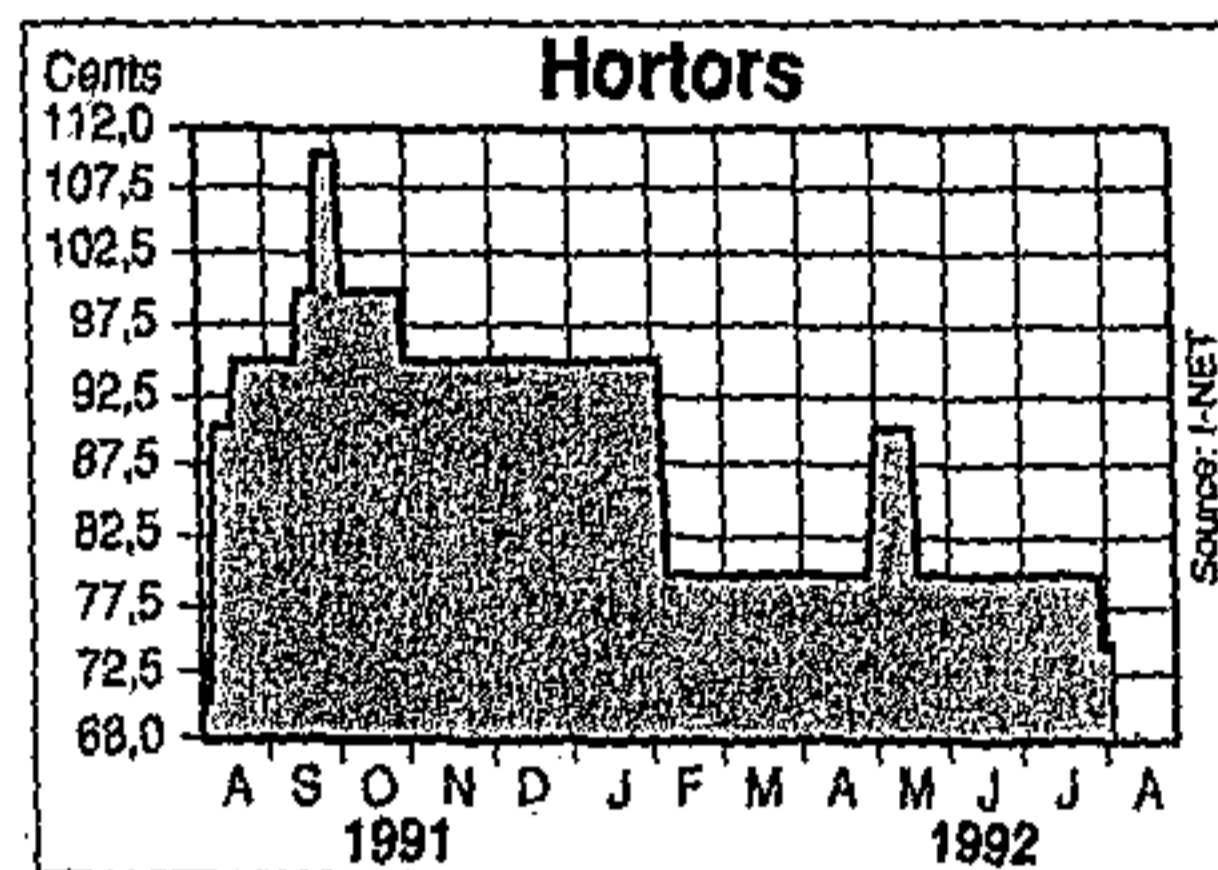
The general folding-carton division of CTP-Artone was sold to Clegg Holdings on December 1 last year and, in April 1991, the group acquired CTP's 62,5% interest in R T Sparhams, a typesetting and colour reproduction house.

Inclusion of Sparhams in the Hortors stable brought with it the newly acquired Standard Press and Studio Press, giving the group market leadership of annual report and advertising agency print work. Growth of the compact disc market has resulted in a

continued

FM 14/8/92

(194)



Activities: Printing and packaging.

Control: CTP Holdings 88%.

Chairman: E M Jankelowitz; MD: S F Cormack.

Capital structure: 51,6m ord. Market capitalisation: R39m.

Share market: Price: 75c. Yields: 6,7% on dividend; 19,1% on earnings; p:e ratio, 5,2; cover, 2,9. 12-month high, 110c; low, 70c.

Trading volume last quarter, 3 300 shares.

Year to March 31	'89	'90	'91	'92
ST debt (Rm)	1,9	0,4	0,2	0,3
LT debt (Rm)	0,09	0,05	0,04	1,0
Debt:equity ratio	0,05	n/a	n/a	n/a
Shareholders' interest	0,81	0,85	0,76	0,65
Int & leasing cover ..	43,5	n/a	n/a	n/a
Return on cap (%) ..	8,2	7,1	9,1	15,5
Turnover (Rm)	40,4	40,9	48,8	81,8
Pre-int profit (Rm) ...	4,0	3,4	5,3	10,3
Pre-int margin (%) ..	9,7	8,4	10,9	9,7
Earnings (c)	7,8	5,4	8,3	14,2
Dividends (c)	2	1,5	3	5
Net worth (c)	77	80	86	84

significant change in throughput at Artone Press.

At year-end there was a net cash balance of R311 000 and taxed profit advanced 83%.

On April 1, Hortors acquired from CTP its specialised filing systems division, Sherman Versafile, for R5,5m. This has created opportunities for subsidiaries to produce a large volume of printed, creased and die-cut sheets. Chairman Edwin Jankelowitz says budgets for this year reflect a continuing commitment to growth.

Returns have improved, reaching 16,9% on equity and 15,5% on capital. The share, on a p:e of 5,2, has a comparatively low rating, well below the sector average of 14,1 times.

The potential for future growth may be limited. Barriers to entry into this type of market are not unrealistically high and while specific markets such as the CD market are at present particularly buoyant, this rate of growth may not be sustainable.

Nevertheless, Hortors now has a strong mix of companies and the results over the past four years suggest there is justification for a rerating of the shares — though these are difficult to obtain.

Marylou Greig

Paying a paper penalty

The question of retaliatory tariffs is a vexing one. In the face of other countries placing tariffs on the importation of their products, the desire of SA paper manufacturers to have a retaliatory tariff imposed here does have about it an echo of equity. And so it may be for them.

But what is fair for the paper manufacturers is not necessarily good for the consumers of this country. Tariffs of any sort lead inevitably to waste, inefficiencies and the misallocation of resources in any economy. It may be a price that society wishes to pay for the establishment of a promising enterprise the rewards of which will eventually be substantial.

That is usually the argument under which those industrialists who want protection seek to justify its cost to their fellow countrymen; in practice, its history is not charged with great success. Protection more often than not becomes a permanent feature of a protected industry's business — a lifeline it cannot afford to sever.

Those who advocate a retaliatory tariff are able to justify it on even more tenuous grounds. For those against whom retaliation is taken seldom capitulate. More often than not the cost to the retaliating economy is disproportionately high.

The US, in its admirable pursuit of free trade, has frequently used retaliatory tariffs to try to bring errant trading partners into more ready acquiescence. The result has been that each American has had additional costs of something like a few thousand dollars a year imposed upon him.

Simply put, what Sappi and Mondi may regard as "level playing fields" in their business is going to leave the SA consumer playing on a field tilted decidedly against him. He will pay more for his books, magazines, newspapers and education, while paper manufacturers' shareholders reap short-term investment gains.

Both Mondi and Sappi have acquired interests abroad that will eventually sweeten their earnings if only through the flow of hard-currency earnings. Even if they fund those acquisitions from abroad, they have an advantage that other SA businesses and individuals do not have — a waiver of some foreign exchange controls.

As domestic exporters, they have had the considerable advantage over their competitors of a weak rand. Now they wish, through a retaliatory tariff, to pass the cost of their lack of international competitiveness on to those in this country who have a desire to read, to seek education and to communicate. ■

Barlows set to regain Angola factories

BARLOW Rand looks likely to regain possession of two Angolan packaging factories belonging to Nampak, itself part of the group, Barlows public sector liaison executive Smokey Geysler said this week.

The factories were nationalised after the MPLA took control of Angola in 1976.

"We are about to come to an arrangement with the Angolan government, and it looks very favourable," said Geysler in an interview at the weekend.

Discussions were initiated in April.

Nampak deputy chairman Peter Campbell said however, that the machinery in the plants was "very old" and a lot of

(194) CHARLIE PRETZLIK
technical input would be needed to make the operations profitable again.

Geysler said negotiations over the two factories were part of a Barlow Rand strategy to begin large-scale involvement in Angola once the national elections were complete in November.

Barlows was seeking to sell a whole range of products there — from mining, telecommunications and railway equipment to agricultural machinery and consumer goods, he said.

"There is potential in Angola worth hundreds of millions of rands," Geysler said.

ADP 1718192

Bowler Metcalf earns more

LINDA ENSOR

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CAPE TOWN — Plastic packaging manufacturer Bowler Metcalf produced a 28% increase in earnings a share in the six months to end-June on a 13% increase in turnover to R9,8m (R8,7m). **B/DAY 20/8/92**

A 33% higher interim dividend of 2c (1,5c) was declared on earnings of 4,6c (3,6c) a share, giving a dividend cover of 2,3 times.

The operating margin improved to 24,3% (22,5%) and the interest bill dropped by 24,4% while interest was also received. The tax rate rose to 48% from 45,5%.

CE Horst Sass said R2,25m capital investments in new processes would come on stream in mid-1993. No significant capital expenditure was budgeted for 1992.

Mondi sets sights on export markets

By Des Parker

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DURBAN — As sanctions become a bad memory and South Africa opens its borders wider to foreign trade, major domestic manufacturers are taking steps to reduce production ranges and concentrate on bigger runs of smaller selections.

One of these is Mondi Paper Company, which is narrowing its range to three broad types — publication papers, business papers and education papers.

On the way out are low-volume papers which make up a small proportion of the about half-a-million tons a year the

mill can produce.

Newsprint, which includes paper for telephone directories, accounts for the largest percentage of production (figures the company is loath to disclose) and constitutes the largest segment of the paper exports.

Magazine paper is the company's next biggest export, followed by education papers, which Merbank mill general manager John Barton says is "a smaller, but major growth area".

He describes the wide range of paper types made by the two local producers, Mondi and Sappi, as a legacy of sanc-

tions, when imports were tricky and local producers were expected to support local requirements.

"Because of sanctions, there were no imports and exporting was difficult — much of it being through the costly medium of agents. We were chopping and changing between the products we were making to suit the local market.

"We need to rationalise these products, produce larger quantities of fewer products, allow imports of those products we do not make and export everything else."

Mondi hopes soon to be awarded 10 percent tariff pro-

tection by the government on business and education papers, which it would like to see remain in place for a reasonable period while it develops export markets.

"This is a relatively modest level of protection. We do not have any protection for the products we make at Merbank and last year imports of uncoated wood-free papers, the business fine papers, increased by about 128 percent by volume.

"We are seeking to level the playing field, particularly while we trade our way out of the siege economy and while we establish our products in

the world."

In many sectors, SA manufacturers were penalised for the country's developed nation status in Gatt, which meant they often faced higher levels of import duty than developing countries.

For example, while SA fine papers entered Australia at a 15 percent tariff level, duty was levied on the same products made in Brazil at only 10 percent.

Mr Barton expressed concern about some practices in the domestic paper market, particularly apparent graft in some State departments and big mark-ups by printers.

News briefs

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Packaging workers strike

WORKERS at a Sandton packaging company, Sunpac, have been on strike since July 31, the South African Commercial, Catering and Allied Workers Union, Saccawu, said yesterday.

In a statement, Saccawu Johannesburg branch secretary Mr William Dichaba said 48 union members demanded a minimum monthly wage of R1 050, against the current minimum of R700.

Also demanded were a R275 across-the-board increase and a 13th cheque.

The company's final offer included a minimum wage of R805, a R135 across-the-board increase and a bonus based on years of service.

Workers also demanded six months' sabbatical leave. - Sapa.

Sowetan 25/8/92

Alex White raises income 155%

PAPER and packaging firm Alex White Holdings lifted its attributable income 155% to R2,3m in the year to end-June.

Executive chairman Terry Kane said results were achieved through aggressive marketing, tight operational controls and improved production facilities.

Turnover rose by 17% to R67,3m from R57,2m, and operating profit was 39% up at R6,5m (R4,7m).

Interest was 22% lower at R2,4m, and short-term borrowings were reduced by R3,5m, resulting in a 147% rise in income

310/99 28/8/92

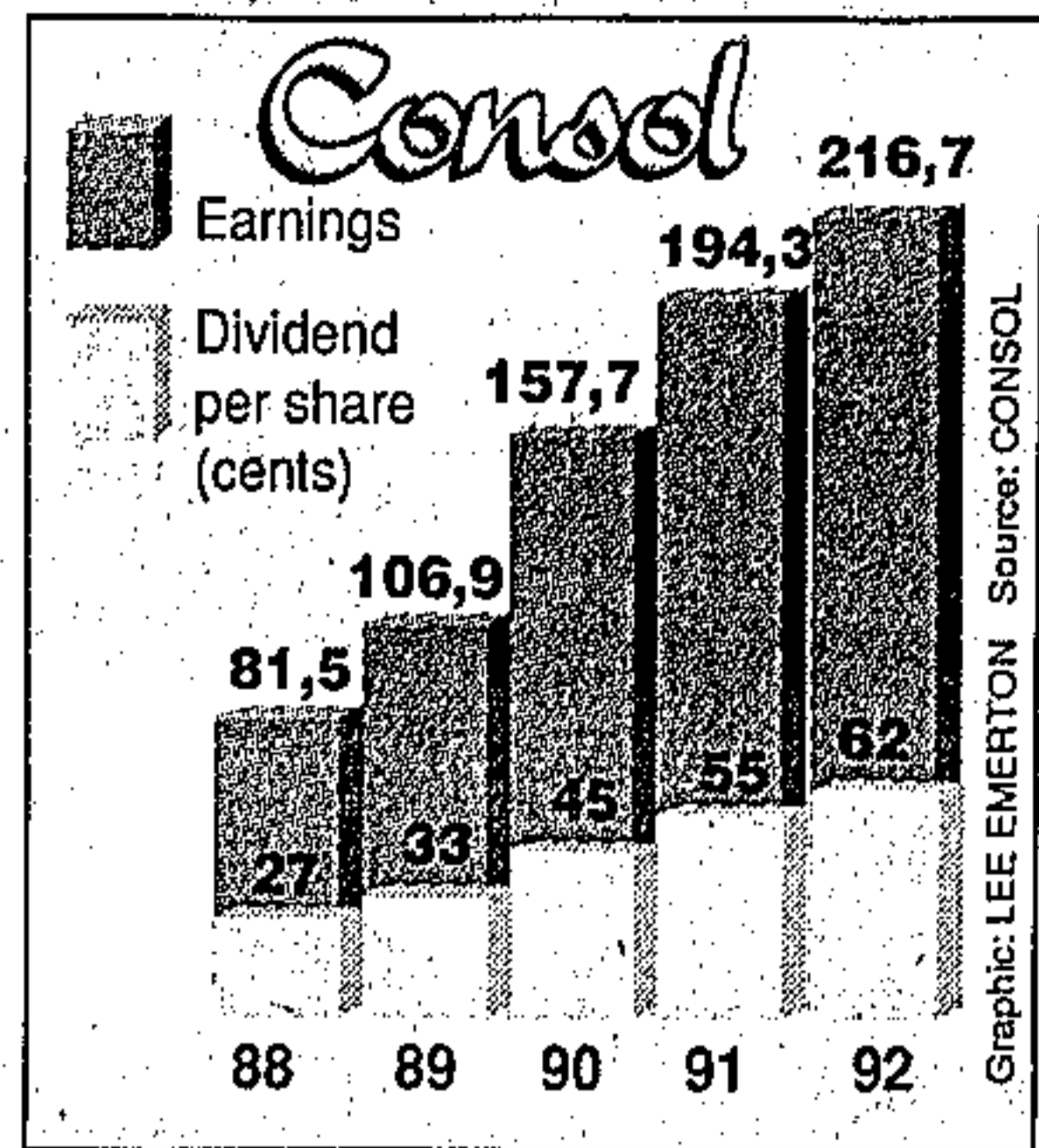
MARCIA/KLEIN

before tax to R4,1m. Effective gearing was decreased to 55,7% from 88,3%.

Earnings were 14,3c (5,6c) a share on a weighted average, and a dividend of 6c (2,5c) a share was declared. (194)

Kane said products manufactured from machinery installed two years ago were now being marketed full scale.

He was confident the company would maintain a steady improvement in profitability in the coming year.



Lower costs keep Consol's profit up

EDWARD WEST

CONSOL's R2,1bn sales of packaging and rubber products were virtually unchanged in the 12 months to end-June 1992 because of the recession, but profits were boosted by substantially reduced finance costs and a lower tax rate. *BIOMY 11/9/92*

Operating margins fell to 13,9% from 15,4% and operating profit fell 9% to R290,9m from R319,4m the year before. However, because of a substantial drop in finance costs to R600 000 (1991: R31,1m) and lower tax at R124,6m (R132,5m), attributable earnings were 12% higher at R139,2m (R124,5m). This translated into earnings equivalent to 216,7c (194,3c) a share. The dividend was raised to 62c (55c).

The saving in net finance costs arose mainly from a rights issue together with internal cash generation. The decrease in the tax rate was attributable to a sale and leaseback arrangement to generate funds from capital expenditure at subsidiary Tycon, MD Piet Neethling said.

At the end of October 1991, R301,6m was raised from the rights issue of 5% convertible subordinated debentures at R36 each. The funds were used to reduce loans while the balance was placed on interest-bearing deposit.

The net cash position at June 30 1992 was R214,7m. Long-term borrowings fell to R61,4m (R136,4m), while short-term borrowings increased to R28,7m (R22,9m).

From January 1 1992 Longmile sold its 18% holding in Contred, the holding company of Tycon and Tredcor, to Consol. Consol subsequently held 74,4% of Contred while Tredcor held the remaining 25,6%.

To Page 2

Consol

The stake was bought for R89,3m which was generated internally. *1992*

A R10,3m extraordinary item, which was not taken into account in earnings, arose from a R5,2m surplus from the disposal of 49% of Consol's foodwrap film division to Holdains and a R5,1m surplus from the disposal of shares of the Employee Share Purchase Trust.

Commenting on group performance, Neethling said reduced sales volumes were experienced in all packaging divisions. Glass division sales were affected by reduced demand for returnable beer and soft-drink bottles while demand for glass containers by other industries also weakened.

Demand for plastic packaging fell, but the rigid plastics operation produced profit growth assisted by the introduction of the 1,5l refillable plastic beverage bottle in four further regions outside Johannesburg. Flexible plastics operations suffered from tough trading conditions and the gar-

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From Page 1

bage bag business in Cape Town was sold. The corrugated carton operations experienced reduced volumes for the third successive year, necessitating the partial closure of a small plant in the Transvaal.

A 5% increase in the rubber division's turnover resulted from improved truck and earthmover tyre as well as conveyor and V-belt sales, although this was partially offset by sales declines of passenger tractor and grader tyres and retreads.

Consol has planned a R130m expansion programme at Tycon to fund manufacturing equipment for steel radial high performance passenger and low aspect ratio truck tyres, as well as mould and peripheral equipment and working capital.

Neethling did not expect the economy to improve earlier than 1993. Customer inventories were low and were not expected to fall further. Unless there was a further deterioration in the economy, earnings were forecast to show some growth in the current year, he said.

Lower finance costs give fillip to Consol's earnings

By Stephen Cranston

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STAR 119192

Despite declines in sales volumes of its packaging and rubber products, Consol lifted earnings by 12 percent to R139,2 million in the year to June.

MD Piet Neethling says results were bolstered by a 98 percent drop in net financing costs because of the issue of R302 million worth of five percent convertible debentures in October.

The effective tax rate fell from 46 to 42,9 percent, which was mainly attributable to a sale-and-lease-back arrangement to generate funds for investment in Tycon.

Earnings attributable to minorities fell 19 percent, mainly because Consol's interest in Tredcor rose from 61 to 74 percent.

Earnings per share rose 12 percent to 216,7c and the dividend from 55c to 62c. Dividend cover has been maintained at 3,5 times.

Mr Neethling says trading conditions were poor and that the operating profit of both the rubber and packaging divisions fell by nine percent.

Volumes in the packaging operations fell by 12 to 15 percent. Sales in the glass division were affected by a reduced demand for returnable beer bottles, with beer sales showing a small dip during the year.

Demand for returnable soft-drink bottles fell. A weaker demand for glass bottles and jars from other industries resulted in lower volumes in these markets.

Demand for plastic packaging, normally a fast-growing area, was below that of the previous year, although this was partly offset by the launch of the 1,5 litre refillable plastic soft-drink bottles in four further regions.

The paper division was particularly badly affected by a competitive market, and a paper factory in Benoni was partially closed.

Tyres had a better year, with market share held or improved. Sales volumes improved for truck and earthmover tyres and for conveyor and V-belts, but there were declines in passenger, tractor, grader tyres and retreads.

New tariffs system for pulp industry

(194) CT 7/9/92

Own Correspondent

JOHANNESBURG. — The government has signalled its intention to restructure and simplify tariffs for a number of industries by announcing a new system of straight ad valorem duties for a wide range of pulp and paper products.

The new duties, published in Friday's Government Gazette, range from 10% to 25% and apply to more than 100 product categories.

Industry sources did not wish to comment, saying the duties were still being studied. But one said some printing papers not previously subject to tariffs now carried 10% duties.

Board on Tariffs and Trade vice-chairman Helgaard Muller said the pulp and paper industry was the first to be affected by the new simplified structure which would be extended to

other industries.

It replaced the previously complex system of formula duties for the pulp and paper industry and would enable duties to be adjusted more easily and quickly.

In many cases the tariff levels — as a result of formula duties — had been subject to criticism for being set at unrealistic or unnecessarily high levels.

The introduction of the new structure was also in line with the government's commitment to a phased reduction of tariff levels, Muller said.

The extension of the new system to other industries is expected to be subject to progress with the government's new economic model, which includes trade and industry policy proposals. These are expected to be released later this year.

Looking abroad (194)

Consol's balance sheet has strengthened significantly, thanks to the glass operation's strong cash flow generation and last year's *Continue*

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COMPANIES

Activities: Manufactures glass, plastic, paper packaging and glass tableware. Manufactures tyres and has tyre retreading interests.

Control: Anglovaal Industries 59,5%.

Chairman: C S Menell; MD: P J Neethling.

Capital structure: 64,2m ords. Market capitalisation: R1,96bn.

Share market: Price: 3 050c. Yields: 2,0% on dividend; 7,0% on earnings; p:e ratio, 14,07; cover, 3,5. 12-month high, 4 050c; low, 3 050c. Trading volume last quarter, 417 000 shares.

Year to June 30	'89	'90	'91	'92
ST debt (Rm)	7,5	21,9	22,9	28,7
LT debt (Rm)	63,2	144	136	61,4
Debt:equity ratio	—	0,67	0,51	—
Shareholders' interest	0,44	0,34	0,40	0,46
Int & leasing cover .	—	7,8	10,3	—
Return on cap (%) ..	23,5	24,3	31,4	29,9
Turnover (Rm)	738	1 556	2 071	2 098
Pre-int profit (Rm) ...	121	215	319	291
Pre-int margin (%) ..	16,4	13,8	15,4	13,9
Earnings (c)	102,3	157,7	194,3	216,7
Dividends (c)	33	45	55	62
Net worth (c)	352	314	453	546

rights issue. And there is speculation that an acquisition, possibly offshore, could be in the offing. Year-end cash holdings jumped to R305m, more than offsetting the R90m total debt.

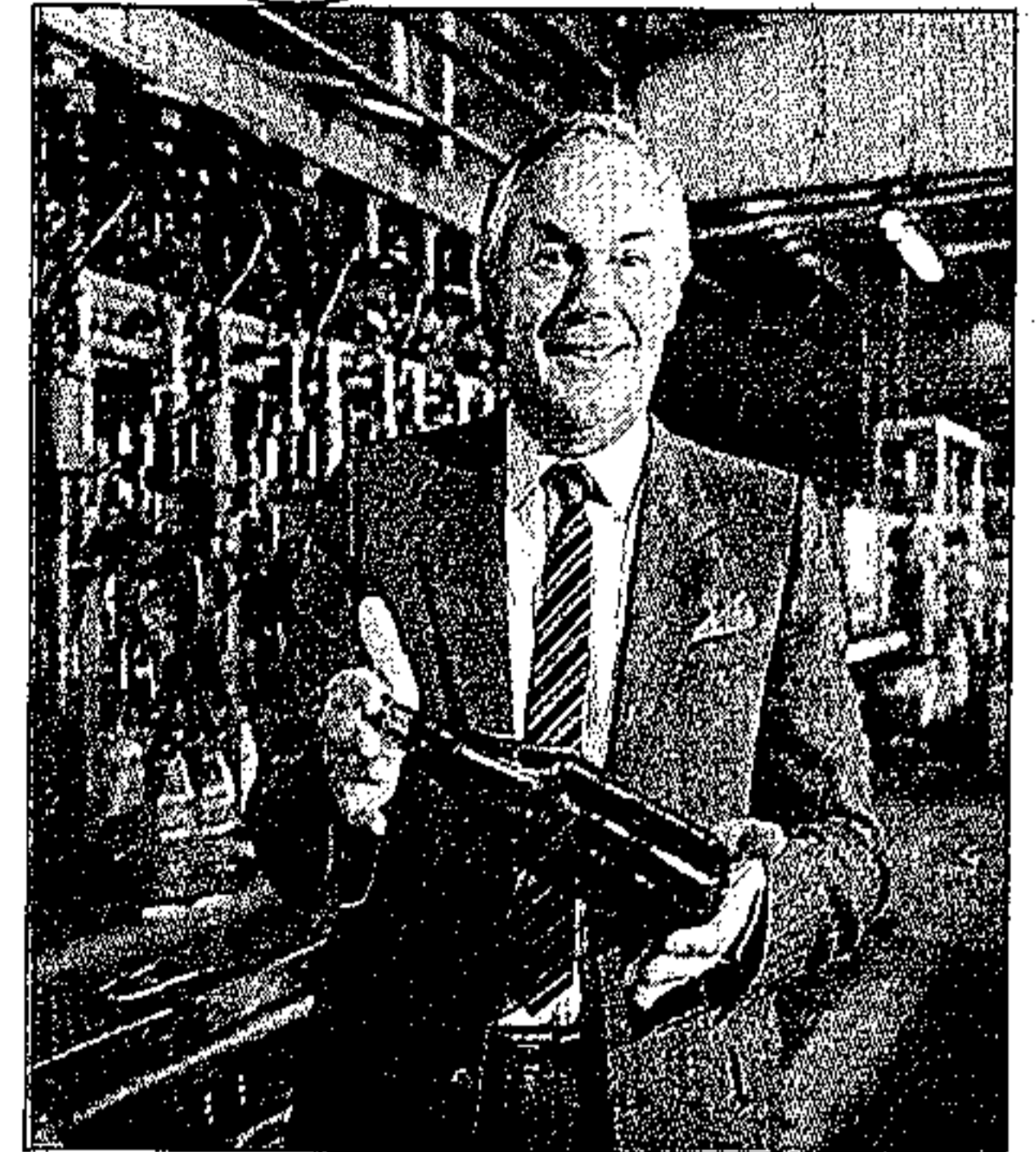
Last October's rights issue raised R301m, while R293m (1991:R193m) cash was available from operating activities. As this year's cash generation should be similar to 1992's, the balance sheet should strengthen further, even after taking account of the R160m capex planned for the year.

However, this capex will depend on the state of the economy. "Things look bleak so we will be rather tight-fisted with any capex until we have a clear indication conditions are looking up," says MD Piet Neethling.

As holding cash over time is unwise in an inflationary environment, the market is speculating on acquisition prospects. Consol could easily place paper to fund a foreign acquisition, should its cash holdings be insufficient. Sappi's successful paper placement after its German Hannover Papier acquisition shows how eager SA institutions are in taking paper in rand hedge investments. If anything, this favours chances of a foreign acquisition.

Consol's only rand hedge now relates to the export component of local production, a moderate 1,5% of group turnover.

Neethling says it is an open secret the group has looked "long and hard" at moving into the can market. But he reckons there will be serious overcapacity shortly, after the



Consol's Neethling ... being tight-fisted with capex

extension to Metal Box's facilities as well as the new Rheem plant. These two projects will boost total local capacity by almost 40% as annual beverage can production — now 2,5bn units — will be boosted by almost 1bn units.

Metal Box's new Springs steel can facility, built at a cost of R125m, comes on line in September; Highveld Steel subsidiary Rheem's aluminium-can plant is due to begin production in mid-1993. Neethling says management decided not to go ahead with the project, after undertaking a feasibility study. The investment would have been in an aluminium can plant.

He confirms the group is looking out for a foreign acquisition, but adds the group will only invest in activities in which it has expertise.

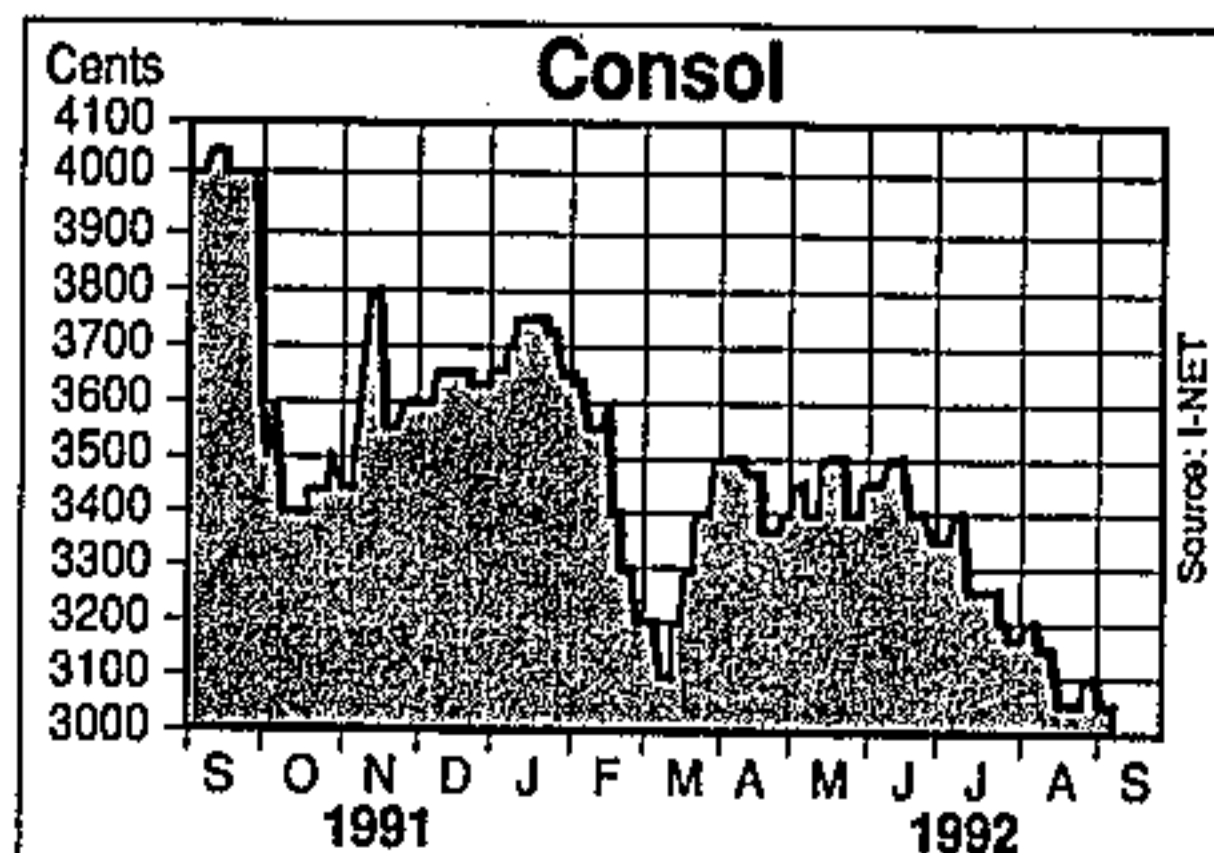
Goodyear's ownership of all its plants outside SA means any foreign tyre acquisition would place Consol at loggerheads with its American counterpart, an unlikely situation. Neethling adds a foreign acquisition in cans is unlikely as the group has not developed local expertise, reducing the opportunity to add value. This leaves glass, plastics, or paper.

However, one analyst cautions against Consol rushing into an acquisition, with current prospects looking bleak. Using the "cash is king" argument, management should be happy sitting on its cash pile in the foreseeable future, despite the lower interest rates. Neethling admits volume growth will be unlikely this year, leaving any EPS growth to price increases.

Consol proved astute in holding the rights issue when it did. Its high p:e then provided an opportunity to raise cash to strengthen the balance sheet when the cost of placing paper was low. In fact, the 5% compulsory convertible debts means the paper costs Consol even less than this after tax, well below the cost of debt funding. That explains how the group reported EPS growth despite the 9% drop in trading profit.

As tyres and packaging are essential products, Consol has a strong foundation for long-term growth.

William Gillfillan



ALEX WHITE

194

Management matters too

Activities: Packaging and printing.

Control: Directors (57%).

Executive chairman: T P Kane.

Capital structure: 16,2m ords. Market capitalisation: R13m.

Share market: Price: 80c. Yields: 7,5% on dividend; 17,9% on earnings; p:e ratio, 5,6; cover, 2,4. 12-month high, 80c; low, 45c.

Trading volume last quarter, 70 000 shares.

Year to June 30	'89	'90	'91	'92
ST debt (Rm)	9,1	11,7	9,8	7,6
LT debt (Rm)	2,2	7,4	5,6	4,4
Debt:equity ratio	0,65	1,11	0,88	0,56
Shareholders' interest	0,48	0,35	0,42	0,43
Int & leasing cover	3,1	0,9	1,6	2,7
Return on cap (%)	7,9	5,6	11,3	13,6
Turnover (Rm)	40,1	46,3	57,2	67,3
Pre-int profit (Rm)	2,8	2,4	4,7	6,5
Pre-int margin (%)	7,1	5,2	8,2	9,6
Earnings (c)	6,7	(1,6)	5,6	14,3
Dividends (c)	4,1	—	2,5	6
Net worth (c)	111	105	108	127

Among the occupational hazards faced by company analysts during a prolonged recession is the bombardment of comment concerning the effect the recession has on corporate profits. While such comment is obviously true as far as it goes, there is a danger of overlooking the impact of management. And that can be more important than the business environment in which a particular company operates.

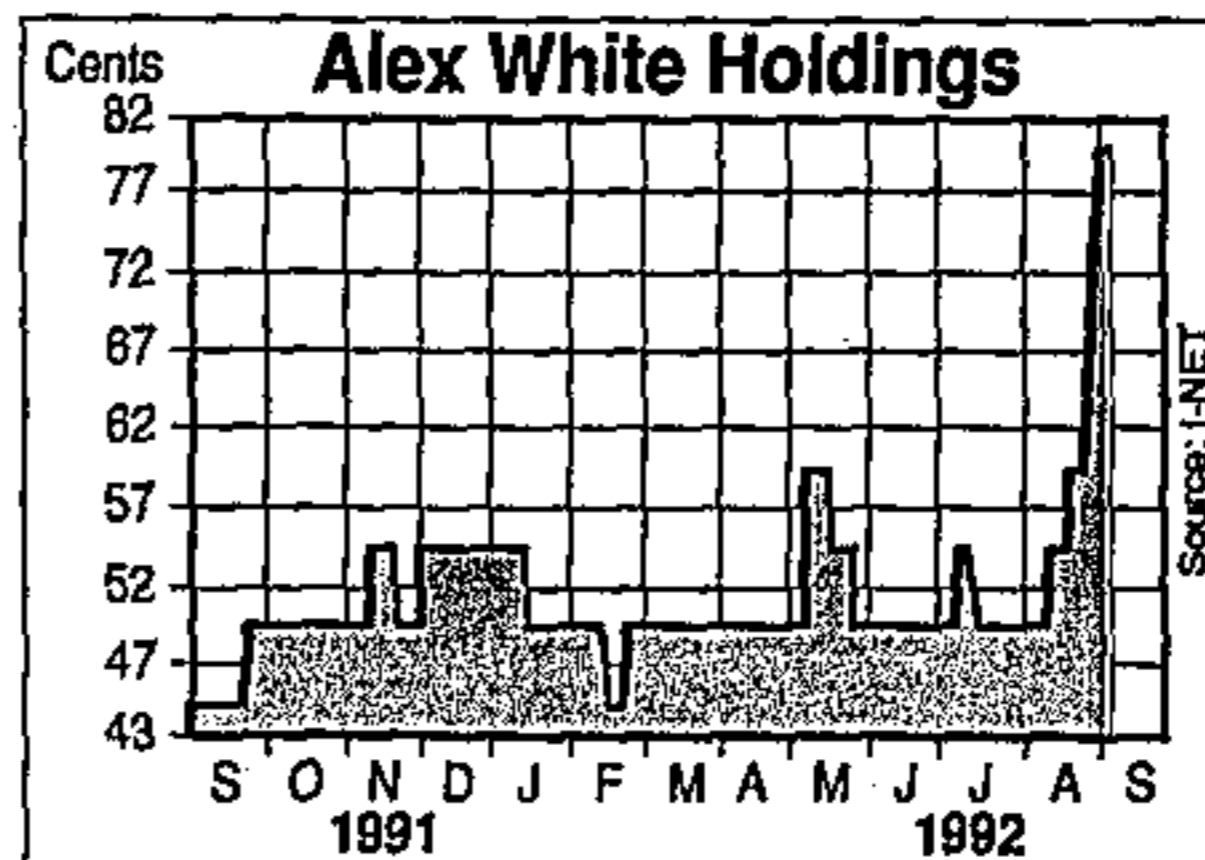
A good example is provided by Alex White. Two years ago this packaging and printing group was flat on its back, with the record earnings of 1988 (its first full year as a listed company) having been replaced by a loss. The reasons were the now familiar story of over-expansion, over-gearing and under-

profitability.

Corrective action involved trimming the fat and tailoring the various activities to suit market conditions. Benefits of this programme started to flow through in 1991, when a moderate level of profitability was restored. This trend accelerated in the 1992 year, when the group reported record results — EPS of 14,3c topped the 1988 peak of 13,6c, the dividend was restored to 6c, equaling the previous high and, most importantly in this context, the gross return on funds employed (excluding interest-free liabilities) recovered to 18%, also equalling its 1988 level.

Implicitly, the group is stronger than at the time of its listing, since it has proved its ability to produce similar results in a business environment far more harsh than four years ago. Main impact of the recession is to be found in the fact that 1992's results were derived from sales of more than R67m. Turnover in 1988 was only R28m.

In the circumstances, it is not surprising that executive chairman Terry Kane's re-



view is dominated by comment regarding productivity and cost-cutting. There are plans in virtually every division to improve performance even further, leading Kane to forecast with confidence that this year's earnings will continue to advance provided there is no further major deterioration in the

COMPANIES

business/political climate.

On the face of it, he is on reasonably safe ground as current returns suggest it should be possible to make assets sweat a little harder — the gross return on funds employed mentioned above may be a high for the company, but this does not change the fact that, at 18%, profitability is acceptable rather than exceptional. Something else that should benefit earnings is that, provided the group remains in a consolidation phase, cash flow should enable a further reduction in debt and a corresponding drop in interest charges — a factor that has contributed materially to the recovery so far.

It's fair to add that recovery has taken place far more rapidly than seemed likely even a year ago. Reviewing the 1991 annual report, the *FM* estimated a two-year time horizon and, judging by the sharp uptick in the share price after publication of the 1992 results, the pace of recovery caught the market off-guard as well.

The price is 78% up on its year-ago level but is still 20c short of the 1987 issue price. If this year's results confirm the performance trend which seems to have been established, a further rerating can be expected to bring the yield closer to the packaging sector average (3,8%).

Brian Thompson

FM 11/9/92 194

FM 11/9/92

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Sappi listed in France ¹⁹⁴

JOHANNESBURG. —
SA pulp giant Sappi
shares were yesterday
listed on the Paris
bourse. CT 23/9/92

The listing follows the
recent listing of Sappi's
shares on the interna-
tional stock exchange of
the UK and the Republic
of Ireland and the
Frankfurt Stock Ex-
change.

These listings result
from the Euro-equity
placing which Sappi un-
dertook following its
R825m acquisition of
90% of German paper
manufacturer.

Sappi now has 148,8m
shares listed in the Jo-
hannesburg, London,
Paris and Frankfurt.

Lenco's R51m purchase of Metkor effective from May 1

BIDAM 23/9/92

LINDA ENSOR

CAPE TOWN — Diversified industrial holding group Lenco Holdings has bought Metkor Industries — the sole assets of which are Hendler & Hart (H & H) and certain property interests — from the Metkor Group for R51m.

Savings will be achieved through the rationalisation of H & H's and Lenco's plastic injection-moulded closures and container business.

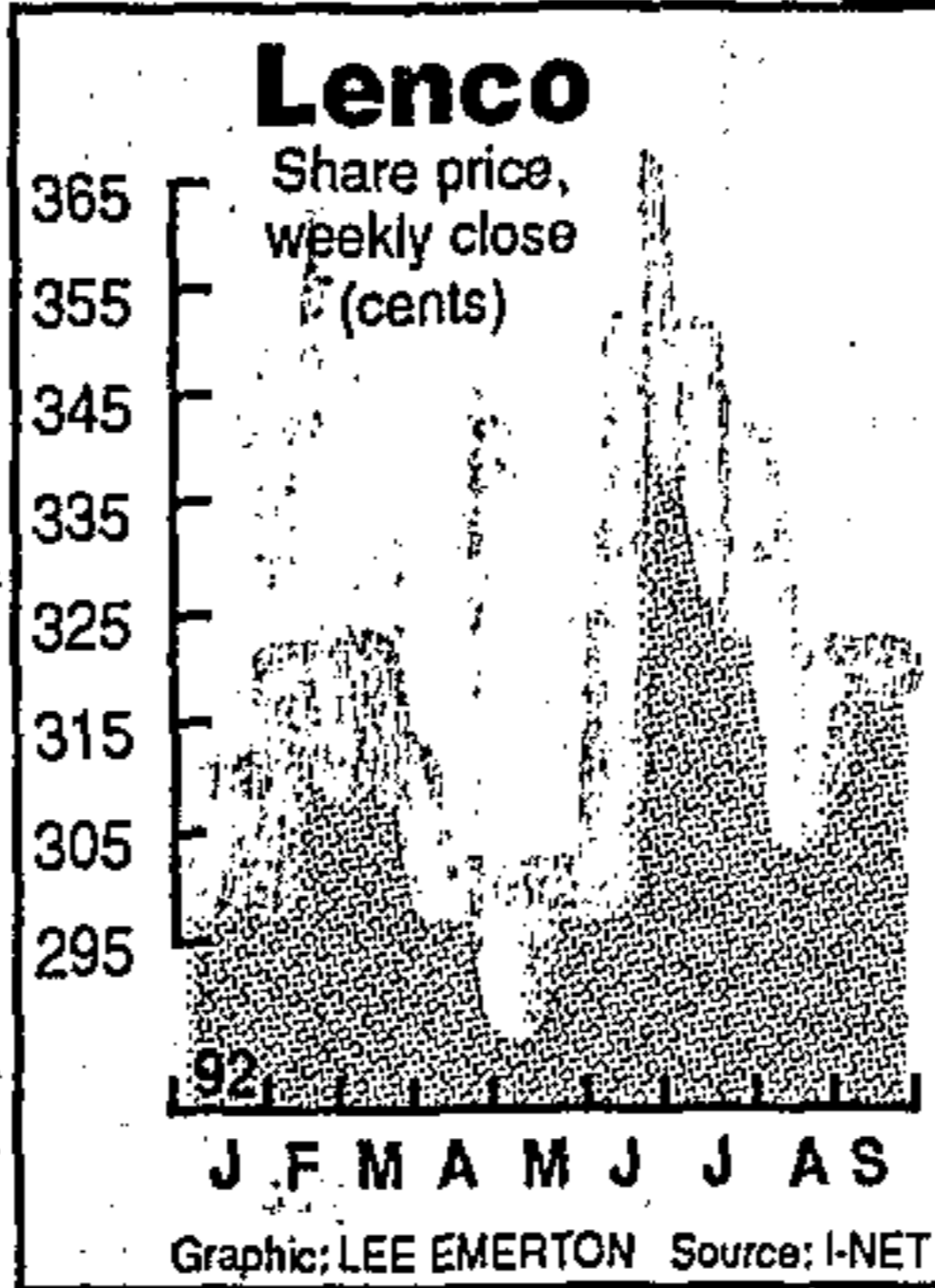
Both companies have similar factories in Durban.

H & H also produces metal and aluminium kitchenware at its Boksburg factory and has started exporting its products to the US.

Payment will be made with R31m cash and the issue of 6-million renounceable Lenco shares at 333c a share. The deal takes effect from May 1.

The purchase price takes into account the fact that Metkor Industries made losses for the three months from May to August attributable partly to strikes and abnormal write-offs.

Had the deal been effective for the six months ending August 31, Lenco's earnings would have increased



12,85% to 24,32c from 21,55c and tangible net asset value 7,63% to 22,3c from 206,54c.

The group's gearing ratio would have increased to 39,94% from 22,91%, a rise which executive chairman Doug de Jager said was within limits and would be lowered by year-end by the cash generated through operations.

The group intends to announce its interim earnings to end-August during October.

Diluted earnings a share of 24,32c would represent an increase of 8%

over last year's 22,5c a share.

De Jager said yesterday that trading conditions had been very tough in the clothing and footwear industries, where demand was sluggish.

There had been severe pressure on prices.

He said the acquisition of H & H would open the way for rationalisation in sales, administration, distribution and production.

These synergies would enable H & H's Durban operation to become profitable.

The Boksburg factory would be turned around through rationalisation.

Option

De Jager said the acquisition gave Lenco access to a licensing agreement for patented closures.

Lenco has been managing Metkor Industries, and has acquired the company in terms of an option to purchase granted in terms of the management agreement.

De Jager said a conflict of interest had emerged between Lenco's management contract and its own business.

De Jager was confident the acquisition would contribute positively to the group in the short to medium term.

189 Losses 194

From MARCIA KLEIN

JOHANNESBURG. — Pulp and paper giant Sappi has increased net income 71% to R175,1m (R102,4m) in the six months to end-August as the proceeds from its R1bn rights issue helped to slash finance costs by more than R120m.

Results for the previous year have been restated to reflect the consolidation of all non-SA holdings due to their increasing significance to the group and the changing political climate, executive chairman Eugene van As said.

Trading results of recently acquired coated fine paper manufacturer Hannover Papier AG in Germany have not been consolidated in the income statement as it was only acquired on June 16, but its balance sheet figures have been incorporated.

Sappi, which has been listed in London, Frankfurt and Paris, has increased its turnover by 14% to R2bn from R1,8bn in the previous year.

Van As said the 14% decline in operating profit to R221,2m from R257,1m was satisfactory in light of economic conditions. He said the pulp and paper industry was experiencing its worst recession in 60 years.

Operations in the UK were being hampered by difficult trading conditions, "and Sappi Europe managed little more than breakeven at operating level". Van As said Sappi's UK operation would be significantly restructured.

Productivity in all the group's facilities had shown a strong upward trend.

Sappi income jumps 71% on slashed finance costs

(194) CTT/10/92

Although operating income was down, a large R120m reduction in finance costs to R4,5m — arising from interest on the proceeds of the November rights issue — resulted in a 64% rise in pre-tax income to R216,7m from R131,8m.

Taxation was only R5,4m as losses brought forward and tax allowances on the continuing capex programme exceeded profits in most of the group's companies.

Earnings a share were 19% up at 130c (110c) a share due to an increase of more than 50% in shares in issue. The increased shares resulted from the rights issue and a further issue in May for the acquisition of Hannover Papier.

The interim dividend was maintained at 80c a share.

Van As said the R1bn acquisition of Hannover Papier was of significant importance and was a major step in consolidating Sappi's position in Europe.

It would take three years for Hannover's returns to reach the average return on Sappi shares due to under-utilised capacity and depressed prices.

Paper prices in the UK were significantly below last year's levels, and similar trends were evident in Europe.

**Packing firm's
earnings up**

31074
9/10/92 MARCIA KLEIN 194

PACKAGING company Canadian Overseas Packaging Industries (Copi) lifted its earnings by 10% to C\$23.4m (C\$21.2m) in the year to end-June on the back of better results from its investments in securities and currency.

Turnover was reduced by 2.5% to C\$104m from C\$106.6m, and earnings before tax were marginally higher at C\$20.3m (C\$20.1m). After taxation and minority interests, earnings were down by 5.2% at C\$15.7m (C\$16.5m).

However, gains on foreign currencies and on the sale of marketable securities resulted in a 10% rise in earnings to C\$1.33 (C\$1.21) a share.

The dividend was also increased by 10% to 55c (Canadian) a share.

Carlton Paper feels the economic decline

B1004 16/10/92

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MARCIA KLEIN

TISSUE and fibre-based products manufacturer Carlton Paper, feeling the effects of competition and reduced export sales, has reported 20,6% lower earnings of 207c (260,8c) a share in the year to end-August.

In financial 1991, Carlton changed its year-end from December to August in line with holding company Holdains.

This year's results are nevertheless compared with a 12-month period in the previous year.

Directors said that in comparison with the exceptional 1991 year, the results were below expectations.

The drop in earnings was attributed to the severity of the economic decline since January, which had affected all of Carlton's markets.

In addition, it lost export sales as a result of depressed overseas markets and the rebuilding of the Enstra tissue machine.

Directors said results had also been affected by "the prevailing price war in the tissue markets as competitors cut prices to gain market share".

Turnover, which showed a marginal increase to R444,4m from R440,5m, had been affected by these factors together with a lack of consumer confidence, they said.

Operating income was reduced by 18,3% to R54,8m (R67,1m), and after an increase in interest paid and dividend received, pre-tax income was 19,2% lower at R51,7m (R64m).

Net income for the year declined by 20,6% to R32,7m from R41,2m in the previous year. Directors said this decline was most pronounced in the second half.

A final dividend of 33c a share was declared to bring the full year dividend to 75c, with a 2,76 times cover.

Directors said a focus on working capital management and improved customer service had been successful.

The rise in debt levels was "in line with our planned ongoing capital spending to support new product development", and the financial structure of the company remained sound. Gearing was increased to 26,4% from 1,4% in financial 1991.

They said it was unlikely that Carlton's markets would grow in financial 1993, and margins in the tissue business would remain under pressure as a result of competitive over-capacity. The company planned to launch new products which would improve its performance.

Holdains counters weakened demand

Blom 19/10/92

194

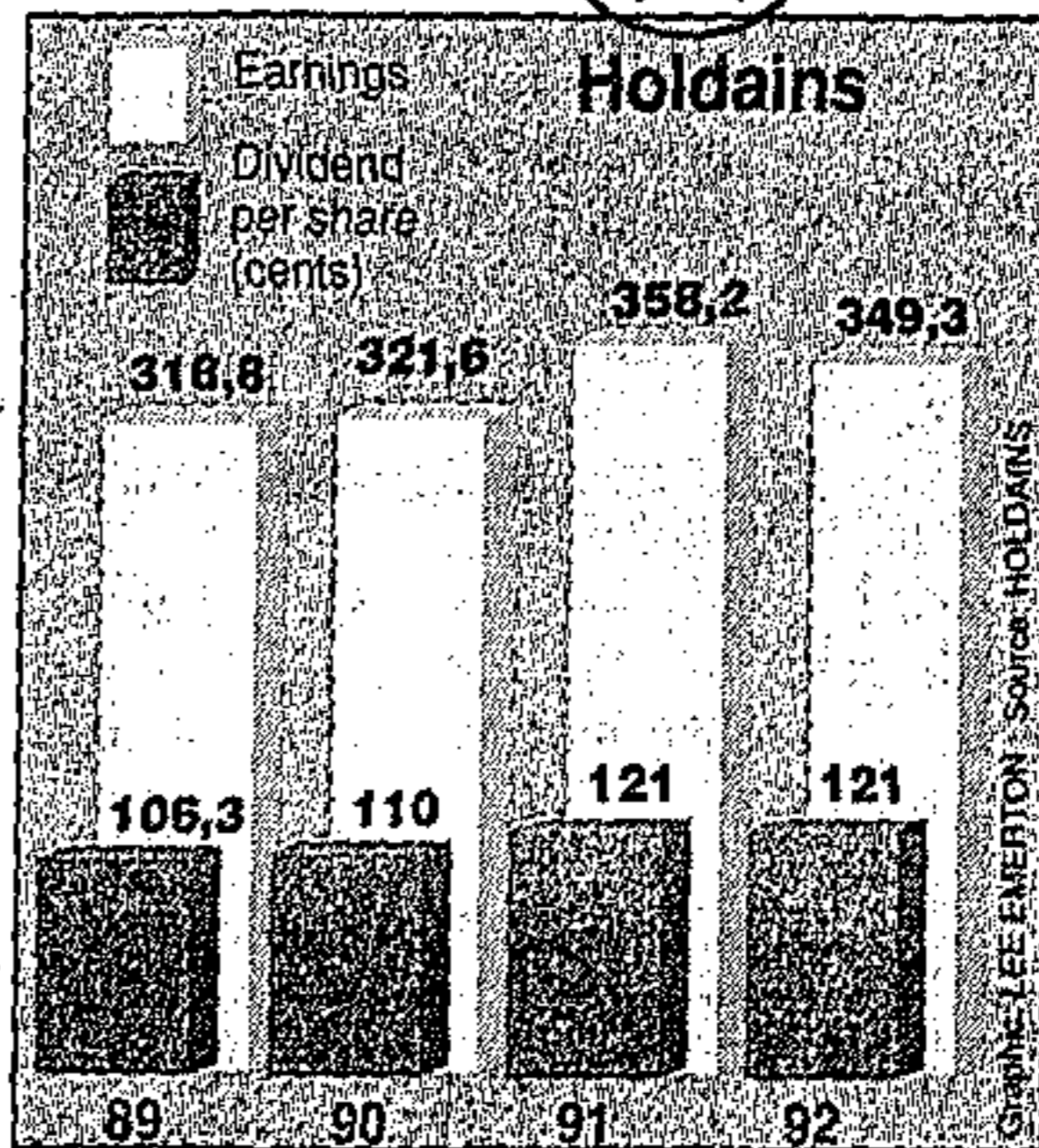
MARCIA KLEIN

HOLDAINS, the major packaging and paper group in the Malbak stable, increased attributable earnings by 3% to R84,8m (R82m) in the year to end-August in spite of a significant weakening in demand for the group's products, especially in the second half.

Group turnover rose by 19% to R2,32bn from R1,95bn, and operating profit increased by 12% to R192,9m (R173m). Chairman Ian Willis said these increases were "largely accounted for by the consolidation of Carlton Paper Corporation (Carlcor) from September 1991". Holdains had increased its stake in Carlcor to more than 50% in the previous year.

On a directly comparable basis, Willis said, turnover had risen, but operating profit declined as margins were squeezed. Margins were affected by tough competition, but the group had improved its share of various sectors of the market.

Finance costs were contained at R43,2m, bringing pre-tax income up 15% to



R149,7m from R130,2m. The tax rate of 29,8% was in line with the previous year.

But a more than twofold increase in outside shareholders' interest to R20,3m, also due to the consolidation of Carlcor, saw earnings rise by 3%. Earnings a share

□ To Page 2

Holdains

Blom 19/10/92

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□ From Page 1

were down 2% at 349,3c (358,2c) a share on more shares in issue.

A final dividend of 70c a share saw the full year dividend maintained at 121c, with a slight reduction in dividend cover.

Willis said the business climate had been the most difficult of the past 20 years, and had deteriorated in the second six months.

The decrease in current assets had reflected management's efforts to reduce working capital and eliminate non-productive assets, he said.

Holdains has disclosed divisional contributions for the first time.

Paper and packaging interest, held mainly through Kohler, had done well in a market where volumes declined by up to 10%. The division, which contributed 34% of turnover and 36% of operating profit, had increased exports as well as market share in some sectors. Its performance was expected to improve.

Holdains had bought the majority of Murray & Roberts' plastics division — renamed Holdains Plastics — and it aimed to

become a significant player in this market.

Plastics packaging contributed 20% of turnover and 24% of operating profit, and Willis expected it to make a meaningful contribution in future. During the year, Sun Packaging was delisted.

Kohler flexible packaging showed reduced profitability, and US-based synthetic label paper business Polyfoam, which began production in May, was expected to break even in the first year.

Paper Merchanting, held through Graphitec, had performed well following a major reorganisation in the previous year. It contributed 26% to turnover and 13% of operating profit.

Carlcor, which houses the group's tissue manufacturing operations, contributed 20% of turnover and 27% of operating profit. Willis said it had a difficult year but its performance was expected to improve.

Demand for the group's products would remain depressed, and management would continue to work at reducing costs.

Nampak defies adverse conditions

B/D/M 30/10/92 (194)

EDWARD WEST

PACKAGING group Nampak upped profit by nearly a tenth in the year to end-September 1992 in spite of deteriorating conditions in the second half of the year.

Volume growth improved 1,7% over the year, due mainly to gains in market share and increased exports. Turnover was up 9% to R4,36bn from R3,99bn in 1991. Chairman Brian Connellan said direct exports increased 59% over 1991 to R79m.

Tight financial control helped lift operating margins to 11,3% (1991: 11%) and as a result operating profit was 13% higher at R495,6m (R440,2m).

Asset management and lower borrowing rates helped reduce interest payments to R54,8m (R57,9m). Gearing was also lower at 27% from 43%.

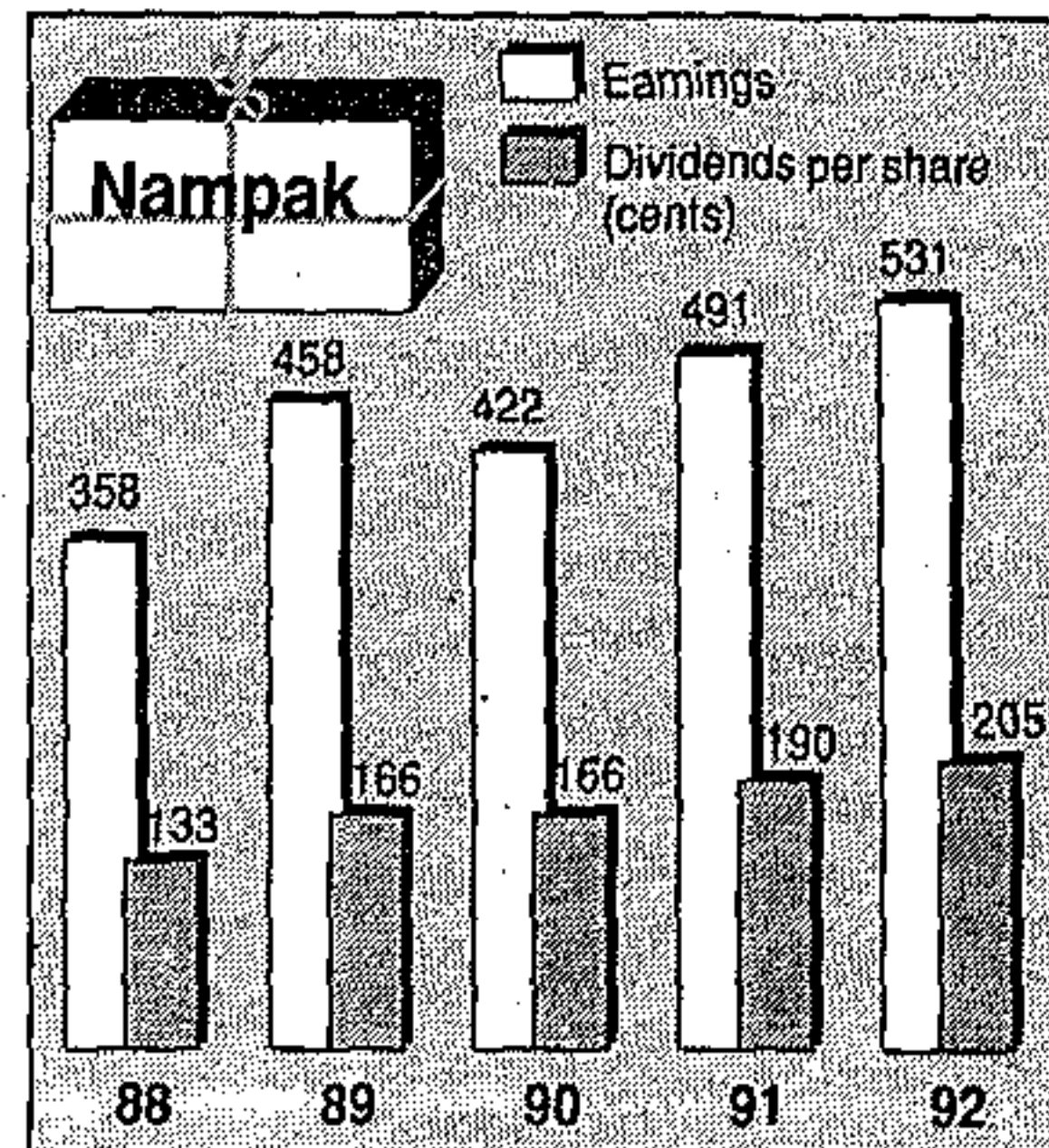
Attributable profit increased 9% to R254,5m, and with more shares in issue due to executive management taking up shares in a share incentive scheme, earnings were 8% higher at 531c a share (491c), said Connellan. The number of shares increased to 47,9-million from 47,4-million.

A final dividend of 126c a share was declared which brought the total payout for the year to 205c (190c) a share covered 2,6 times.

Connellan pointed out that the 1,7% volume growth was the year's average. In the first half volumes grew by about 2,4%, but in the second half, in line with the declining economy, volumes grew only 1%.

He said the glass division suffered a loss and was forced to cut back on production because of falling demand for returnable bottles. However, a rationalisation programme saw a turnaround in profit during the latter half of the year, he added.

Other divisions in this sector held sales



Graphic: RUBY-GAY MARTIN Source: NAMPAK

levels, and were able to improve or maintain operating profit through reorganisation and cost controls. Sales of the new 1,5 litre bottles were in line with budgets, said MD Trevor Evans.

In the group's paper and printing sector only the printing division improved profitability, while the paper manufacturing division, affected by reduced demand, was forced to mothball machines and profits declined. The tissue division also reported reduced profits, said Connellan.

Capital expenditure in 1992 was R270,8m.

Connellan said budgeted capital expenditure in the coming year was R300m, R67m of which would be the first tranche of a three-year R167m project to narrow the top ends of beverage cans. The remainder would form part of a four-year R1bn plan to upgrade plant, he added.

Connellan forecast only a modest increase in earnings for the coming year against a background of continuing low demand and socio-political instability.

Activities: Makes and distributes fastening, packaging, strapping, adhesive tape and stationery products.

Control: Bidvest 87,2%.

Chairman: B Joffe; MD: A Salomon.

Capital structure: 34,3m ords. Market capitalisation: R63m.

Share market: Price: 185c. Yields: 4,7% on dividend; 11,7% on earnings; p:e ratio, 8,5; cover, 2,5. 12-month high, 185c; low, 100c.

Trading volume last quarter, 130 000 shares.

Year to Jun 30	'89	†'90	'91	'92
ST debt (Rm)	5,1	0,4	0,6	0,6
LT debt (Rm)	2,5	8,1	6,4	1,6
Debt:equity ratio* ...	0,44	0,40	0,22	0,06
Shareholders' int* ...	0,40	0,43	0,61	0,63
Int & leasing cover .	9,6	5,0	3,6	4,4
Return on cap (%)*	41,0	42,7	23,6	27,8
Turnover (Rm)	94,5	113,4	107,1	120,0
Pre-int profit (Rm) ...	17,7	15,4	12,2	15,6
Pre-int margin (%) ..	18,7	13,6	11,4	7,7
Earnings (c)	21,1	15,6	17,6	21,7
Dividends (c)	8,6	6,0	7,0	8,7
Net worth (c)*	40,2	49,5	46,9	58,6

† 16 months annualised. * After deduction of patents and trademarks carried at R5,4m or 15,6c/share.

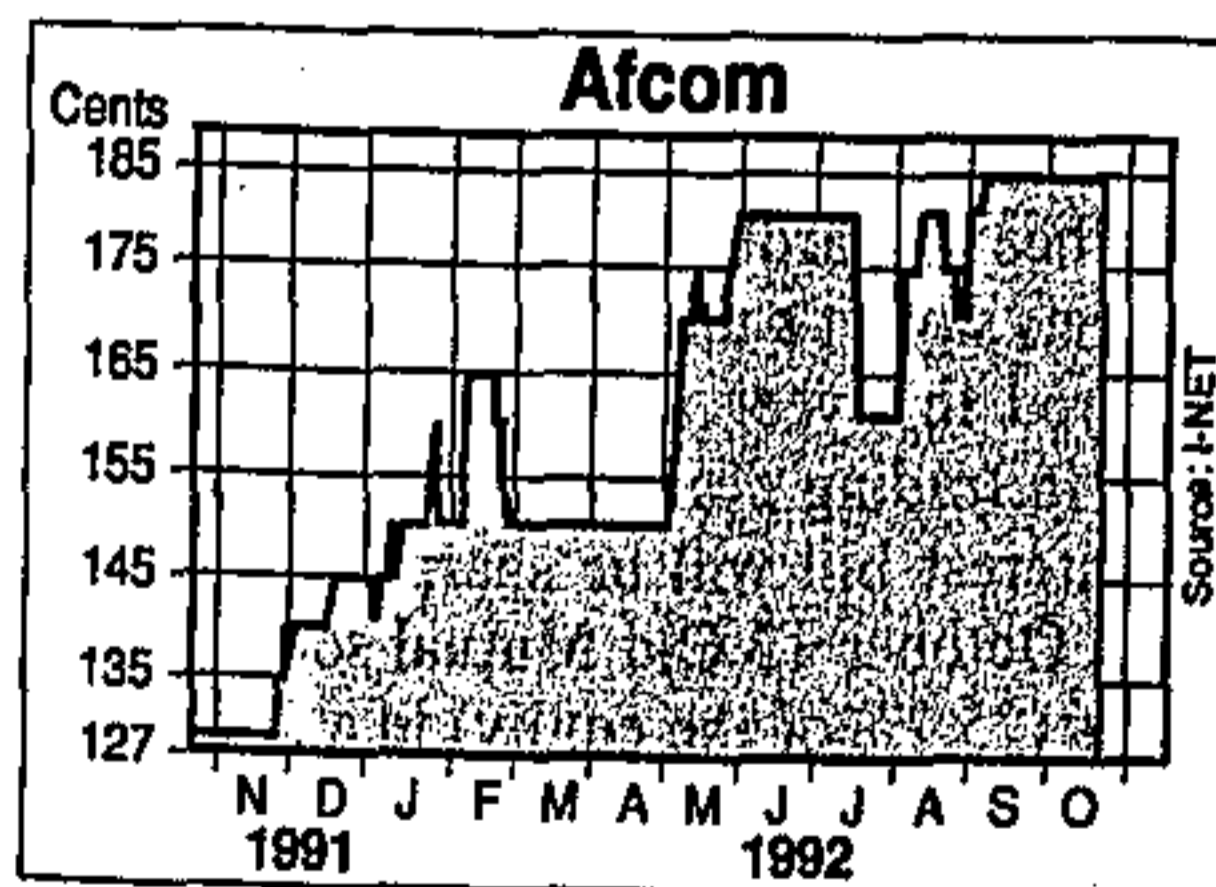
1986 and Bidvest acquired control in November 1989. Brand awareness, as for Bidvest, is one of Afcom's biggest strengths. Its wide range of fastenings, strapping, packaging, Sellotape and stationery are found in everything from jet aircraft to coffins.

Management continued to decentralise, divisionalise and specialise and, though the tax charge was 53% up, operating profit and attributable income advanced 28%. Stock levels were the same as in 1989 and the debtors' book improved.

The interest bill rose, mainly because additional debentures had to be serviced for a full year. But interest paid on trade debt declined. The strong balance sheet places Afcom in a good position to fund acquisitions but management does not want to lose sight of the core business.

further deterioration in trading and political conditions, earnings should at least be maintained and the dividend cover held at 2,5. An 8,5 p:e ratio is considerably lower than at other Bidvest subsidiaries. Perhaps it is time for a rerating.

Kate Rushton



Acquisition of Signode Steel & Plastic Strapping for about R2,5m in July 1991 provided access to the steel strapping market. Sellotape is launching the SelloNote range of notepads.

Financial director Bernard Berson hopes the quality branded technology that Afcom sells and management's adherence to basic business principles, including modern manufacturing methods and close monitoring of expenses, will thwart competition.

Berson says recent mass action and the Seifsa strike in August hampered trading. He remains confident that if there is no

AFCOM FM 6/11/92

Tighter controls

(194)

Effective asset management and tight cost control laid the foundation for a creditable 1992 performance. The share was listed in

sharply and the debt:equity ratio improved from last year's 43% to 27%. That is no mean achievement in tough times.

Tax rocketed 27% to R195m. This is so out of line with the pre-tax profit increase, a handsome 16%, that it prompted a query. Part of the answer is that depreciation for tax purposes is now on a five-year, straight-line basis. That's fair enough. What is not explained is that the Receiver has decided to impose tax on the company's provision for leave pay — a move that will cost Nampak nearly R10m and for which, quite rightly, it has conservatively provided in this year's appropriations.

Apparently, the Receiver has not yet issued a final assessment which includes this demand but chairman Brian Connellan says if his fears are confirmed, the company will certainly contest the ruling.

The 9% turnover growth was achieved partly through an increase in market share and because of an improvement in exports. It's unusual to find significant swings in market share in a mature industry — apparently Nampak benefited from Crown Cork's beverage can production problems. Presumably Crown will claw that back over 1993.

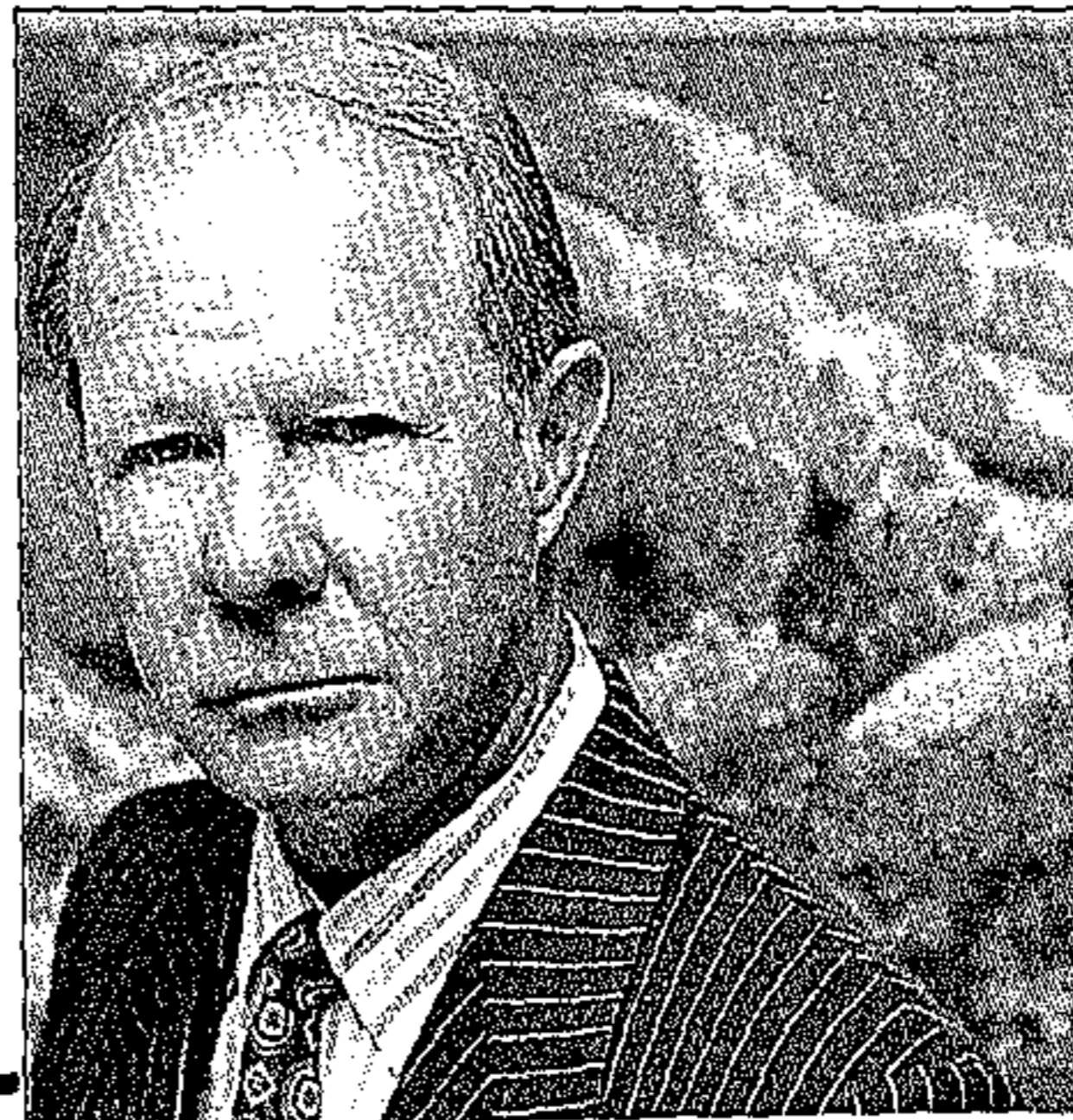
Control over working capital during 1992 was a significant contributor to the strong, positive cash flow. Despite a capital expenditure programme that consumed R271m, and which totalled R1,2bn over the past five years, Nampak was able to retire debt.

Connellan is pleased with control over expenses. Trading margins improved slightly to 11,3% and that supports the effectiveness of the restructuring and rationalisations during the year.

The continuing decline in world pulp and paper prices is hammering Nampak's business. "It's affecting the entire value-added chain," says Connellan. This is reflected in the breakdown of Nampak's turnover increase of 9%, of which 1,7% is ascribed to volume and 7,3% to price increases — well below the inflation rate.

The total dividend was increased 8% to 205c, with cover held at 2,6 times. The share trades at R79 on a p/e of 15,1, compared with a sector average of 11,4. The premium is probably right, but Connellan says he cannot see anything for 1993 other than a

Nampak's Connellan ... sees a repeat performance



CPI CATCHES UP

Six months to	Sep 30 '91	Mar 31 '92	Sep 30 '92
Turnover (Rm)	2 037	2 213	2 162
Operating inc (Rm)	202	223	234
Attributable (Rm)	124	123	131
Earnings (c)	262	258	273
Dividends (c)	115	79	126

repeat of 1992's performance. That means increases only in nominal terms.

Existing investors will probably be inclined to go along for the long-term ride. Aspirant investors should take a deep breath.

David Gleason

NAMPAK

FM 6/11/92

(194)

Recession catching up

A recent FM corporate report on Nampak says that since 1975 its gross earnings have outstripped inflation taken together with its economic growth rate. That performance over 17 years remains intact but in 1992 the recession caught up with the company.

Turnover increased 9% to R4,4bn. This produced an 8% bottom-line increase in earnings. In real terms, the year's performance is in negative figures — the first time for some 15 years that Nampak has failed to give its shareholders real growth.

The result is not inexplicable; financial journalists have grown inured over the past year to reviewing results much worse than Nampak's. Corporate profits have been traumatised across the board by a recession which, barely a year ago, was being described as mild though persistent. How inadequate that description has proved to be.

Nevertheless, there are some encouraging indicators in the company's results, of which the most important is that net interest paid decreased 5% to R55m. Borrowings declined

CORRUGATED cardboard coffins and paper houses are but two innovations from Nampak, the diversified packaging blue chip in the Barlows stable.

Not only does the group lead in SA, it is the 15th largest in the world, according to figures given by Nampak chairman Brian Connellan to a presentation for the Investment Analysts Society in Johannesburg this week.

Mr Connellan and his team described the activities of Nampak and the issues facing it in its drive to maintain world-class status.

"Virtually everything is packaged," says Mr Connellan, adding that packaging is sandwiched between big suppliers and large customers. In SA the business represents an inordinately large slice of gross domestic product — about 2,5% compared with 1,6% to 1,9% for other countries. Worldwide, packaging output is worth \$250 billion to \$300-billion a year.

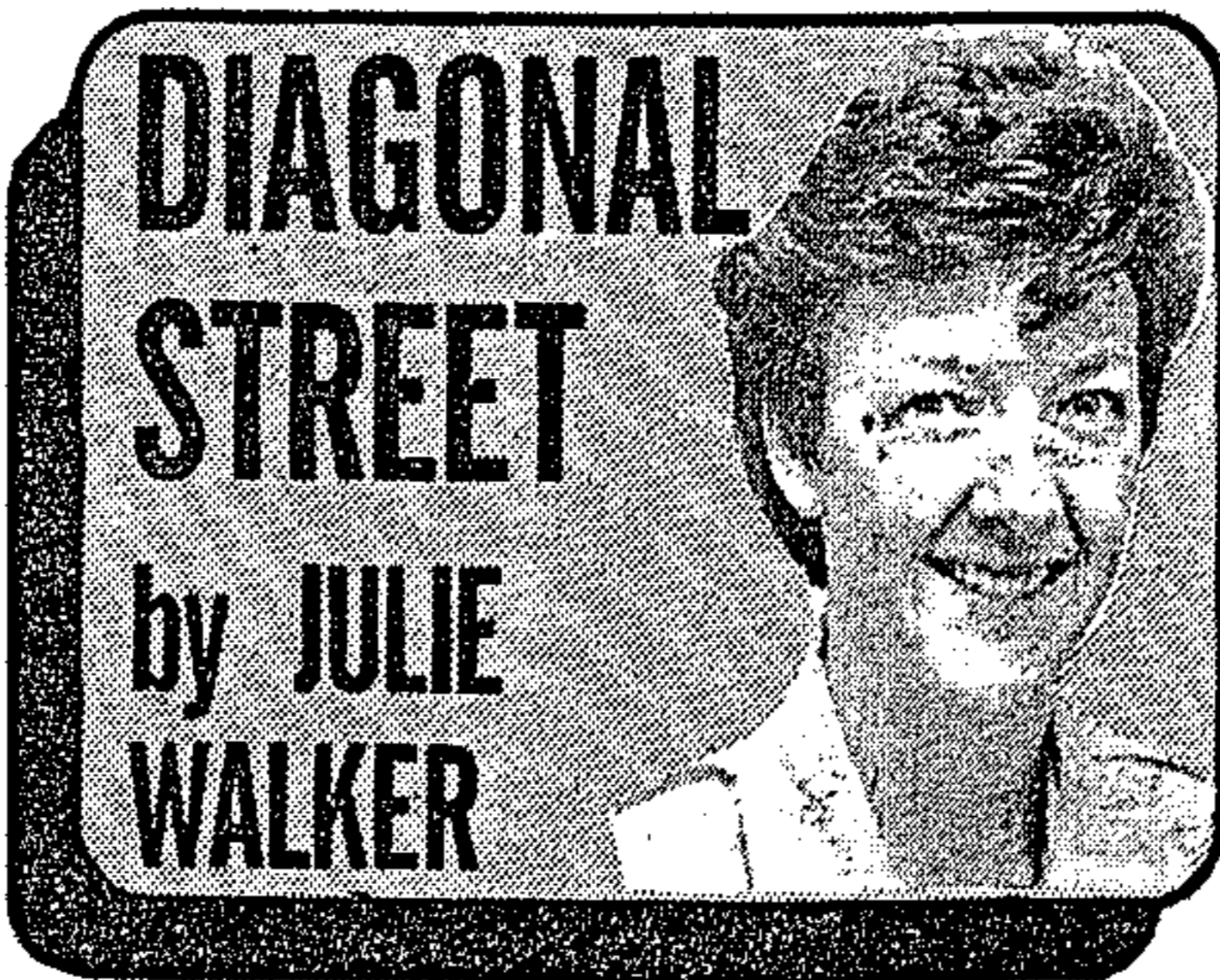
Nampak is the most diversified packager, no single division accounting for more than 17% of sales.

Mr Connellan says Nampak will benefit when SA's GDP resumes growth.

In the past five years the group has spent R1,2-billion on expansion and aims to spend another R2-billion in the next five years. By that time, managing director Trevor Evans expects Nampak's turnover to be R10-billion, of which 90% will come from existing businesses, 5% from SA and regional acquisitions and the rest from international trade.

Cardboard coffins and paper houses

8 Times (BUSS) 8/11/92. (194)



He says the paper and glass divisions are underperformers and efforts are being made to correct their shortcomings. He expects the market share of glass bottles to shrink.

Focus on productivity has been increased. Most plants are running about 20% below capacity because of the economic downturn, but urbanisation is expected to boost organic growth.

On export opportunities, Mr Evans says Nampak is improving the packaging of goods. Technological alliances with foreign packaging leaders are being strengthened.

Since 1987 Nampak's share price has climbed from a pre-crash R30 to R80, a price 1,5 times the industrial index. Highly rated by analysts — the price-earnings ratio is 15 — the group looks to be in experienced hands.

Nampak's capacity to borrow is strong — only 27% geared at the moment. Five years from now, even after another R2-billion of capex, Nampak could take on another R650-million of debt and stay below its self-imposed 50% ceiling.

Turnover in the year to September 1992 was R4,4-billion. Existing business covers the entire packaging spectrum — glass bottles, metal cans, blow-moulding, cardboard boxes, tissues, paper, sacks, plastics and more.

Mr Evans outlines four key issues facing Nampak: beverages, asset performance, productivity and exports.

Metal cans for drinks face a challenge from Rheem's aluminium plant, due to open next year. Mr Evans says Nampak will stick with tinplate because it is cheaper and stronger. Because Iscor has put in a new line to supply tinplate it will remain competitive.

Scharrig deal

8 Times (BUSS) 8/11/92

SCHARRIGHUISEN has bought 55% of three Transvaal operations undertaken by Cape-based Norman Mining for not more than R10,5-million.

Norman has earthworks and soil-stripping contracts with Trans-Natal's Optimum Colliery and Rand Coal's Middelburg.

Hope lingers on for gold

8 Times (BUSS) 8/11/92

FIVE international investment-house brokers canvassed by the Mining Journal's Gold Mining newsletter believe that the worst is over for gold.

SG Strauss Turnbull is encouraged by gold's hint of displaying safe-haven characteristics amid Europe's currency turmoil.

In dollar terms, gold has been relatively tranquil. Although Turnbull concedes that charts do not provide clear evidence of a reversal in the long-term downtrend, it believes the worst has passed.

Williams de Broe agrees that gold was a safe haven in currency turmoil — the first occasion since the Persian Gulf war. It attaches significance to the gold market's ability to absorb producer selling pressure.

It expects the dollar price to consoli-

date in the short term at the current level, then to test \$360/oz — a figure unlikely to be breached.

Williams de Broe reiterates its view that gold has bottomed because jewellery demand is still strong and European investors are starting to look at it again.

Maison Placements Canada says gold is a commodity and the short-term price swings reflect a sophisticated trading arbitrage market. It says that although a well-defined trading range has been established, gold's uptrend is still intact. Once gold breaches \$365, it will rally upwards.

Carr Kitcat & Aitken says that technically, gold's recovery since August has produced an important double bottom, although recovery will be slow.

Credit Lyonnais Laing reminds inves-

tors that a year ago the fundamentals looked encouraging and gold rose to \$370 by the end of November.

What stopped the price from rising was the belief that governments were still firmly in charge of their destinies and that their aim of curbing inflation by keeping interest rates high was achievable.

However, the last few months have been devastating and Laing says unemployment and the lengthening recession have replaced inflation as the main problem.

When the economic turmoil is over, Laing believes interest rates will generally fall to allow recovery in economic growth and that inflation will be allowed to rise. Gold might then recovery some of its popularity.

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PORTERHOUSE
International BODYWEAR

BE YOUR OWN BOSS

Limited franchises available. Successful range of

Drought hits Saiccor mill

Own Correspondent

DURBAN. — The drought has hit production at Sappi Saiccor's mill on the Umkomaas River south of Durban.

MD Roland Mazery, said yesterday that the flow in the river had dropped suddenly early last week and the flow "was still significantly below the needs of the mill."

He said production would operate at a low level until the water flow improves.

Holdains wraps up R120m deal

PACKAGING and paper group Holdains was to make a strategic move into the beverage can market in a deal worth almost R120m, it announced yesterday.

Chairman Ian Willis said Holdains had reached agreement with Crown Cork & Seal Inc of the US and its SA arm Crown Cork Company SA to acquire 50% of Crown SA and a 30% stake in Crown Cork & Seal Inc's subsidiaries in Zimbabwe, Zambia, Kenya and Nigeria, with an option to acquire another 20%. *BIDAY 11/11/92*

The SA company manufactures two-piece beverage cans, food and aerosol cans, crowns and closures. Crown SA had a 35% market share in beer and soft drink cans, 70% of the corks market, 50% of

194 MARCIA KLEIN

aerosol cans and 15% of food cans.

It is the second largest supplier of cans to the local beer and beverage industry.

In terms of the deal, Holdains would pay R60m for 26% of Crown Cork SA's earnings. An estimated R60m would be payable in annual instalments, dependent on Crown SA's profitability over the next three years. This would entitle Holdains to a further 24% of Crown SA's earnings.

The transaction would have no material effect on Holdains in the short term, but Crown had high growth potential in the longer term. Willis said the group had not finalised funding details.



Holdains' Willis ... made
the approach

FM 13/11/92
parent Crown Cork & Seal Inc (CCUSA) for joint ownership of CCSA, entitling Holdains to 26% of its earnings. About another R60m is payable in annual instalments over the next three years for the remaining 24% of CCSA's earnings, though the second part of the price is linked to profitability and could fluctuate within prescribed parameters.

Financing is still being considered by Holdains. Chairman Ian Willis says, as far as CCUSA is concerned, it's a cash deal, but that does not rule out Holdains issuing paper to the SA operation as part of the consideration. Holdains may also hold a rights issue to raise capital for the acquisition.

The big question is what 26% of CCSA's earnings will be worth to Holdains. Willis won't divulge the figure, though CCSA did not have a great year last year, with labour disputes and some technical hitches affecting operations. 194 @ 220

Included in the deal is a 30% interest in CCUSA's other African subsidiaries in Zambia, Zimbabwe, Kenya and Nigeria, with an option for Holdains to acquire a further 20%. This could be the rider to what otherwise seems a favourable deal. Dated technology in most African countries makes bottles the dominant container for beer and soft drinks and exchange control regulations probably make it difficult to get profits out of some of them.

Willis says he approached CCUSA, which operates joint ventures in many of its 136 operations in 44 countries, and offered the partnership. Holdains has also run a successful joint venture with Kimberly-Clark Corp, with which it shares control of Carlton Paper.

Shaun Harris

HOLDAINS 194

Into the can

Holdains' acquisition of 50% of Crown Cork Company SA (CCSA) gives the paper and packaging group its long-awaited entry into the beverage can market, regarded as one of the fastest growing areas in the metal packaging industry. FM 13/11/92

CCSA holds about 35% of the beer and soft drink can market, while Nampak subsidiary Metal Box is the biggest manufacturer. The acquisition effectively makes Holdains joint owner of SA's second biggest supplier of cans to SA Breweries and Amalgamated Beverage Industries. CCSA also holds about 50% of the aerosol can market, 70% of the crown and cork market and 15% of the food can market, which in turn could offer strategic opportunities with fellow Malbak subsidiary Foodcorp.

The acquisition, effective from November 30 and subject to JSE approval, addresses an historical weakness of Holdains relative to competitors Nampak and Consol. Entry into the beverage market could result in Holdains' share being rerated more in line with its competitors.

Financing is in two parts. Holdains will pay R60m upfront to CCSA's American

TML FM 13/11/92 (194)

Cautious on prospects

Solid first-half results from Times Media Ltd (TML) are tempered by the sobering performance of some of the investments in subsidiary and associate companies.

The healthy 19% increase in turnover comes when advertising volumes are lower and circulation of major publications static, or down slightly, against the year-ago period. This, say directors, was achieved by small cover price and advertising rate increases, and by the full six-month inclusion of premium rate telephone service CallNet, launched in October last year.

MD David Kovarsky says advertising volumes, generally, held up for the group's major publications over the six months, though the *Sunday Times* has recently seen volumes slip. Advertising in the *FM* and *Business Day* remained almost constant.

TML does not quantify the contribution from CallNet but it's obviously material. The bad news is that CallNet will probably contribute fully to only three of the current six months' results, after the shake-up of the premium rate industry and closure of some 087 telephone lines. It's not the end of CallNet but contributions from the 74%-owned company will be down in the short term at least.

Kovarsky says TML is attempting to reposition CallNet, looking at developing new products and making the service more business-to-business orientated. He also notes that in the short period the business has been in operation, it has paid for itself and earned a handsome profit.

Interest earned has dropped about two-thirds to R2m, while interest paid tripled to R3m as TML moved into a net borrowed position. The balance sheet remains strong, with borrowings and long-term liabilities exceeding the R22,1m cash and short-term investments by only R8,1m.

Kovarsky makes it clear he does not like carrying debt, and plans to retire the R8,1m by the end of the 1994 year.

This time last year TML held cash of

R48,2m, which has since been absorbed by tax payments, and R21,9m spent on the offshore investment in European premium rate businesses Legion and Fabiano. Kovarsky says Legion has been a disappointment but hopes dividends will be received from the 47%-investment in the current financial year, though less than initially expected.

M-Net, in which TML has an 18% interest, continues to look like a good long-term investment, even though its expansion into Scandinavian and Benelux pay-TV operation FilmNet has dampened M-Net's earnings.

TML is cautious about the second-half outlook. Kovarsky says the decline in advertising revenue, which began in August and continued through September and October, has only recently recovered slightly. Based on this trend and the continuing recession, the group does not expect to maintain the first six months' performance.

However, the market does not seem too perturbed, with the share price bumping up a bit in recent weeks to its present R20. Inter-

CALLING IN

Six months to	Sep 30 '91	Mar 31 '92	Sep 30 '92
Turnover (Rm)	150	170	179
Operating income (Rm)	21,8	31,7	29,6
Investment inc (Rm) ..	6,7	5,0	2,6
Attributable (Rm)	18,7	23,0	21,7
Earnings (c)	85	104	98
Dividends (c)	22	25	24

im results should help underpin the price, while the slightly gloomy outlook for the current half could be offset against expectation of better contributions from investments in the next financial year.

Shaun Harris

A sure way to raise money

South 28/11-2/12/92

194

SUPPORT for glass recycling is growing countrywide as more and more bottle banks are placed.

Bottle banks are those blue round fibreglass containers, which can each hold up to 2 500 glass bottles and jars at a time.

Any type of glass can be deposited into the container, from jam jars and medicine bottles to beverage bottles. All you have to do is remove the lid and rinse the container if it contained a foodstuff. The labels do not have to be removed.

Among the communities who have realised the benefits of glass recycling are the people of Mitchells Plain and Strandfontein, who are benefiting from the bottle banks placed at schools and shopping centres by the municipality.

Debbie Sherman, a spokesperson for the Glass Recycling Association, says the amount of glass collected is increasing, but many people still do not fully realise the benefits of recycling.

She says: "About 2 200 bottles make up one tonne of glass and as each bottle

bank yields approximately 1,5 tonnes a month, a lot of glass is being removed from the environment.

"Communities benefit not only from tidier surroundings, but their waste disposal costs are reduced and the cost of expensive raw materials necessary for glass production is being reduced.

"For each tonne of glass collected, the bottle bank owner receives R35. Schools use this money for school funds and businesses often donate money to charitable causes."

The major glass manufacturers, Consol Glass and MB Glass, formed the Glass Recycling Association (GRA) to encourage collection and re-use of used glass (cullet).

They rely on support from commercial sector, municipalities and schools to buy the bottle banks, which are then emptied by glass collection agents.

Sherman adds: "Bottle banks are being under-utilised in these communities and we strongly urge the public to avail itself of the benefits of glass recycling by depositing used glass in our bottle banks".

Nampak expecting a modest improvement

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BIDAY 1/12/92
MARCIA KLEIN

PACKAGING, paper and printing group Nampak expected a modest increase in earnings in financial 1993 as consumer demand continued to show little improvement, chairman Brian Connellan said in the annual review.

The group reported an 8% earnings' rise to 205c a share on a 9% increased turnover to R4,4bn in the year to end-September.

Packaging volumes had declined generally, and there was pressure on the group's glass, carton, paper and tissue divisions, he said. Direct export turnover grew by 59% to R79m.

Over the past five years, the group had spent R1,1bn on expansion and replacement projects, and this had positioned Nampak well for future growth.

A further R1,2bn had been earmarked for replacement and expansion over the next four years. MD Trevor Evans said the strength of the group's balance sheet allowed for further expansion.

He said about 75% of Nampak's sales were packaging related, and the group's research had indicated sales by the packaging industry grew by 6,7% to R8bn in the past year.

The local paper manufacturing industry had a difficult year because of worldwide overcapacity and recessionary conditions in SA and abroad.

Bevcan, which supplied the beverage industry, experienced a slower growth in the domestic malt beer market. But the division increased market share and additional quantities were supplied for filled beer exports. Demand for soft drinks was more

buoyant, and cans gained a larger share.

Directors said Bevcan showed a real growth of 8%, some of which was due to unfulfilled orders by another can-maker.

Although Bevcan had a good 1992, low private consumption expenditure and a new competitor would make it unlikely for this result to be repeated in 1993.

Foodcan had a good year, with an increase in volumes and a rise in operating profits, helped by rationalisations undertaken in 1991.

The division was expected to show moderate growth in 1993 with a likely increase in the fish quota.

Divpac's sales fell by 8% in volume terms, and operating profit was lower than the previous year. Aluminium aerosols and tubes, battery jackets and packaging for powdered foods and beverages were particularly hard hit.

The directors said further rationalisation projects were in place, and Divpac was expected to show an improvement in profit in 1993.

The plastics division showed a satisfactory profit growth and prospects for the coming year were good.

In the liquid packaging division, sales volumes were 4% up on the previous year.

The glass division made an operating loss in the first half, but showed a small operating profit in the second six months. Although little growth in demand was expected for the coming year, the division should show a modest profit.

Nampak export drive pays a solid dividend

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ARC 2/12/92

Business Staff

SALES by the packaging industry increased by just 6,7 percent in the year to September, says Nampak MD Trevor Evans.

Writing in the Nampak annual report, he says plastics increased their relative competitiveness, with sales of plastic packaging up from R1,7 billion to R1,9 billion.

Glass packaging sales were unchanged at R500 million, paper and board up from R3 billion to R3,1 billion and metal up from R1,9 billion to R2,1 billion.

Mr Evans says Nampak did well to increase turnover by 9 percent and sales volumes by 1,7 percent.

The main factors were the

heavy weighting — 47 percent of the total — of group customer portfolios to food and beverages, and the successful thrust for additional exports, which rose from R49 million to R79 million.

He says selling prices were contained well below the consumer price index because of low increases in the cost of some raw materials, stringent cost controls, the benefit of rationalisation throughout the group with some production cutbacks and higher volumes.

There was also better productivity, with an improvement in sales volume per employee of 6,4 percent.

Nampak lost 85 000 man days to labour disputes, of which just 22 percent related to work dis-

putes, and the rest to politically motivated issues.

By contrast, 153 000 days were lost in 1991, of which 93 percent resulted from internal action.

Nampak's packaging divisions increased operating profit by 23 percent, but the paper and printing segment's profit fell by 24 percent.

The new tissue wadding machine at Kliprivier was brought up to planned efficiency level but, because of poor demand, was subjected to a planned shut-down of three weeks to control finished stock build-ups.

At Bellville, two paper machines were mothballed and the other two operated on a managed short-time basis.

Restructuring gears Malbak for growth

Simon 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.

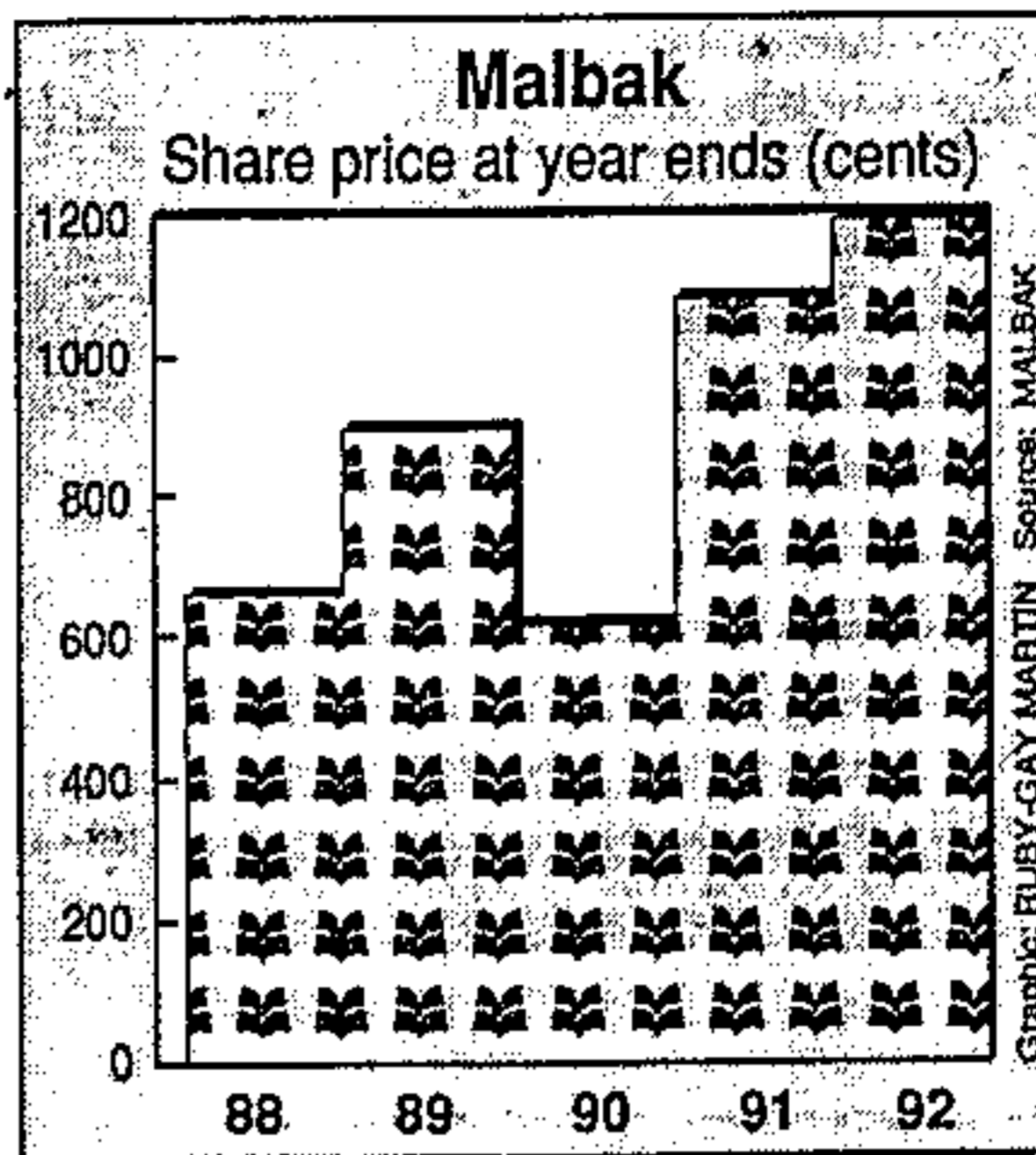
Malbak had been restructured over the past two years. Business focus had been sharpened and the thrust was in clearly delineated areas.

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.

Nampak export drive pays a solid dividend

By Stephen Cranston

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STAR 2/12/92

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JSE suspends listing of Bester Investments

By Roy Ockayne and Patrick Hlabile

The Johannesburg Stock Exchange (JSE) has suspended the listing of building and property development group Bester Investments Ltd following the provisional liquidation of the group's main operating subsidiary, Bester Homes (Pty) Ltd.

Bester Investments Ltd executive chairman and Bester Homes (Pty) Ltd director Theunis Bester said the provisional liquidation did not mean the entire group was on the verge of collapse and final liquidation.

This was confirmed by Gerrit van den Berg, Northern Trans-

vaal regional general manager corporate division of Amalgamated Banks of South Africa Ltd (Absa), which brought the provisional liquidation application in the Pretoria Supreme Court on Wednesday.

"The final liquidation of Bester Homes (Pty) Ltd is definitely not on our agenda," said Van den Berg. He said that because there was more than one creditor bank involved, they had opted for the provisional liquidation as a mechanism to make it easier for the creditor banks to get into a scheme of arrangement.

Bester said: "The whole idea is the downsizing of the company, and we are proceeding with that."

Holdains to raise R180-m

Finance Staff 4/12/92

Holdains, the paper and packaging group in the Mabak stable, has announced a R180 million rights offer to finance its acquisition of a 50 percent stake in Crown Cork Company SA.

Crown Cork Company SA, Beverage can maker Crown Cork is the local subsidiary of US group Crown Cork & Seal. The proceeds of the renou-

able rights offer will also be used to finance Holdains' 30 percent interest in Crown Cork & Seal's operations in Zimbabwe, Zambia, Kenya and Nigeria.

Holdains says the funds will also allow the group to facilitate future expansion of its acquisitions.

Mabak will underwrite the issue. Details will be announced in January.

Business as usual for Tollgate subsidiaries

Finance Staff 4/12/92

CAPE TOWN — Four major companies employing about 2 500 people are "carrying on business as usual" after the collapse of their parent company, Tollgate, in the biggest Cape company crash this year.

Tollgate Holdings was placed in provisional liquidation in the Supreme Court on Wednesday.

Joint liquidators are to be appointed to run the companies and a deal is expected to be struck with bankers to keep them going.

Absa, which inherited the Tollgate accounts when it took over Bankorp, applied for liquidation as a last resort after unsuccessful attempts to keep the group afloat.

The banking giant should recover some of its money if and when Tollgate's remaining assets are sold off.

But with Tollgate's debt to Absa topping R305 million, the bank is thought to have already written off most of the liabilities as a bad debt.

The main operating companies left in the stricken Tollgate empire are:

- Motorvia, the group financing division and operator of the Motorvia car ferry business.
- Entercor, whose main divisions are Springbok Atlas Safaris, Greyhound Culliner, Showtime International, Six Street Studios and Moving Media.
- Greyhound Coach Lines.
- Quicksilver Coach Lines.
- Christo van Niekerk, Motorvia director, said that barring a few technicalities it was business as usual. He expected to be notified about the future of the vehicle ferrying operations shortly.

Greyhound

An employee at Greyhound Culliner confirmed that services were still running.

Motor Racing Enterprises (MRE), which manages the Kyalami racing track, is not affected by the provisional liquidation order against Tollgate Holdings.

MER was acquired from Tollgate through a management buyout by two directors, Dave

Cemenco in black but skips payout

By Sven Lünsche 4/12/92

Despite a marked decline in turnover, engineering group Cemenco returned to profitability in the year to end-September.

However, in view of the poor outlook for trading conditions in the current financial year the directors have decided not to pay a final dividend on the ordinary shares.

Turnover in the 12 months fell from R325,2 million to R285,3 million but net operating income showed a strong turnaround from a loss of R4,7 million to profits of R5,1 million.

Attributable income recovered to R397 000 (loss of R7 million), which translates to a sharp improvement in earnings per share to 4,4c from a loss of 78c.

The directors say that while the group achieved a marked improvement in full year results, deteriorating conditions in the second half affected the group's performance, with all divisions experiencing shrinking markets.

Tight controls help recovering Metcash

By Stephen Cranston 4/12/92

Metro Cash and Carry (Metcash) continued its recovery, with earnings per share up to 147c, compared with 22c in the four months to October 1991.

A dividend of 8c has been declared.

In the year to June 1991, prior to its acquisition by Premier and the appointment of Carlos dos Santos as group MD, Metro had reported losses.

Dos Santos says that trading conditions remained difficult, but the results were "well ahead of expectations" and were largely due to the strict cost control programme, financial discipline and reduced shrinkage.

Gross profit margins were tight, but the operating margin improved from 0,45 percent to 1,49 percent.

Dos Santos attributes the improved results to a highly motivated and focused management team.

"The guys are beginning to believe in themselves and are moulding into a formidable team," he says.

"They work to well-defined goals and guidelines. Progress is monitored regularly and incentive bonuses are linked directly

McCarthy, through its 50 percent partnership with Standard Bank in McCarthy Finance, is taking action to enforce a claim for R3,9 million against TGH after its acquisition last year of the full maintenance lease business Autovia from the provisionally wound up TGH subsidiary Motorvia.

Motorvia's fate has a direct effect on the country's biggest vehicle assembly business, Toyota SA.

Toyota group financial director Pieter Robinson says Motorvia ferries about 75 percent of production from the vehicle assembler's Prospecton factory near Durban, representing 5 500 to 6 000 vehicles a month, to inland destinations.

"Motorvia is our major mover of vehicles and we are its biggest customer," he said.

It has investments in trading operations in Malawi, Mozambique, Portugal and Hong Kong.

Dos Santos says the volatility of the environment and the poor economic conditions make forecasting difficult. But with the Christmas and Easter trading periods to come, the second half should be better than the first.

Star 4/12/92

Holdains to raise acquisition funds

BIDDER 4/12/92

(194)

ROBERT WICKS

MALBAK paper and packaging arm Holdains has announced it is to proceed with a renounceable rights offer to raise R180m to fund acquisition of a 50% interest in beverage can manufacturers Crown Cork Company SA.

Holdains' strategic move into the beverage can market includes the acquisition of a 30% interest in the subsidiaries of Crown Cork & Seal Inc located in Zimbabwe, Zambia, Kenya and Nigeria. Crown Cork is the South African arm of US-based Crown Cork & Seal Inc.

The rights offer, underwritten by Malbak, will also be used to fund future expansion of the acquisition.

Holdains chairman Ian Willis yesterday described the announcement as a "straightforward offer to all shareholders".

He said a price would not be fixed until all concerned had returned from the holiday period. There was much potential in the liquid packaging market and Malbak's intention to underwrite the offer gave added overall security. Malbak has a 66,7% interest in Holdains.

"We believe we can help Crown to grow vigorously in the southern Afri-

can region because we are used to managing in Africa," said Willis.

Holdains CE Richard Bruyns described the deal as a "coup" for the group, following numerous attempts by both Holdains and other packaging companies to acquire an interest in Crown Cork.

"We want to make Crown Cork into a high quality company and grow it," he said.

Prior to yesterday's announcement, Holdains' shares were steady at 4125c.

Analysts said the group was well placed to meet its new challenge. Attributable earnings increased by 3% to R84,8m in the year to end-August in spite of a weakening in demand for group products.

Group turnover rose by 19% to R2,32bn and operating profit by 12% to R192,9m.

Holdains was established in 1989 following the merger of Malbak's paper and packaging operations, Kohler, paper merchants Graphtec and Wiggins Teape, and tissue manufacturer Carlcor.

Hard times, but Consol

Still packs a big punch

S Times (RUSS) 6/12/92.
Sunday Times

BY ZILIA ERRAT
(194)

CONSOL's move into the rubber business has paid off. It helped to lift the packaging group into fourth place in this year's Top 100.

The Anglovaal-held group, which celebrates its 50th birthday in 1994, has achieved an average annual return for shareholders in five years of 125.83%.

It has outperformed its two main competitors in the JSE packaging sector. Nampak is ranked 36th this year and Holdains 56th.

Group managing director Piet Neethling is surprised by Consol's improvement from sixth place last year.

All the group's businesses have been adversely affected by the recession which restrained real pro-

TOP 100

NUMBER 4

1987: R10 000 1992: R72 917

fits were up 12% after a 23% rise the previous year. The group's share price, however, has held up well.

Mr Neethling says: "Investors know exactly what to expect of us. Our performance is consistent and there have been no surprises."

A major reason for the group's success is a sound core-management team which has been together for a long time. The shortest service in top management is 10 years.

The acquisition of Good-year Tyres, now called Tycon, and its merger with tyre distributor and retailer Tredcor the following year, enabled Consol to not only grow, but spread its risks. More than half of its turnover comes from its rubber business.

Shareholders may look to more diversification. Consol has R250-million in the bank — the proceeds of last year's R301.6-million rights issue in the form of convertible subordinated debentures.

Mr Neethling says Consol is scouring both the domestic and international markets for a worthwhile acquisition.

DEAL

Its next buy could be a packaging business outside SA or something that would diversify its rubber business in SA.

Mr Neethling says not much of substance remains to be bought in the SA packaging market and the tyre industry is pretty well tied up worldwide, dominated by a few multinationals.

Cash from the rights issue may also be used for a capital project in SA or in

another country. Greenfield options are being examined, but there are no big plans on the horizon.

Consol at one stage planned to build a beer can plant, but it now expects this market to become overtraded when competitors Metal Box and Rheem open new plants.

Mr Neethling says the group went for the rights issue at a good time. Both Consol and investors got a good deal, but Consol is not in a rush to spend money.

Interest earned on it boosted earnings in the past financial year — profits were down 9% at the operating level. The group now has flexibility to move when the time is right.

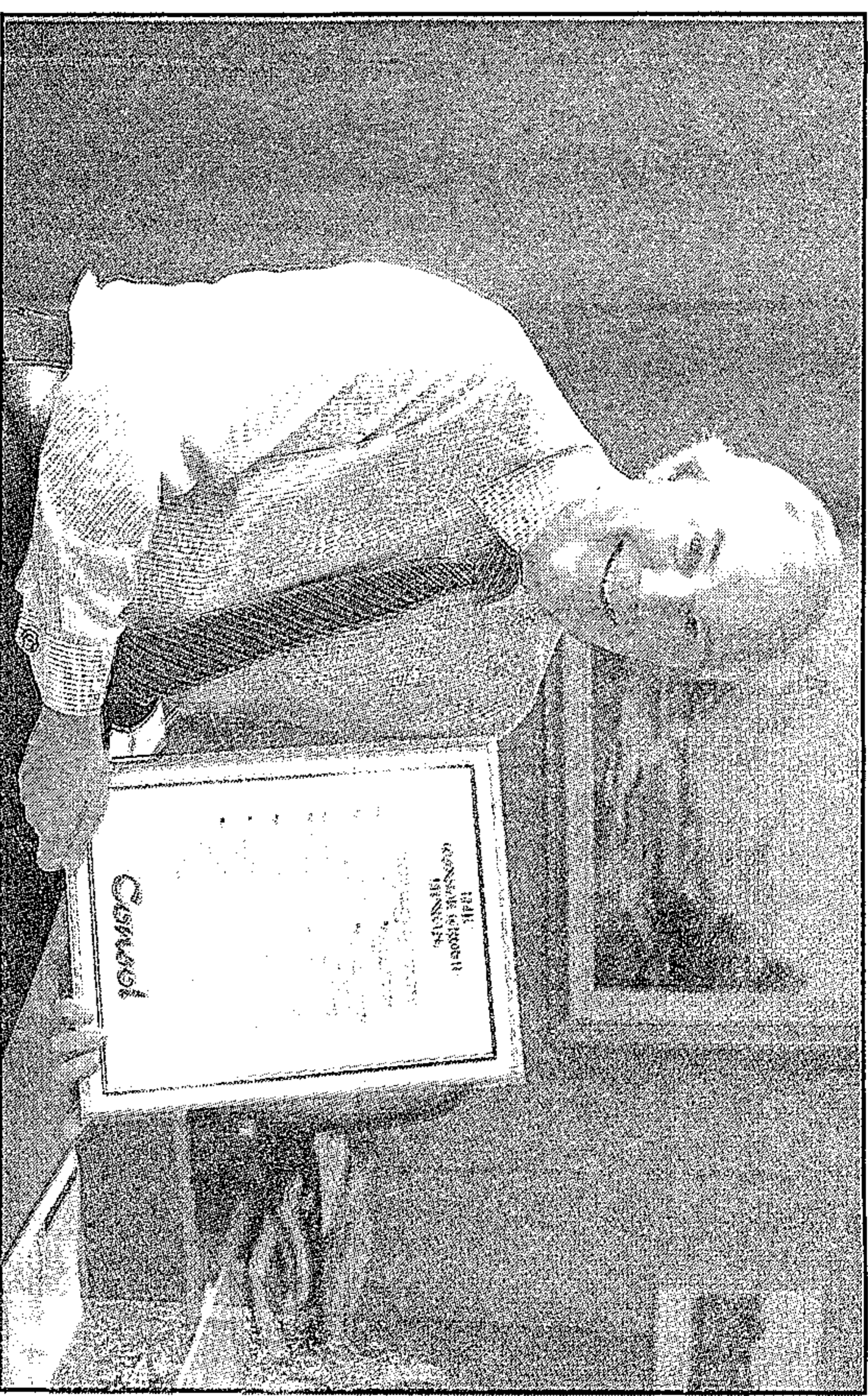
BOTTLES

Mr Neethling says it is his personal ambition to improve on last year's results in the current year. That will not be easy.

Trading conditions are tough and Consol's volumes are generally down. All its packaging businesses are affected by increased competition and generally leaner margins.

Glass sales, which account for more than 60% of packaging turnover, have been badly hit because lower growth in beer and soft-drink consumption has dented sales of returnable bottles.

Tyre sales to the construction, mining and earthmoving industries are under pressure. The passenger-vehicle market is also feeling the pinch as consumers delay replacing worn tyres.



PIET NEETHLING: Investors know exactly what to expect of us — consistent performance

Better margins are, however, expected from Tycon which is working three shifts a day, seven days a week.

But Mr Neethling says: "It is a hard slog and we are holding on for dear life. But if there is any good news, you can be sure that we will capitalise on it."

In the medium to longer term, he is more optimistic. The group will benefit from an economic upturn because its businesses are closely linked to consumer spending. The packaging industry usually shows real growth of between 1.5% to 2% above GDP increases.

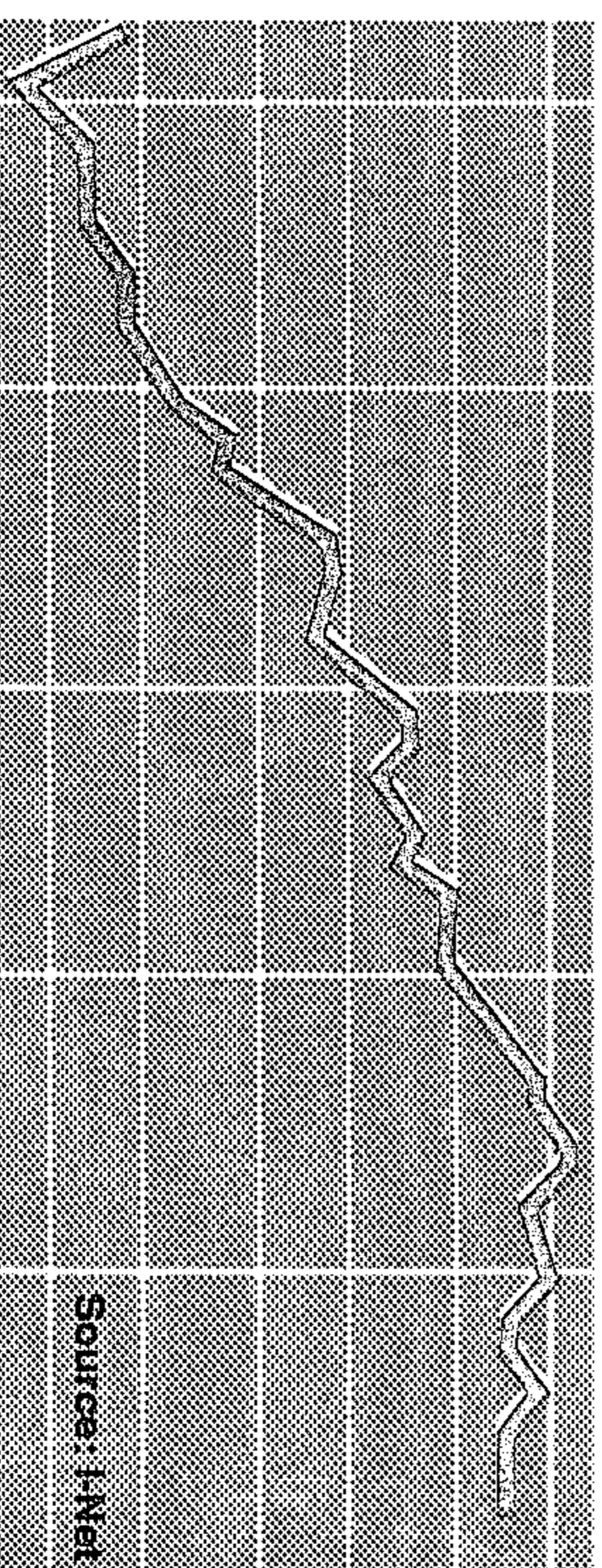
Consol is also well placed for the new SA. An expanding working population will increase the number of vehicles — and tyres — on the road and boost packaging sales.

"We believe in the businesses we are in. We have the products that people need. People have to eat and drink and move around

on wheels," says Mr Neethling.

Consol's major export growth is from customers successfully selling SA products such as wine, fruit juices and beer abroad. It is doing its best to support them in exploiting opportu-

Share price
 3500
 2500
 1500
 1000
 600
 400



CONSOL

Source: I-Met

A 13-YEAR SAGA

MAY 1 1985: Workers at BTR Sarmcol stage an unlawful strike in the middle of union recognition negotiations.

MAY 2 1985: All 970 are workers dismissed.

JULY 1987: The industrial court rules that the dismissal was fair. The workers then challenge the outcome in the Natal Supreme Court, arguing that the presiding officer in the industrial court should have recused himself for bias after attending a conference during the case organised by BTR's industrial relations adviser.

FEBRUARY 1987: Judge John Didcott of the Natal Supreme Court sets aside the industrial court's decision, ruling that the presiding officer showed a degree of bias sufficient to warrant it.

MARCH 1992: The Appeal Court upholds Judge Didcott's decision and the case has to start from scratch in the industrial court with a new presiding officer.

OCTOBER 1995: The industrial court again finds against the workers and they appeal to the labour appeal court.

DECEMBER 1996: The labour appeal court dismisses the appeal and confirms the finding in favour of management. The workers appeal again, this time to the Supreme Court of Appeals in Bloemfontein (the Appeal Court).

MARCH 1998: The Appeal Court upholds the appeal and finds in favour of the workers. The matter is referred back to the industrial court to work out the amount of compensation management must pay to the workers.

One for the people

THE BTR Sarmcol name already appears on another precedent-setting Appeal Court judgment, spelling out the test for bias in a presiding officer.

During the first case after the workers were sacked, the presiding officer, Pierre Roux, the deputy president of the industrial court, attended a conference organised by BTR's industrial relations adviser.

The workers objected strongly, saying it showed he was too close to the company.

The unions asked him to recuse himself on the grounds he was biased but Roux refused.

When he finally gave his decision, more than two years after they were dismissed, the workers asked Judge John Didcott, then a member of the Natal Supreme Court, to review the outcome.

He set aside Roux's decision for bias, ordering that the case start from scratch.

BTR's management asked the Appeal Court to consider his decision, but a full bench of the court upheld it, commenting that the average "lay litigant" would have felt the presiding officer was "displaying too great an association" and "this would have been felt strongly enough in reasonable minds to have created an apprehension of bias".

Their ruling set an important test for bias: not whether there was actual bias but rather whether an "apprehension" of it would be reasonable on the part of ordinary people involved in a dispute.

Holdains chief warns of depressed demand

BIDM 8/12/92

(194)

DEMAND for Holdains' packaging and paper products would remain depressed in the coming year, chairman Ian Willis said in the group's annual report.

But control of costs and some strategic acquisitions placed the group to increase earnings and improve market share.

Holdains recently announced results for the year to end-August, in which attributable earnings rose by 3% to R84,8m on a 19% turnover rise to R2,32bn. During the year demand for the group's products weakened significantly.

Earlier this week the group announced it would raise about R180m in a rights offer to fund the recent acquisition for nearly R120m of a 50% interest in Crown Cork Company SA and 30% interest in some Crown Cork & Seal subsidiaries in Africa.

In his report, presented as a full colour tabloid newspaper, Willis said demand for the group's products would remain depressed. But management was "well schooled in reducing costs in all aspects of the business", and this would continue.

The group had maintained current levels of productive capacity, but Willis warned some reduction could prove necessary. Management would try to match resources and responses to current levels of business, as this approach would show the best results in the market place and ensure a satisfactory return for shareholders.

Holdains budgeted for "a modest increase in earnings" in the coming year.

MARCIA KLEIN

Corrective action at Sunpak and Graphtec was showing positive results, but Willis added that the acquisition of Crown Cork was strategic, and would take time to show satisfactory results.

Crown Cork already commanded 30% market share, and had the capacity to increase its share by at least 15%. Crown Cork had recently entered the food can market, and would gain market share as exports of canned foods increased.

Apart from the Crown Cork acquisition, Holdains also acquired the plastics packaging operations of Murray & Roberts' Plastics division for R30m. This resulted in the creation of its plastics division, which accounts for 22% of the SA plastics packaging market. Holdains intends "to be a major force in this sector", Willis said.

Sun Packaging Group's performance had been disappointing since it was acquired in January 1991. Since then, Holdains had spent R57m to buy out the three minority companies in the Sun Packaging Group. All the deals had placed the group in a powerful position in the local packaging industry, Willis said.

The paper packaging division had turned in an excellent performance in a market where volumes had declined by up to 10%. Kohler was expected to produce "an enhanced performance" in the coming year.

MALBAK

~~183~~ 186 (194)

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

DIVISIONAL CONTRIBUTIONS

Attributable earnings

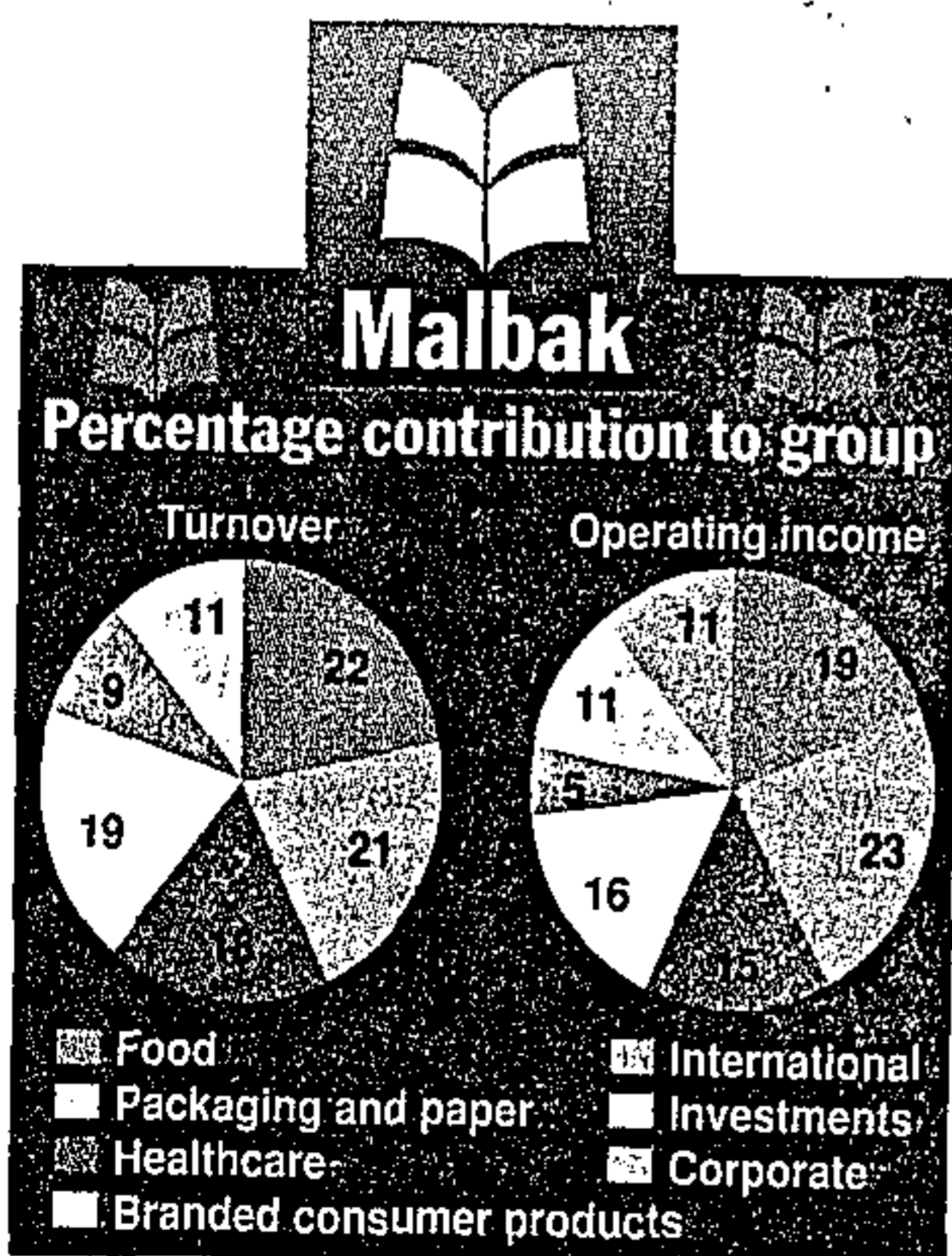
	1991		1992	
	Rm	%	Rm	%
Food	27	11	63	19
Packaging	59	23	56	17
Healthcare	19	7	42	13
Consumer Products	70	27	23	7
International	12	5	33	10
Investments	100	39	50	15
Corporate	(31)	(12)	62	19
Total	256	100	329	100

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.

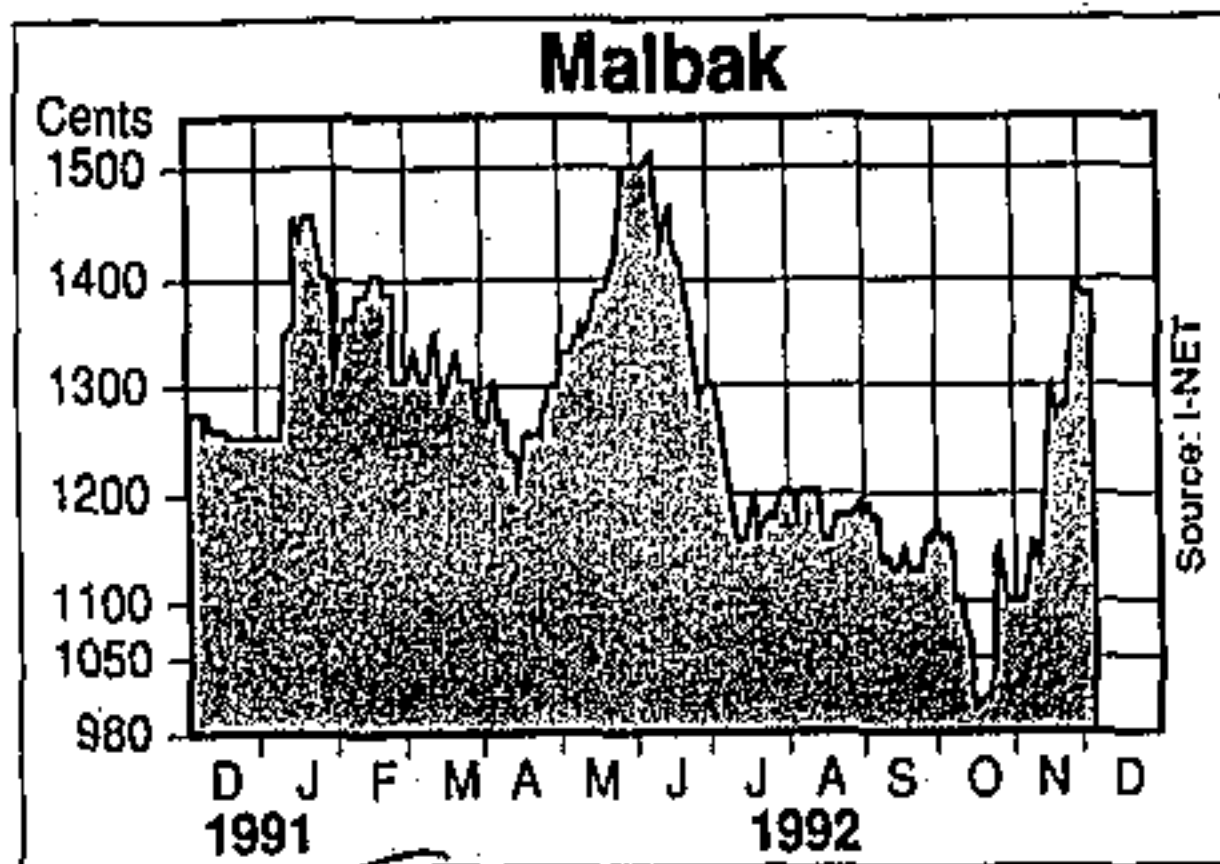
The market does not seem unduly worried. Since the FM reviewed the 1991 report the share price has added a net 120c to R13,75 (after topping R15 in June), reducing the historic dividend yield from 2,6% to 2,4%.

But there may be a warning in that pyramid Malhold has lagged. With no change in



P.T.O

COMPANIES FM 11/12/92



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the underlying relationship between the two (Malhold is backed by 2,8 Malbak), its R34 share price is 12% below the equivalent Malbak price, which means either Malhold is a bargain, or the Malbak price has overreached itself.

Brian Thompson

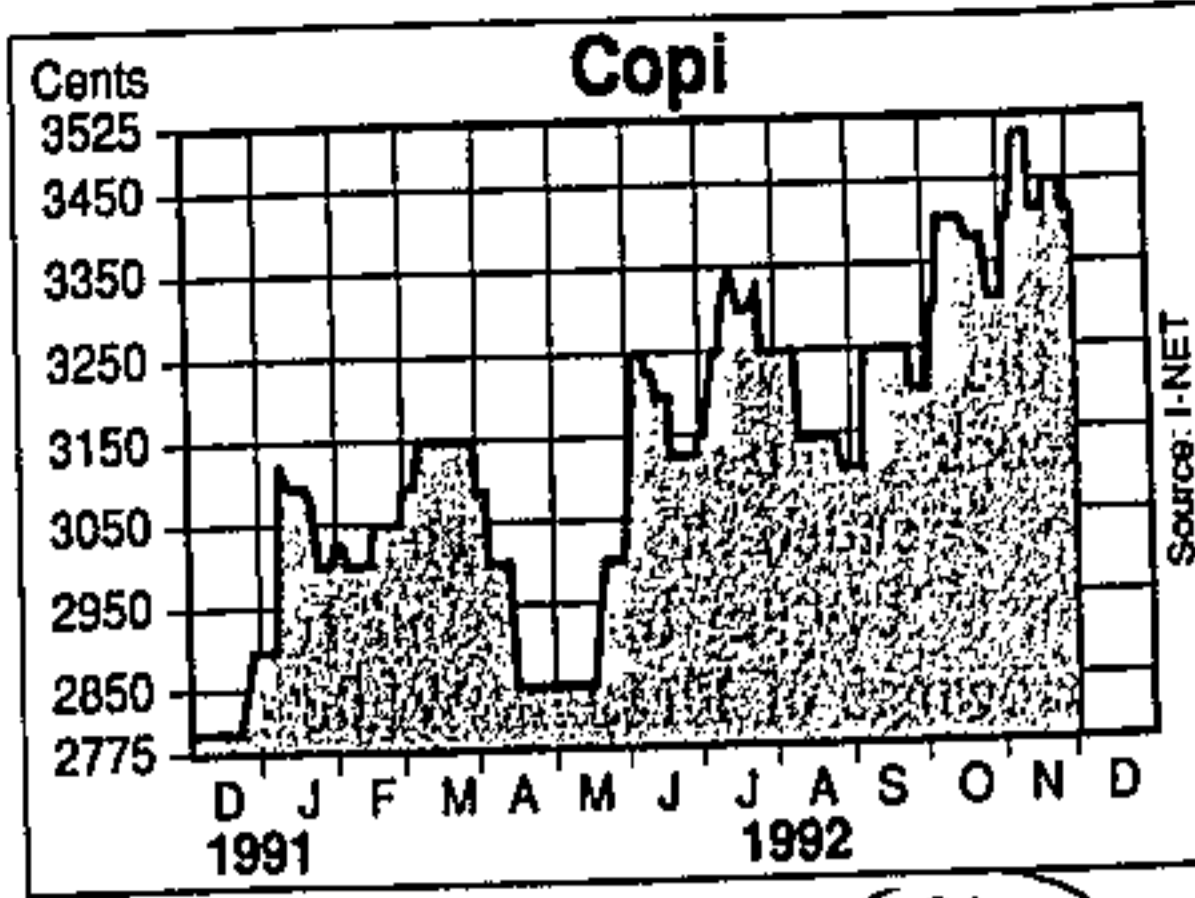
A safe rand hedge

Depreciation of the Canadian dollar, after some years among the world's strongest currencies, helped Canadian Overseas Packaging Industries (Copi) to achieve a strong profit performance. The share price responded on the JSE, rising 25% to a record R35.

Earnings from manufacturing operations advanced by more than 20%, while investment and other income declined 19%.

Foreign currency gains were C\$3,4m, up from 1991's C\$2,2m. Depreciation of the Canadian dollar is reflected in the balance sheet by a reduction in the cumulative translation adjustments deficit from C\$7m to C\$5,5m. The deficit results from the conversion into Canadian dollars of assets held in countries in which Copi operates.

The directors' report is peppered with phrases like "satisfactory" and "excellent." There is certainly evidence of profound self-satisfaction. Jamaican Packaging Industries did well enough, Trinidad-based Caribbean Packaging Industries didn't. The Jamaican dollar weakened substantially and the coun-



Activities: Packaging in the Caribbean, UK and East Africa. Also invests in securities and currencies.

Control: The Kalmanson family.

Secretary: M C Johnston.

Capital structure: 17,6m ords. Market capitalisation: R598m.

Share market: Price: R34. Yields: 3,7% on dividend; 9,0% on earnings; p:e ratio, 11,1; cover, 2,5. 12-month high, R35; low, R28. Trading volume last quarter, 85 000 shares.

Year to Jun 30	'89	'90	'91	'92
ST debt (C\$m)	6,9	8,3	5,8	9,5
Shareholders' interest	0,85	0,86	0,86	0,84
Int & leasing cover	14,6	10,6	9,9	12,5
Return on cap (%) ..	7,8	7,8	9,6	8,4
Turnover (C\$m)	100,0	93,1	106,6	104,0
Pre-int profit (C\$m) .	17,6	18,1	22,4	22,1
Pre-int margin (%) ..	17,6	19,4	21,0	21,2
Earnings (Cc)	65,4	88,7	120,8	132,9
Dividends (Cc)	44	45	50	55
Net worth (Cc)	1,088	1 134	1 143	1 264

C\$ Canadian dollars. Cc Canadian cents.

try's interest rates of 40% a year (something for SA businessmen to ponder) rose to 55%.

East African Packaging Industries (Kenya) proved the plum in widely spread activities; it turned in a substantial improvement in profitability. Profits from Encase, in the UK, are described as "satisfactory."

The lion's share

In 1991, investment income provided the lion's share of profits, but in 1992 manufacturing contributed more than half of total C\$25m earnings.

Combined market value of quoted investments and cash, including short-term deposits, rose by almost C\$22m.

Market value of investments improved. In June the portfolio was valued at C\$93,6m, against a cost of C\$86,6m. This would have been higher but for the disappointing performance of the Japanese market, which has since partially recovered. Year-end combined investments and cash were held in North America (70%), Europe (19%) and the Far East (11%).

Management remains cautious on prospects for manufacturing this year. Moreover, if world interest rates continue to decline and economic conditions remain difficult, investment income will fall.

As a rand hedge, the share has long been rated favourably on the JSE. A p:e of 11,4 and dividend yield of 3,6% compare with the paper and packaging sector average p:e of 12,8 and yield of 7,8% — though this may not be the best yardstick.

Kate Rushton

Taxman gets tough

Activities: Manufactures metal, paper, paper-board, plastic & glass packaging, as well as brown and tissue papers, tissue wadding conversion and distribution, paper merchandising and specialised printing.

Control: C G Smith 62,9%.

Chairman: B Connellan; **MD:** T Evans.

Capital structure: 48m ords. Market capitalisation: R3,96bn.

Share market: Price: R82,50. Yields: 2,5% on dividend; 6,4% on earnings; p:e ratio, 16; cover, 2,5. 12-month high, R85,00; low, R67,00. Trading volume last quarter, 290 000 shares.

Year to Sept	'89	'90	'91	'92
ST debt (Rm)	182	182	266	191
LT debt (Rm)	168	166	206	151
Debt:equity ratio	0,38	0,34	0,39	0,24
Shareholders' interest	0,44	0,47	0,46	0,55
Int & leasing cover ..	6,2	5,8	7,5	9,9
Return on cap (%) ..	21,1	20,3	19,3	23,2
Turnover (Rbn)	3,09	3,52	3,99	4,36
Pre-int profit (Rm) ...	401	422	453	550
Pre-int margin (%) ..	12,7	11,7	11,3	12,6
Earnings (c)	458	422	491	531
Dividends (c)	166	166	190	205
Net worth (c)	1 634	1 896	2 171	2 610

More than any other factor, the taxman ensured that otherwise good results in a difficult year turned out to be no more than mediocre. After-tax profit at R263m showed an increase of 9%. Management puts a brave face on this: it is "commendable," they tell themselves and shareholders, but of course we all know it is 5% off the inflation rate, meaning Nampak slipped back.

The effective tax rate rose to 44%. That doesn't sound too bad but the Receiver's take of R195m was R41m or 27% up on 1991.

Part of the reason is that Nampak is facing lower tax allowances on plant and machinery. Depreciation for tax purposes is now on a five-year, straight-line basis.

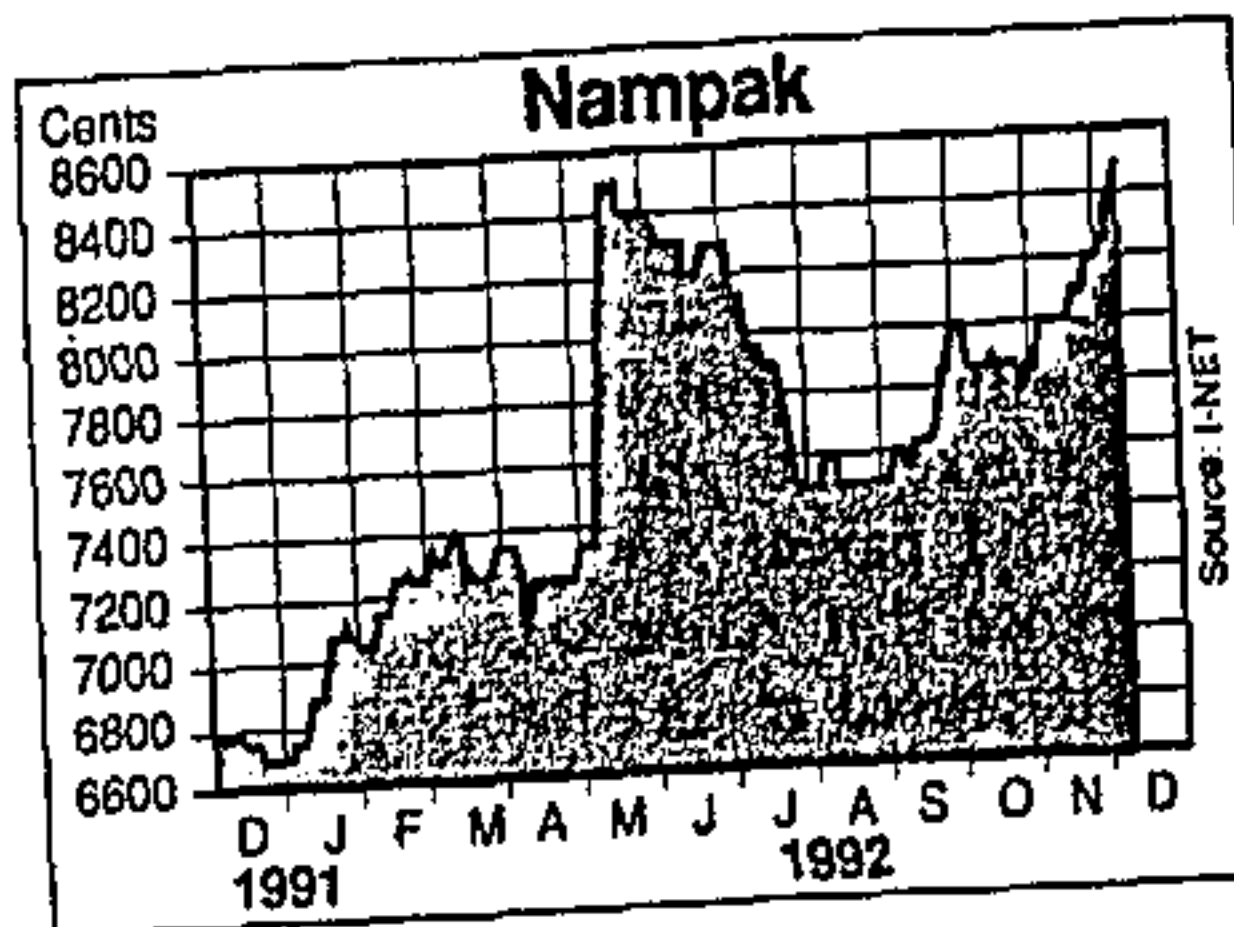
Another reason is that the Receiver has indicated he's considering taxing the provision for leave pay. Apparently, that may cost around R10m for which, rightly, Nampak has conservatively provided. MD Trevor Evans says Nampak intends "objecting against any such action as it is believed to be incorrect in law and inconsistent with rulings given to other companies."

Businessmen increasingly complain of the lack of certainty which characterises the Commissioner's approach in a number of vital areas; clearly, this is one of them.

There are two other areas of note in the

balance sheet: the first is the extent to which Nampak was able to retire debt; short- and long-term debt fell to R342m (1991: R471m). That is a considerable achievement. Not many companies can undertake this kind of debt reduction in a hostile environment. Whether it is a policy advantageous to shareholders is open to debate.

The second, and more comprehensive, is the extent to which management exercised increasing control over costs and, therefore, working capital. Success in these areas was the engine for the debt retirement programme, in spite of a capital expenditure programme which consumed R271m.



This is a well-run company whose p:e and share price (near its 12-month high) may make it relatively unattractive to potential investors — especially in the light of chairman Brian Connellan's remarks about prospects. "We can see," he says, "no factors that will improve consumer demand during 1993 ... only a modest increase in earnings can be expected." In other words, more of the same.

David Gleason

Sappi ⁽¹⁹⁴⁾ revamp follows offshore ^{CT 15/12/92} purchase

Own Correspondent

JOHANNESBURG. — Sappi is undergoing a corporate restructure following its R1bn acquisition of German coated paper manufacturer Hannover Papier earlier this year.

Executive chairman Eugene van As said dramatic growth over the past few years had necessitated a redesign of Sappi's corporate structure to cope with the demands of the new organisation.

The group would set up a new corporate head office in Johannesburg.

The small team at corporate head office would focus on management and direction of the group internationally, and would operate separately from the southern African operations.

Sappi CE Ian Heron would become MD of the southern African operations — which would be run independently with its own board of directors — as well as chairman of the SA executive committee.

Non-SA companies would report to a holding company, Global Paper Holdings, which would report in turn to the new head office.

A new holding company of Hannover Papier would be managed by Hannover's current chairman Franz Neudeck.

And a new European marketing company would be set up in Brussels "to present a single face to our customers in Europe".

● Sappi had increased its stake in Hannover Papier to 98% following an offer to minorities.

Consol pays R210-m for the rest of Contred

By Derek Tommey

194

Cash-rich Consol, which is best known for its paper and glass packaging activities, is consolidating its equally important investment in tyre and rubber manufacture.

Consol, which is in the Anglovaal group, is paying R210 million in cash to Trenchor for the 25,6 percent shares which it does not already own in Contred and also for Trenchor's claims on Contred's loan account.

Contred is the holding company of Tycon and Tredcor. Tycon makes and sells a wide variety of tyres and tubes under the Goodyear and Kelly brand names. It also makes conveyer belting and other industrial rubber products including VC footwear.

Tredcor makes tread rubber and retreads and distributes passenger, truck, earthmover and tractor tyres through Master-treads and Trentyre.

Consol says the transaction will

have no effect on its earnings or net asset value of its shares.

Trenchor says if the transaction had taken place in June 1991, it would have increased its earnings by 7,3c (0,8 percent) to 912,3c and the net asset value of its shares by 880c to 3 931c, an increase of more than 28 percent.

Consol's annual report for the year ended June, 1992, shows that it should have no difficulty financing the transaction. At that date it had net current assets of R 642,8 million of which R304,9 million was in deposits and cash.

The report also shows that in the 1991-92 financial year turnover of the rubber division rose from R1,13 billion to R1,18 billion, but operating profit fell 9 percent from R144,3 million to R132,0 million.

This compares with a drop in turnover in the packaging division from R939,1 million to R913,4 million, and a 9,25 percent drop in operating profits from R175,1 million to R158,9 million.

Transpaco optimistic in spite of the recession and rationalisation

610m 22/12/92
TRANSPACO's turnover increased marginally in the six months ended September 30, but earnings fell to 0,8c a share from 2,5c a share.

The company declared a dividend of 0,5c a share compared with 1c a share in the comparable six months last year.

Joint MD Mike Abelheim said the small increase in turnover to R26,4m (R24,4m) resulted from the negative effect of the recession and a drop in the turnover of Consumer Plastics following rationalisation of the operation.

New business resulting from the East Rand Packaging takeover made up for lost turnover in other areas, he said.

Operating profit fell R754 000 (R1,29m), but finance charges were lower at R580 000 (R709 000), reducing pre-tax profit to

JONO WATERS

R174 000 from R580 000. (194)

The lower tax bill of R83'000 (R300 000) reduced Transpaco's after-tax profit to R91 000 (R280 000).

Current conditions had put pressure on sales and gross margins, but management had sought to hold or improve margins. Reduction in gross profit had been "reasonably contained".

"Trading during October and November was reasonably brisk and management expects the improvement referred to in the annual report for the year ended March 31 1992 to materialise in the second half of the current trading year."

Abelheim expected the group to achieve the same earnings in the current financial year as it did for the year ended March 31.

HOLDAINS FM 25/12/92

Waiting for the payoff

Activities: Makes products for the paper, packaging and fibre industries.

Control: Malbak 66,7%. Ultimate holding company is Malhold.

Chairman: I Willis; MD: S R Bruyns.

Capital structure: 24,3m ords. Market capitalisation: R1bn.

Share market: Price: 4 150c. Yields: 2,9% on dividend; 8,4% on earnings; p:e ratio, 11,9; cover, 2,9. 12-month high, 4 250c; low, 3 365c. Trading volume last quarter, 511 000 shares.

Year to Aug 31	'89	'90	'91	'92
ST debt (Rm)	86	118	132	192
LT debt (Rm)	11	38	35	38
Debt:equity ratio	0,30	0,40	0,27	0,48
Shareholders' interest	0,49	0,45	0,49	0,50
Int & leasing cover ..	4,23	3,50	3,97	4,42
Return on cap (%) ..	21,6	17,5	17,9	20,1
Turnover (Rm)	1 655	1 798	1 952	2 316
Pre-int profit (Rm) ...	146	151	173	193
Pre-int margin (%) ..	8,8	8,4	8,9	8,3
Earnings (c)	318	322	358	349
Dividends (c)	106,3	110	121	121
Net worth (c)	1 417	1 563	1 677	1 730

Considering Holdains relies heavily on consumer spending, it has done a remarkable job of containing working capital and reducing

FM 25/12/92

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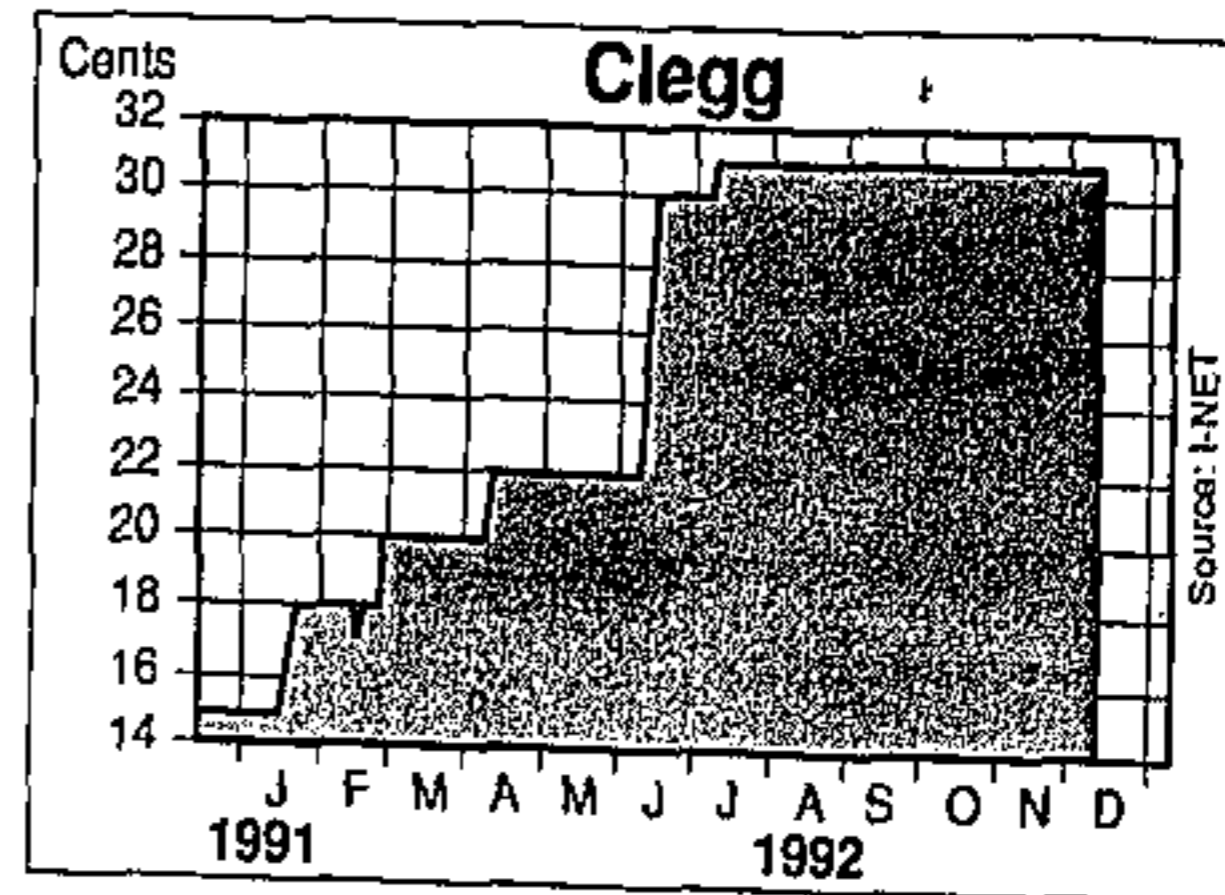
interest payments were brought about by diminishing borrowings.

Stock is, however, piling up, rising by almost a third last year. Sharp says stocks were kept high to allow for timely deliveries.

The group operates in markets sensitive to changes in consumer spending. Last year, pressures were evident in silkscreening and packaging activities. Management says independent divisions which do not consistently contribute towards profits and growth can no longer be considered as part of the future.

Since year-end, the silkscreening division was sold at asset value, with no capital loss. It's not intended to sell other divisions.

Shareholders, who have not seen a dividend in years, should not hold their breath.



Until there's a reasonable return on assets, it's unlikely that dividends will be considered. The share has doubled this calendar year and, on a p:e of 22,1, is over-priced.

Kate Rushton

FM
25/12/92

CLEGG HOLDINGS

Difficult year ahead

Activities: Packaging (cardboard cartons) and lithographic/flexographic printing.

Control: Directors 33%.

Chairman: A Sharp; MD: G Egger.

Capital structure: 38m ords. Market capitalisation: R12m.

Share market: Price: 31c. Yields: 4.5% on earnings; p:e ratio, 22,1. 12-month high, 31c; low, 15c. Trading volume last quarter, 14 000 shares.

Year to Jun 30	'89	'90	'91	'92
ST debt (Rm)	3,3	3,6	3,0	1,9
LT debt (Rm)	5,0	4,9	3,9	3,2
Debt:equity ratio	1,01	0,95	0,90	0,54
Shareholders' interest	0,43	0,41	0,44	0,48
Int & leasing cover	1,74	1,30	1,43	0,34
Return on cap (%) ..	12,3	9,3	3,0	8,1
Turnover (Rm)	20,6	22,8	23,5	24,7
Pre-int profit (Rm) ...	2,3	2,0	0,5	1,6
Pre-int margin (%) ..	11,4	8,6	2,2	6,3
Earnings (c)	3,4	1,6	(3,3)	1,4
Net worth (c)	27	29	26	25

New chairman Arnold Sharp found it a pleasure to announce a return to profitability. However, with a difficult year ahead and the unstable track record, Clegg will need more than stringent asset management to ensure positive earnings. Since year-end, turnover has already dropped below budget and no significant improvement is expected.

Clegg's intention to focus activities more clearly led to the acquisition, last December of Hortors' folded carton packaging business. About 8m shares were issued at a premium of 14c a share to fund this.

Unfortunately, the full expected increase in turnover from the new venture was not realised by year-end. Turnover nudged forward only 5%. Margins improved as reduced

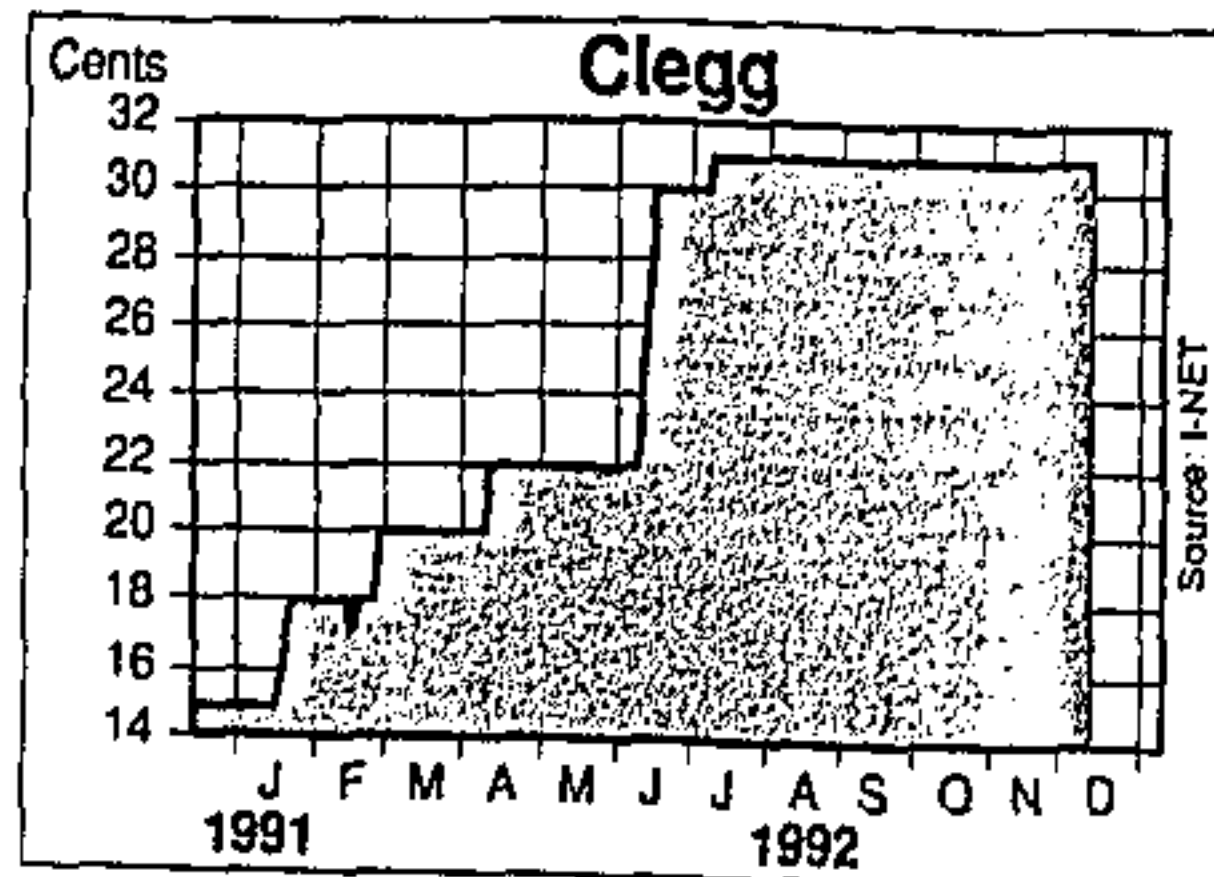
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Int & leasing cover	1,74	1,30	1,43	0,34
Return on cap (%) ..	12,3	9,3	3,0	8,1
Turnover (Rm)	20,6	22,8	23,5	24,7
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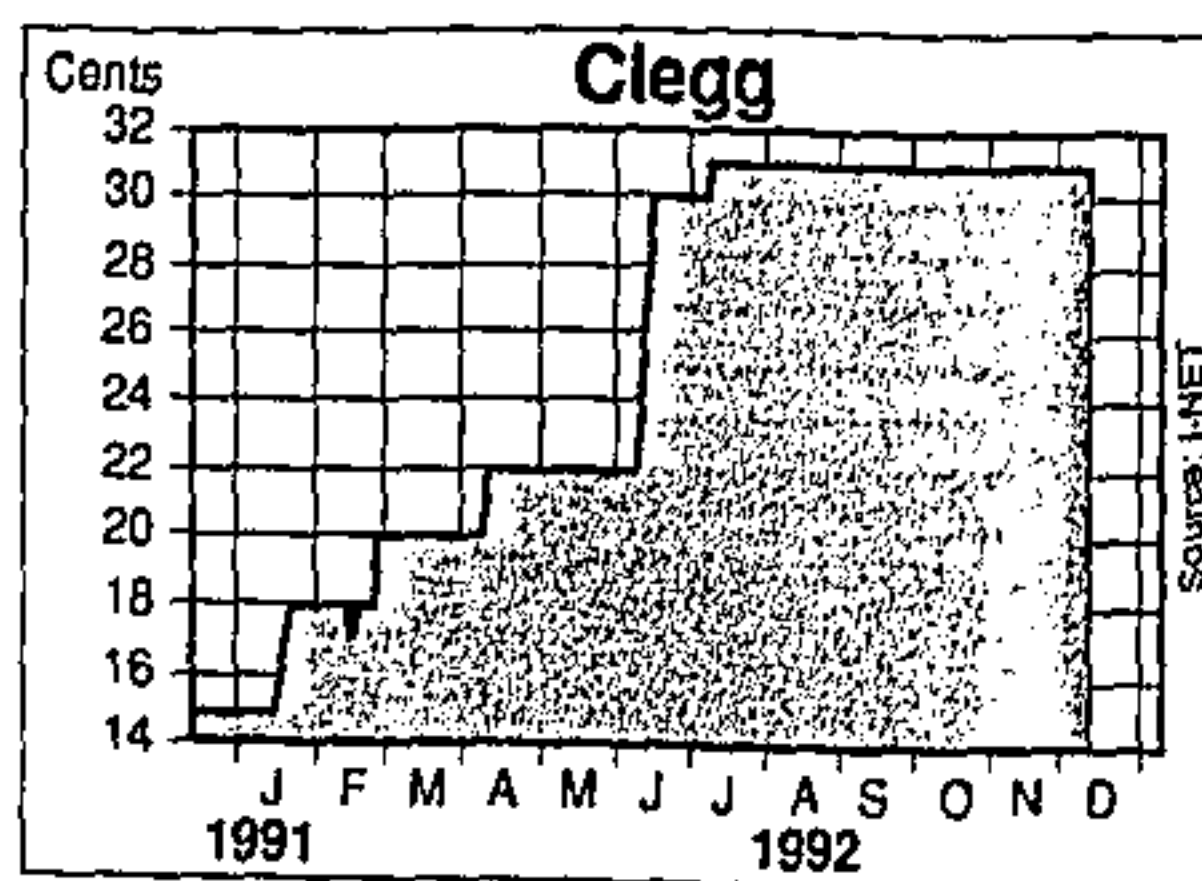
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Kate Rushton

Ultimatum ends wildcat wage strike

ARCT 29/12/92
SHARON SOROUR
Labour Reporter

SAPPI Cape Kraft (Pty) Ltd employees, who went on a wildcat strike on Christmas eve, responded to an ultimatum from the company and returned to work today.

A total of 61 workers, members of the Paper, Printing, Wood and Allied Workers' Union (Ppwawu), went on an illegal strike over wages.

According to a union spokesman, the workers adhered to the company's ultimatum to return to work today because they did not want to be dismissed.

"We were forced to come back to work because we had no protection as this was an illegal strike," he said.

According to the company, wage negotiations between the parties started in October and went ahead according to mutually-agreed procedures.

The union applied for the dispute to be referred to a conciliation board, the company confirmed.

The union spokesman said the illegal action arose last week when workers switched off the machines and left the workplace to hold a meeting about wage negotiations.

"Management threatened to dismiss the workers because they had left the workplace unattended. Workers responded by going on a wildcat strike," he said.

He said the company had refused to move on its final offer of an eight percent across-the-board wage increase. Workers were demanding 18 percent.

834-7551/2
(1071)

Environmental issues need new solutions

SPENDING by some of South Africa's packaging giants has reached unprecedented heights as they increase their search for solutions to environmental problems.

Environmental issues have become an essential feature of the planning and product development of SA's packaging giants, says Kohler Packaging CEO Derrick Minnie.

Kohler Packaging, one of the "big three," is spending more in line with its ongoing development of new and better packaging.

He says improved packaging is being developed for a wide range of products — from fast foods to fruit, cosmetics to confectionery, engineering products to eggs and chicken to clothing.

Evidence

Kohler has positioned itself as a pro-active partner of the environment.

Minnie says there are a number of group projects and these are evidence of its commitment to a cleaner environment:

- A R6,5m investment by its Paarl-based Bakke division to eliminate the use of CFC (chloroflourocarbon) gases in the manufacturing of polystyrene foam material;
- "Care Groups" had been established in every Kohler operation to monitor manufacturing systems and ensure they are environmentally friendly;
- "Risk Audits" are regu-



DERRICK MINNIE

larly undertaken within the Care Groups to ensure the group's suppliers also comply with its environment-protection regulations.

Nampak group MD Trevor Evans says environmental issues will continue to pose challenges.

"Internationally, environmental pressure is increasing, as in SA, too.

"The packaging industry is particularly pro-active, continually looking for ways to make its products more environmentally acceptable and to expand its recycling activities.

"Our new R10m tissue-manufacturing plant at Kliprivier, for example, uses recycled paper as its raw material.

"Through Collect-a-Can, the industry recovers some 220 million cans a year from the solid waste stream, and the Glass Recycling Association collects 70 000 tons of glass a year," says Evans.

Transvaal Region
Tel 862-2031
Fax 862-1513



The Institute of Packaging (SA)

THE INSTITUTE OF PACKAGING — THE PACKAGING PROFESSIONALS — OFFER THE FOLLOWING COURSES WHICH ARE AVAILABLE BY ATTENDANCE AND DISTANCE LEARNING

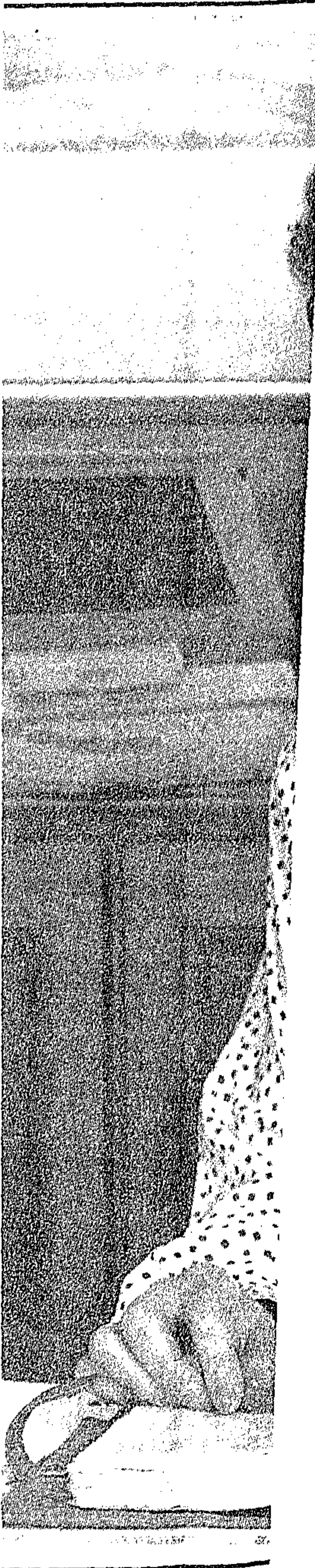
NATIONAL DIPLOMA IN PACKAGING MANAGEMENT

- Packaging Management Principles and Practice
- Printing Processes
- Business Economics
- Production Planning and Control
- Works Study
- Stores Management

CERTIFICATE IN PACKAGING TECHNOLOGY

- Packaging Principles and Practice
- Food Packaging
- Packaging Graphics
- Materials Handling
- Supervisory Management

Workshops for 1992 will be Packaging of Pharma-



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Container laws fail to make any economic sense

THE Packaging Council of SA (Pacsa) is preparing to oppose earlier environmental lobbyist calls for the introduction of container deposit legislation (CDL).

Pacsa president and Namapak deputy MD Peter Campbell says packaging in general and beverage containers in particular have elicited intensive world-wide and growing local debate from various pressure groups.

South Africa's packaging industry — which responds to the needs of the market and the environment — is becoming the scapegoat for environmental problems and there is pressure on government to introduce CDL, he says.

Irrational

Pacsa members — comprising SA's top packaging converters, raw material suppliers, the beverage industry and major end users — oppose CDL, including irrational restrictions on the use of certain types of packaging.

Consol group public affairs manager Keith Fisher says why make deposits mandatory when the voluntary deposit system and recycling are working so well and gaining in strength? Packaging rationalisation is impractical in a market requiring a variety of designs, materials and end uses to meet consumer demand.

Campbell says CDL would also be discriminatory against the beverage packers which are the only sector providing returnable, re-usable containers.



PETER CAMPBELL

"There are no returns for washing powder, sweets, sugar, toothpaste and eggs.

"Research showed the implementation of a national CDL in Australia would cost the consumer \$500m to solve a \$40m litter clean-up cost.

"Indeed, CDL fails the tests of equity, efficiency, economic reality and consumer preference."

Campbell says, based on studies by independent agencies in countries where CDL has been applied, as an environmental piece of legislation it has been found to be inflationary and not necessarily the solution to the litter problem.

Citing the already healthy local state of glass recycling, Fisher says it is notable that the packaging of beverages in SA differs from other First World countries such as the US. "In SA, at least 70% of malt beer and carbonated

cold drinks are sold in returnable voluntary deposit-bearing bottles."

However, only less than 10% of such beverages are bottled in returnable containers in the US.

Latest figures show more than 25% of all materials used in the packaging industry are recycled.

Though still in its infancy, plastics may ultimately become the most recyclable of materials as the possibilities are endless, says Du Pont SA's Ray Spurdie.

Their processability, durability and versatility make plastics the second most valuable recyclable in the sold waste stream.

"Du Pont overseas and other companies are investing considerable resources and effort into accelerating the pace.

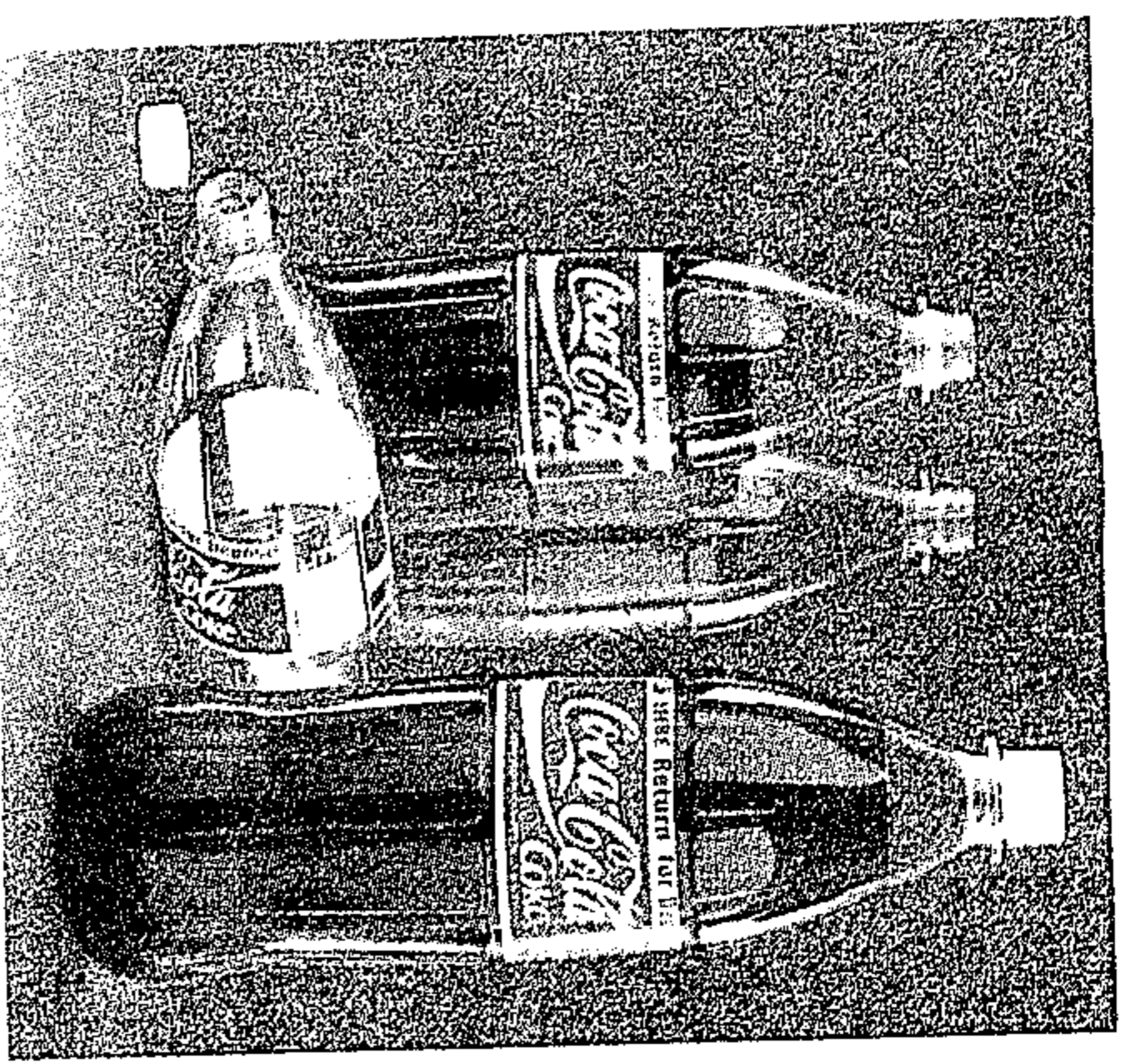
Success

"But the success of plastics recycling will depend ultimately on the economics and overcoming problems like the lack of a collecting infrastructure."

Global giant Du Pont is working on these problems, as well as looking for ways of solving the difficulty in sorting the many polymer varieties and making useful articles of and applications for recycled plastics.

At present, the amount of plastics recycled is well below packaging materials such as paper, glass and aluminium.

However, in the past five years the rate of plastic soft drink recycling has more than doubled to 20% — making it the fastest growing worldwide among all beverage containers.



Consol Plastics' silver award winning PET returnable 1,5l Coca-Cola bottle.

New technique reduces the costs

COST savings of at least 80% in carton sealing are claimed through the introduction of a hot melt technology.

Telemecanique says its programmable logic controller has been used in a locally developed random top and bottom carton sealing machine at a third of the price of imported equivalents.

Believed to be the first in Africa to use hot melt adhesive technology, Telemecanique says the machine has been accepted by the dairy and cosmetic industries and is undergoing tri-

Development research proves reward

BEVERAGE and detergent manufacturers have adopted a number of innovative containers recently launched by Consol Plastics.

MD Dave Spindler says decisions to produce the range were not taken lightly and incorporated substantial research and expenditure on development. This has proved rewarding, as some products have made an early impact, having recently won four prestigious Institute of Packaging Gold Pack awards.

In the consumer plastics category, Consol innovations in the shape of the 1,5l PET (polyethylene terephthalate) returnable Coca-Cola bottle and Skip liquid detergent pack won silver awards.

This application was written by Telemecanique during the company's participation in the 18-month development cycle of the machine.

Telemecanique supplied all the sensors, including photo cells and whisker lever limit watches, and the pneumatic equipment used to drive the machine's top arm, which actions the compression of the lid after glue has been applied.

Glue sealing also addresses a highly costly problem in industry — pilferage.

Corrugated container is a winner

AIMED at meeting increasing demand for environmental-friendly packaging, Namapak Corrugated has developed a totally recycled corrugated container.

CE Andrew Marthinussen says the new Enviro-tainer has been well received by industry and is suitable for packaging a wide range of products — from motor car parts and soap powders to tissues and eggs.

He says Enviro-tainer is versatile in that it can be custom designed and produced in any size.

"It fulfills the functions of conventional corrugated containers for packaging of non-refrigerated products.

Protection "It is strong and offers as much protection with the added benefit that it places less burden on the forests of SA," says Marthinussen.

The launch follows extensive tests by associate Namapak Paper (NP) to produce a superior recycled test liner with properties closer to virgin

Development research proves reward

The concentrated Sunlight fabric softener container clinched a merit award, while the tamper-proof Tracer pack got a bronze.

Spindler says the 1,5l returnable PET bottle is rolling off production lines after two years of development and will soon be available in supermarkets and liquor stores.

American technical aid partners we have created a product that matches overseas standards and hope we will surpass them," he says.

A novel detergent dispensing system for washing machines has been produced in one automated operation.

It comprises three parts: the bottle incorporating IMPL (in-mould plastic label) and an integrally moulded pour spout for easier dispensing.

A reusable skipette shuttle which dispenses detergent directly into the washing load.

A cap which doubles as a measure and secure holder for the shuttle.

Using sophisticated machinery and the IML (in-

mould labelling) Consol Plastics has produced Sunlight fabric softener bottles.

Technical ma Stockwell says in a single operation incorporates a normal plastic on both sides.

"One of the advantages of the permanent label is that wrinkles will not wrinkle from the says.

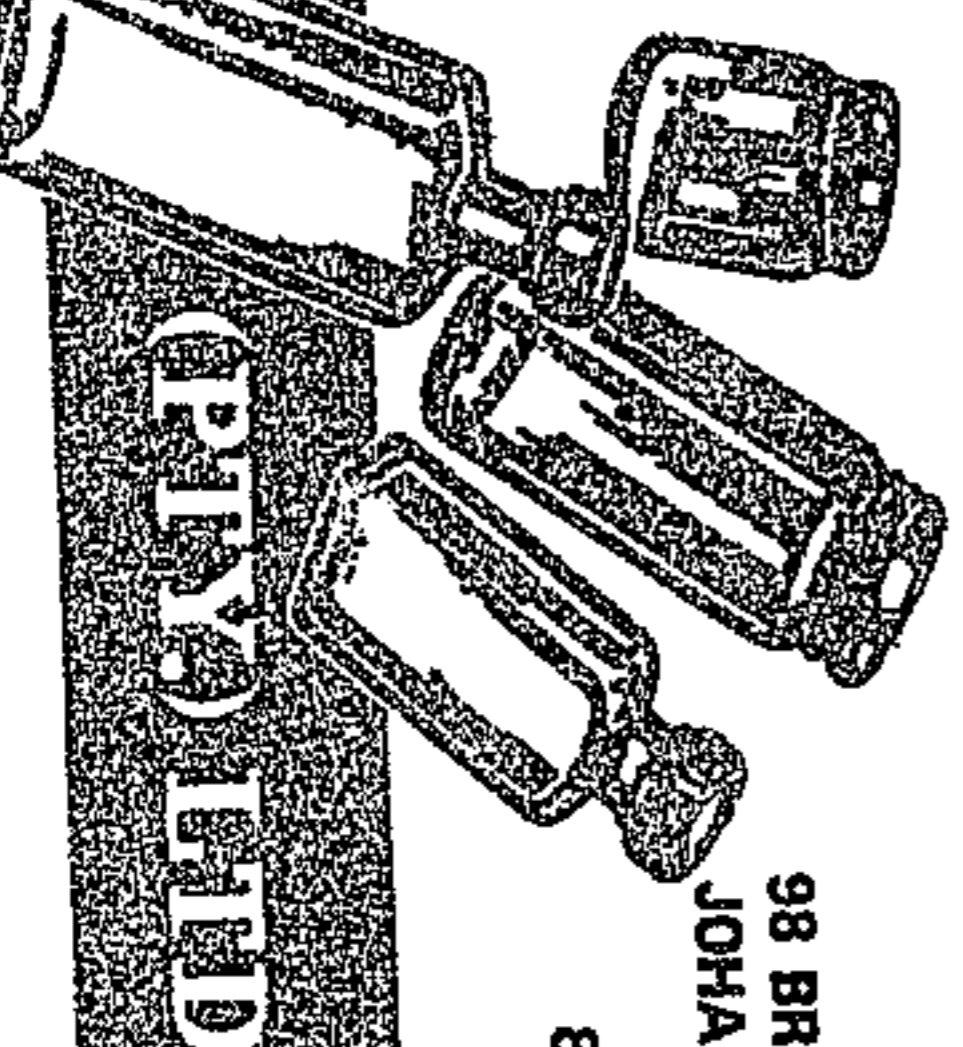
Cost saving customers are names the label of customers' lines while the lightweighted, missing the use

Environmental issues need new solutions

SPENDING by some of South Africa's packaging firms has reached im-

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BECKER'S GLASS CONTAINERS

98 BRE JOHAN

833

Environmental scapagoat strikes back at litterbugs

THE packaging industry has taken steps to improve environmental awareness among the public and to get them to aid the process of recycling packaging materials.

Contending that the industry has been a scapegoat for the country's litter problems, companies affiliated to the Packaging Council of SA (Pacsa) are throwing their weight behind an enlightenment programme to aid the improved collection of reusable materials, such as metals, glass, plastics, paper and board.

He says the industry also provides financial support for anti-litter campaigns, while it is constantly on the look-out for materials compatible with modern and future forms of disposal, including incineration.

Considerable time and effort are also devoted by the industry to involvement in environmental organisations and other interested bodies.

"We are dedicated to making recycling work because it is one way to address solid waste and litter issues. We recently published a brochure for those concerned with promoting recycling."

Bryuns says the benefits people can enjoy from assisting recycling include savings in energy and natural resources.

For example, almost every type of paper produced in SA has a recycled content and is used to manufacture 29 different grades of paper and board.

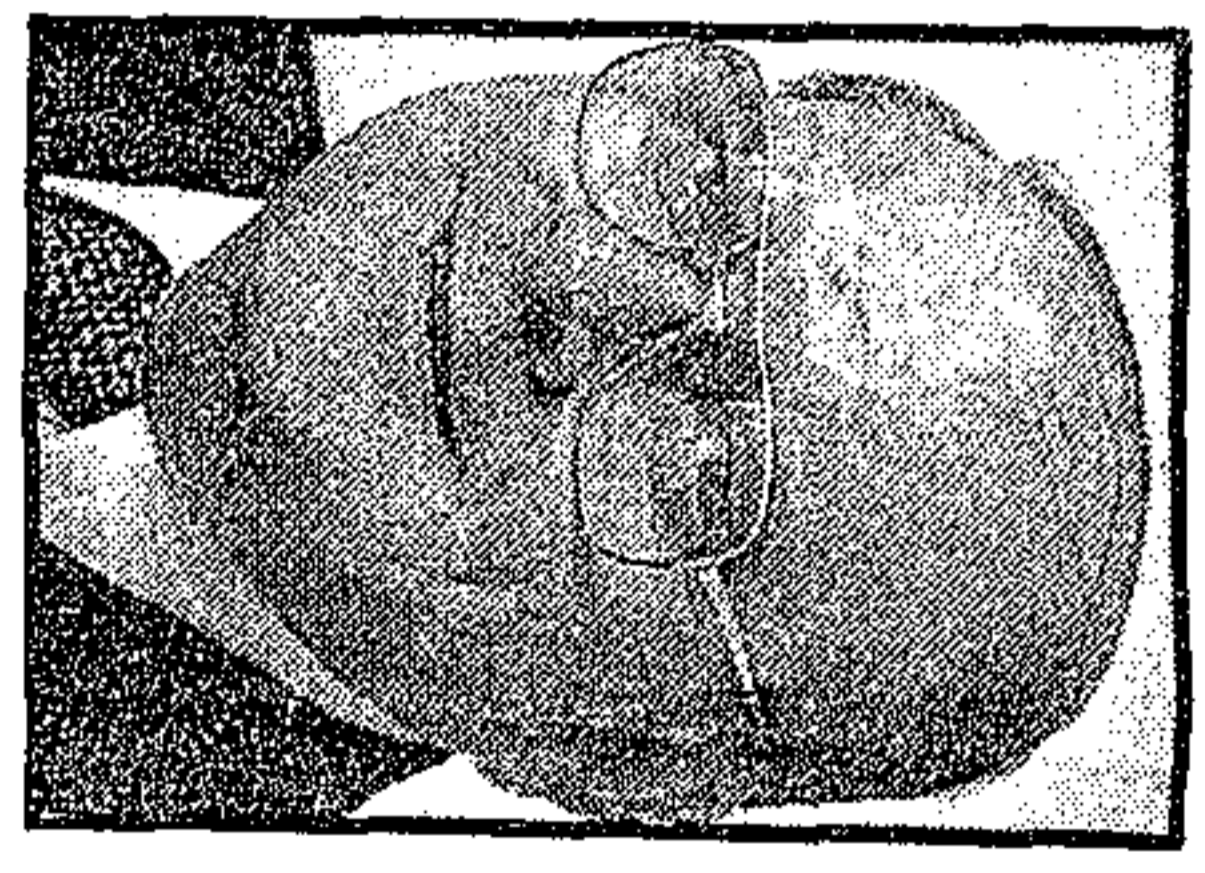
"If packaging materials are recycled there is not only a saving of landfill space and foreign exchange, but additional jobs are created throughout the country."

He says the recovery and re-use of packaging materials has grown to the point where recycling is now an industry in its own right, providing 11 030 jobs, with this number increasing.

In the past six years to 1990, tonnages recycled increased by 73%.

However, sufficient mass and continuity of used packaging supplies is critical before economic recycling can take place.

"This is where people and organisations outside the industry can make a contribution," says Bryuns. Still, the process needs a logistical system in place for collection and distribution of used materials, which are often scattered far and wide.



OWEN BRUUNS

For this reason Pacsa's members, which include all the major packaging manufacturers, say that:
□ Retrievalment is a crucial function best handled by the local authorities, but with greater co-operation from the consumer;
□ Subsidised transportation rates should be granted for materials being conveyed from outlying areas to recycling plants in the major centres;
□ Recycling needs some incentives and incentives, similar to those provided in Australia, where, for instance, the government has zero-rated sales tax on recycled paper products.

monitoring world developments in this progressive field," says Bryuns. However, recycling used packaging poses a number of problems:
□ It can only be done if it is economically viable;
□ Recycled materials must conform with minimum quality and health requirements;
□ The ability to recycle is not a problem so much as finding markets for recycled products, particularly as they may not be used for packaging food again.

13% of locally produced plastic recycled

SUCCESS in the recycling of locally produced packaging materials have led to cheaper packaging and facilitated control of environmental litter.

Local packaging and associated recycling industries have attained standards that in many instances are as good as those employed by developed countries.

SA is believed to be ahead of most when it comes to recycling used packaging materials. In the case of glass, it is voluntarily facilitated by

about 70% of malt beer and carbonated cold drinks being sold in returnable bottles.

On re-use of plastics, Packaging Council of SA (Pacsa) executive director Owen Bryuns says of the 660 000 tons produced locally, 238 000 tons goes into packaging, of which 13% or some 90 000 tons — is recycled.

"This compares with only 2% recycled in the US, or 1% in the UK, while in Europe it is about 5%." Historically, the local packaging industry has played a leading role in recycling and creating environmental awareness.

Packaging

Clever design is called for, not over-p-

STOP over-packaging and cut costs is the advice to South African marketers from packaging and graphic design experts.

Packaging designer Herald Michel of Objective Graphics and formerly chief packaging designer for a major international food and beverage manufacturer says marketers are prone to over-packaging.

Over-packaging means doing more than is required to protect and present the product in premium condition at point of sale.

It may take the form of a inefficient pack technology, a larger than necessary

container, extra foil, extra wrapping or an inappropriate expensive graphic.

"Luxury packaging of foodstuffs attracts premium pricing and has been well accepted by many affluent SA households. Prestige is attached to such purchases.

"But if SA food manufacturers are to meet the needs of a growing population with a broader middle and lower income level, the biggest investment should be targeted towards more cost-effective packaging," says Michel.

Durban-based freelance graphics designer and lecturer at the ML Sultan

Technikon Tom Kyle says realism should prompt those responsible to create packaging that is relevant to a mass audience of semi-literate people.

He says there is a tendency for graphic design to be too complicated for many Third World consumers and most are unlikely to respond to highly sophisticated graphics.

Kyle says that, notwithstanding the legal requirements that may have to be displayed on certain packaging and labelling, simple and attractive pictograms are an important option to be considered.

"Those products which have pictograms that simply show how best it may be used are often better received than those with designs that do not pay close attention to consumer needs and perceptions," says Kyle.

Pictograms that show fingers or hands instead of a whole person, for example, have been found not to work well with the largest section of consumers.

"Yet, they are still widely used," says Michel. "This country has world-class creative talent in packaging design. However, there remains a disturbing degree of cost-inefficiency — through

the highly competitive food and beverage industries are having to re-evaluate their products and packaging systems to satisfy consumer demand.

They are striving to read market signals as cost, variety and quality are no longer sole purchasing criteria, says Durban-based Tetra Pak Liquid Packaging marketing manager Paul Blackbeard.

New influences are shaping the consumer demand

Other influences such as the environment, nutritional value and long-term health considerations are playing a greater role in consumer choice.

From a packaging point of view, there are a number of considerations when evaluating a packaging system, he says.

"Apart from retaining the product's nutritional and sensoric properties, packaging must also minimise product loss by spillage.

"It must also minimise distribution costs by increasing efficiency in handling, transport and storage and enable the product to get from the point of pro-

duction to consumption, thereby countering food supply problems."

While packages and the packaging industry remain the focus of attention in the rapidly intensifying environmental debate, the findings of the US-based Institute of Food Technologists Expert Panel are noteworthy.

The study showed packaged foods result in 2%-5% waste, while fresh foods are characterised by 40%-50% waste.

Many proposed solutions also do not recognise food packaging's contribution to public health, and mandates on disposal aspects can be counterproductive, says Blackbeard.

The case for packaging far outweighs opposition to it, says Packaging Council of SA executive director Owen Bryuns.

"Modern packaging protects all goods, especially food and beverages, against spoilage and physical handling, facilitates easy distribution, promotes self-service, choice of quality and is the silent salesman.

Whole Page

(194)

Fibreboard pull in the

SINCE first introduced by a local manufacturer eight months ago, environmental friendly fibreboard drums have won wide acceptance and some Gold Pack awards.

Aries Fibre Drums began production in June last year, coming in on perceived demand amid rising prices of plastic and steel used in conventional drums.

While seeing itself as a niche marketer and not a "giant killer", the subsidiary of JSE-listed Aries Packaging says its drums provide certain advantages over steel and plastic drums.

GM Martin Bennett says the fibre-based product is as tough as its steel and plastic competitors but exhibits lower tare mass litre-per-litre of content.

Fibre drums, which have been manufactured abroad for decades and been restricted to the random use of imported drums in SA, are ecologically more acceptable, he says.

This is because while they contain a minimum input of plastic and steel — products which involve

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Afcom shines in poor conditions

BIDVEST 11/8/92

MARCIA KLEIN

BIDVEST's paper and packaging group Afcom reported a 28,1% rise in attributable income to R7,5m in the year to end-June, despite poor conditions in most of the markets in which it operates.

The group — which manufactures fastening, packaging, strapping, adhesive tape and stationery products — also said it hoped to make a significant acquisition during the coming year.

Executive chairman Brian Joffe said the results reflected "Afcom's management success".

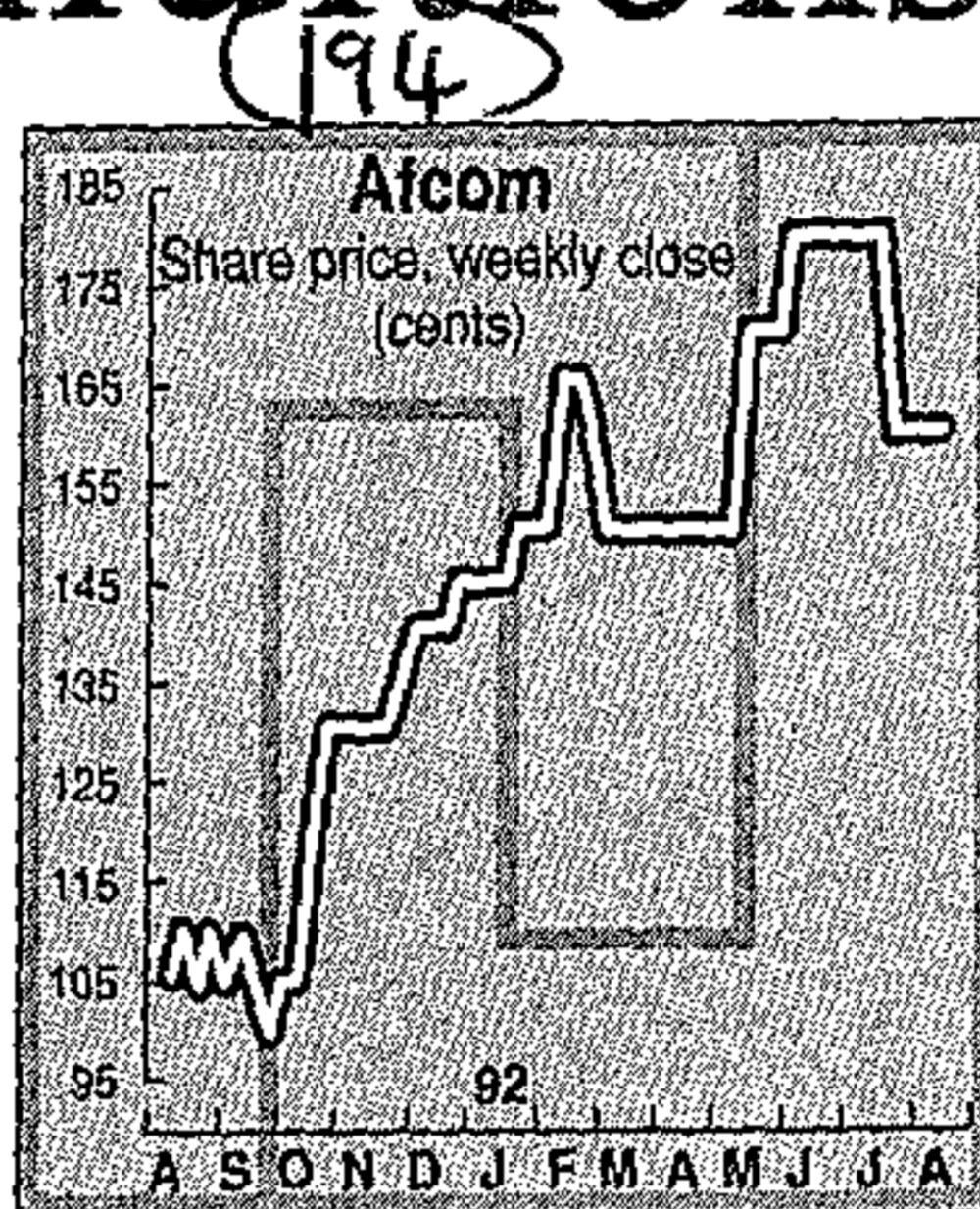
He said financial 1992 was characterised by difficult trading in all Afcom's markets, notably the furniture, shoe, automotive, agriculture, mining, general packaging, stationery and government sectors.

Turnover of R120m was 12,1% higher than the previous year.

Operating income rose 27,6% to R15,6m from R12,2m, with operating margins improving to 13% from 11%. MD Alan Salomon said this reflected effective expense controls, improved manufacturing efficiencies and tight asset management.

The interest bill rose marginally to R3,6m, mainly as a result of the inclusion of additional debentures in issue for the full period as opposed to nine months in the previous year. But interest paid on trade debt declined on reduced borrowings.

Gearing dropped to 5,5% from 19,2% as the group generated cash during the year.



Graphics: RUBY-GAY MARTIN Source: I-NET

Pre-tax income was 36,5% up at R12m, but a 52,9% hike in taxation to R4,6m from R3m resulted in a 28,1% rise in attributable income. The tax charge reflected largely a reduction of exempt income. Salomon said the group's taxation would remain below the corporate tax rate due to export incentives and allowances.

Fully diluted earnings, reflecting the September 1990 rights offer, rose 18,4% to 18c (15,2c) a share. A final dividend of 4,45c a share brought the full year dividend up by 24,3% to 8,7c (7c) a share, with dividend cover maintained at 2,5 times.

The July 1991 acquisition of Signode Steel and Plastic strapping had been "profitable", and Signode products had been integrated into Afcom's operations.

Salomon said Afcom improved market share in the fastening, packaging closures, steel, polypropylene and polyester strapping, adhesive tape and stationery markets.

Sappi and Mondi have not yet been able to meet their high-quality standards. They also fail to see why they should be penalised to create an incentive for the local manufacturers. And they fear that tariffs on newsprint will inevitably lead to higher local contract prices — now 10% lower than last year.

"A 10% tariff on newsprint will have definite inflationary consequences for the newspaper industry," says Provincial Press Association chairman Lambert Retief. "While most long-term contracts have already been signed with Sappi and Mondi, we see the possibility of higher tariffs as most unfair. Most European nations, for example, benefit from an annual 50 000 t tariff-free newsprint import allocation, while they also have a wide choice of competitive newsprint producers in Europe. Here in SA, we will be bound to a choice between Sappi and Mondi."

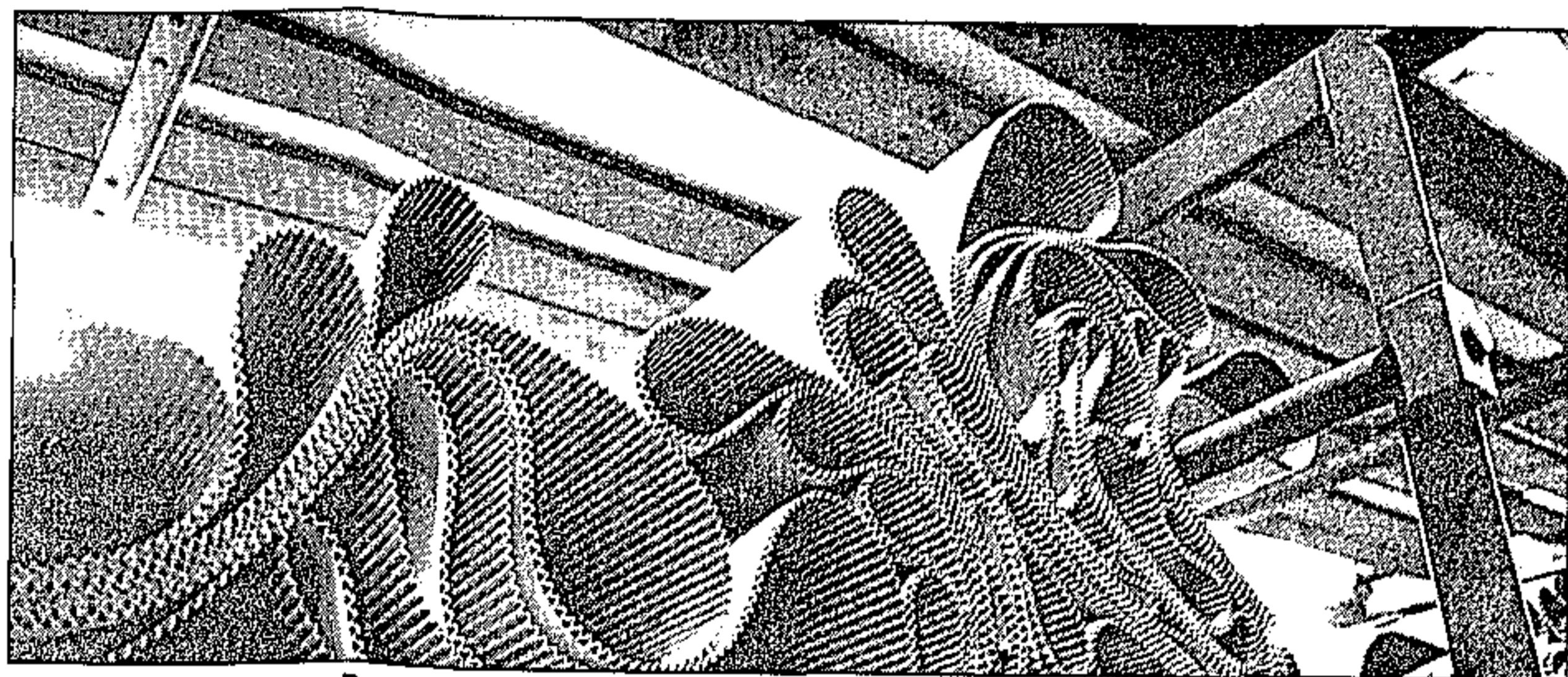
The association's views — it represents 126 local and regional newspaper groups — are echoed by the Newspaper Press Union, which represents most major urban newspaper chains. It has made comprehensive submissions to the board in support of its case against any tariff increases. For one thing, says the union's Syd Pote, it fears that the potential for more tariff revenue might persuade a cash-strapped government to hike tariffs.

The 65 members of the Magazine Publishers' Association import only a tiny fraction of the uncoated paper they use. But any tariff would place them at the mercy of Mondi, whose quality "is still not nearly up to the international standards," according to chairman Danie Krynauw. "Coated paper, used for 'upmarket' magazines, is not made locally and the demand is such that it is unlikely ever to be made locally. So no case can be made out for imposing tariffs on coated paper," he adds.

Competition Board chairman Pierre Brooks says he advised the Board on Tariffs & Trade to take into account the "oligopolistic nature" of the local paper market in considering any application for higher tariffs. "Sappi and Mondi are the primary local suppliers. The structure of the market should, therefore, be taken into account — and it should be exposed to competitive imports."

Printers, publishers and the local packaging industry are unanimously opposed to a suggestion by the board that paper tariffs be simplified to a general level of 10%, because this would mean tariffs on grades not made in SA. While there is some justification — and support — for reducing the complexities of the existing paper tariff classifications, this should not become an inflationary exercise, says John Chapman, president of the Association of Paper Distributors.

The two-year saga of the tariff investigation has raised temperatures and sparked turf fights all around. Now Keys will decide the issue. "Government will announce its decision on the board's recommendations as soon as possible; the board's report will also



Paper production ... the context is global glut

be released at that stage," says Naudé, who is looking into the report on Keys' behalf.

While Mondi CE Tony Trahar and Sappi Chief Operating Officer Ian Heron are both adamant that a 15% tariff against uncoated paper and newsprint imports will not lead to higher local prices, paper users say the ability to import is vital in keeping local paper prices competitive.

"But," Heron asks, "why should SA, a developing country, leave itself open to paper imports when developed countries do the opposite? We need a level playing field. While SA processors can import uncoated papers tariff-free, countries such as Australia with 15%, Brazil with 25% and Colombia with 35% have high tariff walls against imports from SA. European countries, with 10%, also protect their domestic producers against imports from SA."

But downstream users remain adamant that no dumping has been proved, nor has any "flooding" of the local market with



Competition monitor Brooks ... a need for exposure

cheaper imports materialised. And, they say, if dumping is alleged (or feared), the proper course would be a temporary anti-dumping injunction, rather than imposing permanent, damaging tariff walls.

Says TML deputy MD Roy Paulson: "We found very little evidence of the alleged dumping of uncoated papers. In fact, the application for dumping duties seems like an excuse for Mondi to hike its prices. The high cost of paper has already driven book printers such as Struik offshore — any further increases would cripple the book printing industry."

And, adds TML GM (operations) Neil Jacobsohn: "While we appreciate the investments the local paper mills have made, trade

should, in principle, be free and open and the market should be able to benefit from the current decline in global prices."

□ Both Sappi and Mondi are major global players, with huge investments in European paper companies and exports of 30%-50% of local production. They should, therefore, weather the global recession like all multinationals, without asking government to allow them to squeeze local consumers from behind tariff walls. "Local mills are making millions by milking the local market, while using profits to pay for questionable acquisitions overseas," says Caxton Publishers MD Terry Moolman;

□ With upgrading education and literacy being two of the vital social issues facing SA, paper price increases would be damaging. "This tariff application is implicitly a tax on education and learning and, as such, is a dagger at the heart of the future SA's prosperity," said opponents of the tariff hikes in a joint submission to the board in April 1991;

□ Both Sappi and Mondi qualify for generous subsidies in terms of government's general export incentive scheme — Sappi's Saicor alone, which exported chemical pulp to the value of about R650m last year, qualified for a handout of about R30m. So why give them even more, at the cost of their local customers?;

□ Packaging costs would rise even further, adding to the unwelcome food price spiral. Consol MD (paper division) Gert du Toit says the price of Kraft liner paper, used in corrugated packaging, makes up about 60% of the total corrugated packaging cost. "A 12% tariff (and price) hike would therefore lead to an 8% increase in our corrugated packaging costs, and have a direct impact on food prices"; and

□ Ray Canny, Nampak's Metal Box Liquid Packaging director of sales and marketing, says almost all food grade board — used for liquid carton packaging — is imported, totalling about 80 000 t a year. But, because the product is not made locally, "there is no case for tariffs, unless Sappi and Mondi can meet our price and quality standards."

In countries where trade and business liberalisation has become the engine of economic revival, the choice facing Keys would be obvious. But in SA, with a protectionist tradition still firmly entrenched, the choice is not so clear. And that explains much of what holds SA back. ■

Cashing in on paper money

STAR

5/2/92

(194)

Firms in the recycling industry are reluctant to disclose the prices they pay for waste paper.

This is because of the intense competition between companies and the rapid fluctuation in prices — but high quality computer and office paper can fetch up to R300 a ton, and lower quality newsprint fetches between R70 and R90 a ton.

At the moment there is an over-supply of low-grade waste paper. The most simple way of solving this problem is by developing more end uses for it.

The paper industry

In calling for the recycling of paper, people often mistakenly state that this saves trees. Recycling paper, according to the Packaging Council of SA, in fact saves precious grassland ecosystems which would otherwise disappear under hectares of exotic pine trees. In this article on recycling, we look at the prices paid for waste paper.

will invest only in technology that can re-process waste paper as printing paper if a market is guaranteed. Companies could help by separating high-grade waste paper from other grades and arranging for it to be collected.

Printed office paper, computer paper, fax and coloured paper can be used in the manu-

facture of higher quality recycled paper.

When collecting paper it is essential to exclude laminated, waxed, rubberised, greaseproof or parchment papers.

Frozen food cartons, cellophane and polystyrene foam are also considered to be contaminants.

From the Wildlife Society.

Afcom on mend

STAR 5/2/92
By Sven Lünsche

194

Afcom is on the way to recovery, with a 32,5 percent attributable earnings rise in the six months to December.

Turnover rose 9,1 percent to R59,1 million (R54,2 million) and a boost in the profit margin lifted operating income 23,6 percent to R7,7 million (R6,2 million).

A fall in gearing to 11,6 percent (22,4 percent) and a decline in the effective tax rate from 42 percent to 38,2 percent lifted attributable income by 32,4 percent to R3,7 million (R2,8 million).

Earnings per share were diluted by the rights offer last September and rose 23 percent from 8,7c to 10,7c.

On a fully diluted basis, earnings per share were up 15,6 percent. The interim dividend has been raised 31 percent from 3,25c to 4,25c a share.

Still consolidating

It would not have been easy for Afcom to meet the ambitious targets set by its mother company, Brian Joffe's Bidvest. Joffe looks for a pre-interest return on shareholders' funds employed of 40%, but Afcom achieved 33%. "Even if you lose a game of golf at the last hole," says Joffe, "it's still lost."

But he adds confidently that the group is

STAPLED TO GROWTH

Six months to	Dec 31 '90	Jun 30 '91	Dec 31 '91
Turnover (Rm)	54	53	59
Operating income (Rm)	6,2	6,0	7,7
Attributable (Rm)	2,8	3,0	3,7
Earnings (c)	8,7	8,9	10,7
Dividends (c)	3,25	3,75	4,25

only just beginning to realise its full potential. Afcom is lowly rated for a packaging company, though it has just hit a 12-month high. At 160c, it sits on a p/e of 8,2 and dividend yield of 5%, compared with a 3,6% dividend yield and 13,7 p/e in the Packaging sector index, but Joffe argues that groups such as Nampak and Consol earn a premium as they serve the beverage industry. Afcom sells its packaging closures to most industries but is not in bottle tops.

Looking healthier

Still, Afcom is looking healthier and has consolidated the recovery from financial 1990's low point. Attributable income was up 32% to R3,7m and EPS 23% up at 10,7c. In spite of the acquisition of Signode Steel & Plastic Strapping in July, gearing fell from 22% at June year-end to 12% in December.

Afcom has the dominant share of strapings and is SA's only staple and rubber bands manufacturer. Sales of fasteners to the furniture, adhesive and mining industries have been slow, but it is hoping to benefit from an increase in educational expenditure, as well as stationery — it makes blackboards. What is encouraging is that it has focussed on core areas, where it has dominance in niche sectors.

Stephen Cranston

FORMER Civil Co-operation Bureau hit-squad members Abram "Slang" van Zyl and Ferdie Barnard have recently been hired as agents in a bitter multi-million rand dispute between Nampak and one of its former executives. Both sides have made allegations of strong-arm tactics.

Both Nampak and its former chief executive, Adrian Barker, say Van Zyl's services were retained by a private investigator employed by the packing giant to keep Barker under surveillance.

But each side accuses the other of having hired Barnard.

Pat Barker, wife of Adrian, says Barnard confessed last year that he had been brought in by his former colleague, Van Zyl, to carry out a "campaign of terror" against Barker, and signed an affidavit to this effect.

Nampak, however, says it has had no connection with Barnard. A Nampak spokesman refers to an affidavit by Van Zyl saying that Barnard was, in fact, employed by Barker.

Ex-CCB hit men add to bitter Nampak feud

w/mart 7/2 - 13/2/92

(194)

Claims that hit men are involved in a sinister 'vendetta' have surfaced in the feud between Nampak and a former top executive. By GAVIN EVANS and PHILIPPA GARSON

The Barkers say over the past 18 months they have faced a series of death threats, obscene phone calls, constant surveillance, a 24-hour phone tap and an attempt on the life of one of their bodyguards. They add that Barnard said he had been instructed to fire a shotgun into the back window of Adrian Barker's Porsche.

Pat Barker says their lawyer, Eli Jukes, is in possession of four of Barnard's affidavits, detailing the illegal campaign against them.

"We had a string of death threats at all hours of the night, scores of dirty phone calls, threats to kidnap our children, the wheel nuts of my car and of other people

connected to us have been loosened, the car of one of our bodyguards was bumped off the road, leaving the man seriously injured, and Ferdie Barnard

admitted he was assigned to kill Adrian," said Pat Barker.

Van Zyl and Barnard are self-confessed ex-CCB agents. The Harms Commission last year found Van Zyl was implicated in a range of criminal activities.

Nampak acknowledges it commissioned Mark Hecht of Catalyst Corporate Research to investigate Barker. Hecht, in turn, employed Incom Investigators, mentioned in the Harms Commission as a CCB front company, owned by Van Zyl. Nampak denies any involvement in harassing the Barkers.

According to a Nampak legal representative, Hecht and company attorney

Richard Braithwaite have received threatening and abusive phone calls.

Nampak has also produced photographs of Barker's bodyguards standing outside Nampak headquarters, armed with pump-action shotguns, with a helicopter hovering overhead.

Pat Barker confirms the incident, saying she hired the bodyguards and helicopter to protect her husband when he entered the company's premises last year, because she was concerned about his safety.

It is clear that 47-year-old Barker was a major player in Nampak and in the industry. His activities — whether illegal or legitimate — generated plenty of heat in his former company.

Barker, who now owns a rival company, Rebel Packing, was with Nampak for 27 years. He was chief executive of the company's corrugated division and a director of 18 companies in the Metalbox, Nampak and Barlows groups; chairman of the Corrugated Association of South Africa and a member of the board of the International Corrugated Association.

The dispute began almost two years ago when Barker set up his own company and, according to Nampak, illegally channelled company funds into its coffers — a charge that led to his dismissal from Nampak on August 27 1990.

The Barkers deny there was any fraud or breach of fiduciary duty involved and argue that they won, with costs, a civil case in connection with the matter.

"Barker was taking secret commissions and channelling his cut into a close corporation he owned," said a Nampak legal representative. He says there are "two civil actions pending against Barker for the recovery of funds".

Barker is out on R50 000 bail and will appear in the Rand Supreme Court on April 7 in connection with allegations of fraud and theft involving more than R2-million. The Barkers say the case has been postponed seven times in a year, and there is still no charge sheet.

In June 1990, shortly after Adrian Barker won Barlow's Trophy of the Year award, he had a heart attack. She believes circumstances surrounding the attack were "suspicious" since her husband, a haemophiliac, was not a heart-attack candidate. Top executives, she says, "were at the hospital long before my own family. They wanted ... to beat him into submission because he was making money. He went from strength to strength and they cut him off because of jealousy — we stole nothing".

She says that in addition to the dispute around the close corporation, a possible cause of the "vendetta" is that it was her husband who leaked information to the Congress of South African Trade Unions that the offices of the Paper Printing and Allied Workers' Union were being bugged by the company in 1990. This illegal electronic surveillance was exposed by the union, and its cessation later became one of the demands in the 1990 Nampak strike.

Responding to this, a Nampak representative said "the leaking of information about bugs occurred after Barker was suspended", though he acknowledged that Barker did "threaten to inform the unions about the bugs".

Nampak spokesman Gavin Duffy described the allegations as part of a "campaign to discredit us", adding that claims that the company was using CCB agents were "all a fiction".



training camp

Photo: KEVIN CARTER

guard stations

...ture of Buthelezi and goodwill," he said.

... did not return ... but fellow ... bok rugby ... the alle ... ne not ... titi-

At the time *The Weekly Mail* interviewed three Springbok security guards who said that some of the Inkatha trainees had taken part in battles with African National Congress members in Alexandra.

Inkatha members were an "elite" group who were "aggressive", and ... from their fellow

SADF and ... Deur ... inees. ... these

(286) (274) (269)

Holdains feeling the pinch

By Derek Tommey (194)

Holdains' trading results for the six months ending February would be lower than expected, the deputy chairman, Ian Willis, said at yesterday's annual meeting.

The company, he said, was examining its businesses critically to ensure that they were as efficient and cost effective as possible, and it hoped to achieve an increase in earnings, "no matter how modest".

The good news he gave was that Holdains' expansion into the United States was on schedule and was

expected to prove a worthwhile venture.

Trading at Christmas — which traditionally was the best time of the year for paper and packaging products — was disappointing. There was no build-up and the late rush which everyone hoped for failed to materialise.

But all the companies in the group were holding their own, even though market conditions were very quiet.

Graphtec Holdings made a good recovery following the restructuring last year, and both Kohler Packaging and Carlton Paper Corporation — the

group's largest profit contributors — held steady in softer markets.

But Sunvest, which controls Sun Packaging and Biopolymers, was suffering from low volumes. Demand for polystyrene products had fallen and losses at Biopolymers were expected to increase this year.

Mr Boyd said trading conditions in the packaging and paper industry reflected the severity of the downturn.

Unless the high cost of money was lowered quite substantially and soon, the economy must decline further, he warned.

Downturn hits Holdains group

Business Day 11/2/92 194

Business Day Reporter

TRADING conditions in the packaging and paper industry reflect the severity of the economic downturn, Holdains deputy chairman Ian Willis said yesterday.

Speaking after packaging group Holdains' annual meeting, Willis said that while all the companies in the group were holding their own, market conditions were very quiet.

"Unless the high cost of money is lowered quite substantially and quite soon, we anticipate that the economy must decline further.

"Trading at Christmas, which is traditionally the best time of the year for paper and packaging products, was disappointing," he said.

"This has meant our trading results for the first six months are lower than our expectations.

"Against that, Graphtec Holdings is making a good recovery following last year's restructuring," Willis said.

Both Kohler Packaging

and Carlton Paper Corporation — our largest profit contributors — are holding steady in these softer markets."

Willis said Sunvest, which controls Sun Packaging and Biopolymers, was suffering from a lack of volumes.

"With the recession, the demand for polystyrene products has fallen," he said.

"This has impacted on biopoly which we now expect to make an increased loss this year."

Sales boost Aries dividend

PAUL ASH

194

ARIES Packaging has reported improved sales in the year to end-December with turnover up 21% to R26,3m (R21,7m). *Blown 12/2/92*

Attributable profit was R1,2m from 1990's R803 000 and earnings rose to 10,5c a share (7,3c). The company declared a final dividend of 3,5c a share (1990:2,5c).

Aries's new fibre drum plant, the first of its kind in SA, was commissioned during the year and this "should make a meaningful contribution to our next set of results", CE Dieter Neckel said. The directors were confident 1992 would show further growth.

Weak consumer demand hampers Consol's growth

MARCIA KLEIN

GROWTH at paper and packaging group Consol was severely restrained by the recession and its effect on consumer spending.

Sales volume declines in nearly all of Consol's businesses were cushioned by a large reduction in financing costs following the group's R301,6m rights issue towards the end of October last year.

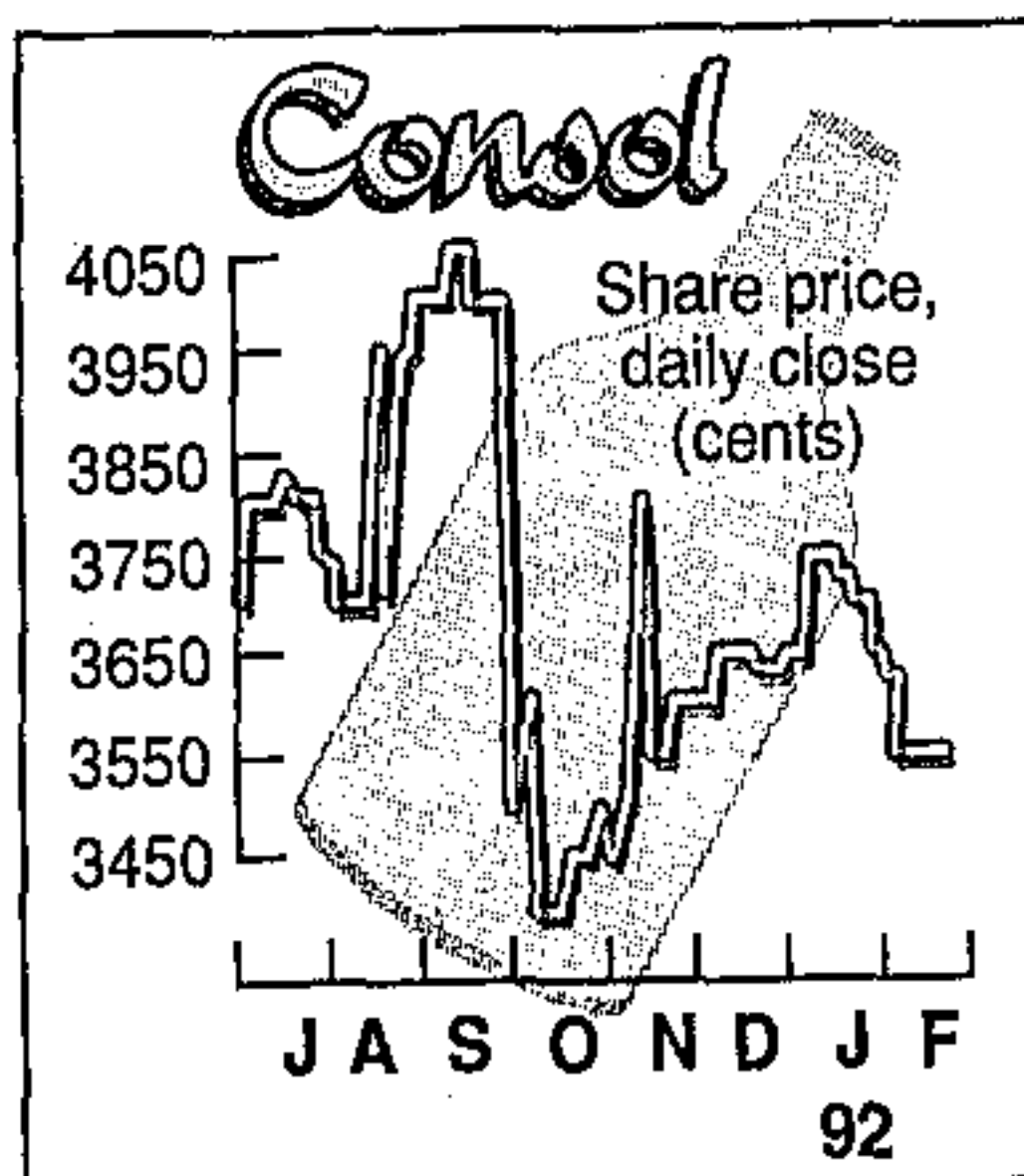
The net result was a 5% growth in earnings to R60,2m (R57,3m) in the six months.

A sluggish increase in turnover of 4% to R1,08bn (R1,04bn) highlighted the main cause for the downward pressure on operating profit and earnings, directors said.

Operating profit declined by 7% from R147,1m to R137,1m, largely due to a 17% drop in the profit level of Consol's rubber interests.

Packaging maintained its profit, glass packaging and plastics increased their profits, but paper reported a decline and glass tableware showed a small loss.

Net financing costs were reduced



Graphic: LEE EMERTON Source: I-NET

by 61% to R6,5m (R16,7m), resulting in pre-tax profit being maintained at R130,5m (R130,4m). The effective tax rate decreased from 46% to 45,6%, and profit after tax increased by 1% to R71,0m (R70,4m).

After accounting for outside shareholders and preference dividends, earnings were up 5% at 93,8c (89,4c) a share.

Directors said glass packaging had been affected by the slowdown in beer and soft drinks consumption,

with the purchase of returnable bottles dropping sharply.

The dramatic fall in sales of glass tableware was due to competition from low-priced imports, low domestic demand and major restructuring in some chains, directors said.

The corrugated carton market suffered a sharp drop in volumes, "further aggravated by competition from an increased number of small operators".

In the rubber sector, Tycon and Tredcor increased turnover in value terms, but unit sales declined on the back of an influx of imported tyres. Tycon maintained its profit, but Tredcor's profit declined.

Directors expected no improvement in the level of consumer spending, and said there would be a decrease in operating profit for the year to end-June 1992.

But the effect of the rights issue would result in an improvement in net financing costs, they said.

"This should offset the negative effect of the operating profit decline and provide a small improvement in earnings for the year."

CCB hard men

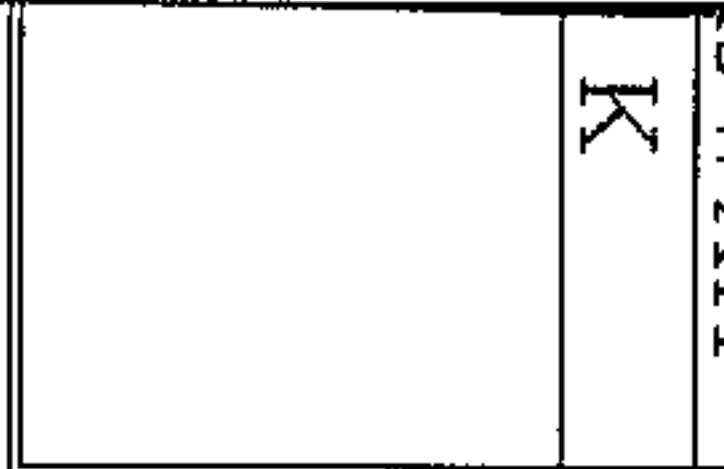
hired to settle

w/ mail

7/2-13/2/92

company row

~~194~~ 194



TWO former hit-squad agents, Abram "Slang" van Zyl and Ferdie Barnard, were hired as strong-arm men to settle an ungentlemanly multi-million rand dispute between a large corporation and a sacked executive.

Both the packaging giant Nampak, and Adrian Barker, former boss of the corrugated packing division, agree that the dispute between them involved some foul tactics.

What they disagree on is who hired the hit-men ... and who "terrorised" whom.

The Barker family say over the past 18 months they have faced a series of death threats, obscene phone calls, constant surveillance, a 24-hour phone tap and an attempt on the life of one of their bodyguards.

They add that ex-Civil Co-operation Bureau hit-man Ferdie Barnard told

them he had been instructed to fire a shotgun into the back window of Barker's Porsche.

Nampak acknowledge that the notorious Barnard, mentioned in the Harms Commission, was involved, but say he was employed by Barker. They also claim to have received threatening and abusive calls.

Nampak say they commissioned a middle-man to investigate Barker, who in turn, employed a CCB front company, owned by another prominent CCB man, "Slang" van Zyl. But Nampak deny any involvement in harassing the Barkers.



'Slang' van Zyl

Flattening out (194)

Packaging held up well until the middle of 1991, because of the continued real growth in demand for fast-moving consumer goods and beverages in particular.

But growth in beer sales, for example, has slowed from 10% to almost nothing since March 1991. This has had an immediate impact on Consol, the leading bottle maker, and contributed to its slower earnings growth of only 5%.

Group MD Piet Neethling explains that if there is no real growth, the demand for returnable bottles dries up as the existing pool of bottles is sufficient. But demand has fallen across the range of Consol's glass, corrugated and tyre products. As turnover was up 4%, volume sales were down by about 10%. Plastic packaging, though, is still increasing volumes. The 1,5l returnable plastic soft drink bottle was introduced and there was continued demand for in-mould labelled products.

Operating profit from packaging was static at R88m, but the rubber division's profit was down by 17%, to R49m. Margins have been tight in tyre sales because of cheap imports from overseas. Neethling says he is sad to see how the market has degenerated. He argues that tyres which come on to the SA market should conform to quality standards comparable with those in the European Community. The tyre division's contribution should improve in the second half as government has agreed to reintroduce quantitative controls to ensure that imports do not exceed 1988 levels.

Imports led to a severe fall in sales of glass tableware and operating losses resulted in this division. Consol was unable to get anti-dumping duties from government. It laid off 240 people in the Pretoria glass tableware operation and a further 180 across the group.

Domestic rather than foreign competition cut the profitability of the corrugated division. A year before, Consol had gained market share from Nampak, which suffered from a prolonged strike. Not only is Nampak fighting to regain market share but former

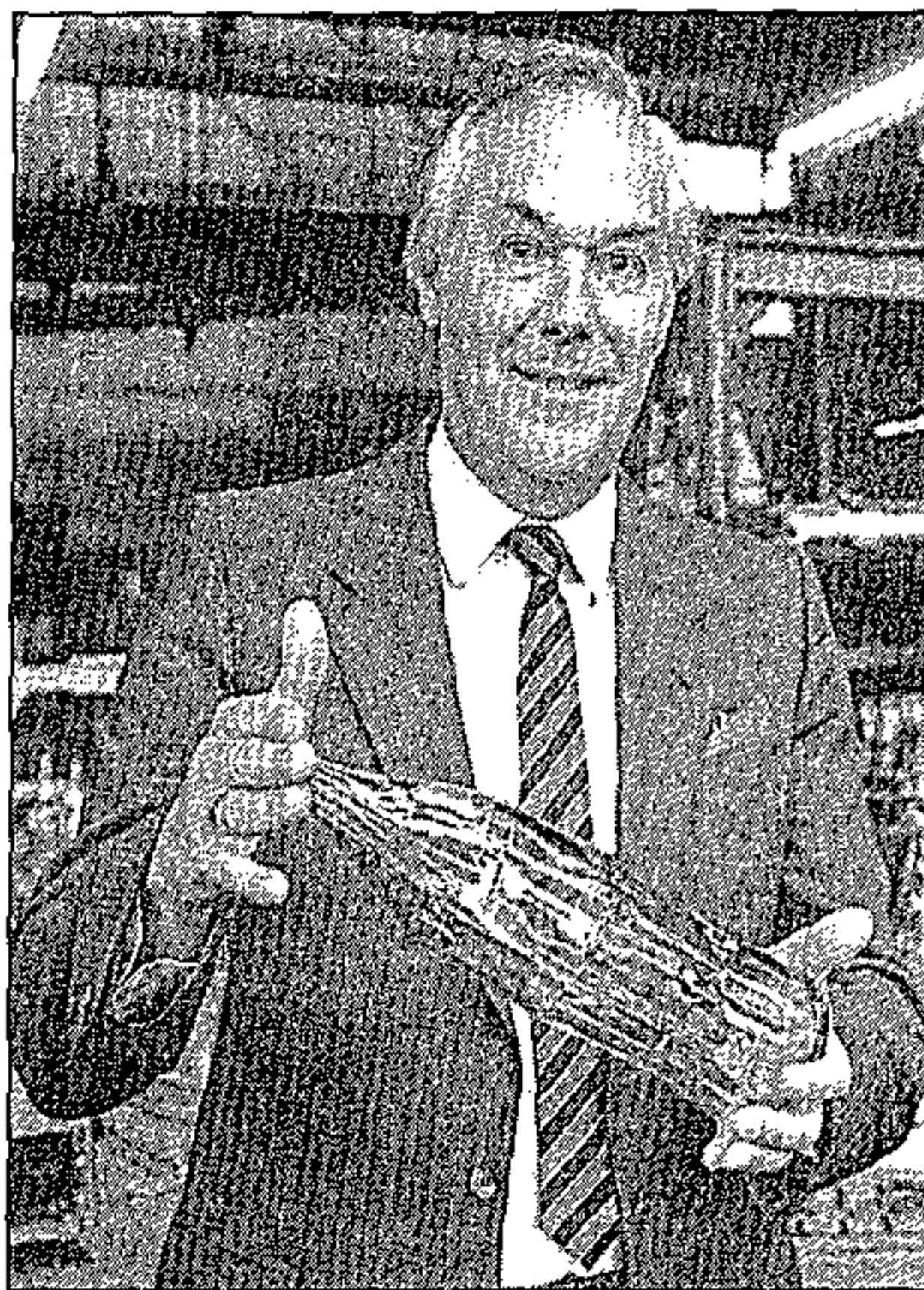
continue

Nampak management have set up their own board converting operations, such as Adrian Barker's (aptly named) Rebel Packaging.

Consol's rights issue put a further R300m on the balance sheet and reduced interest payments by about 60% to R6,5m. Without this, Consol's earnings would have declined. Consol only enjoyed benefits of the rights issue for the last two months of the period. It will pay almost no net interest next year.

appeal is that it is well-placed to take advantage of a resurgence of real growth in consumer spending.

Stephen Cranston



Consol's Neethling ... demand down across the range

Because of the suddenness of the downturn, Consol holds higher stocks than usual. Debtors, which are always seasonally high at the end of December, were higher as glass customers agree to accept additional stocks from Consol in slow periods, but they are given extended credit terms. Current assets rose more than 50% to R970m, but much of

BOTTLED UP

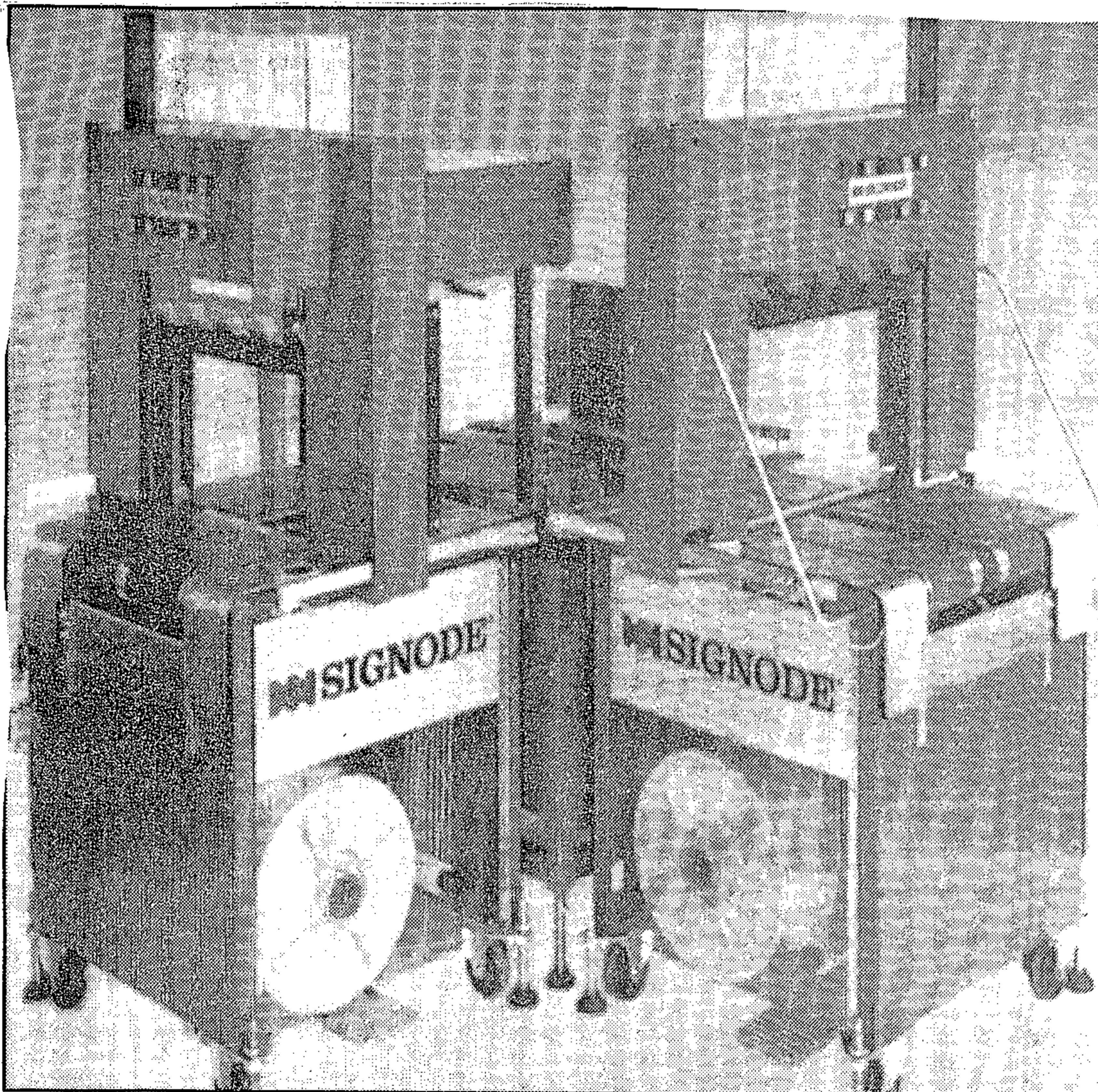
Six months to	Dec 31 '90	Jun 30 '91	Dec 31 '91
Turnover (Rm)	1 042	1 029	1 084
Operating inc (Rm)	147	172	137
Attributable (Rm) ..	57	67	60
Earnings (c)	89,4	104,9	93,8

this is cash from the rights issue.

The outlook for Consol's competitors is not rosy. Holdains has indicated it is unlikely to increase earnings in the six months to end-February; Nampak might improve in the six months to end-March but off a period which included the strike.

At R36, Consol is off from a peak of R40,50 late last year. It still has a demanding rating with a p/e of 18,5 and a dividend yield of 1,5%. Its rating is still well above its competitors'. Simpson McKie analyst Heidi Vollmer says it will be a good buy if it falls to about R32.

Short-term prospects are not encouraging, though management is forecasting a small earnings growth for the full year. Consol's



State of the art . . . the recently acquired Signode product range has broadened Afcom's product base. The new model is regarded as a high-technology strapping machinery.

On the 'buy at home' campaign trail

STAR 24/2/92

(194)

During the sanctions era, Afcom maintained close links with their overseas principals and licensors.

This enabled the company to offer the South African market the latest up-to-date range of world-class branded strapping and packaging machine technology.

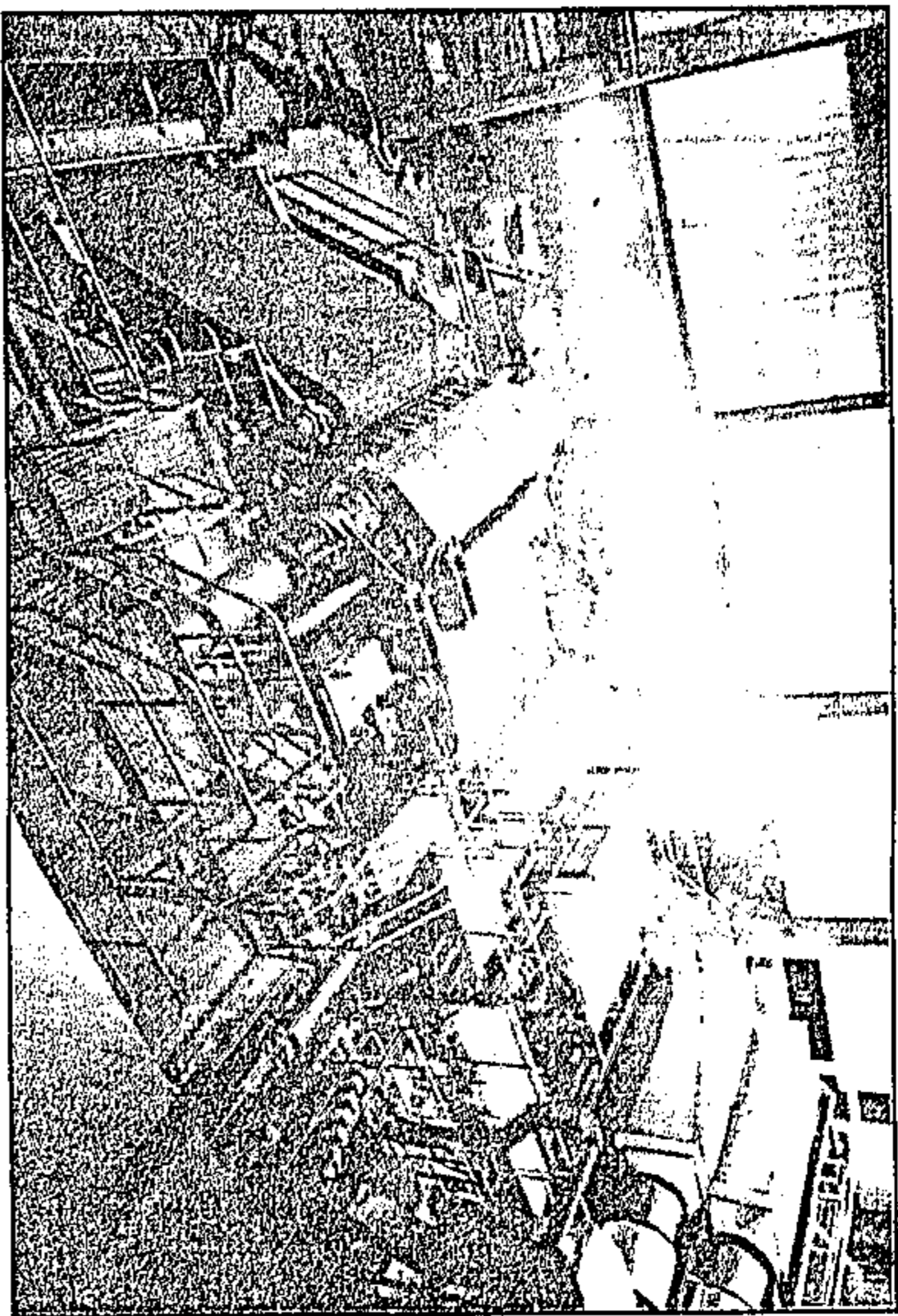
Afcom also succeeded in keeping abreast of world trends by diversify-

ing its range of strapping. It is now the only manufacturer in South Africa which offers four different types of strap, namely steel, polypropylene, polyester extruded and polyester woven Ti-strap.

"We are determined to make South Africa self-sufficient in the packaging closure market, by promoting a 'buy-home' product cam-

paign in our daily sales programme," said Strapping managing director Darryl Harrisberg.

The recently acquired Signode product range has broadened the company's product base. The new model is regarded as a state-of-the-art, high-technology strapping machinery and has received enormous local market response in recent months.



Impressive . . . Nampak Paper's recently commissioned PM3 at Kilprivier.

Ready to get in on the international act

In the cut-throat international market for newsprint and other paper (see report on opposite page), Sappi and Mondi are eyeing the opening presented by growing preference for paper with a recycled content.

Mondi has recently commissioned, at Merebank in Durban, this country's first mill producing newsprint with a 15-20 per cent recycled content, at a cost of R106 million.

Two Sappi Kraft mills, in Cape Town and Port Elizabeth, use only recycled material and the group is exploiting the products — including, for the first time, a fine paper — of its mill at Slanger, using bagasse residue from sugar production.

Both have extensive paper pick-up operations. The older, Sappi Waste Paper is characterized by its WOW (War on Waste) bins at municipal offices and supermarkets, while Mondi's Paper Pick-Up focuses on printed paper for the new recycling operation.

"SA is well placed to start elbowing out the Canadian industry, which is going to have enor-

mous problems getting paper waste back from its main markets in the US," says Sappi Kraft managing director Ian Forbes.

Mondi executive chairman Tony Trahar adds: "We expect capacity there to be closed down because of environmental pressure and labour problems. SA, Chile and Brazil are well placed to exploit that."

He says the new newsprint, tried first at the Daily News in Durban and giving a whiter newspaper and better printing, has been well received by local newspaper groups. Mondi exports bleached pulp, linerboard, newsprint and some fine papers to 35 countries.

Mr Forbes says the trend towards "maximum white" newsprint and better printing for



STYK
25/2/92
(19)
Ian Forbes
... SA is well placed.

graphics and photographs has been set by the US national, USA Today.

US newsprint consumption of a million tons a month (compared with less than 150 000 tons a year in SA) has to be an attraction. At that level, however, it is 7.5 percent down in line with lower adspend and the industry wonders about recovery,

given the habits of Americans now a full three generations into TV.

"Against that one must set the fact that behind the old Iron Curtain are hundreds of millions of people hungry for a free flow of information. At the bussheds in Russia simple four-page broadsheets sell like hot cakes."

Everywhere, growing sophistication should bring higher paper consumption. "At the moment, per capita annual consumption is 320 kg in the US, 220 in the former West Germany, 80 in East Germany, 80 in South Africa and 0.4 in Nigeria."

Mr Forbes says that when it comes to recycled packaging, South Africa did well last year in collecting 23.8 million tons, or slightly more than the 1988 figure for the entire US of 26.5 million tons — one fifth of which was exported to Pacific Rim countries. The SA figure represented nearly a third of consumed packaging — a good record seen in the light of the US target of 40 percent by 1995.

In the European Community, West Germany in particular has such stringent rules regarding collection of used packaging that the whole nature of packaging is changing.

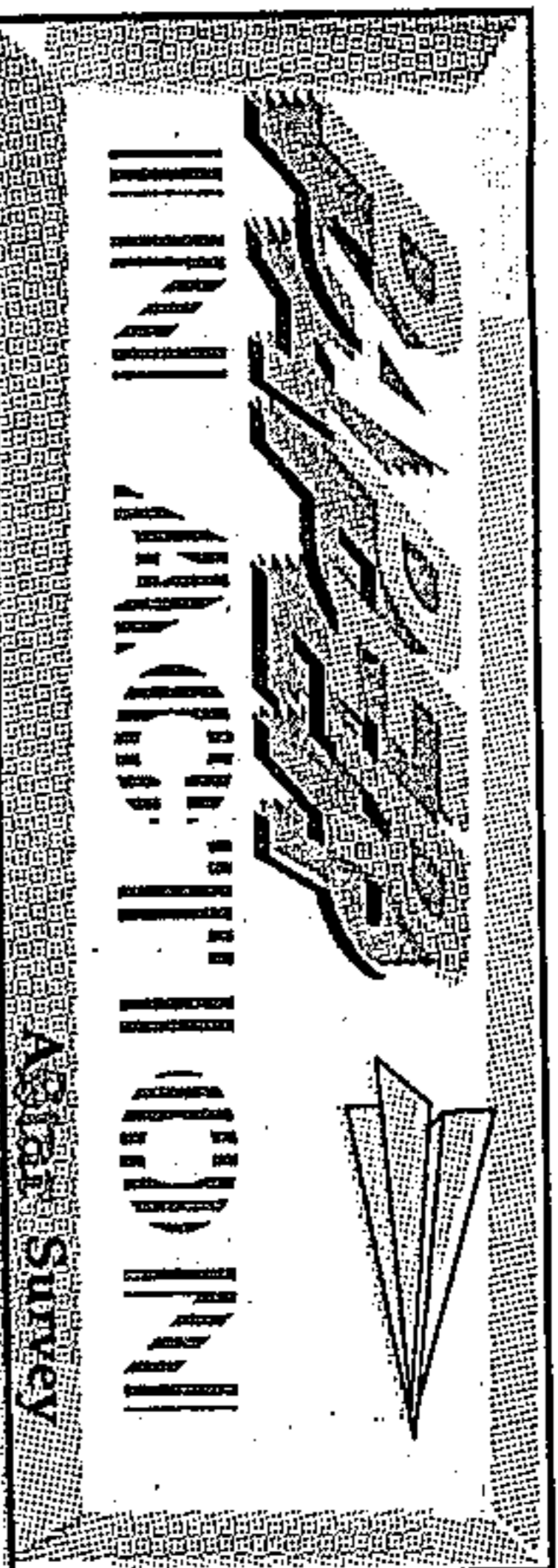
OUF is the former brown shipping box.

IN are white rather than brown "display" boxes with high-class printing which can go straight to retailers shelves before manufacturers collect them again.

Keeping up to date with such board and paper market trends is important when Sappi — six times winner of the State President's Export Award — is among the top 10 operators worldwide.

Apart from the five-mill Sappi Europe, acquired last year, six-year-old Sappi International is in place in Houston, Zurich and Hong Kong to promote the group's exports.

PAPER IN ACTION SURVEY



Asfar Survey

This survey was written and compiled by Ron Schurink in consultation with leading figures in the industry.

Price of fruit/milk containers may rise

STAR 25/2/92

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A 7 percent increase in the price of cardboard containers for milk and fruit juice is on the cards if a 10 percent customs duty is imposed on liquid packaging board (LPB) together with all other types of paper.

That's the word from Richard Tonkin, managing director of Tetrapak in Pinetown, Durban — one of only two makers of the containers in the country (the other being Namapak).

He was in Pretoria last week to plead for exemption for LPB, on the grounds that mainly poorer people in rural areas and townships would bear the brunt.

“Without refrigeration facilities, they provide the largest market for long-shelf-life milk packaged in LPB.”

Giving a background, Mr Tonkin said some 15 000 tons of the country's 40 000-ton annual requirement had, as a special measure, been met by Mondi during the sanctions years.

However, early last year the supply had been discontinued (Mondi managing director Tony Trahar confirmed that “the small volume does not fit our production configuration”).

Bridging stocks fortunately sufficed until mid-year, when Finland lifted sanctions and that country's producers hur-

ried back into the market.

“Remember it's a highly specialised product, for which we lay down strict standards of bacterial cleanliness and taste-acceptability — not requirements for magazine paper. In addition, it must have strength and printability.”

“Quality has to be consistent when foods are being packaged, and there is simply no alternative to the supplies from Scandinavia and North America, landed here at about R3 300 a ton.

“Unlike other papers, LPB is not in over-supply internationally.”



The versatile carton . . . will prices go up?

Taking the heat, doing the job

Temperatures as high as 250 deg C in photocopiers and laser printers make tough demands on papers, says Mike Stewart, Mondi paper division marketing and sales manager at Merebank, Durban.

“Too much moisture in the paper during production will leave it inclined to curl and jam the photocopier or printer, so we ensure a limit of 4,5 to 5,5 percent with computerised control and on-line measuring.”

A current challenge is to produce a recycled paper adequate to the job, says Xeratech MD Rob van der Merwe.

Great start to 1992

STAR 25/2/92

Sales of carbonless paper, a good economic indicator since all goods sold are accompanied by (mainly carbonless) invoices, seem to say the economy has bottomed.

So says national sales manager John Sheppard of Memix in the Nampak group. This company, the only local producer and with market share higher than a third, has had the best start to a year for a long while.

"We also had a good final quarter of 1991, but there one must express that qualification that the switch to VAT boosted demand, and of course there was that brief GDP-resurgence in the third quarter."

Invoices and continuous stationery are the main purposes to which South Africa puts some 12 500 tons of carbonless paper each year.

Smaller, mainly black-owned businesses remain users of old-style carbon-copy invoice books, but a varying price differential has an influence.

A post-war phenomenon, the paper was first made in South

Africa when Memix was founded 10 years ago at its Chamdor, Krugersdorp, site.

Metal Box was an original backer and the company came into Nampak via the merger of the two groups — 49 percent of shares today being held by Mondi. (194)

Briefly, the process is that 42-46 gm Constat — from Mondi — gets different coatings according to the layer it is to form. All impressing layers, such as the top one, get an undercoat of micro-capsules containing colour-forming dyes; all receiving layers a topcoat of activated clay to react with the transferred colour formers.

Basic plant consists of a coater (a Backofen & Meier from Germany), a slitter-rewinder (Cameron) cutting jumbo reels into smaller sizes for printers, and a sheeter (Jagenberg) producing sheets.

Despite appearances, the operation is fairly labour-intensive and total employment is around 120.

R110-m tissue plant installed

STAR 25/2/92

Demand for disposable tissue products, due in part to wider provision of waterborne sewerage, has enabled Nampak Paper to instal a R110-m third paper machine at its Kliprivier plant near Johannesburg. This increases overall capacity to 55 000 tons of crepe tissue wadding a year, equivalent to just under half of local consumption.

"We are now able to meet this rising local demand as well as push up exports to independent tissue converters in Europe," says project director Graeme Lloyd.

"Thanks to German paper treatment technology — removing contaminants before conventional pulping — the plant uses only recycled paper collected by Nampak Paper Recycling."

"With Sappi and Mondi, tissue specialist Nampak Paper complete SA's threesome of paper producers, with another plant — which will now increase exports to the UK — being at Bellville."

Understanding the big push behind recycling ⁽¹⁹⁴⁾

The manufacture of paper is essential to a modern society has a cost. As summed up in a First Paper House leaflet "Some information about Recycled Paper", this includes:

- Use of natural reserves such as trees, water and energy;
- Use of chemicals for pulping, refining and bleaching;
- Effluent, pollution and waste.

To those problems add what happens to paper when it has served its purpose. It makes up one-third of the refuse for which cities and towns have to find "landfill" space. Realisation of all this has created a "green" market for recycled paper.

So far, the European Community and Japan lead in meeting it — they recover and recycle 49 percent and 50 percent of consumed

paper respectively.

In North America certain states and cities require specific levels of recycled paper in newspapers sold.

Main supplier Canada faces a large problem in arranging the collection and return of waste newsprint

But who's laying down the rules for what constitutes recycled paper?

The leaflet says: "There is as yet no controlling international body or set of standards. But two organisations, the EPA (Environmental Protection Agency of the US) and NAPM (National Association of Paper Merchants, UK) have developed widely accepted guidelines for the definition of recycled paper.

"Although these differ, it is accepted that to qualify for classification as recycled, a fine paper must contain a minimum of 50 percent recycled fibre."

STAR 25/2/92

AVI on track for a record year

1991 194 1992
Biday 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.

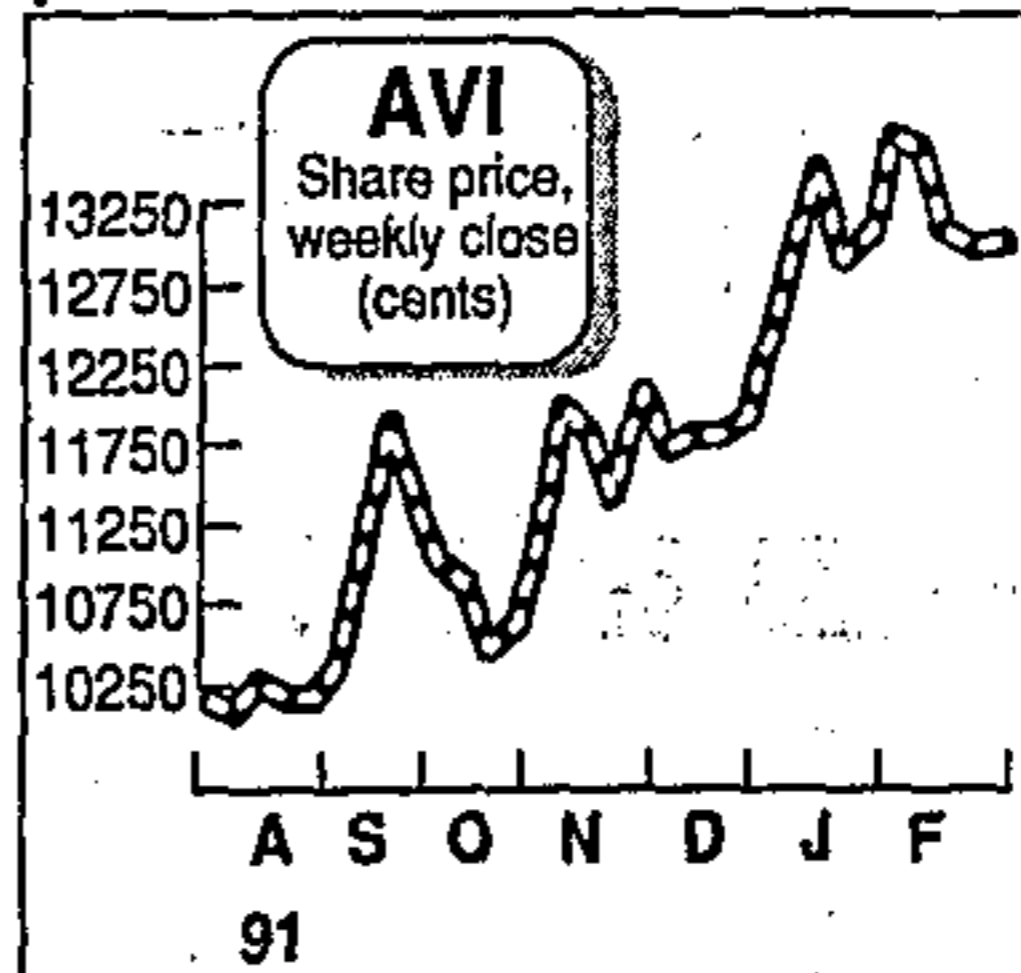
Increased

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



Graphic: LEE EMERTON Source: I-NET

29% to 27% and Grinaker's from 7% to 3%.

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.

Recession is taking tough toll of glossies

CT 29/2/92 (194)



COVER PICTURE ... Top of The Times was amazed to discover, on obtaining a Top 10 of the circulations of South African magazines, that certain high-profile titles do not feature, while some which might have been regarded as also-rans are up there with the best of them. Meanwhile, foreign players like the magazines pictured here are making life tougher and tougher for SA publishers. And, locally, just look at what's missing from that Top 10...

THE magazine market in South Africa could be facing the worst crisis in its history as statistics reveal an alarming decrease in the number of periodicals bought by the man in the street — yet the experts say there is hope. **CLAUDIA CAVANAGH** reports.

WOMEN'S publications generally top the magazine sales but the economic climate is taking its toll and publishers of the up-market, glossy fashion magazine Red say the future of the magazine is in the balance.

Managing director of Nasionale Tydskrifte, Danie Krynauw, spoke to Top of The Times this week: "We are thinking about closing the magazine on the grounds of its economic viability."

"The fashion industry is going through a difficult time and Red is an expensive magazine to produce. The next issue is definitely coming out at the end of March and we'll have a look at that before making a final decision."

South Africa's big success story in the industry is undoubtedly the Afrikaans weekly Huisgenoot, which has a circulation of 502 527 a week against its nearest rival, the Reader's Digest, with a circulation of 359 355 each month.

'Prices up'

Yet warning bells sound when statistics gleaned by Barbara Ross, research director of Huisgenoot's publishers, Nasionale Pers, are studied. Her research reveals that where the South African man or woman bought an average of 4,7 titles five years ago, they now buy only 2,1.

HOW TO SURVIVE

THE Top 10 best-selling magazines in South Africa, as compiled by the Audit Bureau of Circulation (reflecting sales, not necessarily readership) are:

MAGAZINE	CIRCULATION
1 Huisgenoot	502 527
2 Reader's Digest	359 355
3 Bona	253 124
4 Sarie	230 941
5 Your Family	210 564
6 You	208 364
7 Woman's Value	162 366
8 Fair Lady	156 594
9 Rooi Rose	143 529
10 Car	134 933

This means that simple economics are forcing readers to buy only their favourites — and who can blame them when three magazines a week could set you back as much as R12?

To survive, says Volker Kühnel, marketing director for Femina and Cosmopolitan magazines, cover prices are going to have to go up and the editorial content will have to broaden to encompass world interests.

He says that because of the many international players trying to exploit the South African market, local publications are going to be put under considerable pressure.

"A lot of international publishers are roaming the streets of South Africa looking at business opportunities for expansion into this market. With the introduction of television the blinkers have been removed from South Africans and we have become part of the global

□ To Page 19

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Tetra Pak's return heralds expansion

(194) JABULANI SIKHAKHANE

SWISS-based packaging group Tetra Pak International, which left SA 14 years ago, is returning to make substantial investments in local operations which it hopes to use as a base for expansion into southern Africa.

This was confirmed by Tetra Pak president for Africa Gunnar Brock, during a visit last week. He said there were still a "few loose ends to tie-up". An announcement was expected within a month.

Tetra Pak International disinvested from SA in 1978, selling its subsidiary to licensee Tetra Pak Liquid Packaging.

Brock said Tetra Pak International was delighted with the performance of its licensee and had a strong interest in the development of the southern African region. (194) 9/3/92

The Swiss group had attempted unsuccessfully to penetrate this market from the group's base in Kenya, he said.

Tetra Pak International develops, produces and markets complete packaging systems for the distribution of liquid and semi-liquid foods, the most common being milk and fruit juices. Aseptic packaging allows milk and juices to be packaged and stored for up to six months without refrigeration or preservatives.

The local company has turnover exceeding R150m and employs 300 people. It produces two packaging systems, the gable top carton for pasteurised products and the modular brick-shaped carton for ultrapasteurised products for the dairy, fruit juice and sorghum beer industries.

Aries Packaging has potential

STAR 12/3/92

Diagonal Street
 194
 LYNNE PEACH

Aries Packaging, founded in 1981, did very well last year, although a repeat performance is unlikely unless there is some economic improvement.

Nonetheless, in the latest annual report, chief executive Dieter Neckel says acceptable profit growth should materialise this year as a result of the fibre drum plant being fully operational and younger operations showing further gains.

The group is well poised to take advantage of growth in the export of manufactured goods.

Mr Neckel says a variety of paper packaging solutions for export to environmentally conscious countries are offered.

Aries Packaging is a small specialist packaging manufacturer operating in the Cape and Transvaal.

The four divisions are Corrugated Containers, Cores & Tubes, Screenprint and Fibre Drums.

The fibre drum manufacturing plant started operating in the middle of 1991 and was fully operational by the end of the year.

Mr Neckel says commissioning of the plant took much longer than expected because of teething problems with the machinery.

There were also problems relating to market reluctance. These were overcome after the drums won prizes at the 1991 Gold Pack Awards competition.

In the year to December, group turnover climbed 21 percent from R21,7 million to R26,3 million, despite the deepening recession.

Mr Neckel says that although all established operations suffered a reduction in volumes, recently established operations

were able to improve their market penetration and thereby boost group turnover.

More remarkable was a 60 percent improvement in operating income from R1,6 million to R2,6 million.

This was attributable to improved productivity, better stock controls and more stringent asset management.

Because of borrowings for the purchase and installation of the fibre drum plant, interest expense multiplied from R15 000 to R487 000.

As a result, pre-tax profit showed a lower improvement of 31 percent from R1,6 million to R2,6 million.

A reduction in the effective tax rate from 50,3 to 45,7 per-

cent boosted attributable profit to R1,2 million, 43 percent higher than 1990's R803 000.

Earnings per share increased from 7,3c to 10,5c and the dividend for the year rose 40 percent from 2,5c a share to 3,5c.

The balance sheet discloses a notable increase in debt from R883 000 a year ago to R3,4 million, which resulted in gearing deteriorating from 13,5 to 46,5 percent.

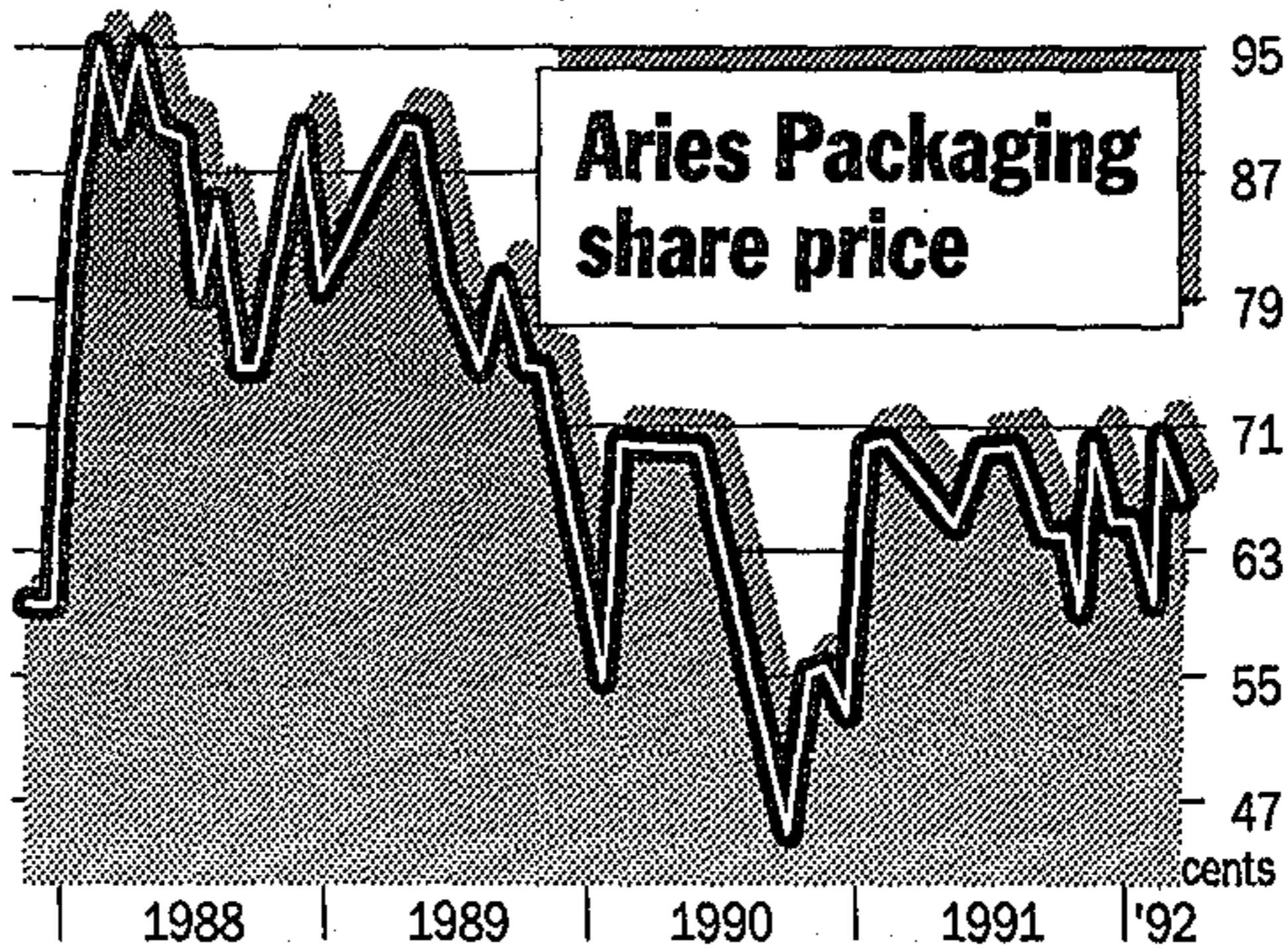
Net asset value appreciated 12 percent during the period from 60c a share to 67c.

Aries Packaging, priced at 67c, is trading on a P/E ratio of 6,4 and provides a dividend yield of 5,2 percent.

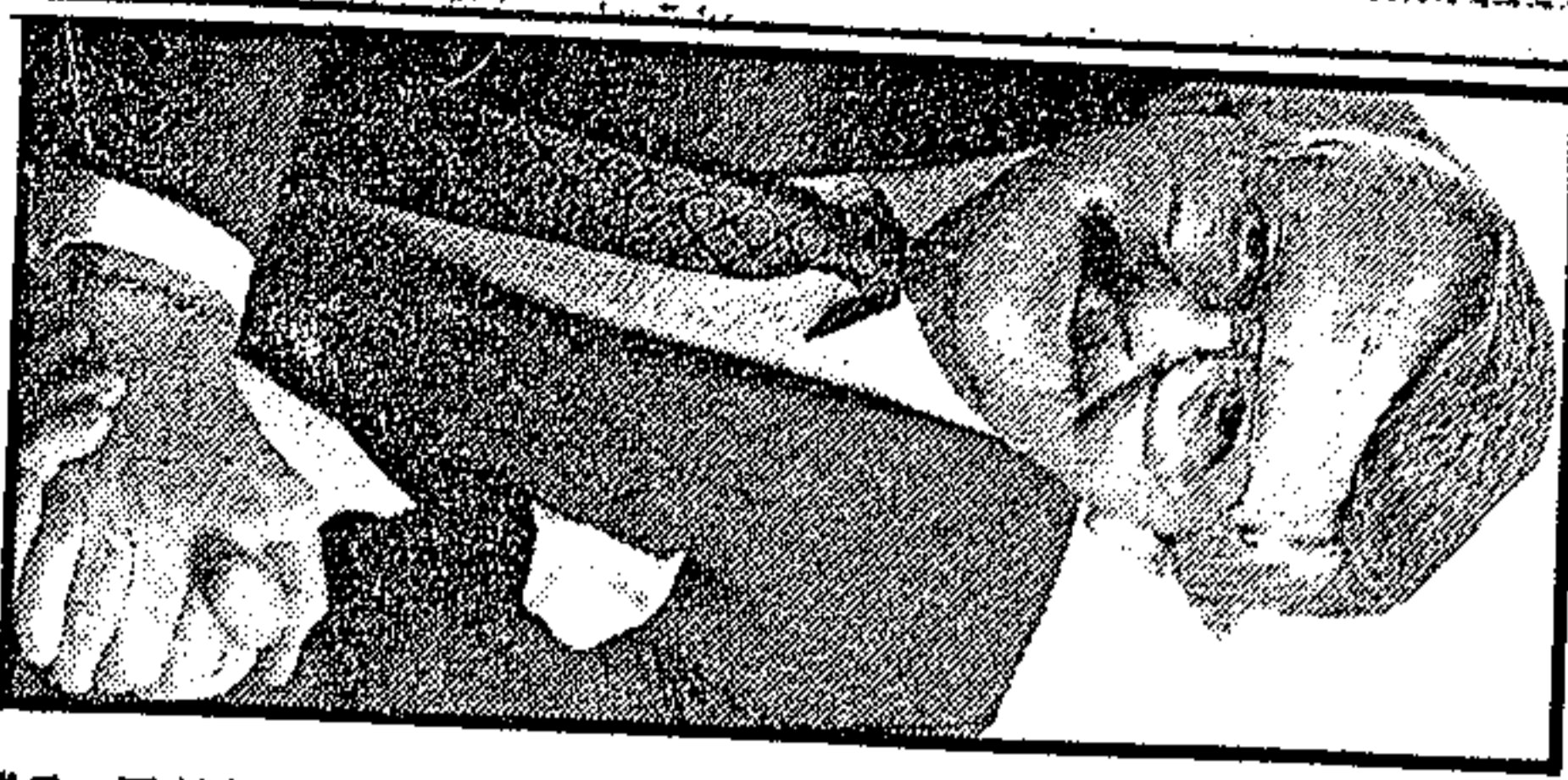
Although borrowings have risen sharply, the potential for profit growth exists and the share price appears to offer fair value in the medium term.

COMMENT: For more than a year the share price has undulated between 60c and 70c.

The latter is a very strong resistance level and a sustained break above it will be positive for the share.



The Holdains group's future rests on its flexibility



IAN WILLIS: Many people are eating less

FLEXIBILITY is the key to the future of diversified packaging group Holdains. Chief executive Ian Willis says because his group is based on domestic consumables, it has fared better than many other industries.

But there has been a distinct falloff in retail sales since November, a trend which shows no signs of bottoming.

"There was no Christmas at all," says Mr Willis. "The worrying part is that it implies many people are eating less."

Mr Willis believes the recession could herald a change in trends among consumers. Faced with a financial squeeze they become more discerning and buy less in quantity but at higher quality. Providing a company is flexible enough, it can capitalise on the change.

"We have learned to be more efficient. Instead of taking a six-month order in one go, our customers now call for daily stock deliveries. We have spent a lot in the last two years on finishing equipment to improve our operations in these circumstances."

The potential to rationalise is also evident in a group operating from more than 40 sites. It might be more cost effective to operate from one enlarged site instead of from two plants making the same products.

Holdains was formed two years ago from the pulling together of all Malbak's packaging businesses plus a couple of acquisitions. It has holdings in Kohler Packaging, Graphic Holdings, Carlton Paper (50.1%) and Sun

Packaging (66.6%). Kohler accounts for 57% of group sales. Its divisions manufacture corrugated packaging, carton and print, flexible packaging, multiwall sacks, general packaging, pulp and styrene food trays and thin-wall injection moulding.

Corrugated is the biggest part of Kohler. Its prospects are good, especially from the expected growth in exports of its own products as well as those of its SA customer exporters. Fruit has great potential, boxed by Kohler. "The thrust for our business is increasingly international," says Mr Willis.

That was one reason why Holdains bought control of Sunpak in January last year. Not only does Sunpak's range complement that of Kohler's Bakke, but the group had made important inroads into developing foreign markets.

Sunpak has a strong marketing and licensing agreement with Japanese plastics group Sekisui, which sells its environmentally friendly products in Japan. Sunpak has also established a synthetic paper manufacturer in Chinchmati, America. It used to make the labels in SA and export them at considerable cost. Relocation to America puts it closer to its markets and raises competitiveness. Yet Sunpak will not have a great year. Biopolymers, a Venture Capital Market listing,

was set up to supply Sunpak with basic styrene polymer.

While the quality of its product meets specifications, it has not produced sufficient volume. To compound matters, Sunpak secured supply but paid dearly for it when prices were high during last year's Gulf War. It has still to work its way through.

Graphic brought under one management three paper merchants, a printing machinery supplier and a film, plate and electronic supplier. The divisions are Haddons, First Paper House, Star Paper, Graphtron and Photra Allgraphics. It chips in almost a third to Holdains' sales. Mr Willis says it is going extremely well, and the benefits of a whole year of restructuring will be felt from the next financial year.

Carlton's good run has slowed. It boomed while the pulp feed was cheap, but the decline in retail sales has had an effect. For example, parents are doing without disposable nappies at R1-plus a time for their infants. That is the kind of habit change that concerns Mr Willis.

"We are bringing a second nappy line into production to see if we can get the unit cost down. It is a challenge we have to meet." Holdains was the name adopted by the reshaped group formed on the original Kohler listing in 1989. Initial investor uncertainty has been overcome and the share price has trebled from R14 to R42 since July 1990. In line with other shares, Holdains has

retreated slightly, to R36.50. At that price, it rates a little over 10 times earnings, compared to Nampak's nearly 15 times PE and Consol's 17 times.

Mr Willis puts forward two possible reasons for the lower rating. One is that the market prefers a longer track record of sustainable growth before going overboard about a company's shares even though the underlying companies have been quoted for years. The other is that Holdains lacks a bottle or canner — no beverage interface, as he puts it.

The remedy is to set one up or buy one. The drinks market in SA uses 2.5-billion cans a year, there are two principal customers and two suppliers. Mr Willis is aware it would be ambitious to go the greenfields route, with the cost of capital what it is today, and hope to make a handsome return.

There are one or two independent glass bottlers in the country that might be acquisition targets. Mr Willis confirms nothing. He says potential for the packaging industry both domestically and abroad is good. He expects the industry's growth rate to exceed that of the gross national product over time. Results for the half year to February are due shortly. Sales are expected to be up, but not in real terms. Results for the year are forecast to be satisfactory.

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Carlton Paper profits slide ⁽¹⁹⁴⁾ in weak market

CT 24/3/92
Own Correspondent

CARLTON Paper, which today reports reduced interim profit down 2,8% to R18,2m, has warned shareholders not to expect any economic recovery in the second half of the financial year.

The group's net income for the six months to end-February equates to earnings of 115,4c a share from 118,7c in the comparable six months last year. An interim dividend of 42c a share was declared.

Chairman Ian Willis says the company plans to launch new products and the Enstra tissue machine is expected to come back into production after its extensive rebuild. However, these results will be of little benefit in the second half of the financial year. "Any expectation of earnings improvement should be viewed with caution."

During the period, turnover increased 7,9% to R224m (1990: R208m), but operating margins declined noticeably, resulting in a 6,9% decline in operating profit.

Carlton's directors said exports were under pressure during the period and were retained at reduced margins. The company had elected to shut certain paper machines, causing an under-recovery of fixed overheads.

Carlton is a subsidiary of KCSA Holdings, which in turn is held by Holdains and US-based Kimberly-Clark Corp.

The tissue and fibre producer, whose brand names include Carlton, Babysoft, Kleenex, Huggies, New Freedom and Be Sure, reports a distinct fall in demand for its products.

Carlton Paper pessimistic

194

B/day 24/3/92

MICK ELLINGHAM

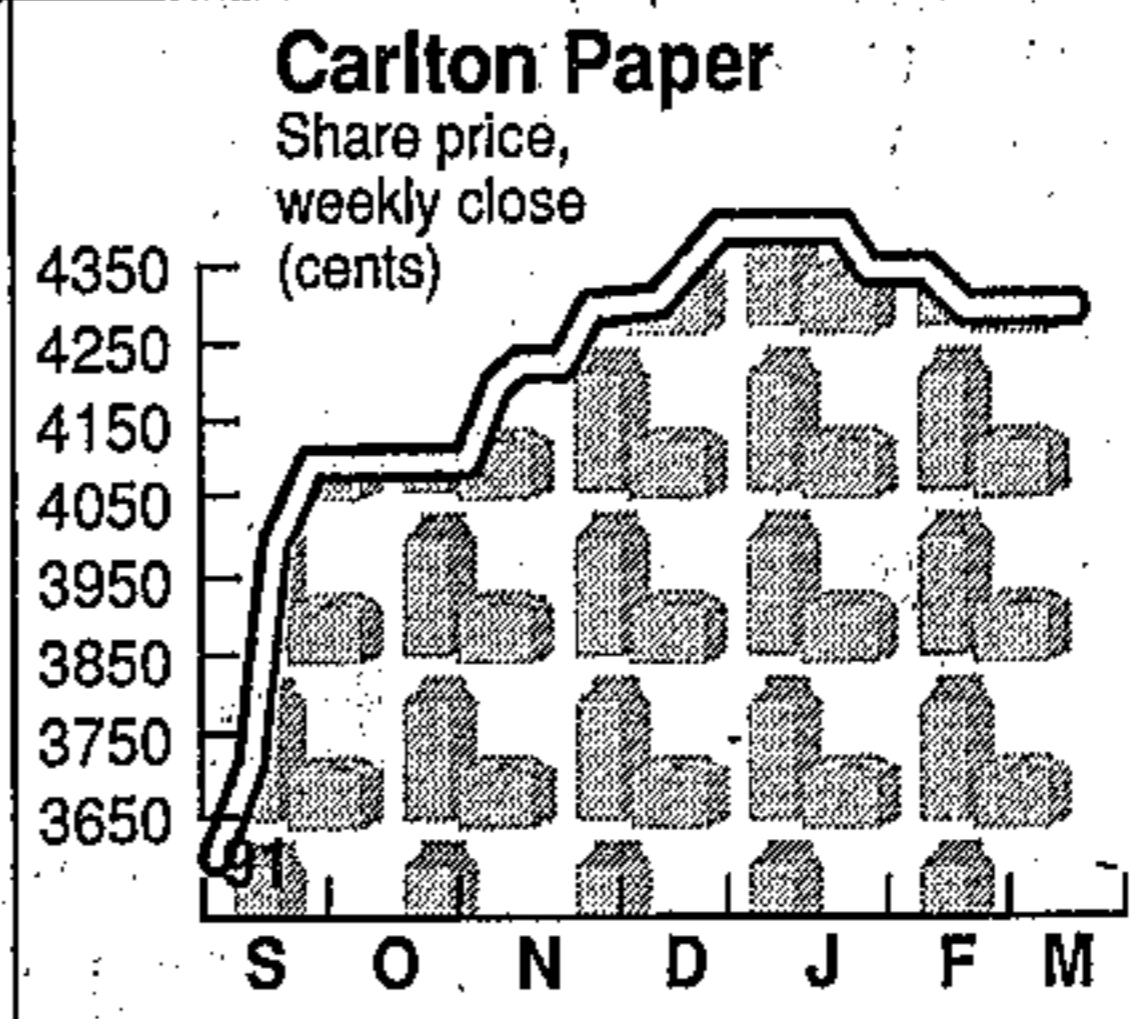
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Graphic: LEE EMERTON Source: I-NET

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Carlton is a subsidiary of KCSA Holdings, which in turn is held by Holdains and US-based Kimberly-Clark Corp.

The tissue and fibre producer, whose brand names include Carlton, Babysoft, Kleenex, Huggies, New Freedom and Be Sure, reports a distinct fall in demand for its products.

Mapping the future of convenience foods

6/Day 24/3/92 (194)

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-organ-

isms 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.

B/day 25/3/92

Bid to lift restrictions

WILLIAM GILFILLAN

A PROPOSAL would be made to the holders of the 10,65% listed redeemable debentures in Metal Box South Africa (MBSA) so as to lift their restrictive conditions, holding company Nampak said yesterday.

Nampak financial director David McFadden said the conditions related largely to what MBSA, an unlisted wholly owned subsidiary of Nampak, was permitted to do regarding the sale of its assets and its borrowing levels. (194)

To make the lifting of the conditions attractive to the debenture holders, the interest rate payable on the R12m debentures would be increased to to 11,15%.

Mondi in off-shore move

By AUDREY D'ANGELO
Business Editor

MONDI Paper Co — in the Anglo American Industrial Corporation (Amic) group — is moving strongly into Europe through a R550m deal to acquire joint control of a major Austrian company.

Mondi Europe, a holding company recently formed by a consortium led by Mond and Anglo American Corporation and including De Beers Centenary and Minorco, has reached agreement in principle to buy a 44.4% interest in Frantschach, a pulp and paper group with 6 000 employees and an annual turnover of about R3bn.

Mondi executive chairman Tony Traher said this was the second step of its expansion into Europe. The first was the consortium's purchase from Frantschach of a 49% stake in Neusiedler, one of Europe's leading producers of photocopy and business forms paper.

"We now have a foothold in central Europe from which to expand further."

Traher said the acquisition of a stake in Frantschach "brings Mond, as an SA company, back into the international arena. It is important for SA that our companies, after a period of isolation, are seen as international players."

CT 26/3/92 Expansion

1994

Until now Mond's involvement in international markets had been only as an exporter from SA. About one-third of its total production was exported.

Traher stressed that expansion into Europe would benefit the SA company through access to technology and increased exports of eucalyptus pulp from Richards Bay.

He said he doubted whether the Frantschach deal would have been possible without the progress SA has

made in reform, and the "Yes" result from the referendum.

The stake in Neusiedler had been bought in 1990 when there were already signs that reform was on the way. But Frantschach shareholders had been dubious at the time because they feared the progress SA had made would be reversed.

In a statement issued yesterday Traher said the acquisition was "subject to certain conditions."

A substantial portion of the purchase price would be re-invested in the company to provide a capital base for future growth.

The interests of the consortium members in Frantschach would be held in the ratios of Anglo American 46%, Mond 5%, Centenary and associates 28% and Minorco 21%.

The 51% contribution to the purchase price by Anglo American and

Mondi would be financed from overseas facilities.

"The Frantschach acquisition is seen as a further significant step towards establishing a substantial European forest products base which will enhance Mond's access to new areas of technology and to European markets."

Minority stakes

Frantschach has 55% of Europapier, Austria's largest paper merchanting and distribution network with trading links into surrounding countries.

It also has minority shareholdings in oacer sack and corrugating businesses in Spain and Greece, a sawmill in Austria and other interests.

Mond has 19 000 employees and sales of about R2,9bn a year. Since 1987 it has invested about R1,4bn in a capital expansion and replacement programme in this country.

Anglo and Mondi in Austrian deal

A CONSORTIUM led by Anglo American and its unlisted timber, paper and pulp subsidiary Mondi Paper has signed a R550m deal with an Austrian pulp and paper group. Anglo and Mondi will finance their 51% contribution of the purchase price from overseas borrowings.

Mondi executive chairman Tony Trahar said yesterday that the consortium — Mondi, Anglo, De Beers Centenary and Minorco — had reached agreement in principle to take a 44.4% stake in and joint control of Austrian group Frantschach.

Trahar said the move was designed to capitalise on the ending of SA's political isolation and to integrate Mondi into the world market.

The news follows several months of speculation that Mondi was set to broaden its base in Europe, following in the steps of rival paper producer Sappi which bought five British fine paper mills and an international trading company in 1990.

Mondi bought 49% of Austrian photocopy and business paper manufacturer Neusiedler AG in 1990, and was understood to be talking about a deal with Portuguese pulp and paper company Sopracel late last year.

Trahar said Mondi would share effective control of Frantschach with its current owners, a respected Austrian family.

MATTHEW CURTIN

The group was in good condition and well managed, and Mondi would benefit from a flow of European technology to SA and future dividend flows. Frantschach employed 6 000 people and had sales worth R3bn a year.

The purchase gave Mondi a solid base in Europe and good prospects for growth in the region. Mondi now had control over a European-based manufacturing, packaging and trading group, rather than just a market for its SA products.

Trahar said the deal was well timed because "the price multiples present in the European pulp and paper industry are twice as attractive as they were two years ago", given the current slump in the sector.

Market sources welcomed the deal yesterday, agreeing the timing was good because the deal came as the paper and pulp market had reached the bottom of its business cycle. Frantschach would prove a useful foothold in Europe for Mondi, they said.

Trahar said a large part of the R550m would go to reducing Frantschach's debt and improving its debt-to-equity ratio, although the group was not highly geared by European standards.

The consortium's interests would be held

□ To Page 2

Austrian deal

through the recently formed holding company Mondi Europe, in the ratio Anglo 45%, Mondi 5%, Centenary and its associates 28%, and Minorco 21%.

The Frantschach group has a 51% interest in Neusiedler's wood-free paper mill and a 90% stake in the Pols long-fibre pulp mill. It has a wholly owned pulp and pack-

aging, and packaging and converting subsidiaries, as well as a 50% stake in Franconia. They make up Europe's largest producer of paper sacks and bags.

The group also has a 55% stake in Europapier, Austria's largest paper merchanting and distribution network.

□ From Page 1

Mondi in offshore (194) venture

Business Staff

Aug 26/6/92

A CONSORTIUM led by Mondi Paper and Anglo American Corporation (AAC), and including De Beers Centenary and Minorco, has acquired a 44,4 percent stake in Austrian paper and pulp group Frantschach for R550 million.

Mondi chairman Tony Trahar said the interests of the consortium members in Frantschach would be held through a recently formed holding company Mondi Europe.

"The Frantschach acquisition is seen as a further significant step towards establishing a substantial European forest products base which will enhance Mondi's access to new areas of technology and to European markets."

Anglo would hold 46 percent, De Beers Centenary and associates 28 percent, Minorco 21 percent and Mondi 5 percent.

This effectively gives Anglo control of Mondi Europe through its controlling interest in the other consortium members.

Sunvest subsidiaries hit by decline in markets

MARCIA KLEIN

SUN Packaging Investments (Sunvest) nearly halved its earnings in the six months to end-February as subsidiaries Sun Packaging (Sunpak) and Biopolymers reported declining local and export markets.

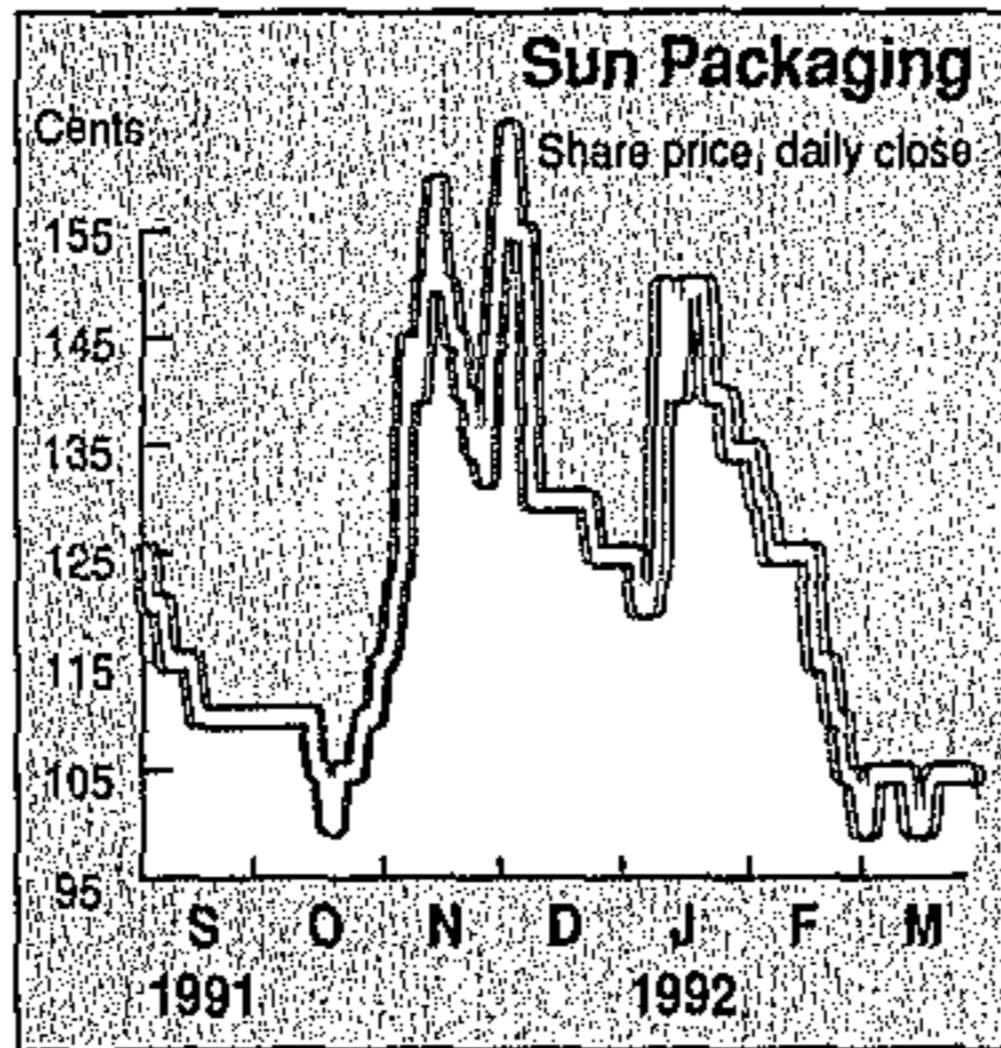
Sunvest is the recently acquired subsidiary of packaging group Holdings.

Depressed results in Sunpak, which in turn affected polystyrene manufacturer Biopolymers, saw the group report a drop in net income from R1,6m to R843 000 and a decline in earnings from 5,9c to 3,1c a share.

Chairman Ian Willis said Sunpak's margins were depressed by intense competition in local markets, while its operating income was reduced by 27,5% — from R6,5m to R4,7m — as the relocation of its plant to the US resulted in lower export sales of synthetic paper.

Sunpak's net income was reduced from R3,6m to R3,1m, and its earnings fell from 6,6c to 5,7c a share.

In turn, lower demands for poly-



Graphic: FIONA KRISCH Source: I-NET

mer from Sunpak resulted in an operating loss of R190 000 for Biopolymers, whose major customer is Sunpak.

Biopolymers' results, which show a net loss of R1,2m (loss of R508 000) were also affected by the importation of low cost Korean polymer into SA, "which effectively eliminated sales to external local customers", Willis said.

Results from these subsidiaries saw group operating income drop by 27,2% to R4,6m. Lower profitability

and high working capital requirements — to build up stock for export customers during the plant relocation — saw the interest bill rise by 89,6% to R3,2m. The relocation of the plant to the US allowed for a R2,3m reversal of deferred tax, bringing income after tax down from R3,2m to R1,9m.

Commenting on the group's operations, Willis said demand for food trays declined, but demand for printed food trays and the new laminated apple trays was going according to plan, and would contribute to sales in the second half.

In terms of synthetic paper labels, the equipment had been installed in the US and was due for commissioning during April.

The benefits of the move would be felt in the next financial year. Declining beverage sales saw local demand for labels decline.

While he expects no improvement in the economy in the second half Willis said the group would focus on improving margins and cash flow.

He expects no further deterioration in earnings in the second half.

CARLTON PAPER

194

Catching up

The decline in consumer spending, painfully clear in recent results from retailing groups, has caught up with Carlton Paper, depressing its operating margin by 7% to produce a 2,8% drop in earnings for the six months to end-February.

Worse, there seems little prospect of demand picking up until at least the last quarter of the calendar year, too late to have any effect on Carlton's annual results, says CE Keith Partridge. "It was like having no Christmas," he says, "though orders this month seem to suggest that, if demand is not getting better, at least it's not worse."

Carlton's interim figures look all the poorer because of the gratifying results the group recorded earlier in the downturn. Earnings for the eight months to August grew 34% in real terms, widening the operating margin from 12,6% to 15,2%.

Against this, the minor growth in turnover recorded in the latest results must show that the man in the street is really starting to hurt.

Carlton has also had a tough time in export markets over the past six months, which, while the group will not disclose the figure, probably makes up about a tenth of sales.

Chairman Ian Willis says export markets were retained, but at reduced margins. Analysts feel the group pushed exports at the expense of profits.

Slackening demand led to closure of paper plant which had been adding to unproductive overhead costs. With signs that the world price for paper may be starting to bottom out, the group may have been getting a less favourable discount for its pulp purchases than before.

While the balance sheet remains pretty healthy, with gearing at a comfortable 9,9%, a threefold increase in capital spending, to R30,8m in the current financial year, is going to push interest costs up significantly from the present R986 000 — nearly half the amount paid in the previous period.

"Most of this investment will go on completing the rebuild of the Enstra Tissue machine," Partridge says. "It's a 30-year-old machine which needs about R40m to complete the extensive rebuild. That should be completed next month, but it will be about three months before it is operating at an efficient level, too late to benefit this year's results."

With Carlton contributing about a quarter of parent Holdains' turnover, the weaker performance should be seen in Holdains' results next week. Like ultimate controlling group Malbak, Holdains is heavily exposed to consumer spending, and its results could be an early indication of the effect the recession is having on the rest of the group.

Carlton's share price, however, has continued to trade above R40 since September. It was one of the strongest moving shares on the

market last year. At R43, it's not far from the R44 peak at the beginning of the year. The latest results should dampen the price, but with the share so tightly held by Holdains and US-based Kimberley Clark Corp, any downward movement is likely to be contained.

Shaun Harris

PLASTALL

Sounder footing

Activities: Makes plastic products, including bags, sheeting and furniture.

Control: Danglo 86%.

Chairman: W A R Wenteler.

Capital structure: 14,4m ords. Market capitalisation: R7,2m.

Share market: Price: 50c. Yields: 8,4% on dividend; 21,8% on earnings; p:e ratio, 4,6; cover, 2,6. 12-month high, 50c; low, 30c.

Trading volume last quarter, 5 000 shares.

Year to Sept 30	'88	'89	'90	'91
ST debt (Rm)	1,0	1,4	6,2	5,2
LT debt (Rm)	1,8	1,3	1,6	1,3
Debt:equity ratio	0,35	0,17	0,65	0,44
Shareholders' interest	0,37	0,45	0,38	0,42
Int & leasing cover	2,6	4,3	—	1,9
Return on cap (%)	13,9	16,8	—	11,1
Turnover (Rm)	48	52	65	64
Pre-int profit (Rm)	3,0	4,3	—	3,3
Pre-int margin (%)	6,7	8,3	—	5,2
Earnings (c)	13,6	22,0	(9,3)	10,9
Dividends (c)	—	—	—	4,2
Net worth (c)	56	80	81	87

After a bleak 1990 financial year, when the company slipped into the red, Plastall appears to be back on a sounder footing. It bounced back from last year's attributable loss of R1,3m, with earnings of R1,5m or 10,9c a share.

An earnings turnaround began in late 1990, driven by benefits from mergers, the Gundle acquisition and product improvements. These benefits became more marked in 1991, as shown by the fact that management was able to squeeze a profit out of a static asset base and lower sales. Improved efficiencies were reflected in the 5,7% drop in operating costs over the year.

The tax charge last year was R85 000, and will remain low for the next year or two, as there was a tax loss at year-end of R5,8m.

While the balance sheet is looking healthier, the interest and leasing cover remains uncomfortably low. On the other hand, borrowings are primarily short-term and, provided present trends are maintained, an easing of rates should help earnings.

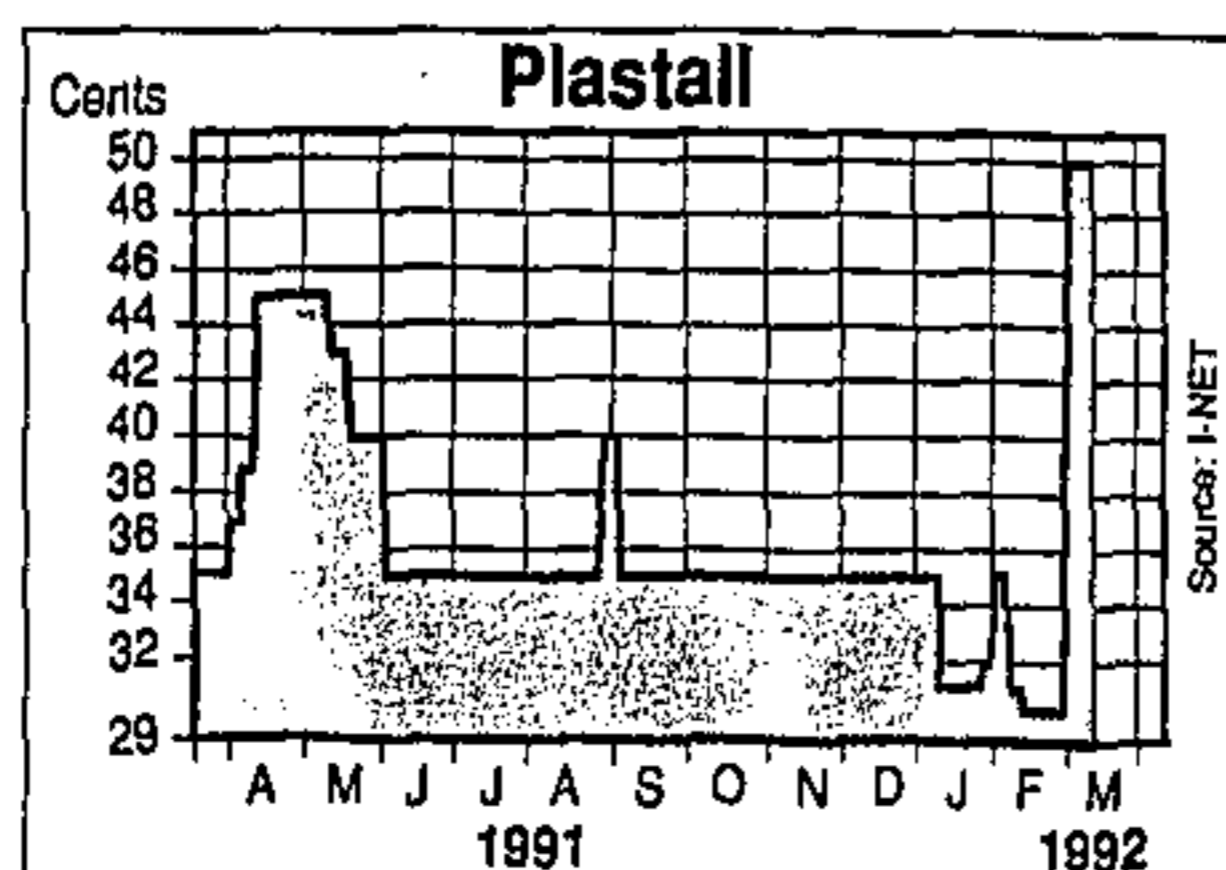
It's hoped that gains from the capital programme carried out over the past two years are only starting to unfold. Further improvements are expected now that the automation of its branch network has been completed.

The annual report is exceptionally uninformative about developments in the operating subsidiaries. Chairman Bob Wenteler does say that each of the operating units is

now financially accountable and subject to tighter management.

He adds that the full potential of the group has yet to be realised, as short-term factors such as destructive competition in certain markets, labour unrest in the Plastall Gundle operation and continuing high interest rates have severely affected attributable earnings. He is confident that real earnings growth will be achieved in future but there seems little point in expecting a rosy performance this year.

At 50c, on a 4,6 earnings multiple, the share is already well above from the 12-month low. It is worth watching. *Basit Barber*



STAR 27/3/92

Sharp drop for Sunpak

Finance Staff

194

The depressed economy has resulted in the Sun Packaging group reporting a 27 percent drop in operating income in its first half to end-February and a 40.7 percent drop in after-tax income to R1.88 million.

The directors say intense

competition in a declining market depressed margins, while lower export sales of synthetic paper resulted from moving Sunpak's plant to the United States.

Sunpak's earnings a share fell to 5.7c (6.6c), while Biopoly's loss rose to 7.2c (3.1c) a share.

Seardel's bid for Frame

STAR 27/3/92

worries clothing industry

Finance Staff

194/17

Some clothing manufacturers and fabric producers are apprehensive about the possible consequences of garment producer Seardel succeeding in its bid to buy 43 percent of shrunken Durban-based textile empire Frame.

For one thing, they claim, Seardel chairman Aaron Searle is president of the National Clothing Federation, so they envisage a conflict of interests for him in representing probably the two biggest operations on either side of the great divide between cloth-makers and their customers, the garment producers.

But probably of greater concern to clothing producers is Mr Searle's role on the "Hatty Committee", established at the instigation of the Board of Trade and Industry to try to reach consensus on the thorny issue of import/export policy for the two sectors.

One Durban factory owner said it was the view of many manufacturers

that the Hatty Committee was being too secretive about its deliberations.

Its proposals have been handed to the BTI and are expected to be implemented from April 1.

"I managed to get hold of the final proposed duty formula and, apart from needing a nuclear scientist to try to fathom it all out, it perpetuates the old problem of applying duties to some fabrics which either aren't made locally or which we can't get hold of in sufficient quantities or timeously enough for our needs," he said.

Export permits

"The formula worked heavily in favour of exporters of both clothing and fabric by rewarding them with duty-free import permits for either cloth or garments".

The Durban manufacturer said he had heard that exporters currently held permits for about R18 million-worth of goods.

Mr Searle said his

loyalties remained firstly to clothing manufacturers but — together with some of his associates, he saw Seardel's prospective acquisition of Frame as positive because it was bringing together two major players from the two feuding sectors.

Seardel and Gregory Knitting Mills (Seardel's consortium partner in the take-over bid) would assist Frame with technical and other expertise to try to "unlock the value" in the textile group's assets.

"We've got to do everything we can to bring down input costs because consumers are resisting abnormally high prices by refusing to buy," said Mr Searle.

"In my four months on the Hatty working committee, one thing I have seen very clearly is the need for clothing and textile manufacturers to work together for our mutual good."

● One of Durban's largest clothing manufacturer, SA Clothing Industries, plans to retrench 350 workers at the end of the month.

Holdains chief sees little short-term hope

STAR 30/3/92

By Derek Tommey

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Holdains faced extremely difficult trading conditions in the six months to February, says chairman Ian Willis.

He is pessimistic about any improvement in the economy in the six months to end-August.

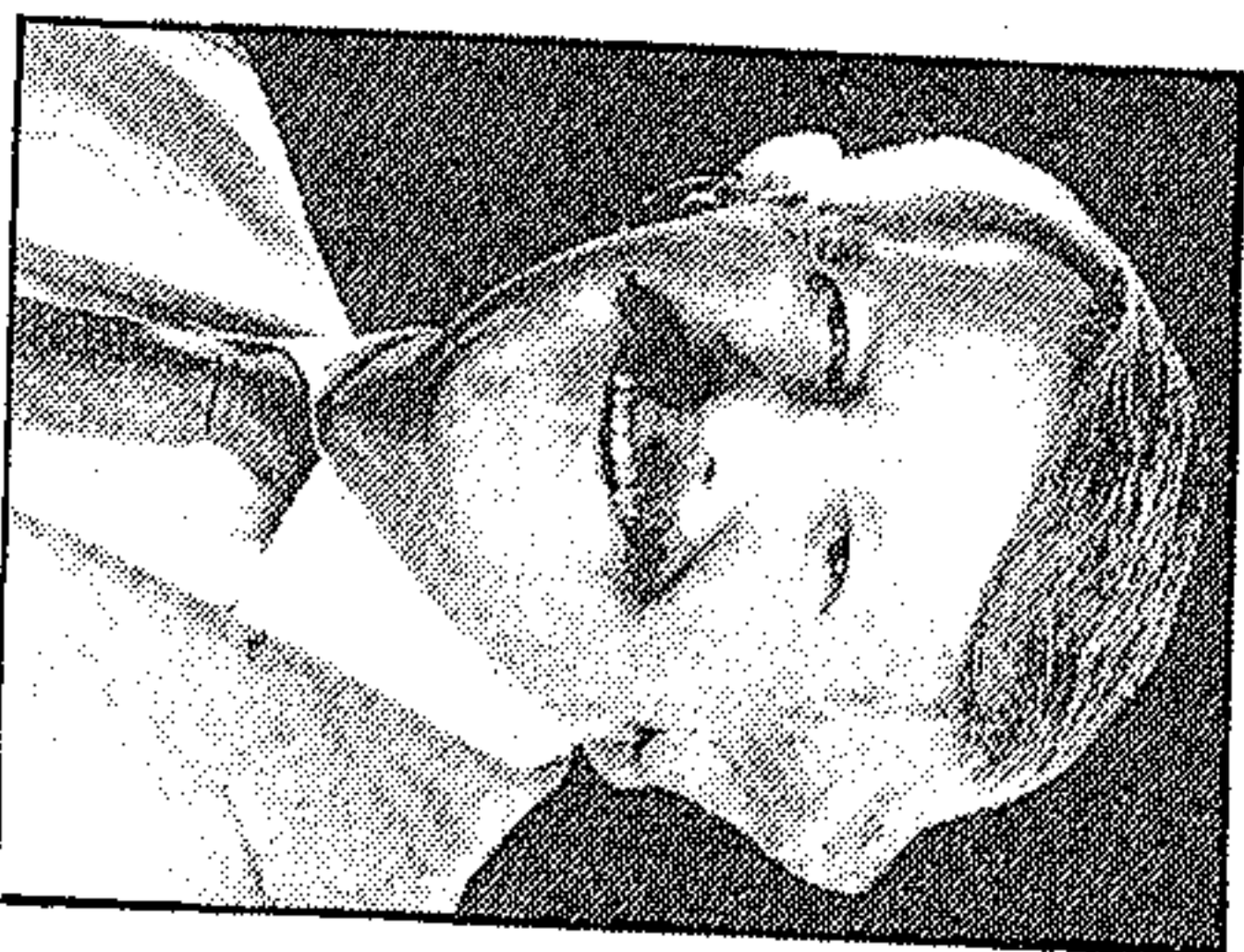
However, the company was able to raise turnover six percent to just short of R1,2 billion in the six-month period.

Operating profit declined five percent from R105,2 million to R99,5 million, while attributable earnings rose seven percent to R40,8 million (R38,0 million a year ago).

A 1,5 million increase in the number of shares in issue resulted in earnings rising only one percent to 168,1c a share.

An unchanged interim of 51c has been declared.

Mr Willis says increased earnings were achieved against a background of consumer hardship and unprecedented unemployment.



Ian Willis . . . pessimistic

This weakened demand for both consumer durable and semi-durable products and, consequently, for paper and packaging products.

"We certainly got no boost whatsoever from sales because the trading environment was harsh and consumers struggled. Instead, the Holdains manage-

ment team remained totally focused on improving efficiency and on achieving greater control of the assets at its disposal so as to produce the best possible results."

He believes that there can be no short-term solution to the prolonged recession.

He says that even allowing for management squeezing out further efficiency — which would be difficult — any expectations of a greater improvement in the second half must be viewed with caution.

Kohler Packaging performed particularly well in very competitive circumstances.

Turnover was similar to that of last year, but operating profit was down because of pressure on margins.

Graphtec Holdings made excellent progress, again in difficult trading conditions.

It should continue on this course for the rest of the financial year and improve earnings capability substantially in the

next financial year.

Carlton Paper had experienced a marked reduction in trading opportunities since last November.

Sunvest, in which Holdains acquired a 65 percent stake last year, saw its subsidiary Sunpak's core business — white trays — suffer from lower volumes and a margin squeeze.

Because of a weak market and lack of demand for polymer from Sunpak, Sunvest's subsidiary Bioploy reported a loss.

Bioploy's US venture is on schedule for start-up in the second half of the year, but incremental benefits will only flow through in the next financial year.

The profit statement shows that the drop in the operating profit was partly offset by a 20 percent drop in financial costs to R17,9 million, and a drop in tax from R30,7 million to R28,4 million.

The interest of outside shareholders fell 12,6 percent to R12,4 million.

Interest-bearing debt was reduced to R185 million from R213 million a year ago.

Holdains holds up despite slow sales

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B/day 30/3/92

MARCIA KLEIN

HOLDAINS, the packaging group in the Malbak stable, has reported a 7.3% rise in earnings to R40,8m (R38,0m) in the six months to end-February despite low turnover growth and reduced operating profit.

CE Ian Willis said results, which were achieved in a harsh trading environment, reflected "management's efforts to control the internal costs of the business".

Turnover rose by 6% from R1,1bn to R1,2bn and operating profit was down by 5% from R105,2m to R99,5m. Willis said increased consumer hardship and unemployment, and weakened demand for consumer durable and semidurable products, resulted in lower demand for the group's paper and packaging products.

But although Holdains got "no boost whatsoever from sales", he said management had remained focused on improved efficiency and greater control of assets.

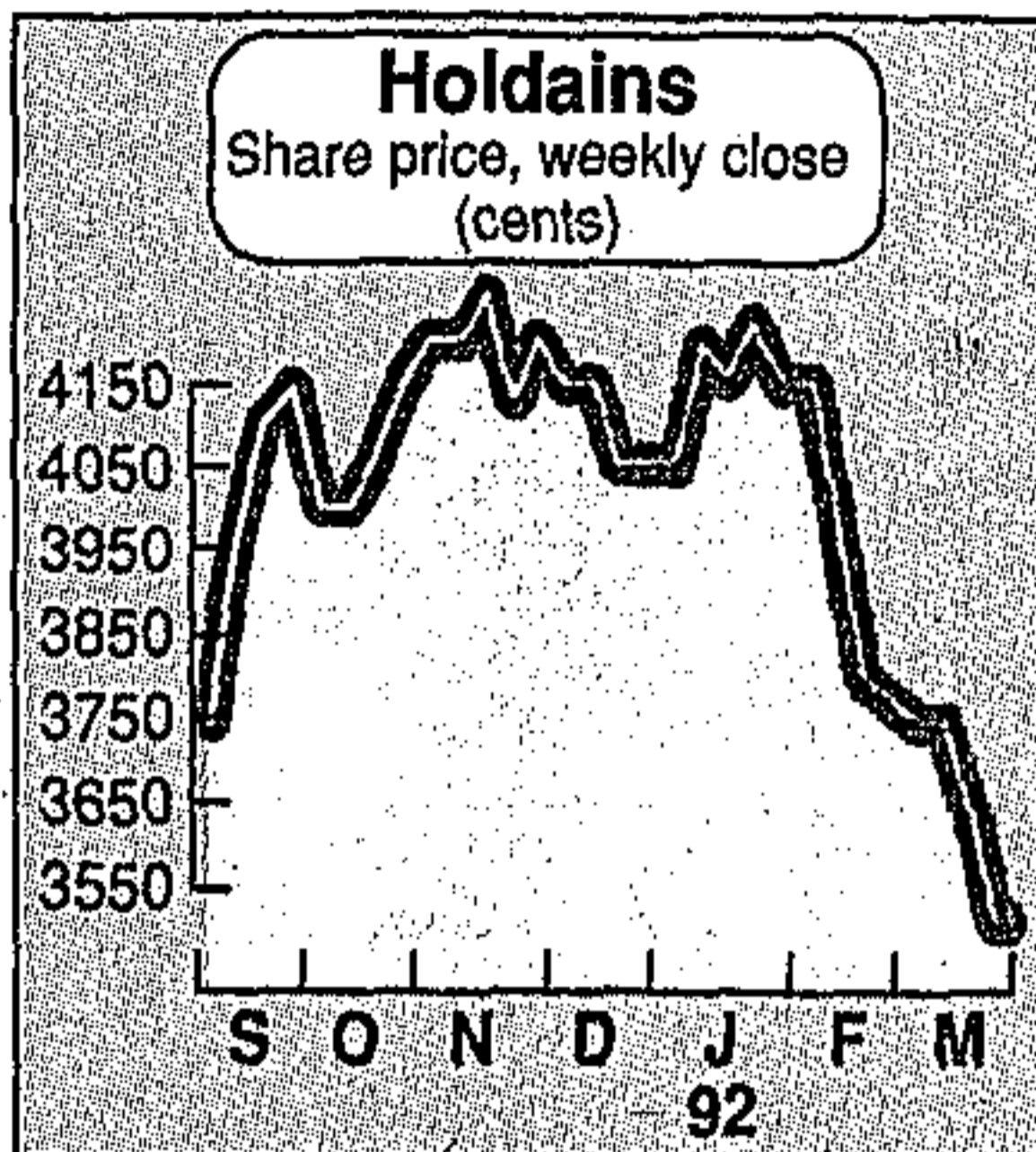
Total interest-bearing debt was reduced from R213,0m to R184,6m and gearing was improved from 44,3% to 33,3%. A 20% reduction in financing costs to R17,9m and a reduction in the group's effective tax rate saw income after tax increase by 2% from R52,2m to R53,2m.

Reduced outside shareholders' interests and maintained preference dividends re-

sulted in the 7% attributable earnings rise. Earnings grew by only 1% to 168,1c (166,7c) a share on 1,5-million additional shares in issue after acquisitions made last year. The dividend was maintained at 51c a share.

Willis said the Kohler Packaging divi-

□ To Page 2



Graphic: LEE EMERTON Source: I-NET

Holdains

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□ From Page 1

sion had performed well in a competitive environment. Although turnover was maintained, operating profit was down. This resulted from pressure on margins, in spite of reduced expenses and improved operating efficiencies. However, working capital control and reduced interest costs resulted in improved earnings.

Graphtec Holdings had done well. New management was in place, and corrective action continued to produce positive results. He expected this trend to continue in the second half, and said Graphtec would "substantially improve earnings capability in the next financial year".

Since November, there had been a marked decline in trading opportunities for Carlton Paper. Willis said some paper

machines were shut for extended periods, causing underrecovery of costs, and exports were retained at reduced margins. These factors resulted in a 2,8% earnings drop in this division.

Sun Packaging Investments, which reported a 46% decline in earnings, saw its core white trays business suffer from reduced volumes and pressure on margins. Its Biopolymers division incurred a loss, and benefits from the group's US venture would only flow through in the next financial year.

Willis said Holdains would focus on improved efficiency and greater control of assets over the next six months. But he said expectations of second-half improvement should "be tempered with caution".

PAPER INDUSTRY

Waiting on a key decision

The Board of Trade & Industry has been reviewing the tariffs on imported paper for nearly two years and is still more than a month away from a decision. All the while, companies and other paper consumers wait to hear whether they'll be able to buy lower-priced and higher-quality paper, or whether the paper manufacturers will make fatter profits by charging them higher prices.

The original brief in June 1990, from then-Minister of Trade & Industry Kent Durr, was to look into reducing paper tariffs, which had not been examined since 1966. By the time the board released its preliminary findings a year later, Durr was gone and the board had decided that some paper tariffs had to be raised (*Business & Technology* July 19). That proposal met with a storm of protest and the board went back to the drawing board.

Nothing happened for several months, until finally the Newspaper Press Union asked about the status of the investigation. In response, the board held a meeting last month in Pretoria and invited a wide range of industry representatives. Included were all the major opponents of higher tariffs — the union, the Printing Industries Federation and the Association of Paper Distributors; the major users of paper such as Consol, Kohler, Nampak and Carlton Paper; and the main advocates of higher tariffs, the two paper giants, Sappi and Mondi.

The board also has considered the 423 letters it received and contacted trade officials in 13 countries. Now, board chairman Nic Swart, who's been in office for only a month, says the investigation is "in its final stages." He adds that the findings should be on the desk of new Trade & Industry Minister Derek Keys by May.

Keys' decision will be closely watched because he sat on the Sappi board for more than 10 years and Gencor, where Keys was executive chairman until January, owns 50% of Sappi. The decision could be his first ruling on tariff matters, so it will be the first concrete proof of whether he will favour freer trade and a greater export orientation or protectionism with, at best, a slowly phased reduction in tariffs. His comments so far and his background in the heavily protected industrial sector have convinced his critics that he will take the latter course.

Dishing out prizes

The board's final proposal may answer the main criticism of the first proposal — that because the new tariff structure would reduce the number of categories, some types of imported paper would be hit with duties even though they are not made locally. Swart says the board is considering rebating the duties on the types of paper that are not made here.

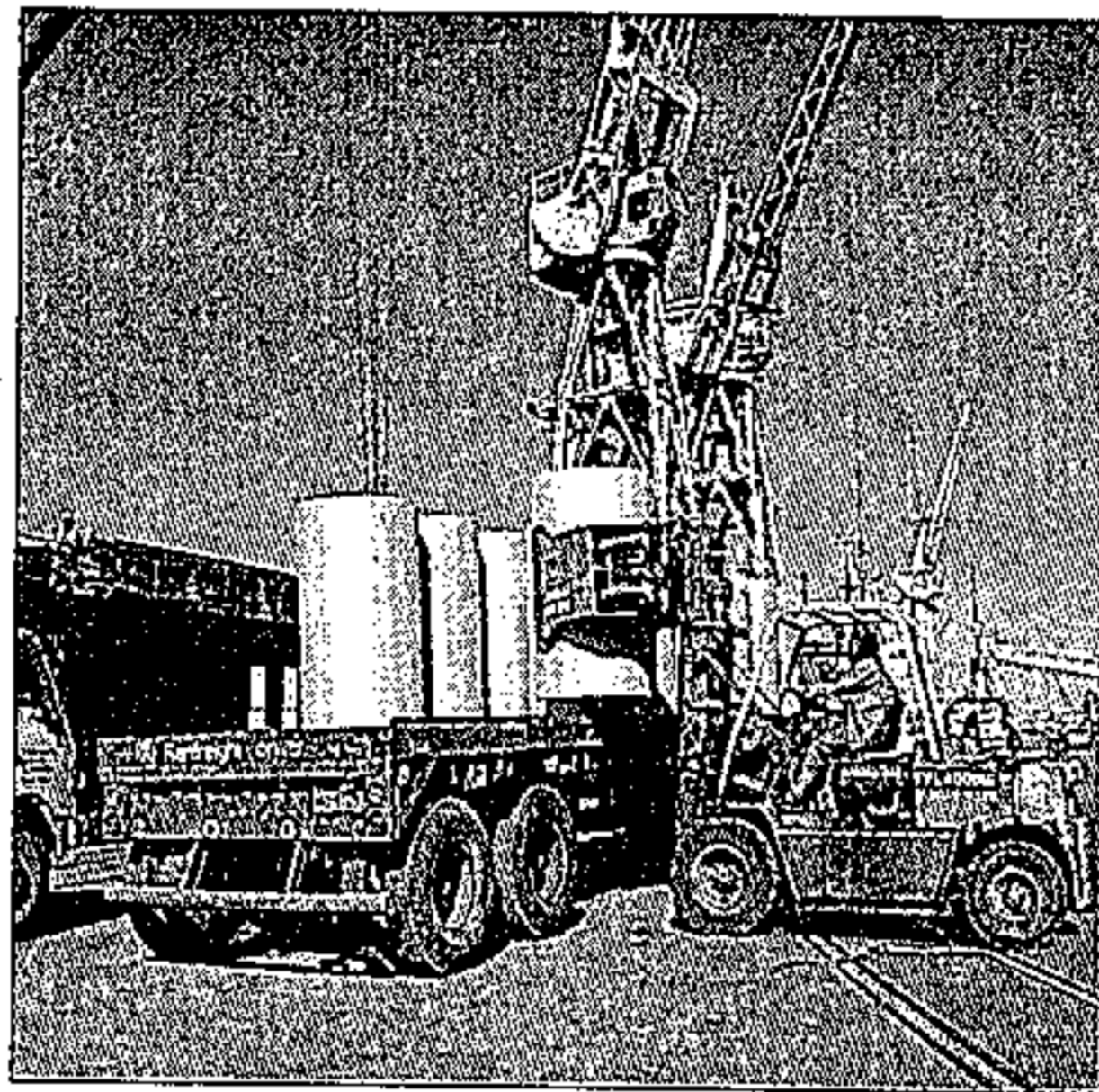
Overall, he says, the board is looking at maintaining moderate levels of protection for the R5bn-a-year industry. His justifica-

tion: the industry's "positive contribution to the economy as a whole and its ability to compete on both the local and export markets."

This, of course, breaks new ground in defending protectionism. Usually, the argument for protection is to nurture infant industries until they get on their feet or to shield uncompetitive industries that would collapse without some assistance. Now the board is rationalising protectionism by calling it a reward for being competitive, forgetting that it's the absence of protection that makes an industry competitive in the first place.

All of this does not make the press union happy. GM Syd Pote says that at the Pretoria meeting, he learnt that Sappi and Mondi have now also asked for a 10% duty on newsprint, though it has always been duty-free and almost no newsprint is now imported. He believes the board may grant the request because it would simplify administration — customs officials would not have to determine what is and isn't newsprint.

Adds Pote: "We got the distinct impres-



Booming exports ... and paper-thin case for protection

sion that the board was considering increasing levies on paper as part of a revenue-gathering quest by a cash-strapped government, so it was sympathetic to the manufacturers' demands."

Pote says the union now feels that it should go directly to Keys to lodge its objections and demand a second hearing if the board recommends higher tariffs.

Robin Bosomworth, a strong critic of protectionism who successfully fought a proposal for higher tariffs on wire rods last year, says the paper saga is the same old story that's repeated in industry after industry as companies try to bolster profits at the expense of consumers and talk government into going along. "Everything manufactured or grown in SA costs more inside the country than outside. It's cheaper for Wilbur Smith to print his books in the UK — probably on SA paper."

Meanwhile, the board is also investigating complaints by the paper industry over the alleged dumping of uncoated paper and paperboard from Brazil and Canada. Under the highly protectionist anti-dumping Bill

tabled last month (*Economy & Finance* March 6), complaints such as these will become more common as companies turn from tariff applications to anti-dumping actions to limit competition. The investigation was launched in December and should take at least a few more months to complete. ■

Squeezing the lemon (194)

With sales largely dependent on consumer durable and semi-durable products, a sector where demand has fallen off sharply since last November, paper and packaging group Holdains has put in a creditable half-year performance by advancing turnover and earnings.

The increase — earnings up 7% to R40,8m on a 6% rise in turnover — represents negative growth in real terms. But CE

Continue →

Ian Willis points out that, with consumer demand reaching its low in this recession, results have had to be squeezed out from within the company.

This shows in the balance sheet, where interest-bearing debt is down 13% to R185m, pulling gearing down to 33%. Interest paid has dropped to R17,9m (1991: R22,3m), and export benefits and a lower rate have seen tax drop slightly by R2,3m to R28,4m.

Willis says earnings were only possible through tighter control of working capital. "We've had to squeeze the lemon from the inside and we've done it well," he says. "We had no latitude to increase sales at all and had to learn new efficiencies and tighter controls. Capex has been spent on finishing equipment to make operations more flexible and responsive to shorter order times."

Capital spending of around R70m has been budgeted for this year, going mainly on top performers Kohler Packaging and Carlton Paper. Together, these two divisions account for more than two-thirds of group turnover.

Acquisitions made last year — a 65% investment in Sunpak and an increased holding in Carlton Paper to 50,1% — diluted EPS with a further 1,5m shares in issue.

46% plunge.

Willis says, however, that Sunpak is building an offshore market and the new plant at Cincinnati is due to come on stream in the second half of the year, though benefits will not flow through until the next financial year.

Exports, while less than 10% of group turnover, are rising and Willis says the group will continue to push these products.

The past six months have seen the share price rise to a high of 4 250c, dropping since January to R35. That comes at a bad time, when it was argued that the share was due for a rating more in line with the bigger groups in the sector. The latest results could improve the current price, or at least ease the slide, but prospective investors should probably wait for the year-end results before making any decisions.

Shaun Harris

STILL GROWING

Six months to	Feb 28 '91	Aug 31 '91	Feb 29 '92
Turnover (Rbn)	1,09	1,12	1,15
Operating income (Rm)	105	107	100
Attributable (Rm)	38	44	41
Earnings (c)	166,7	191,5	168,1
Dividends (c)	51	70	51

Accordingly, EPS only advanced by 1%. However the interim dividend of 51c was maintained.

Holdains' sensitivity to consumer spending, and consequently the cut-back in spending by the man in the street, is clear when the latest figures are compared with earlier results. Year-ago interims show operating profit up 16% on a 7% increase in turnover — now a similar growth in turnover sees operating profit drop by 5%. Like parent Malbak, to which Holdains contributes about a quarter of turnover, it seems there is not much the group can do to boost profits until economic conditions ease and free up spending. Until then, it will have to continue tightening control of costs.

Both Sunpak and Graphtec Holdings, which have done little for the bottom line in the past six months, should increase contributions in the next financial year. Willis says Graphtec, after "internal corrections," is making good progress and offers promise.

Sunpak's core business, white trays, has seen margins under pressure and reduced volumes in its competitive market. The Biopoly business is running at a loss because of slack demand for polymer, resulting in consolidated earnings for the half-year taking a

Sappi set to expand foreign operations

CT 15/4/92

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Own Correspondent

JOHANNESBURG. — Sappi, which today reports lower year end earnings, could be about to expand its foreign operations.

A market analyst believes this is the import of a cautionary announcement saying Sappi is involved in negotiations regarding a possible acquisition.

Reporting its results for the year to end-February, Sappi says that on the back of a depressed local market and "extremely difficult" trading conditions in the UK, earnings are 24% down to 305c a share from 402c last year.

However, an unchanged final dividend of 120c a share was declared, giving an unchanged total dividend of 200c a share

and narrowing the dividend cover to 1,5.

This is the third year the paper group has declared a 200c total dividend, despite earnings having more than halved to 305c from 650c over the comparable period.

Sappi's UK operations were particularly hard hit during the second half-year, shown by the plunge in equity accounted earnings. These earnings, reflecting largely the retained income of its UK operation Sappi Europe and the Hong Kong business Speciality Pulp Trading (SPT), dropped to R17,3m in the second six months from R48,9m in the first half.

Chairman Eugene van As said both prices and volumes were down at Sappi Europe. "It has nevertheless made a small contribution to profits after

taking account of its finance charges," he added.

SPT was, however, "operating well and made a healthy contribution to profits".

The local operations had a better second half as the group in the Gencor stable halted the decline in its trading profits.

In the second half they decreased 12% to R212m from R241m in the same period last year, compared with the 22% drop to R187m (1991: R241m) in the first half.

Trading income for the 12-month period declined 17% to R400m (R482m).

However, the lower turnover growth in the second half, dropping to 4,7% from 9% in the first six months, meant turnover increased only 6,5% to R2,84bn from R2,67bn in the full year.

"Saiccor and Ngodwana were

particularly affected and, while operating at record production levels in the last quarter, suffered from their high exposure to world selling prices," Van As said.

About R260m of the R1bn proceeds from last October's rights offer have been used to reduce long-term borrowings, with the remaining R740m at yearend held as cash.

The rights offer proceeds contributed about R40m to the reduction of R70m in net finance costs to R210m (R281m).

Control over capital and reduced expenditure accounted for further reduction.

Despite the reduced finance costs, interest cover was low at 1,9 times, although this was up on the previous year's cover of 1,7.

Mark hart

+ 6

Call for tax on harmful packaging

BLD 29/4/92
MEREDITH JENSEN

A LEADING world authority on waste disposal has called for a tax on packaging containers which threaten the environment.

David Pearce, economics professor at University College London, told a recent news conference recycling efforts such as the deposit-refund system were too costly for companies. He proposed industry impose a levy on containers so the price of a product would reflect its disposal costs.

"The more damage a container does to the environment, the bigger the levy. The higher the recycle rate, the lower the levy. In effect, your goods will cost more if you do not practise package reduction; if you don't recycle," he said.

Pearce said people would not change their environmental habits without an incentive.

In terms of raw materials, the highest tax would be levied on paper followed by plastics, aluminum and glass.

There is a significant market for returnable and refillable glass bottles. Consol Glass MD Piet Neethling said about 20% of glass produced by Consol came back for recycling.

A spokesman for Coca-Cola franchiser Natbev said its 1.5-litre returnable plastic bottles could be used more than 20 times.

Nampak's environmental affairs manager Hal Rosholt said SA recycled about 11% of plastics produced, compared to about 2% for the US.

Packaging Association of SA executive director Owen Bruyns said industry must embrace the philosophy of recycling as a partnership with consumers.

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Speculation over Sappi acquisition

PAPER manufacturer Sappi is expected to make an announcement today on a major offshore acquisition, industry sources say.

A Sappi spokesman confirmed that "an announcement" would be made shortly but would not confirm it would be about an offshore deal. Industry talk has been of an acquisition in Germany. ~~194~~ ~~194~~

Market analysts believed Sappi would prefer to finance an acquisition through a share swap rather than involve itself in a cash deal. Sappi executive chairman Eugene van As would not be drawn on the matter yesterday. *Bipam 5/5/92*

The speculation follows a cautionary announcement three weeks ago that the group was involved in negotiations for an acquisition. Van As had been quoted as saying that Sappi's strategy was to become a global player in the paper and pulp market by the turn of the century.

Competitors believe this will be possible

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only once Sappi broadens out of its present narrow product range in Europe.

Last year Sappi established Sappi Europe after buying five British fine paper mills for R500m. The company also announced last year that it had established a Zurich-based company, Sappi Trading, to handle its offshore trading activities. It also acquired the Hong Kong-based pulp and trading house, Speciality Pulp Trading, which holds contracts to distribute Sappi's non-rand denominated sales.

The group is on the lookout for further European acquisition opportunities. Sappi Europe MD Kim Jokipii said last year that the company was looking to form a European network to market products produced both in SA and the UK as one package.

Sappi shares held steady yesterday afternoon at R43,50 after rising from R38 in the middle of April.

Control acquired via share swap

German deal makes Sappi a world leader

Biday 6/5/92

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MADDEN COLE

IN AN international deal valued at R825m (in finrands), SA's largest pulp and paper manufacturer Sappi yesterday became one of the top 15 paper manufacturers in the world.

Executive chairman Eugene van As said Sappi had acquired the controlling interest in Hannoversche Papierfabriken Alfeld-Gronau AG (Hannover Papier), one of Germany's leading producers of coated wood-free paper.

He added that the acquisition was Sappi's second major step into the international arena in less than two years. In June Sappi bought control of five paper mills in the UK.

The current deal marks the first time since financial sanctions were imposed on SA that a local company has swapped shares to acquire control of a foreign company.

"The deal enhances Sappi's position as an international forest products group. In future approximately two-thirds of the group's turnover and profits will be generated from exports and from Sappi's non-SA subsidiaries," Van As said.

Sappi is acquiring 90% of Hannover Papier's share capital, 80% from Ncb Aktiebolag of Sweden, a pulp and paper company, and 10% from Commerzbank AG,

Germany's fourth largest bank. The remaining shares are publicly held.

Sappi will settle the purchase price by the issue of new ordinary Sappi shares to Commerzbank and by the issue of convertible debentures for Ncb shares. Ncb will receive cash and Sappi will assume Hannover Papier's existing borrowings of DM370m (R763m at the finrand rate).

Sappi proposes to place the ordinary shares arising out of the conversion of the debentures which are to be issued for the acquisition.

The placing will be made in the Euro-equity market with major international investors and with SA institutional investors that already hold Sappi shares.

Van As said the price would be the prevailing market price at the time of placement in Europe and in SA.

As a result of the acquisition, Sappi intends applying for a listing of its shares on the London, Frankfurt and Paris stock exchanges.

"Arrangements are well advanced in applying for these listings," Van As said. He said he expected the acquisition to retard the rate of growth in recovery of Sappi's

□ To Page 2

Sappi

Biday 6/5/92

earnings a share in the first three years. Earnings would start rising after that.

"In the medium term, as Hannover Papier's products are integrated and marketed with those of Sappi Europe, the acquisition will make a material contribution to earnings a share."

Van As added that Sappi would in future consolidate all its controlled subsidiaries outside of SA which were currently equity accounted.

The acquisition would have no material effect on the net asset value of Sappi or on the level of its debt-to-equity ratio, he said.

Asked what percentage of group assets were now held abroad, Van As said of the total asset base, 35% was invested abroad and the balance in SA.

"Hannover provides us with a strong

base in Europe, both in sales and production," he said.

"What we are doing is buying great assets at a substantial discount, estimated at a 40% discount to the replacement value of these assets."

Hannover Papier employs 2 650 people. In 1991 it had a turnover of DM750m.

Van As said the German company's range of products complemented that of Sappi Europe, which meant Sappi would be able to offer its customers one of the most comprehensive ranges of high value-added paper grades in Europe.

The move into Europe did not mean the group would cut down on local expansion, Van As said.

"We are not cutting back on SA growth and will continue to invest heavily in SA."

From Page 1

Sappi ups international stakes in R

1914

CT 6/5/92

From MADDEN COLE

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STANDARD INFORMATION

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COMPANIES

Sappi's acquisition tests foreign confidence in SA

BIDday 715792 194

LONDON — Sappi's DM400m takeover of Hannover Papier of Germany is being regarded here as both a coup and a test of foreign investor confidence in SA.

"The fact that European institutions are prepared to take Sappi shares, ultimately, is extremely positive for SA Ltd," said John Taylor, analyst at brokers James Capel.

"Whether it will be as good for Sappi remains to be seen but paper-making is being seen as a recovery sector worldwide.

"And now that Sappi is in the major international league it is going to be regarded more as a sector investment than just an SA stock."

Until yesterday's surge to R48, Sappi had lagged the big European paper shares. At R42 Sappi was 45% up from its 1991 low and at \$12,35 (via the finrand) it was rated on an earnings multiple of 11,3 and a dividend yield of 5,7% to foreign investors.

By comparison the UK Bowater group's share price has risen 91% from its 1991 low point, commands a price-earnings ratio of 18,5 and yields only 3,6%. This year Bowater, cap-

JOHN CAVILL

italised at £1,7bn, has climbed 32%.

Yesterday's jump by Sappi closed the gap, making its 1992 gain 29% and driving the yield down to 5% while the historic p/e went up to 12,8 — before any dilution following conversion of the debentures into about 20-million new shares. At current prices the enlarged group will have a market value of \$1,7bn.

The question about Sappi is whether shares issued for Hannover will remain in European hands after the group is listed on the London, Frankfurt and Paris stock exchanges.

The last big SA issue, of 12-million Liberty Life shares to raise £80m, was fully underwritten in Europe but most of them have now returned home as SA institutions bid the price up and foreign subscribers took a profit. "If you want to buy Liberty in any quantity you have to get the stock from Johannesburg," said one dealer.

Barlow Rand had the same experience in 1984 with the 12-million shares placed in the UK when it bid £280m for J Bibby.

One analyst, who wished to remain

anonymous, said: "A lot will depend on where the Sappi convertible is placed and the timing of conversion to equity. There is good support from the Germans but the Liberty issue showed there was not yet much appetite for SA paper. The homes which were found for the shares turned out to be overnight car parks.

"We don't really know if the market is ready to accept around £135m of SA shares, especially as Sappi's attraction as a rand hedge has been redoubled. If the SA funds really go for it there is no doubt we'll see a lot of stock being returned."

Other analysts were more optimistic. At Smith New Court corporate finance, Tim Read, who recently led a team of 14 international fund managers on a tour of SA, said: "Of all the companies we visited, Sappi was rated as one of the best run."

At Kleinwort Benson, David McCrosland commented: "There is every reason why Sappi could be seen as attractive to European funds. The sector is generally viewed as one for recovery and most of the companies in it command ratings similar to that of Bowater."

NEWS FOCUS

Sappi's foreign foray gears it for the big time

Monday 8/5/92

CHERILYN IRETON

SAPPI has a huge acquisition to digest before it is able to truly say it has joined the top league of international paper and pulp producers.

But there can be little doubt that its latest foray into Europe, with the DM800m acquisition of Hannover Papier, has placed it in an enviable position in the lucrative market for speciality papers. The price Sappi is paying includes a DM400m share swap for 80% of Hannover Papier's shares and DM370m of debt Sappi has taken over.

Hannover Papier is Germany's largest producer of coated woodfree paper and the fourth largest coated paper producer in Europe.

This gives Sappi an important outlet for its pulp and paper products, a factor which should reduce some of the cyclical nature of Sappi's business, eventually promoting better operating efficiencies.

World paper prices are now signalling an upturn and if management's targets are accurate, Sappi shareholders will start to enjoy stronger earnings growth within four years.

That sounds like a long wait, particularly since Sappi will have to issue around 15% more shares to settle its bill. In addition, executive chairman Eugene van As says a refinancing of Hannover's debt will be undertaken in order to strengthen its balance sheet.

But the quality of the management and the assets that Sappi is acquiring — at a discount of about 45% to replacement value — and the eventual benefits of having an in-house outlet for its pulp and paper products could well overshadow any short-term concerns. Sappi secured Hannover Papier after a protracted auction of the 80% shareholding of Sweden's

troubled Ncb Aktiebolage.

At present more than 92% of Sappi's shares are held by SA institutions which will probably be more than happy to sit on their investment until Hannover Papier's earnings growth matches that of Sappi's.

This will depend largely on how quickly world paper and pulp markets recover. Although Hannover Papier will start contributing to Sappi's earnings immediately, management has told investment analysts to knock 15% off their Sappi growth forecasts in the first year — because of the dilution factor resulting from the issue of new shares — and 7.5% in the second.

Dilution is expected to be completed in the fourth year of Sappi control.

But once the acquisition has been absorbed under the umbrella of Sappi Europe, the offshore arm is expected to account for a third of Sappi's profits. One third should come from SA exports and the remaining third from the domestic market, says Van As.

Part of the attraction of the deal is that the revenue earned from Hannover Papier will be in hard currency and will be fully taxed — an important factor since Sappi will lose most of its SA tax shield in two years time when the benefits of past capital expenditure start dissipating.

The payment plan for Hannover Papier is complicated and includes a Euro equity issue which will see the placing of about 19-million new shares by a consortium of European and SA banks and brokers, with foreign investors.

Existing SA institutional investors will also be able to bid for the new

scrip. This includes parent Gencor whose holding will be effectively diluted from 49.9%.

Van As says Gencor is not concerned about a limited dilution in its stake, as long as the absolute value of its investment grows.

"You don't need 50% for control," he says.

However a couple of stock market analysts believe that Gencor may not be in too much of a hurry to buy new Sappi stock and could well let its holdings drop to between 40% and 43% of the shares in issue. This strategy, they believe, could be extended to other subsidiaries, particularly Engen, which is considering acquisitions in Africa.

While not quite the unbundling of Gencor first mooted by Derek Keys in 1990, this, they maintain, would represent a determined effort by Gencor — or at least ultimate parent Sanlam — to loosen its grip on its industrial subsidiaries.

Gencor sees the Sappi scenario differently.

Gencor's investment adviser and Genbel MD Anton Botha says at worst Gencor's holding will be diluted to about 45%.

"The group has indicated that it is keen to take up its entitlement to at least half of any new shares on offer to SA institutions.

"Since it is a foreign acquisition we are keen to attract foreign money and to do so are prepared to dilute our holdings. But it is not necessary to dilute our investment in favour of SA players," he says.

If Sappi had acquired an SA operation, Gencor and Genbel, who hold a combined 55% of Sappi, would have been happy to provide their share of the funds in order to maintain their investment in Sappi, Botha says.

SAPPI

FM 8/5/92

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Becoming even more of a global player

In a major deal for the Gencor stable, Sappi announced after the close of JSE business on Tuesday that it is acquiring 90% of one of Germany's leading makers of coated wood-free paper, Hannoversche Papierfabriken (Hannover). Ironically, the main vendor is a loss-making Swedish public corporation,



Sappi's Van As ... bailing out the Swedes

NCB, confirming that SA should follow an Anglo-American private enterprise model rather than the Swedish middle way.

Subject to normal Reserve Bank approval, Sappi will pay R825m for Hannover (at the financial rand rate) through the issue of shares and convertible debentures on Euro-equity markets. Sappi will be listed on the London, Frankfurt and Paris exchanges.

In July Hannover commissioned a new coated paper machine at Ehingen, east of Stuttgart, as well as upgrading operations. Over the past four years Hannover has substantially modernised and refurbished its operations in Hannover, not far south of Hamburg. None of the paper mills in the former East Germany, which Sappi's international development team visited, was deemed to be of this quality.

Holding back EPS

German accounting principles make it difficult to work out the contribution Hannover will make to Sappi's earnings — Germans are primarily concerned with cash flow. But the acquisition will retard recovery in Sappi's EPS for the first three years. Sappi will also assume Hannover's borrowings of DM370m though the announcement says the buy will have little effect on its NAV or

debt:equity ratio.

Hannover — established in 1706 — is one of Germany's oldest companies and Europe's fourth largest woodfree coated paper business. Quality coated papers are used to produce glossy magazines such as *Leadership*. In 1991, Hannover turned over DM750m and employed 2 650 people.

Its management is headed by Franz Neudeck, a respected figure in the paper industry, who expects synergistic benefits from the change of control. He also expects Hannover to upgrade and extend its product range with Sappi's established products. In any event, Sappi should know more about making paper than the Swedish government.

Sappi executive chairman Eugene van As says the deal was undertaken with the full support of both Gencor and Sankorp, which has ultimate control of Sappi. This is Gencor's first major deal since Derek Keys left to join the Cabinet this year.

In 1990 Sappi bought five mills in the UK. These have been formed into Sappi Europe. Says Van As: "We do not take the commonly held SA view that the UK is not part of Europe, but we are not planning a large London office. The German and UK operations will report separately to me."

So in a well-worn phrase, Sappi is becoming more than ever a global player. It will generate two-thirds of turnover and net profit from exports and non-SA subsidiaries.

At the prevailing price, Sappi would have to issue the equivalent of 22m-23m ordinaries to finance the deal, on top of the 93m in issue. Since the announcement came after the close of business, stock market analysts have not had time to digest the news, but the deal must enhance Sappi's status as a rand-hedge stock.

Stephen Cranston

NEDCOR

Still tough times

Drought, unrest and continuing recession held back results in the six months to March. CE Chris Liebenberg says business volumes did not grow as much as expected, and, though less than 5% of the book is directly related to agriculture, he gives the impression that there could be a considerable knock-on effect.

Unrest not only held growth in home loans to 8% (and most of that was in Nedbank rather than the Perm) but required a R41m provision against bad debts. Liebenberg says black home loans are only 23% of the Perm's total book. In spite of this heavy charge, total provisions of R103m are only 12,9% of net interest income, against 12,7% at this time

last year, confirming that the real crunch was taken in the second half of 1991, when R149m provisions were 21% of net interest.

Syfrets was the other problem area, with "underperforming" assets at De Bruyn and another (unidentified) property developer. The stars were the old core businesses of Nedbank, UAL and Nedfin; while the Perm was picked up cheaply, and Finansbank (another below-par performer) had to be bought to acquire the services of Piet Liebenberg (who has now moved on to Absa), a cynic might wonder whether Nedcor might not

STILL GROWING

Six months to	Mar 31 '91	Sep 30 '91	Mar 31 '92
Advances (Rbn)	28,0	30,8	33,2
Deposits (Rbn)	33,2	35,4	38,6
Net interest (Rm) ..	661	704	796
Net profit (Rm)	167	174	192
EPS (c)	90	95	102
Dividend (c)	19	38	21

have done better to stick to its knitting.

Also, though Liebenberg stresses the need to cut the dependence on interest income, in relation to pre-tax income it's as high as ever.

While expenses (up 21%) still outstrip inflation, the trend is favourable and Liebenberg expects a lower full-year increase. He seems more concerned at tax rates: including the financial services levy, the effective rate rose from 42,2% a year ago to 43,5%. Liebenberg says that if unrecoverable VAT payments are included, it would top 50%.

The basic tax charge was only 8% up, against an 18% rise in pre-tax income, and, as NedPerm came out of its tax loss, this is evidence of good tax management.

Liebenberg is also proud of the balance sheet, which is already almost in line with the new DTI 8% capital requirement, even without much asset revaluation. In terms of the phasing-in requirement, there's some R700m surplus capital; so there's ample room for growth when the economy picks up.

That may not happen this half, which Liebenberg expects to be tough, with no cessation of the problems that bedevilled the first half. But a hoped-for nonrecurrence of last year's heavy second-half provisions should make his target of a growth rate similar to the first half's attainable.

That would suggest annual EPS of close on 200c, with a final dividend of perhaps 43c or 43,5c (though Nedcor does not like 0,5c declarations). The share price has outperformed SBIC but lagged FNB over the past year and, on balance, still looks fair value.

Michael Coulson

Recession puts rein on Nampak's prices

By Derek Tommey

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Tough economic conditions made it extremely difficult for Nampak, SA's largest packaging company, to increase prices in the six months to March.

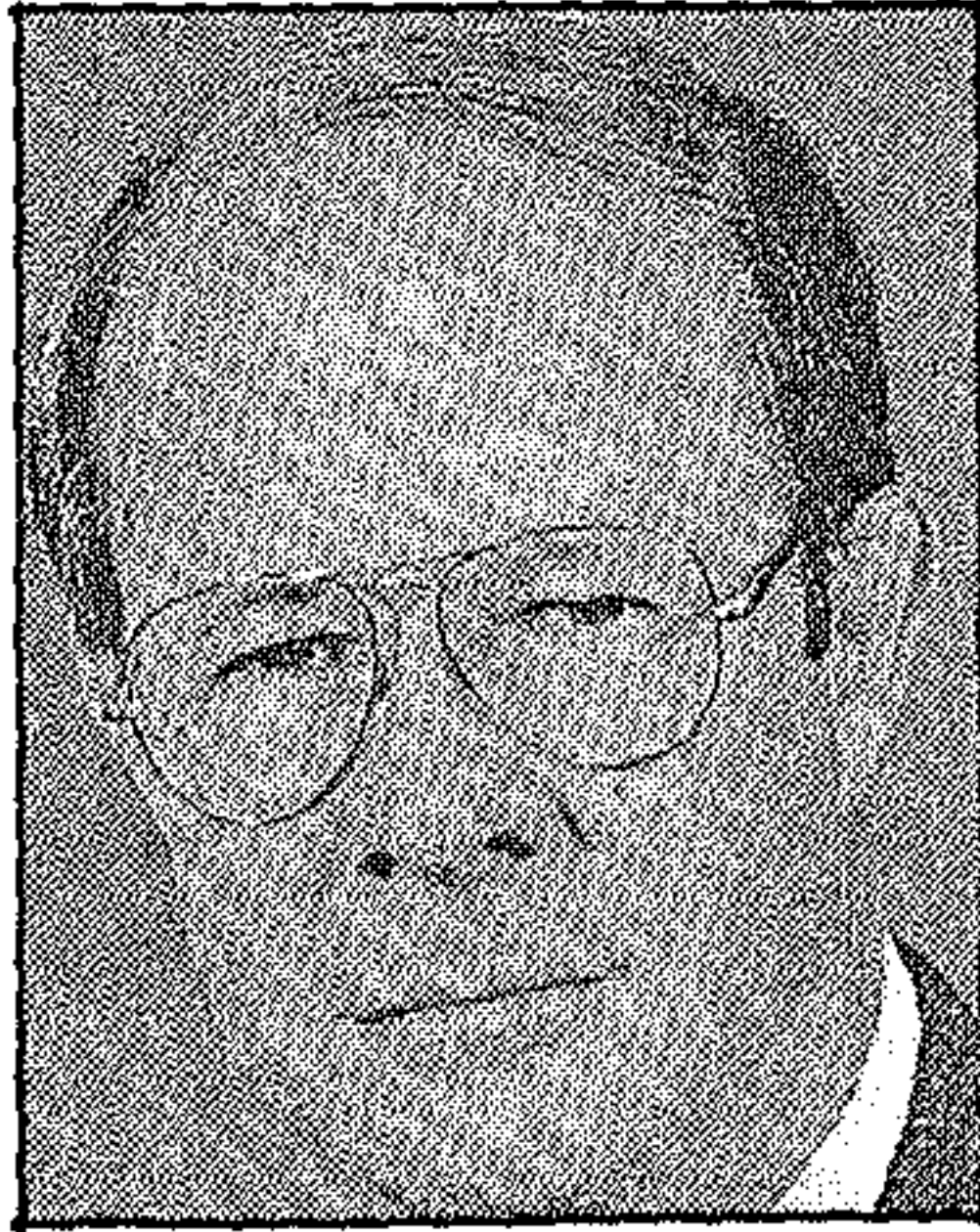
This should please Reserve Bank Governor Dr Chris Stals, for it indicates his anti-inflation policy is having an impact.

Nonetheless, despite poor conditions, tough competition and strong market resistance to price increases, as well as setbacks in its glass and paper divisions, Nampak was able to do better than its competitors in the six-month period.

It increased turnover by 13 percent to R2,2 billion and its operating profit by 16 percent to R250,3 million.

This led to a 14 percent increase in attributable profits to R123,4 million and a 13 percent increase in earnings a share, from 229c to 258c.

The interim dividend has



Chairman Brian Connellan
... demand levels dropping.

been raised from 75c to 79c.

Chairman Brian Connellan emphasises that the profit increase was achieved only as a result of strong efforts to improve productivity, product and plant rationalisation and stringent cost controls.

"Efforts to reduce working capital and expenses have come through well," he says.

STAR 13/5/92
He is pleased with the reduction in Nampak's gearing from 43 percent to 37 percent in the face of heavy capital expenditure.

Also pleasing is the R30 million drop in the value of stocks.

One problem is the collections of debts; the company is having to put about 50 percent more effort into this sphere than it did a year ago.

The effort has kept the number of days for which debts are outstanding at just one more than last year.

Improved performances in the six months were recorded by the beverage-can business, the corrugated paper business and the food-can business.

However, the improvement in the beverage-can business is not necessarily sustainable because it is partly the result of problems experienced by competitors.

The corrugated paper business benefited from the absence of strikes and the food-can business from rationalisation.

The worst performer was the

glass division following a fall-off in sales volume at a time when capacity had been increased.

The flexible packaging and cartons divisions suffered severe pressure on margins, while the paper manufacturing and tissues divisions were forced to reduce margins to maintain share in over-supplied markets.

A price war in the tissue products market has led to some prices being lower than they were 18 months ago.

Paper manufacturing profits were down 22 percent due to depressed world prices.

Mr Connellan is not sanguine about the immediate future.

Although the company expects an increase in earnings for the full year, this is unlikely to be at the same rate as in the first six months.

The market for Nampak products appears to be worsening.

"Our customers indicate that April was not good for their businesses and our demand levels are lower than in previous months."

Managing director Trevor Evans says that without exception the message coming through from people close to the consumer is that they do not see any fireworks; they see the 1992 calendar year as being very sluggish and have no reason to expect an improvement between now and the end of the year.

New investments by Nampak include a R26 million gravure plant which will open in Cape Town in the next couple weeks to make packaging for cigarettes, and a R122 million beverage-can plant, which should open in September or October and increase by 500 million a year SA's beverage-can capacity.

Rise in sales boost Nampak's profit

B10cm 13/5/92

EDWARD WEST

SA's leading packaging group Nampak saw attributable profit rise 14% to R123,4m compared with R108,5m in the six months to March 1992.

Despite the increase in the number of ordinary shares to 47,8-million from 47,4-million, earnings a share rose 13% to 258c (229c). Interim dividends increased 5% to 79c (75c) a share, covered 3,3 times.

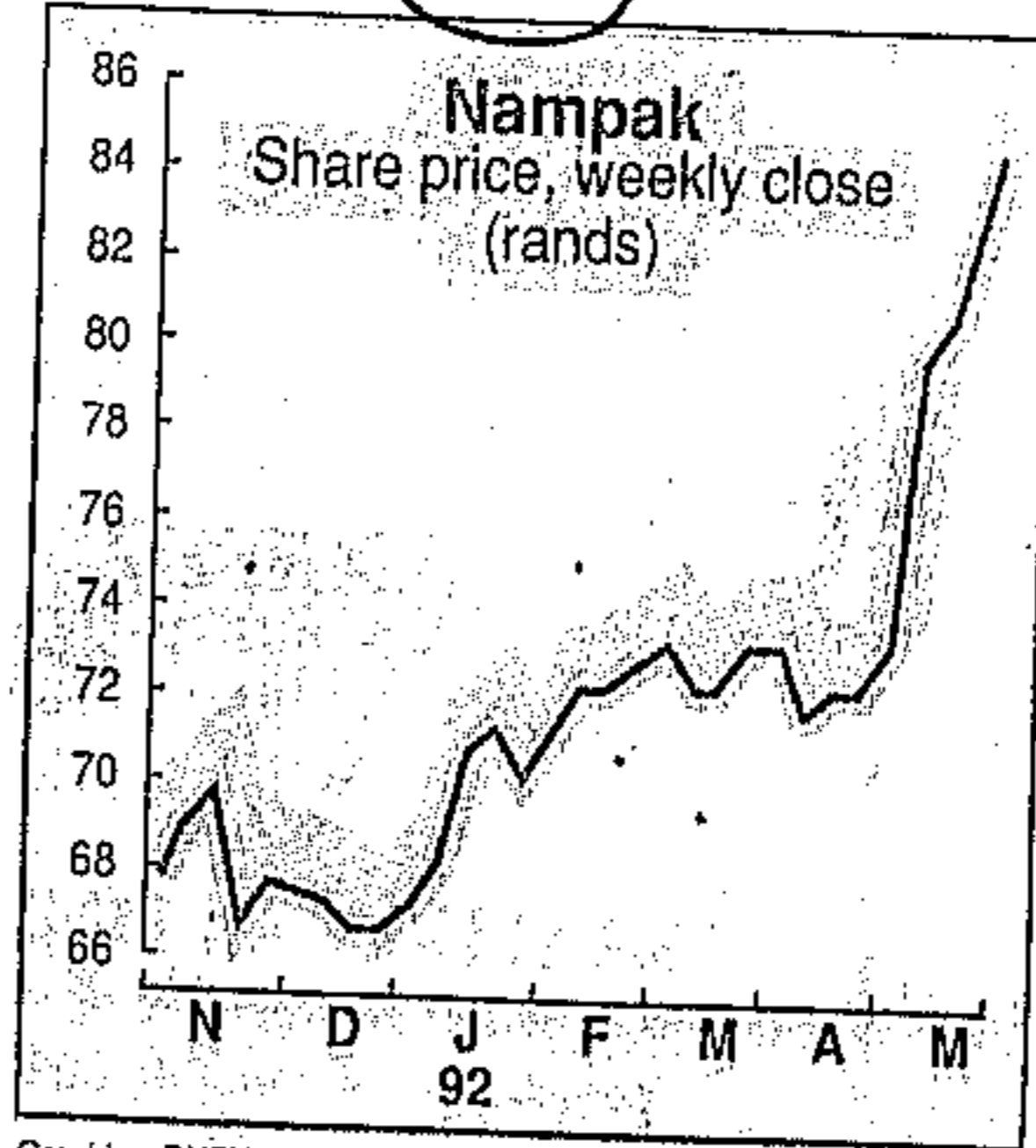
Chairman Brian Connellan said the 2,4% volume growth, improved market share in its Bevcan division and increased exports — which accounted for less than 3% of turnover — enabled the group to increase sales.

Price increases were kept below the inflation rate, he said.

The group increased turnover by 13% to R2,21bn from R1,96bn.

Connellan said the corrugated division continued its recovery following strike action last year but the flexible packaging and carton divisions suffered severe pressure on profit margins.

The paper manufacturing and tissue divisions were also forced to reduce margins to maintain market share in over-supplied markets.



Graphics: RUBY-GAY MARTIN Source: I-NET

The printing division improved profits, but the glass division, where increased capacity could not be used because of falling demand, recorded an operating loss, he said.

Construction of the R26m Printpak gravure press in the western Cape was nearly completed, and the R122m Bevcan can-making facility at Springs was on schedule to be commissioned towards the end of the

□ To Page 2

Nampak

B10cm 13/5/92

year, Connellan said.

He believed the effects of lower interest rates and improved exports on the economy were likely to be outweighed by unrest, unemployment and the after effects of the drought. Against this background, he expected Nampak to increase earnings for the full year, but the increase was unlikely to be at the same rate as the first six months.

Improved productivity at the group's 121 factories, benefits derived from last year's plant rationalisations and cost controls resulted in a 16% increase in operating profits to R250,3m (R215,7m).

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Income from interest climbed 22% to R33,3m (R27,2m), mainly because of the financing of capital projects completed last year for the glass and paper manufacturing divisions.

Attributable profits were down marginally from the R124,4m achieved in the second half of financial 1991.

Investment income came to R6,2m (R4,3m). Tax was 20% higher at R96,4m (R80,1m). Control of working capital saw stocks fall to R680,6m (R710m).

Nampak's share price shot to a new 12-month high of R85 from R80 a share ahead of the release of the group's results.

Sappi expecting to improve earnings this year

By Derek Tommey

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Sappi's executive chairman, Eugene van As, expresses great optimism about the company's future, in his annual statement to shareholders and forecasts a substantial improvement in earnings this year.

He said he had every confidence that the paper industry cycle had finally bottomed out. "Pulp prices have started to rise to more realistic levels.

Kraft linerboard prices are beginning to rise as are the prices of fine papers and coated papers. *STAR 1415792*

"But newsprint prices will continue to be under pressure for at least another year".

Mr van As said that Sappi's organisations had come through the period of consolidation in a much stronger form. Its manufacturing facilities were now more efficient.

"It is generally a more moti-

vated group and is well set to benefit from the upturn in the markets not only this year but in the future".

He expects the upward cycle of the industry to gain momentum and continue for a few years to come.

Referring to the purchase announced last week of 90 percent of the shares in Hannover Papier, Germany's largest producer of coated papers, he said this may slow the growth in earn-

ings a share in the next two years, but would have a positive impact on the long-term future of Sappi.

A drop in world prices of pulp and paper resulted in Sappi's earnings dropping from R375 million to R313 million in the year ended February and earnings a share declining from 402c to 305c.

However, annual dividends were maintained at 200c a share.

Sappi optimistic after industry's worst year

8/10 am *14/5/92*
DURBAN — Sappi Limited, which last week announced the acquisition of Hannover Papier and so became one of the world's largest forest products groups, expects a marked improvement in earnings in the year ahead.

Although the Hannover acquisition is likely to slow the growth in Sappi's earnings per share in the next two years, it will have a positive effect on the group's long-term growth.

In Sappi's annual report for the year ended February 29, executive chairman Eugene Van As said the past year was one of the most difficult in the century for the pulp and paper industry.

However, Sappi used the time to consolidate its position and has been successful in maintaining and even growing its market share.

"Both our domestic paper divisions as well as Sappi Europe and Sappi Timber Industries introduced new products successfully and this helped us in counteracting contracting markets and assisted in arresting the general price decline for most of our products."

Overseas Sappi Trading was established in Zurich to manage the group's

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Own Correspondent
trading activities which are principally conducted through the Speciality Pulp Group in Hong Kong, while in SA two modern forest products warehouses were commissioned at Durban harbour to provide an efficient distribution system for the group's product.

Van As said: "Our financial objectives for this acquisition were not attained during the year because of the serious downturn in selling prices in the second half, but we were successful in achieving the market shares, productivity rates and cost control that we had planned and a good base has been laid for further development."

Sales were only up 7% and the decline in net income was limited to 17%.

With Sappi's successful R1bn rights issue last year, the group has low gearing and has emerged stronger.

Cash generated by Sappi's operations amounted to R632m and the shareholders' interest grew at an annual compound rate of 11,5% to stand at R4,2bn at the year end.

Higher earnings seen for Sappi (194)

Business Staff

AG 14/5/92

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■ The ticklish question of whether South Africa should have a second major export coal terminal and run the risk of flooding the export coal markets is discussed by Mr David Rankin, chairman of the giant coal producer Amcoal, in his annual review issued today.

Amcoal increased its attributable earnings in the year ended March 31 by 16,5 percent to R321,1 million and the final dividend has been raised by 9,8 percent from 287c to 315c a share. This brings the total payment for the year to 465c, an increase of 9,4 percent on last year's 425c.

The group increased its operating profit by R6,7 million (1,6 percent) to R419,1 million.

claims, and the money would go to the
he person who needed it.
today

Ex-Nampak man in court

194 SUSAN RUSSELL 20

FORMER Nampak director Adrian Barker, 47, appeared briefly in the Rand Supreme Court yesterday on 19 counts of theft, fraud and corruption involving about R7,7m. *B. Day*

He was not asked to plead and Judge G Gordon postponed the trial until September 15. *19/5/92*

Barker is alleged to have committed the various offences from September 1986 to June 1990 while a director of Nampak Products Ltd and acting CE of Nampak Corrugated.

The state alleges Barker, conspiring with one or more Nampak employees, stole R1 292 398 from a number of the company's branches.

He also allegedly received one third of the equity of a close corporation called Corrugating Machinery Services plus R1 108 950 for ensuring that CMS obtained business from Nampak as a supplier of machinery and spares.

SAPPI

FM 22/5/92

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Well poised for the next upturn

Activities: Produces pulp and paper products in SA, the UK and Germany.

Control: Gencor 50%.

Executive chairman: E van As.

Capital structure: 125,8m ords. Market capitalisation: R6,0bn.

Share market: Price: R47,50. Yields: 4,2% on dividend; 6,4% on earnings; p:e ratio, 15,6; cover, 1,5. 12-month high, R48,50; low, R32. Trading volume last quarter, 850 000 shares.

Year to	'89	'90	'91	'92
ST debt (Rm)	—	—	336	367
LT debt (Rm)	957	868	1 263	951
Debt:equity ratio	0,67	0,56	0,68	0,28
Int & leasing cover ..	8,7	4,2	2,2	2,4
Return on cap (%) ..	14,5	14,5	8,6	6,7
Turnover (Rm)	2 469	2 727	2 669	2 844
Pre-int profit (Rm) ...	618	731	482	400
Pre-int margin (%) ..	25,0	26,8	18,1	14,1
Earnings (c)	607	650	402	305
Dividends (c)	190	200	200	200
Net worth (c)	2 408	3 154	3 345	3 359

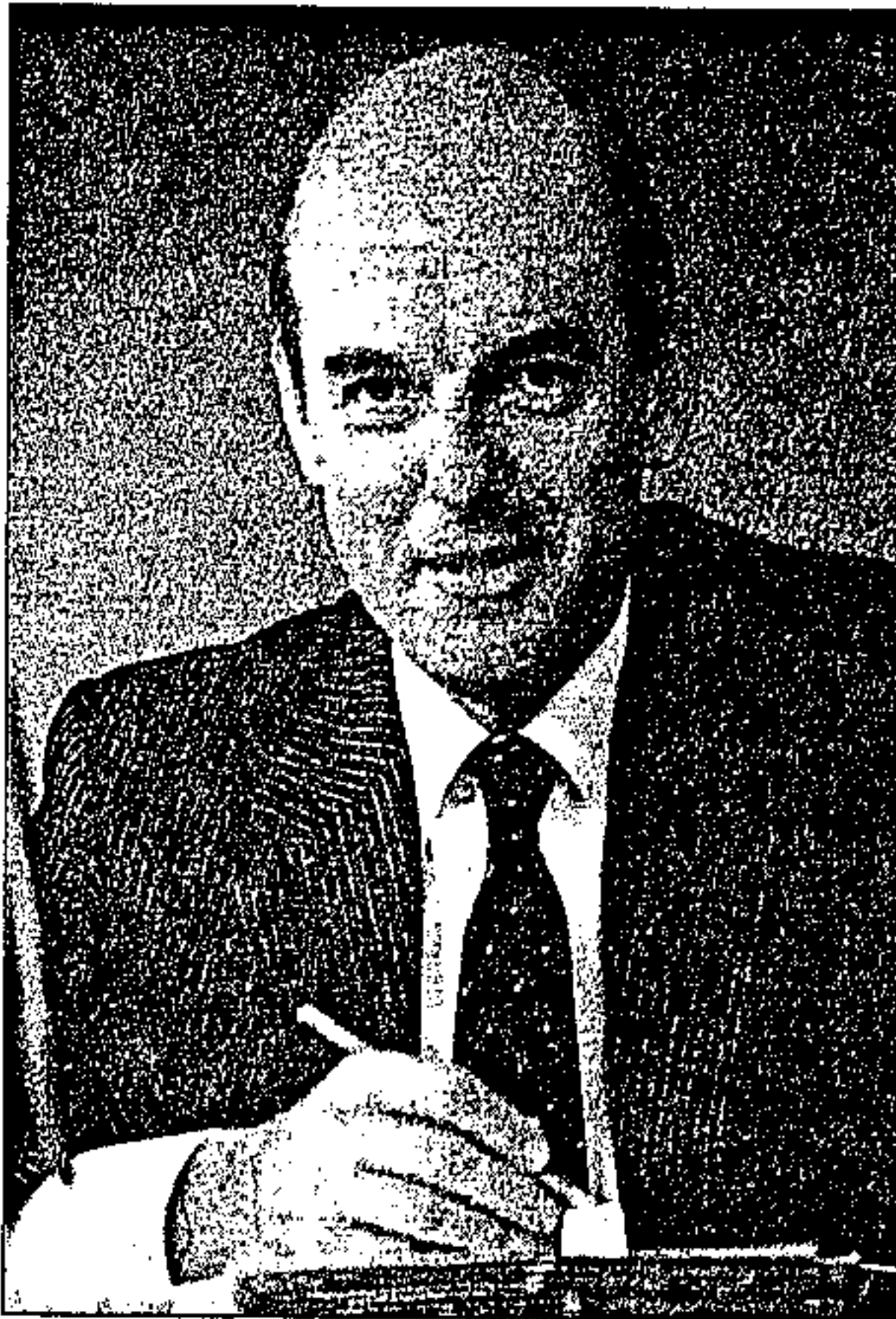
Just two years ago, Sappi looked like the ultimate fat-cat manufacturer. Its operating margin of 26,8% was among the highest in the paper and pulp industry worldwide.

What customers and critics conveniently ignored was the low return on capital, which even two years ago was 14,5% in a country with a prime rate hovering around 20%.

Now, in the depths of domestic and worldwide recession, the key numbers don't look nearly so rosy. Return on capital has fallen below 7% and EPS — still the most important indicator in the stockmarket's eyes — has fallen by more than half to 305c.

The industry is cyclical. Investing in Sappi will never be a way to make a quick killing. But, as executive chairman Eugene van As says, the year was tough for pulp and paper companies round the world. Sappi's counterparts in the US, Canada and Scandinavia have been showing red ink at EPS level.

In the annual report, Van As is far from smug, but he — and SA's other major pulp and paper producer Mondi — at least are still making money. Van As points out that Sappi's domestic paper and pulp operations as well as the UK mills which formed Sappi Europe and Sappi Timber Industries all launched new products during the year.



Sappi's Van As ... no time to shoot wildlife

Financially, the highlight was the October R1bn rights issue, 98,8% subscribed. This pushed gearing down to 0,28 and shareholders' funds up by 30%. Van As was not explicit about the purpose of the issue at the time, except to say he intended to make Sappi a "global player."

He achieved that in no uncertain terms by his acquisition of the German coated paper group Hannover Papier for R825m, though this will be funded by raising new equity in Europe rather than through additional debt on the balance sheet.

Crocodile tears

Insiders describe the new German subsidiary as one of Europe's quality companies, though one downstream paper manufacturer adds that the hunting lodges are better in Austria, where Anglo/De Beers bought out that country's major paper manufacturer Neusiedler. But Van As is not thought to have time to shoot the local wildlife.

On the home front, Van As complains that "low world prices and weak international demand also saw an unprecedented inflow of low-priced imports as producers in other countries desperately sought markets for their excess production." But from a businessman who is also trying to sell his own excess production internationally these are clearly no more than crocodile tears.

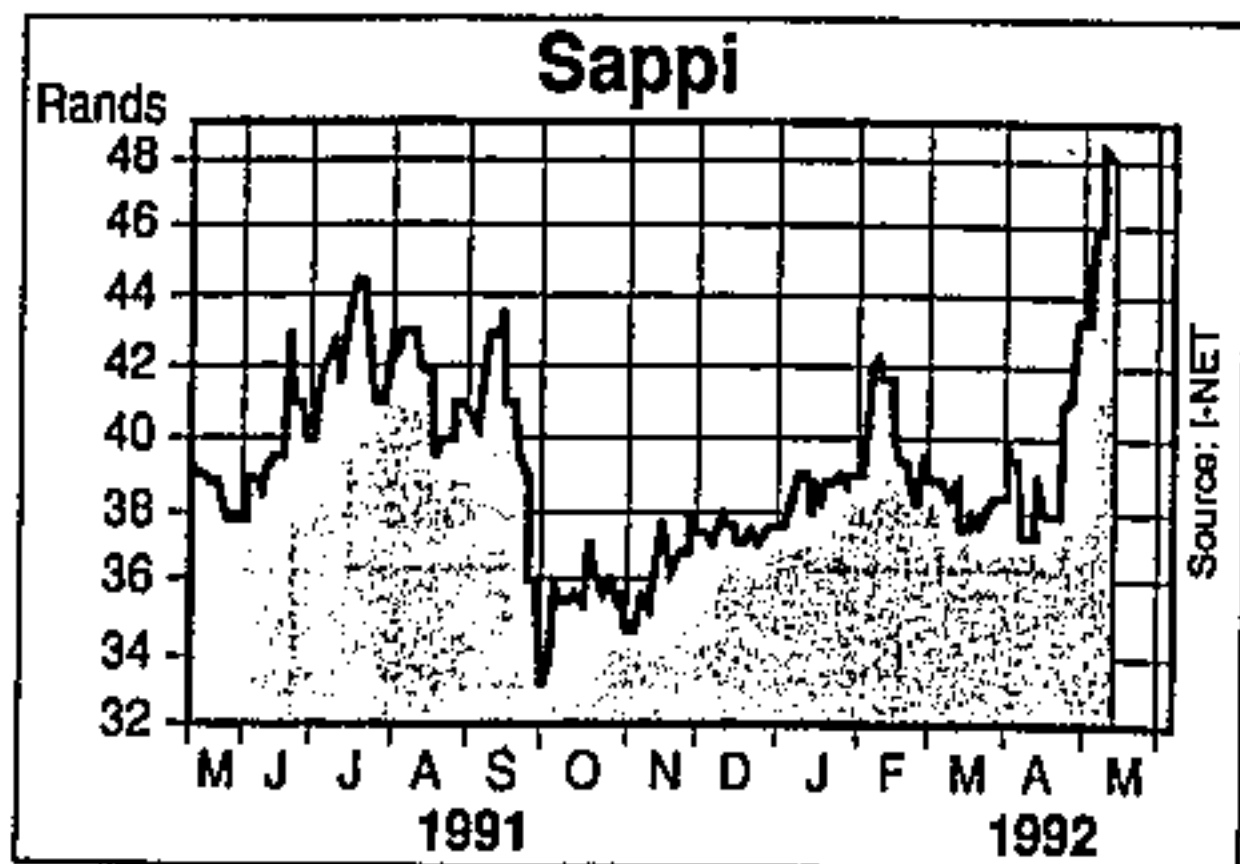
Shareholders are also told about the disappointing performance of dissolving pulp as the world economic upturn did not take place, newsprint prices also declined and there was a slump in the local building and furniture industries.

The best divisional performer was Sappi Forests, which increased sales to R434m. Output was augmented by the acquisition of Lotzaba Forests from Rand Mines, which increased total land by almost a fifth. It now supplies half Sappi's timber requirements.

Sappi is not a speculator's favourite but remains a sound investment for the long-term investor. It is unique in the paper and packaging sector as a primary producer in a sector which consists mainly of its customers.

Thanks to strong institutional support, Sappi is trading at R47,50, just a rand short of its 12-month high. It has maintained its dividend at 200c for the third year in a row, thanks to strong cash flows — operations generated R632m in cash during the year. Sappi is not cheap because it looks poised to recover well in the next economic upturn.

Stephen Cranston



Sappi beefs up for European sales war

CT 25/5/92 own Correspondent (194)

LONDON. — Sappi is putting its ambition to become a world player into action by opening a head-on sales war in Europe with the British giant Arjo Wiggins Appleton (AWA).

Sappi's drive into AWJ territory throughout Europe hopes to take advantage of disarray at the British group, reported to be suffering low morale after the deposing last week of CE Stephen Walls.

A key Sappi vehicle is its purchase of the German coated paper group Hannover Papier, which will triple the group's European production and boost non-South African sales to two-thirds of the total. Roadshows will be underway in Europe this week for a £136m venture placing to fund the purchase.

Sappi, with a value approaching £1bn against AWA's £1,47bn, is seeking a listing in London and on Continental bourses. Just under half the placing, being orchestrated by S G Warburg, will be offered to British institutions.

Sappi now owns five British mills and plans to rebuild Croyley, bought in 1990, as a top quality name to attack AWA's top brand, Conqueror.

Eugene van As, Sappi's chairman, told the Sunday Telegraph of London: "Our non-rand turnover is already \$2bn and we now have the capability to become a global player within 10 years."

With bulk paper prices already 12% to 14% off their recession low, Johannesburg analysts forecast a Sappi profits recovery this year from a depressed R306m to between R475m and R520m.

The dollar-dominated placing will be fixed around the current \$13,93 (R48,25).

Sunpak group STAR 2575792 to be delisted

Finance Staff

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Sunvest, Sunpak and Biopolymers shares are to be delisted and their minorities bought out to give Holdains, which at present holds 67 percent of the group, full ownership.

The directors say that in the light of poor short-term prospects minorities are being offered the chance to achieve better returns elsewhere.

Holders of Sunvest ordinaries will receive 130c a share and of deferred ordinaries 123c. Sunpak shareholders will get 144c and Biopolymers' 50c.

These prices represent premiums of between 30 percent and 54 percent on the prices at which the shares traded before the cautionary announcement.

The scheme will not affect Holdains' earnings or dividends but will reduce net asset value a share by about five percent.

R56m offer to Sun Packaging investors

Buyout 25/5/92

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EDWARD WEST

PAPER and packaging group Holdains is buying out minorities in the Sun Packaging Group for about R56m because of poor trading prospects.

The companies involved are Sun Packaging Investments (Sunvest), Sun Packaging Holdings (Sunpak) and Biopolymers.

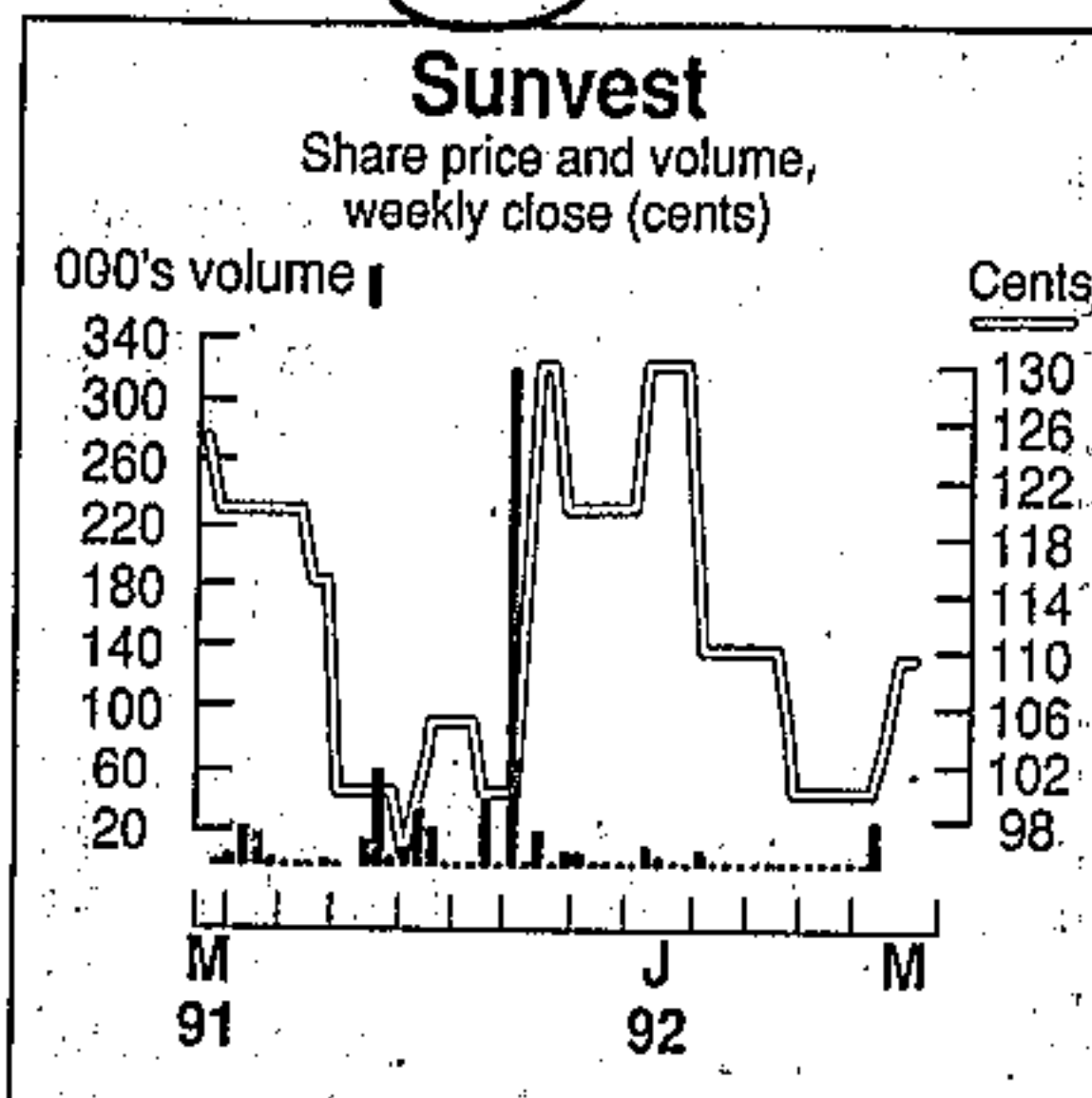
Holdains holds 66,57% of Sunvest, which in turn has a 50,07% and 58,01% stake in Sun Packaging and Biopolymers respectively.

Holdains today offered minorities 130c and 123c for Sunvest ordinary and deferred shares respectively. Sunpak minorities were offered 144c, while minorities of the venture capital listed Biopolymers would be offered 50c a share.

The proposed scheme of arrangement would result in all three companies being delisted and minority shareholders receiving cash for their shares. Holdains CE Ian Willis expected a July delisting.

Holdains said in a statement the buyout value of about R56m was above the market value of the companies.

The offers represented premiums on the companies respective market prices which, at the close of trade on Friday, was



Graphic: LEE EMERTON Source: I-NET

115c and 80c a share for the Sunvest ordinary and deferred shares respectively, 125c for Sunpak and 35c a share for Biopolymers.

Sunvest came under the spotlight recently when a stockbroker was accused of front-running the shares in November 1991, Willis said.

The buyout of minorities was not expected to affect Holdains' earnings or dividends, but net asset value was expected to fall about 5%, Holdains said.

□ To Page 2

Sun Packaging

Buyout 25/5/92

□ From Page 1

Rationalising the buyout, Willis said shareholders were unlikely to see much improvement in the value of their shares for some years because of the poor profit prospects of the companies.

Although growth opportunities had arisen from Holdains' acquisition of a 65% stake in Sunvest early last year, such as the establishment of a new synthetic paper plant in the US, Willis said benefits would be slow to materialise.

A poor economy and competition had reduced sales and depressed margins, he said. In the six months to February 1992, Sunvest's operating income fell to R843 000

from R1,6m in the corresponding six months of the previous year.

Sunpak had expanded its base foam tray business into other ventures, some of which had a negative effect on profits and would continue to do so in the next few years. Sunpak, too, could soon become liable for taxation relating to allowances claimed on film investments, he said.

In the medium term, Biopolymers was not expected to generate acceptable profits due to low capacity utilisation, while the relatively high cost of its converted products would limit other local and export opportunities, he said.

Sappi gets show on the road in Europe

194
B/Day 26/5/92

Own Correspondent

LONDON — The Sappi roadshow will get under way in Europe this week to raise £136m to fund the purchase of the German coated paper group Hannover Papier.

Just under half the placing is being orchestrated by SG Warburg and will be offered to British institutions. Sappi is also seeking listings in London and on continental bourses.

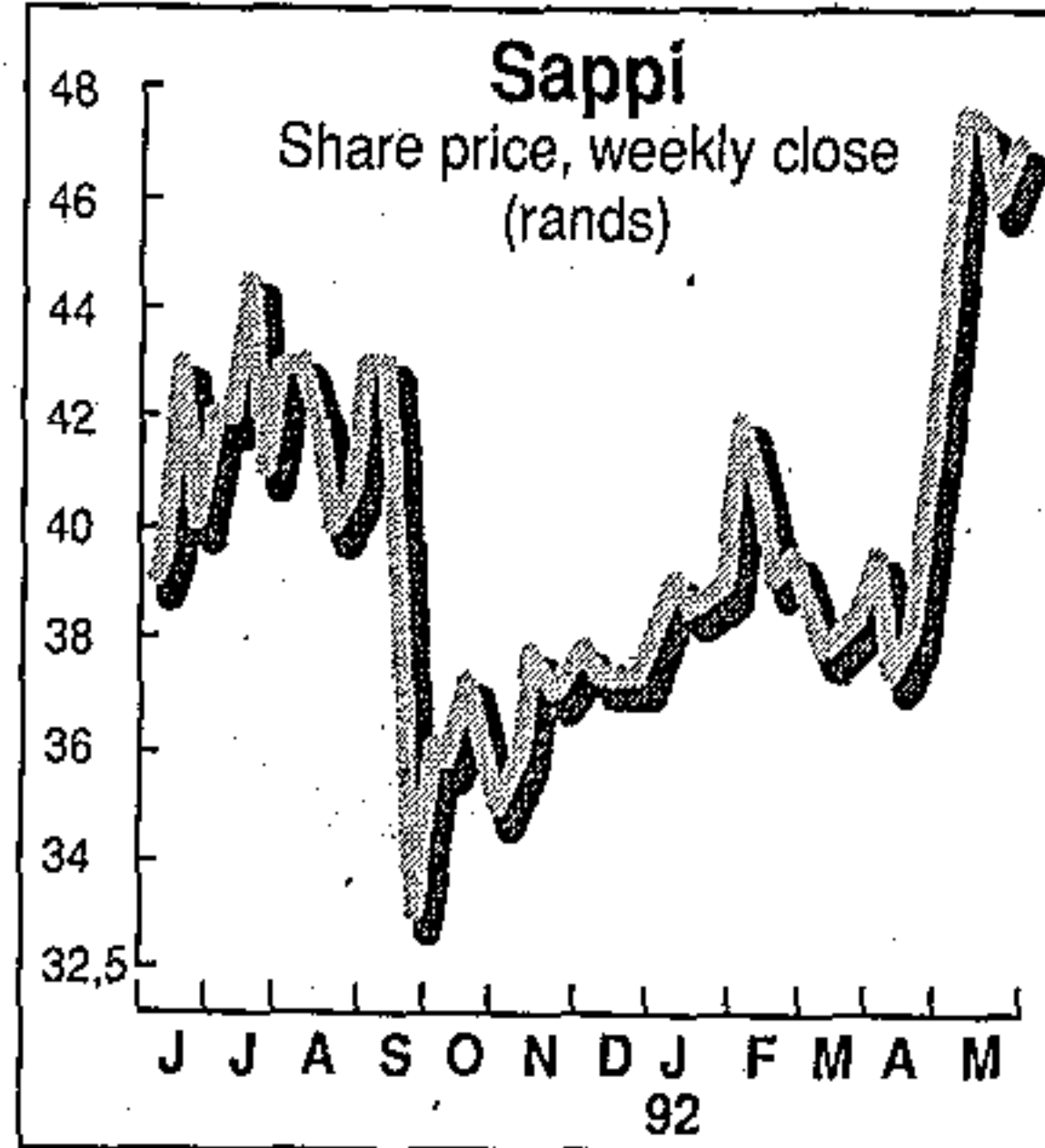
Sappi chairman Eugene Van As said: "Our non-rand turnover is already \$2bn and we now have the capability to become a global player within 10 years."

With bulk paper prices already 12% to 14% off their recession low, analysts forecast Sappi profits to recover this year from R306m to between R475m and R520m.

The dollar-denominated placing will be fixed close to \$13,93.

The move will also highlight a head-on sales war in Europe with the British giant Arjo Wiggins Appleton (AWA).

Sappi's drive into AWA territory throughout Europe hoped to take advantage of disarray at the British group, reported to be at low morale after CE Ste-



Graphics: RUBY-GAY MARTIN Source: I-NFT

phen Walls was deposed last week.

Sappi now owns five British mills and plans to rebuild Croxley, which it bought in 1990, as a top quality name to attack AWA's top brand, Conqueror.

A key Sappi vehicle is its purchase of Hannover Papier, which will triple the group's European production and boost non-SA sales to two-thirds of its total.

Sappi to seek foreign funding

By Sven Lünsche

194

Following its aggressive expansion into the European pulp and paper market through the recent acquisition of German group Hannover Papier, Sappi yesterday launched an international placing of its shares.

Sappi said yesterday that it would issue 19 million new shares to raise the equivalent of \$250 million. *STAR 27/5/92*

It is expected that the issue, which will be managed by a syndicate led by London brokers SG Warburg Securities, will be placed in mid-June at a level related to the then current market price of Sappi shares.

HOLDAINS FM 29/5/92

Taking out minorities

Paper and packaging group Holdains is to take out minorities in the Sun Packaging group in a R56m deal, giving as the reason "poor trading conditions." Though this doesn't make sound commercial logic on the face of it, the underlying reason relates to structural restrictions.

Holdains wants to restructure the relationship between Sun Packaging Holdings (Sunpak) and Biopolymers "as the transfer price between the two is adverse to both entities," says Holdains finance director Dave Price. But minorities get in the way of restructurings. So the packaging group proposes to take out the minorities in Sun Packaging Investments (Sunvest), Sunpak and Biopolymers and delist them.

(194)

Premium to market

Holdains currently owns 67% of Sunvest which has 51% and 58% stakes in Sunpak and Biopolymers respectively.

Holdains has offered Sunvest minorities 130c and 123c for ordinary and deferred shares, a premium to Friday's close of 115c and 80c. The deferred shares were listed in November 1990 at 75c. Sunpak minorities are offered 144c (125c) and Biopolymer minorities 50c. Biopolymers, listed in November 1990 at 50c, closed on Friday at 35c.

Earnings and dividends at Holdains are not expected to be affected, though NAV will drop roughly 5%. The premiums should ensure acceptance.

William Gilfillan

Finland extends ~~286~~ R50m credit to SA ~~286~~

194 ~~194~~ SHARON WOOD ~~286~~

FINLAND has extended a first-time credit line of \$50m to SA, giving the domestic pulp and paper industry easy access to a major world supplier of the industry's equipment. *Blwcy 9/6/92*

The agreement was concluded between the Industrial Development Corporation's (IDC) wholly owned credit finance subsidiary, Impofin, and Finnish Export Credit Limited, a statement released yesterday said.

Credit facilities would be organised directly between Impofin and the Finnish bank, IDC senior GM Malcolm Macdonald said.

A credit agreement was currently being finalised in Finland between an SA pulp and paper company and a Finnish equipment supplier.

The name of the SA company could not be divulged, Macdonald said.

SA had limited trade relations with Finland in the past because Finland had actively supported the voluntary EC trade ban, said Macdonald. But trade links were now officially established between the two countries.

Finland is a major world supplier of equipment for the paper and pulp industries, a field in which SA is a significant producer.

"Depending on the contract values of the imports, credit terms of up to seven years are available from the IDC at favourable interest rates," Macdonald said.

Joy at success of Sappi share deal

194 JOHN CAVILL

LONDON — Sappi's historic \$240m share issue to fund the DM400m takeover of Germany's Hannover Papier was "well oversubscribed", said Oliver Baring, director of UK investment bank Warburg Securities.

"We are delighted with it," he said. "It was a trail blazer — the first SA Euro-equity offer to be priced at the market level. We have placed 19-million shares and they were well oversubscribed."

Baring said Gencor had scaled down its entitlement to below 55% to satisfy demand from SA institutions.

Sapa reports that Sappi said 21.5-million new Sappi ordinary shares (19-million for the Euro-equity issue and 2.5-million for Commerzbank) were placed at Thursday's market price of R44 (\$12.45).

It said Warburg Securities had allocated the maximum of an additional 15% of the issue quantity to investors due to the oversubscription. At Smith New Court, Charles Zorab said there was healthy demand from SA institutions, which was normal.

He said the fact Sappi did not have to offer a discount to the market price was a good sign. "We believe Sappi had aimed to raise \$125m from overseas investors, but we just don't know how much came in."

John Taylor of James Capel said that the firm had not been able to establish how much was taken up externally, adding, however, that the placing appeared to have gone "extremely smoothly".

15/6/92
□ To Page 2

Sappi

15/6/92
"We'll have to wait and see. There has been adverse comment on the pulp and paper industry coming out of the US recently which might have caused some hesitancy," he said.

In its latest monthly investment review of SA, Capel praised Sappi's presentation to fund managers and brokers in London, which was part of its European road show.

"On a short-term view we still think the share is a little on the pricey side (sitting on a prospective earnings multiple of 10.8), but the group certainly has ambitions and the managerial infrastructure to realise them.

"Accordingly, those investors who have the luxury of being able to take a two-year

view should consider participating in the issue," it said.

Sappi Executive Chairman Eugene van As said Warburgs had called on Sappi to make available a maximum of 2.85-million additional shares in terms of the "green shoe", an overallocation option used in the Euro-equity market.

Van As said demand from Europe was less than he had hoped following the recent political pronouncements in SA, but he was satisfied with the outcome.

He would not say what percentage of the placing went to European investors and what was allocated to SA institutions, but has said before he would like half of the new shares to be placed internationally.

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\$240m share issue success for Sappi

(194) CT 15/6/92
From JOHN CAVILL

LONDON. — Sappi's historic \$240m share issue to fund the DM400m take-over of Hannover Papier of Germany was "well oversubscribed", said Oliver Baring, director of Warburg Securities the UK investment bank.

"We are delighted with it," said Baring. "It was a trail blazer — the first South African Euro-equity offer to be priced at the market level. We have placed 19m shares and they were well oversubscribed."

Baring said Gencor had scaled down its entitlement to below 55% to satisfy demand from South African institutions.

No details were available ahead of the official announcement by Sappi today. But the closing price of Sappi on Thursday, when the issue was priced, was \$12.45.

Baring could not give a breakdown of how the issue was split between European and SA investors nor say how many shares were in demand.

But other market sources in London said a total of 21m shares could have been sold.

Nor were they able to estimate how much of the issue had been taken up in Europe.

Sappi's executive chairman Eugene van As said: "Warburgs called on us to make available a maximum of 2 850 000 additional shares in terms of the 'green shoe', an overallocation option used in the Euro-equity market."

"The green shoe option is used to stabilise the share price for a period of up to 30 days. After that date the

company could be required to issue shares up to the maximum allocation."

He added: "We've had to cut back the allocation to SA institutions severely in spite of the fact that Gencor agreed to take up less than 55% of the SA tranche."

At Smith New Court, Charles Zorab said: "We know there was healthy demand from the SA institutions — which is normal — and the fact that Sappi did not have to offer a discount to the market price was a good sign."

"We believe Sappi had aimed to raise \$125m from overseas investors but we just don't know how much came in."

John Taylor of James Capel said: "We haven't been able to establish how much was taken up externally but certainly the placing appears to have gone extremely smoothly. We'll have to wait and see."

"There has been adverse comment on the pulp and paper industry coming out of the United States recently which might have caused some hesitancy."

In its latest monthly investment review of South Africa, Capel's praised Sappi's presentation to fund managers and brokers in London which was part of its European road show.

It added: "On a short term view we still think the share is a little on the pricey side (sitting on a prospective earnings multiple of 10.8), but the group certainly has ambitions and the managerial infrastructure to realise them. Accordingly those investors who have the luxury of being able to take a two-year view should consider participating in the issue."

Sappi's Hannover deal may be last of its kind

B/Day 17/6/92

MATTHEW CURTIN

AS strategic investments go, Sappi's acquisition of Germany's Hannover Papier may rank as one of the best.

The DM440m deal and \$240m share issue has got thumbs up from the European and local investment communities. They agree Hannover fits Sappi's current European and African operations, and that the deal was timed perfectly to catch the upswing in world paper and pulp markets.

However, the intrinsic merits of the transaction overshadowed the unusual circumstances in which it was struck, and masked the insight it provided on the strategic dilemmas facing SA business. In buying Hannover, Sappi diluted dependence on the local economy and export-driven business for growth, a dependence which could straitjacket many SA companies.

Executive chairman Eugene van As says turnover is evenly split between domestic sales and exports.

The group's long-term growth depends on it being able to sell higher tonnages of paper and pulp, and it has spent millions in the past few years expanding its productive capacity and building up timber reserves. Without further increases in capacity, local consumption would slowly replace exports, restricting growth to price increases and profitability improvements at its SA operations.

Van As says: "That mix of Sappi's business would condemn the group to grow not even at the rate of the SA economy, but at half that rate if local expansion is based only on the domestic markets and exports."

It is a concern which is clearly weighing heavily with rival producer, Anglo American's Mondi. After buying a stake in Austrian paper manufacturer Neusiedler AG in 1990, Mondi announced a R550m investment in pulp-and-paper group Frantschach in March in association with Anglo, De Beers and Minorco.

Van As says Sappi needs to balance the growth in domestic demand and exports, with offshore manufacturing facilities producing high quality value-added products. The Hannover purchase has done just that.

However, products like the coated paper which Hannover supplies require a high degree of customer service. Primary forest products or newsprint can be delivered to customers on a steady long-term contract basis, but quality paper supplied to a specialist printer needs a just-in-time service.

Van As says Sappi cannot supply that from SA. Hannover, in conjunction with Sappi Europe, is ideally placed to do so.

And it is in the coated paper market where he sees the most exciting growth in the paper industry. The European market has grown 8% a year for 10 years, and 10% a year in the past five. While there is over-capacity among German producers of wood-free coated paper, German demand for the product has risen 6% in the first quarter this year. Waiting for Hannover are the burgeoning eastern European markets. Van As says consumption of coated paper in eastern Germany is one tenth of that in western Germany.

Large paper companies rarely came up for sale, especially German



□ VAN AS

ones. The Wall Street Journal noted last month that Europe's paper industry was in a process of consolidation, becoming a target for international companies like Sappi and US forestry giants, "anxious to gain a firm foothold as the EC moves to dismantle tariff barriers". The journal said Scandinavian forestry groups had "gobbled up continental targets, but hardly ever divested holdings".

Sappi made no bones about its designs on the European market. In May 1990, Van As told shareholders: "Your group continues to broaden the international scope of its activities and in the next decade aims to acquire global status in pulp and paper manufacturing and technology."

In mid-1990, Sappi bought five fine paper mills in Britain for £109m and set up Sappi Europe, while the operations of the Zurich-based Sappi Trading continued to expand in the past year. There had been long-standing rumours of potential acquisitions in Europe by Sappi and Mondi. Sappi was understood to have looked hard at a £1bn bid for British-based pro-

ducer Wiggins Teape in 1990, abandoned in favour of local expansion.

But it was events in Sweden which saw Hannover come up for grabs. The 1991 election victory by the centre-right after years of socialist government saw Sweden embark on a privatisation drive. At the same time state-owned paper producer NcB AB fell into the red and acknowledged that without financial assistance it could not remain an integrated producer of fine paper, sack paper and packaging. NcB's fine paper division was Hannover, Europe's fourth largest producer of wood-free coated papers, whose earnings had plummeted in 1991 to break-even point. Its six-year DM700m modernisation programme finished with larger-than-expected startup costs.

With no government assistance forthcoming, Hannover was put up for sale in a "controlled auction".

Sappi was interested, although Van As admitted Hannover was a larger company than the group had been looking for. And it faced stiff competition. There were four tenders including offers from International Paper via Zanders and Arjo-Wiggins-Appleton. What gave Sappi the edge was a pre-emptive condition that any tender would have to be management approved. Hannover directors, faced with the choice of being subsumed within a major European rival — with the concomitant restructuring and loss of independence — or joining forces with an overseas producer, chose Sappi.

Sappi may be set on the road to becoming a multinational conglomerate, no longer shackled to the SA economy thanks to Hannover. It is an aim Van As says is within reach by the end of the 1990s. But can other groups afford to make the same move, and will the timing ever again be as good? Not only did Hannover come up for sale in time with Sappi's strategic planning, but the group had been able to take advantage of the hiatus between the demise of the old and the emergence of the new SA.

European institutions have relished the chance of putting their toes in the water, to test the state of the SA business environment, given the country's new international respectability. However, a new government may be less willing to allow SA companies to tempt those institutions by investing millions overseas.

Business may emphasise the need for international competitive companies to sustain local business and the economy, but it may not wash with others' demands for growth and equity in SA.

Holdains plan to trigger delistings

26/6/92 MARCIA KLEIN (194)
 HOLDAINS has announced details of a scheme of arrangement which will result in the delisting of several companies.

The details follow a proposed scheme of arrangement in which Sun Packaging Investments (Sunvest), Sun Packaging (Sunpak) and Biopolymers would become wholly owned subsidiaries of Holdains and would delist from the JSE.

The companies announced today that Sunvest shareholders would receive 130c for every ordinary share or 123c for every deferred ordinary share held.

Sunpak shareholders would receive 144c a share and Biopolymer shareholders 50c a share.

Application to the court for sanctioning of the scheme would be made on July 29, and the listing of all three companies' shares would be terminated on July 31.

In an earlier announcement, the companies said Sunvest subsidiary Sunpak had performed well until recently, and its 27,5% reduction in operating income in the six months to end-February reflected depressed economic circumstances and intense competition in declining markets.

Sunpak was adversely affected by its expansion from its base tray business into other ventures. It could also become liable for past tax liabilities.

Biopolymers, whose major customer was Sunpak, was affected by reduced sales. It was expected "to generate unacceptably low profits due to low capacity utilisation in the medium term".

Directors expected minorities to get better returns elsewhere.

Holdains to apply for delisting of Sunpak

PAPER and packaging groups Holdains and Sun Packaging (Sunpak) have announced details of their proposed scheme of arrangement involving Sunpak, Sunvest and Biopolymers. *BlDm 29/6/72*

Holdains said it would apply for a scheme of arrangement whereby the Sunpak group of companies would be delisted and become wholly owned Holdains subsidiaries.

194 Business Day Reports 1972

Sunvest minority shareholders will receive 130c for every ordinary share or 123c for every deferred ordinary share. Sunpak shareholders will receive 144c a share and Biopolymers shareholders 50c a share.

Holdains last year acquired 65% of Sunvest, an investment holding group which controls Sunpak and Biopolymers.

Left to write

Recession stifles Transpaco recovery

THE forecast improvement in Transpaco's results did not materialise due to the deepening recession, and earnings dropped 43% to 5,42c (9,52c) a share in the year to March 31 1992.

A final dividend of 1,5c a share was declared, bringing total dividends for the year to 2,5c (4c) a share.

Turnover, which was stated to reflect the comparable results of continuing operations after the stationery division had been sold to Macro and the builders' sheeting section of the Consumer Plastics division was closed, improved to R50,5m (R40,6m).

However, operating profit of continuing operations fell to R1,9m (R2,5m).

8/Day 30/6/92
EDWARD WEST

Joint MD Mike Abelheim said operating profit fell as a result of reduced margins.

Administration cost increases were contained within inflation, but the cost of maintaining market share increased substantially.

Customers were destocking in the recessionary climate and Transpaco was having to make more deliveries in a month for the same sales volumes, thereby increasing costs.

Finance costs dropped to R718 000 (R1,5m). Pre-tax profits were 33,9% lower at R1,2m (R1,8m).

Attributable profits fell to R596 000

(R1,05m). Gearing improved to 61% (87%).

Abelheim said the aim was to reduce gearing to 35%.

An extraordinary item of R56 000 related to the winding down costs of the Consumer Plastics division, profits on the disposal of plant and provision for future expenditure.

The acquisition of a former competitor, East Rand Packaging, would have a favourable impact on future turnover profitability, he said.

The group had budgeted for an improvement in earnings this year, but this would to a large extent depend on future economic and political conditions, said Abelheim.

Servgro buys 22% of Nasionale Pers



JONO WATERS

195

SERVGRO, the services arm of Sankorp, has purchased 22% of Nasionale Pers from the Federale Pension Fund and Sanlam in a tidying-up operation within the Sanlam group.

The amount paid in this intra-house deal was not disclosed, but the sum is thought to be in the region of R72m.

Naspers, which has interests in magazines, newspapers and M-Net, is unlisted and shares trade sporadically on a tender basis with the latest price being quoted at R30.

Naspers profits stood at R45m in the year to end March 1991 and for the six months to September 1991 they rose 51% to R20,7m over the same period in 1990. *Bl Day 1/6/92*

Servgro chairman Peet van der Walt said the investment in Naspers would blend neatly with Servgro's interests which included Interleisure, Teljoy, Avis, Interpark, Fedics and Price Forbes.

Leisure-related services account for 66% of the group's income.

Servgro is to obtain a JSE listing after its holding company Fedservices issues 25% of its 100% stake in Servgro to the public.

The price at which Servgro is to be issued has not yet been decided. The Rand Merchant Bank valued Servgro at R687m without Naspers.

Servgro increased its attributable profit by a quarter to R39m in the year to end March 1992.

AAC role in Press defended

STAR
By Derek Tommey 2/6/92

Anglo American chairman Julian Ogilvie Thompson was scathing about allegations that his group interfered in the English-language press and it needed to be "unbundled".

He told a news conference yesterday he doubted whether there was any media group in the world where the editors and journalists had a freer time, and had less interference from their shareholders than Argus and Times Media.

Anglo American's involvement in the press had been a great success story.

"We find it rather strange that we should be continually lambasted for having helped bring about their independence and viability."

Anglo had received its shares in the Argus group from Charter Consolidated which had acquired them in a mining takeover and wanted to stick to its core-business.

Anglo had acquired shares in Times Media from the Advowson Trust to stop it being taken over by people who it was thought at the time would not support the independence of the journalistic profession.

"We think there are journalists who do not agree. But we think we managed to maintain the freedom of the English-speaking press and its viability. And those are the two criteria which should govern.

"Any reconstruction of the press would have to meet these criteria," he said.

PRINTING

Learning a trade

It's a far cry from the good old hot metal days. When the new Southern African Printing College opens at Honeydew, Roodepoort, in February, young apprentices in the newspaper, printing and packaging industries will be taught their trade using state-of-the-art technology.

The Printing Industries Federation of SA and the Newspaper Press Union have bought a 9,3 ha site for the college and construction begins this month. Some of the most up-to-date origination, printing and finishing

equipment will be installed with most of it being donated or lent to the college by printing companies, manufacturers or their agents.

The total investment, including accommodation for up to 260 apprentices, is about R23m. It is being financed by the printing industry.

Executive director-designate Willie Uys says that due to the rapid advances in technology, the old, time-based system of apprentice training had become too cumbersome, so it was decided to establish a college where both theoretical and practical training could take place. The training will be run in parallel with the Competency Based Modu-

lar Training system introduced this year.

To ensure that standards are acceptable, the entire training package was presented to the City & Guilds of London Institute for its opinion. As a result, a Joint Certification Agreement was signed in January to give apprentices who qualify worldwide recognition of their skills.

Initially there will be 260 live-in apprentices and a further 100 day apprentices drawn from the PWV area. There have been enrolment inquiries from as far as Nigeria. Courses will be offered in origination, printing and finishing, and apprentices will be able to qualify in a variety of trades in these categories. ■

Penta snaps up Enosi magazines

MARCIA KLEIN

195

TROUBLED Enosi Publishing's Living and Tribute magazines had been bought by Penta Publications for an undisclosed sum, Penta MD Nicholas Leonsins said yesterday. Penta, which owned Afrikaans glossy magazine De Kat, was established after a management buyout from Enosi 10 months ago. *bloany*

Leonsins said the magazines were bought after Enosi laid off staff at the end of May. The June issues of Tribute and Living did not appear last week. The June and July issues would be combined and published within the next week. Both magazines would resume normal monthly trading from August.

Leonsins said Penta was negotiating with potential black investors for joint ownership of upmarket glossy Tribute, which would "retain editorial independence".

Living would return to its "former successful recipe" of free distribution in selected upmarket areas".

The future of recently launched New Idea remained uncertain. Negotiations were taking place with Australian Southdown Press to find a new publisher — believed to be Republican Press — for the women's magazine. *516/92*

NEWS IN BRIEF

Distribution deal

US PUBLISHER Pfeiffer & Company signed an agreement with the Wisden Institute of Training in Johannesburg to establish a joint distribution operation, a Wisden spokesman said yesterday.

Pfeiffer has subsidiaries in Canada, the Netherlands and Australia as well as a network of 15 distributors serving other international markets.

Pfeiffer and Wisden's offices will open on July 1. Its first shipment of books and business training packages, worth R1.5m, will arrive in SA on August 1.

B/Dam 5/6/92

(12)

(12)

(15)

TIMES MEDIA FM 12/6/92
Plugging in (195)

Combined taxed profits of the two international premium rate telephone service (PRS) companies Times Media (TML) has invested in were equivalent to about R14,5m in the nine months to March.

This makes TML's 47,5% share of the profits in UK company Legion and Netherlands Antilles-based Fabiano, effective from April 3 this year, around R6,9m. If this is sustained, it should take only about two years for TML to recover its R21,9m outlay.

However, PRS has proved a rapid cash generator, says TML GM and CallNet director Neil Jacobsohn. Growth in the SA PRS market since TML subsidiary CallNet was launched last October, which is at roughly the same stage of development as in continental Europe, suggests the outlay could be recouped even sooner.

Legion, founded in 1987, became associat-

ed with TML in the launch of CallNet. It has been successful in the UK, though profits dropped from £935 000 in 1990 to £236 000 in the nine months to March, possibly reflecting the cyclical nature of the business.

Fabiano, though much smaller, seems to be firmly on the upward path of the cycle. Operations only started last year and a £136 000 loss (mainly start-up costs) at the end of June 1991 switched to a £2,6m profit in the nine months to March. (Both companies' results exclude royalty revenue.)

TML financial director Lawrence Clark says its markets also offer more growth potential. "It is moving into Europe, where the industry is only starting up," he says.

Another consequence of the acquisition is a restructuring of the shareholding in CallNet. Clark says Legion was intended to be a 50% shareholder in CallNet, thereby giving TML of CallNet 50% direct and 23,5% indirectly through Legion. This was barred by the SA exchange control authorities, so the agreement was restructured. TML took 73,75% of CallNet and two of the founders of Legion the remaining 26,25%.

Because of substantial changes in the Legion and Fabiano businesses, TML thinks it would be misleading to quantify the acquisition's effect on historical earnings and net asset values at this stage. This will be done in TML's results for the year to March, due later this month.

Shaun Harris

New ventures lift TML's turnover

MARCIA KLEIN

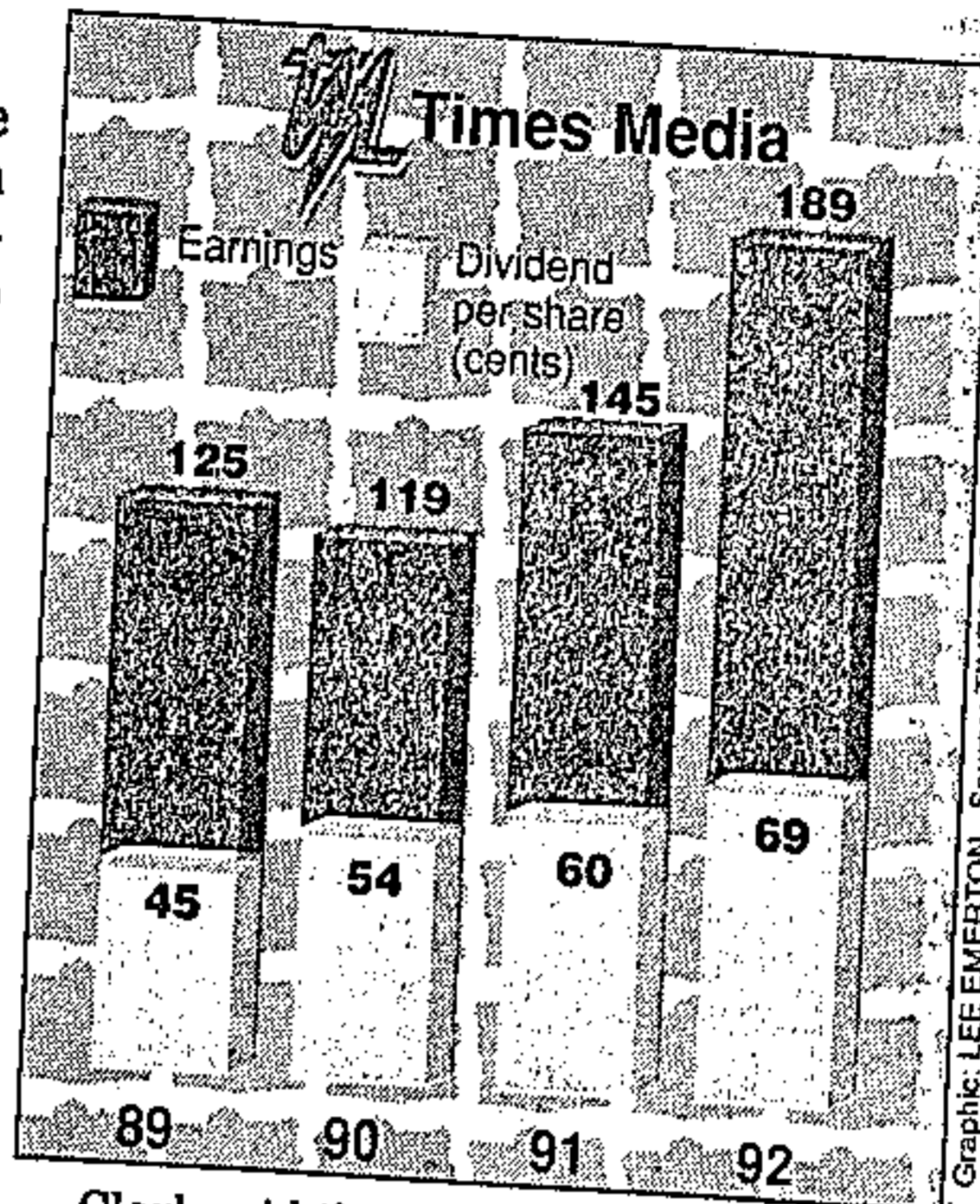
TIMES Media Limited (TML), reaping the benefits of new business ventures and a recovery in advertising revenues, has increased attributable profit by 32% to R41,7m (R31,6m) in the year to end-March.

The group, whose interests include Business Day, the Sunday Times, Financial Mail and premium rate telephone service CallNet, increased its turnover by 20% to R320m from R266,1m in difficult trading conditions and a weak economy. It also has an investment in M-Net.

Financial director Lawrence Clark said circulation levels of most of the group's publications were little changed, but the trend of declining advertising volumes was reversed in the second half. Revenue from the core publications rose in line with inflation, but new business ventures, mainly CallNet, boosted the increase in turnover.

Operating profit, down at the interim stage, rose 35% to R53,5m after a R10,1m abnormal item, and margins improved.

The abnormal item reflects a charge for bonuses payable in terms of TML's staff bonus scheme based on its share price.



Clark said the share price had increased "far more than could reasonably have been anticipated at the time of introducing the incentive scheme", so TML had provided for and paid bonuses "on a scale that must be considered abnormal".

□ To Page 2

TML

A high level of liquidity during the year saw TML receive interest of R10m and dividends of R1,7m on short-term investments, which remained "a significant contributor to profits".

Clark said the core publishing businesses had done well, but the newer operations, including I-Net and Trade-Net, had not yet contributed to group profits.

Pre-tax profit was 28% higher at R63,1m (R49,5m), and profit after tax was 40% up at R33,4m after a 16% rise in taxation to R29,7m. Clark said the small increase in taxation reflected the decrease in the company tax rate, as well as the increase in dividends received. Excluding the dividends, TML was paying full taxation.

Equity accounted earnings of TML's 18% effective interest in M-Net amounted to R5m, representing 12% of profit before extraordinary items. Results of the previous year had been restated to reflect a change in accounting policy to equity account all long-term investments in which TML held 20% to 50%, and in which

it had board representation. These included M-Net, Natal Newspapers, Pretoria News and Dispatch Media.

TML had acquired a 47,5% interest in international premium rate telephone companies Legion and Fabiano for R21,9m. This and the R46m cost of following its rights in the M-Net rights issue had moved the group into a net borrowing position. Clark said borrowings were within normal gearing limits. Although it would have borrowings in the short term, TML expected to generate cash which would reduce borrowings in the medium term.

A final dividend of 47c a share brought the year's total to 69c. Cover was increased from 2,4 to 2,7 times.

CallNet's results would be included for a full 12 months. Clark said this would have a marked effect on results for the first half of financial 1993. This, as well as the turnaround in advertising volumes and the investment in Legion/Fabiano, would enhance earnings in the coming year.

□ From Page 1

TML earns more, pays more

STAR 16/6/92

195

Times Media Limited (TML) has reported a 35 percent increase in operating profit for the year to March from R39,6 million to R53,5 million.

The company, which owns newspapers, magazines, technical publications and electronic information services, says the final dividend will rise by 17,5 percent to 47c a share, setting the total payout at 69c.

Earnings a share before and after an abnormal provision of R10 million for the staff share

bonus scheme were up 30 percent, compared with last year's figures.

Earnings a share before abnormal items were pegged at 214c, while the earnings a share after abnormal items were 189c.

TML expects earnings to show growth in the forthcoming period as the decline in advertising revenue is reversed and because of the R22 million acquisition (47 percent) in the Legion and Fabiano groups of

companies in the UK and Europe.

Its single largest investment is in M-Net.

Equity-accounted earnings of TML's 18 percent interest in M-Net amounted to R5 million.

However, in order to finance the overseas expansion of M-Net, TML moved into a net borrowing position for the first time in five years, but the company believes its borrowings are well within normal gearing limits. — Sapa.

Second-half surge (195)

Increased trading volumes in Times Media Limited's core publishing business and a useful contribution from new venture Call-Net boosted results strongly in the second half. Nearly 60% of the year's R53,5m operating profit came in the second six months. After a 5% decline at the September inter-

cont →

im compared with the year-ago period, operating profit rose 35% on a 20% increase in turnover for the year to end-March. The operating margin jumped from 14,9% to 16,7%.

The main reason for the strong second half comes from what financial director Lawrence Clark says was a "distinct change in advertising volumes," with the decline seen over recent years reversing since the middle of fiscal 1992.

For example, advertising volumes in the *Sunday Times*, down 7% at the interim, finished the year 2% up, reflecting a 12% increase in volumes in the second half. Clark says overall advertising volumes in the Transvaal are 3% up for the year, after being down at the halfway stage.

The increases in advertising come on circulation figures that are generally static.

While the improvement in traditional advertising comes off a low base, Clark believes the introduction of VAT — which allows businesses to claim input credits for VAT on advertising costs — has helped. "I think in many cases the 13% saved on costs since VAT was introduced is being reinvested in advertising," he says.

A further boost came from increased volumes associated with the run-up to the March referendum and what Clark says might be periods of improved confidence in the economy or, at least, increased competition.

A new source of advertising came with the launch of premium rate telephone service (PRS) companies, including TML's Call-Net, in October. CallNet has made a contribution to the bottom line, though it has not been quantified. Clark expects TML to benefit this year from a full 12 months' inclusion of CallNet, and from the group's R22m offshore investment in PRS companies Legion and Fabiano.

The 30% increase in TML's EPS reverses a three-year decline, with the latest 189c significantly up on 1988's 134c — though the latter should be restated upwards after the recent change to equity accounting long-term investments in which TML has between 20% and 50% and board or management representation.

EPS include a R10,1m abnormal expense, a provision for TML's staff share bonus scheme. The scheme is linked to TML's share price. Because of the large price gains since the scheme was launched, the group has had to provide for and pay bonuses on a scale considered abnormal. EPS before the R10,1m were 214c.

TML's healthy liquidity, which earned R11,7m in investment income during the financial year, has swung to net borrowings of about R15m after the offshore investment, the R46m outlay on the rights in M-Met, and tax payments.

This will lift the interest bill this year, though Clark says TML's cash-generating capacity, and the absence of major capital costs and assets to service, should enable borrowings to be eliminated in a year or two.

VOLUMES TURN

Year to March 31	1991	1992
Turnover (Rm)	266	320
Operating income (Rm) ..	39,6	53,5
Earnings (Rm)	31,6	41,7
Earnings (c)	145	189
Dividends (c)	60	69

He expects results to start coming in this year from the 47,5% investment in Legion and Fabiano. The 18% interest in M-Net should continue to provide good dividends and retained earnings (see accompanying report). Equity accounted earnings from M-Net amounted to R5m of the R9m associated companies' profits last financial year.

M-Net's share price seems to have considerable influence on the TML price. But M-Net's price has retreated recently, while TML's has held firm. The R23 price has been sustained since early May, possibly in anticipation of the results, which should help to support the price.

Shaun Harris

TML's phantom hits shareholders

S/Times (BSS) 21/6/92, (195)

A PHANTOM share scheme for Times Media staff is haunting bona fide shareholders.

Announcing its annual results to March, the media group — publisher of the Sunday Times among many others — reported an abnormal item of more than R10-million relating to the phantom share scheme.

All staff are allotted phantom shares in terms of a bonus scheme. The bulk was issued almost three years ago when the price of TML shares on the stock exchange was 640c.

TML's directors say that, due in part to the improved performance from the staff and from the company's in-

By JULIE WALKER

vestment in soaring M-Net, the TML share price has climbed by what can only be regarded as an abnormal amount. It is currently R24.

The R10-million provision (before tax), on top of last year's R8,5-million, means that the bottom-line profit of R42-million is only 90% of what it would otherwise be. The dividend amounted to R15-million, implying that staff are in line to receive 25% of the distributed spoils and shareholders 75%.

The phantom scheme is the ultimate liability without an asset, unless goodwill is counted.

TML's turnover in the year to March grew by a fifth to R320-million and operating income before abnormal items was up a third to R64-million.

Improved

Both before and after abnormal items, earnings a share climbed by 30% to, respectively, 214c and 189c. The dividend cover was improved from 2,4 to 2,7 times, including retained earnings of associates.

TML reported a turnaround in advertising volume in the second half-year, but little movement in circulation levels. Diversification into premium-rate telephone services helped improve margins.

Cash was invested in M-Net and, since the year-end, into two international companies operating premium-rate telephone services. TML is now in a net borrowing position.

The directors expect a marked improvement in results in the first half of the current financial year on the back of telephone services and, hopefully, higher advertising revenue if the economy rallies.

Caxton setting the pace

Finance Staff

195

STAR

23/6/92

Printing and publishing group Caxton continued to underline its reputation as one of the high-fliers in the printing and publishing industry with strong earnings growth in the year to end-March.

On a turnover increase

from R482,1 million to R562,8 million attributable earnings rose from R13 million to R19,8 million, equivalent to earnings per share of R27,65 (R18,18).

The eps figures do not take into account the capitalisation issue and share split undertaken during

the year. On this basis, however, a final dividend of 7,85c per share has been paid.

Commenting on the results the directors said the group increased its market share in competitive trading conditions. "The results also reflect excellent cost control and asset management and the increased efficiency and productivity created by the introduction of modern technology at the group."

CTP reflected the strong performance of Caxton, with earnings per share rising from 99,4c to 162,5c despite a capitalisation issue which increased the number of shares in issue from 22,7 million to 29,5 million.

CTP declared a final dividend of 14c.

Hortors

CTP's other key subsidiaries, Solchem and Hortors, also did well. Hortors lifted turnover from R49,3 million to R81,8 million and operating income from R5,3 million to R10,3 million as a result of the acquisition of the RT Sparhams Group with effect from April last year.

The acquisition, however, also led to an extraordinary item of R6,1 million, reflected as goodwill in the income statement. Earnings per share rose from 8,3c to 14,3c, while the total dividend was lifted to 5c (3c).

On a marginal improvement in turnover to R53,8 million (R49,2 million), subsidiary Solchem lifted earnings per share from 4,8c to 6,2c and the dividend from 1c to 2c.

Good performances by subsidiaries boost Argus

195

Bl Day 24/6/92

MARCIA KLEIN

ARGUS Holdings increased its attributable income by 22,8% to R89,7m in the year to end-March on good results from most of its subsidiaries and associates.

Earnings, including retained earnings of associates, rose 20,3% to 213c (177c) a share. Excluding associates, earnings rose 10,9% to 153c a share.

A final dividend of 40c a share increased the full-year dividend by 10% to 55c.

Comparative results for financial 1991 have been restated to reflect that M-Net is now equity accounted and that associate Times Media Limited (TML) is equity accounting some of its investments. Comparative results include retained earnings from these sources, CE Doug Band said.

While turnover increased 11,4% to R2bn, Band said a strong focus on containing costs and maintaining margins resulted in a 16,3% rise in trading income to R194,5m.

The increase in the interest bill was restricted to 12,9% (to R9,7m) through

tight management of working capital, in spite of high capital expenditure and investment in new activities during the year.

A reduction in the tax rate saw net income after tax rise 18,5% to R102m.

After taking into account income and dividends earned from associates and income attributable to outside shareholders, attributable income had grown 22,8%.

Argus Newspapers reported a 35% increase in profit after tax. Band said the circulation market of its publications — with the exception of Sowetan — had been difficult. However, advertising revenues had shown "a decided improvement" in the second half.

Advertising revenues were boosted by premium-rate telephone services Parrott Publishing.

Lower newsprint prices, secured for the medium term, had helped to contain costs.

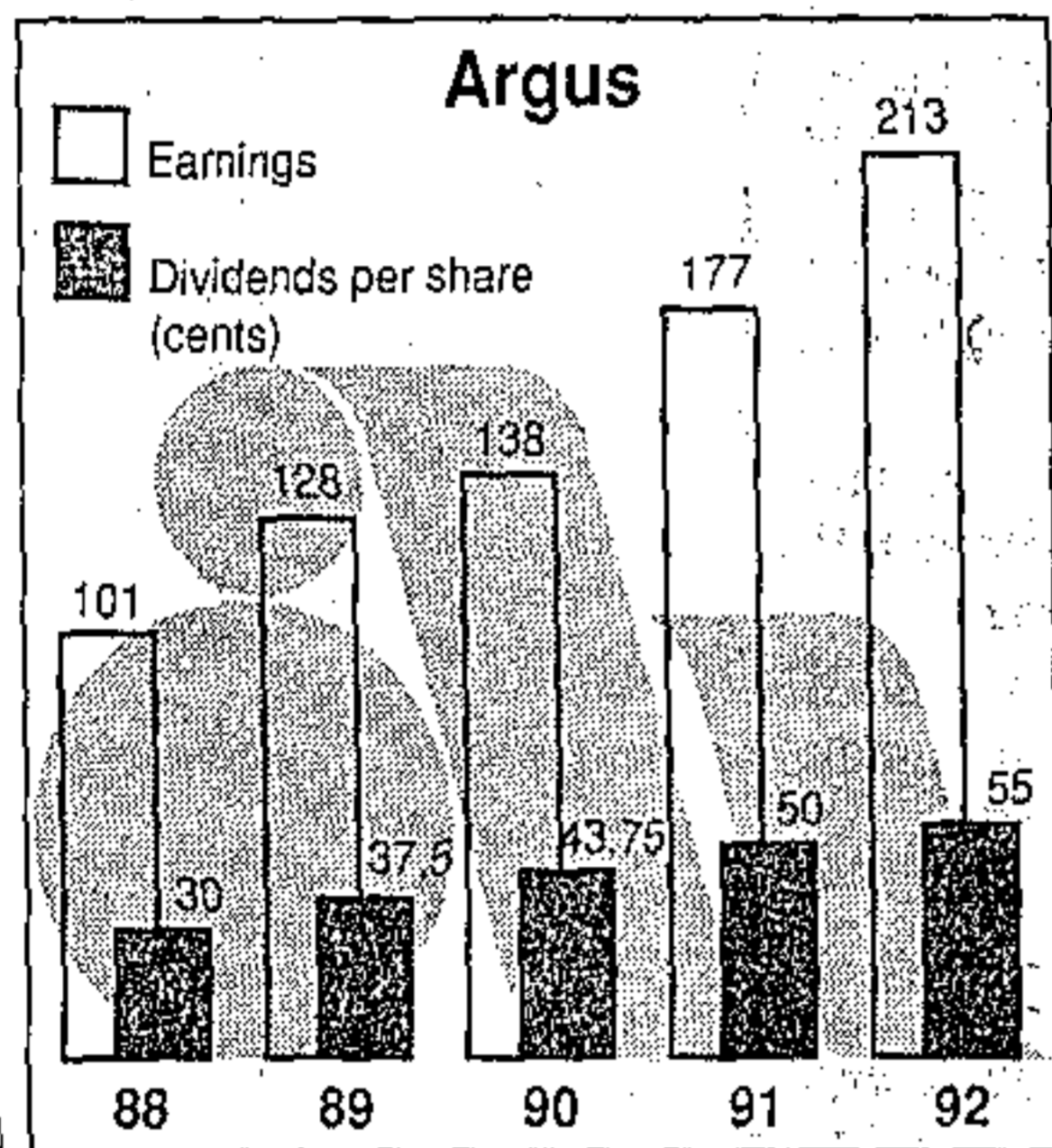
Printing and publishing company CTP Holdings, which increased its attributable earnings 63,5% to R36,9m, also experienced a more buoyant advertising market in the second six months.

CNA Gallo, whose earnings were 4% down, suffered from the decline in retail business and a difficult market for entertainment products.

Band said TML had achieved excellent results, with a 32% rise in attributable earnings.

M-Net's net attributable earnings had declined on the back of higher taxation and anticipated losses in FilmNet.

In Maister Directories, buoyant results from Brilliant Signs had helped offset tougher conditions experienced by the Yellow Pages and Electronic Yellow Pages.



Graphics: RUBY-GAY MARTIN Source: ARGUS

Cautious stance (195)

Argus Holdings' strong results have been sweetened by two factors not entirely expected by the directors.

Advertising revenue in the second half improved markedly, to boost growth and show a 16,3% increase in operating profit, to R195m. And lacklustre results from CNA Gallo (earnings down 4%) — which has carried Argus newspapers in previous underperforming years — were this time offset by good results from the metropolitan newspapers.

CE Doug Band is treating the increase in advertising revenue with caution. He's obviously pleased advertising exceeded budgetary expectations for the second half, but notes it comes off a relatively low base after the general decline in volumes seen over recent years.

"We shouldn't get carried away," he says. "I wouldn't take the increased advertising revenue as a sign of the economy improving. In fact advertising has been softer in May and June, it's anybody's guess where it is going."

For this reason Band is reluctant to make forecasts for the current financial year. He is worried about the recent increase in the level of violence and political uncertainty in the country, saying the economy remains depressed and if it continues Argus won't be able to swim against the tide.

Perhaps his view is tempered by CNA

BETTER NEWS		
Year to Mar 31	1991	1992
Turnover (Rbn)	1,81	2,01
Operating income (Rm) ..	163	187
Attributable (Rm)	73	90
Earnings (c)		
— Inc share of retained income of assoc	177	213
— Exc share of retained income of assoc	138	153
Dividends (c)	50	55

Gallo's results, which with its exposure to entertainment-related discretionary spending products is probably a more reliable indicator of the state of the economy. He notes, however, that CNA Gallo has done a "sterling job" in holding down stock levels.

Tight working capital control is a general feature of all the businesses in the latest results. At R9,7m, the increase in the interest bill has been contained to just under 13%, despite an overall increase of 55% in long- and short-term debt, leaving Argus with net borrowings of about R50,5m.

This comes from the funding requirements of a R109m capital spending programme in financial 1992, coupled with R43m spent following the group's rights in M-Net. However, gearing remains light, maintaining the traditional strength of Argus' balance sheet.

The most useful contribution came from CTP Holdings, which like 37%-held Times Media Ltd, benefited from increased advertising volumes. CTP grew attributable earnings by 63,5%; TML by 32%.

Circulation has remained difficult for Argus publications, with Band saying figures



Argus's Band ... circulation figures static

are static and in some cases off for the year. The exception is the *Sowetan*, which has continued its circulation run to the point where it has become the largest daily newspaper in SA.

The problem is getting the *Sowetan's* advertising support to match its circulation. Band says this has been correcting itself steadily over the year, but he still feels the paper is worthy of more advertising support than it is getting.

He is not over-enthusiastic about prospects for the premium rate telephone service industry, in which Argus has Parrot Publishing. While the latter put in a good performance for its first six months, he doesn't believe the rapid growth seen in the industry can be sustained in the short term and expects a shake-out during the year. After that, Band says, the surviving players should enjoy a more stable market.

At R28 the share, stable over the past six months after doubling in price during the first half, remains expensive. But despite uncertain prospects, the performance probably justifies its rating, though the interim might be a better time to make investment decisions.

Shaun Harris

Lenco to bid for Metcor's H & H

(194) LINDA ENSOR (123)

CAPE TOWN — Lenco Holdings had decided to bid for 100% of Metcor Industries plastics subsidiary, Hendler & Hart (H & H), executive chairman Doug de Jager said in the group's latest annual report.

This comment is believed to relate to the cautionary announcement issued by the group a few weeks ago.

Industry sources believed Lenco would achieve considerable rationalisation benefits by merging its packaging division, Compak, with H & H.

De Jager said Lenco had become more focused on its three core industries, clothing, footwear and packaging. The group's market capitalisation had increased to R200m from R20m at the time of its listing.

The group would not chase turnover in a recession; Lenco would try to conserve cash to exploit opportunities once the upturn materialised.

De Jager said Lenco's UK acquisition of Capital Fashions had not been as successful as had been hoped, but it had opened up export opportunities for House of Monatic, which now exported over 10% of its turnover.

Last year Lenco achieved a 14% increase in earnings to 49,3c a share (43,2c). The operating margin increased to 12,8% (12,3%), return on capital employed, however, slipped to 33,4% (38,4%) and debt:equity improved to 23,8% (46,4%).

Turnaround puts Karos in the red

B1 Day 7/7/92

MARCIA KLEIN

KAROS Hotels, suffering from low occupancies and the higher cost burden of operating leases and interest, today reported a R3,9m attributable loss in the year to end-March, compared with a R4,1m profit in the previous year.

Chairman Selwin Hurwitz said occupancies of 57% were slightly ahead of the industry and of the previous year, but were down on budget.

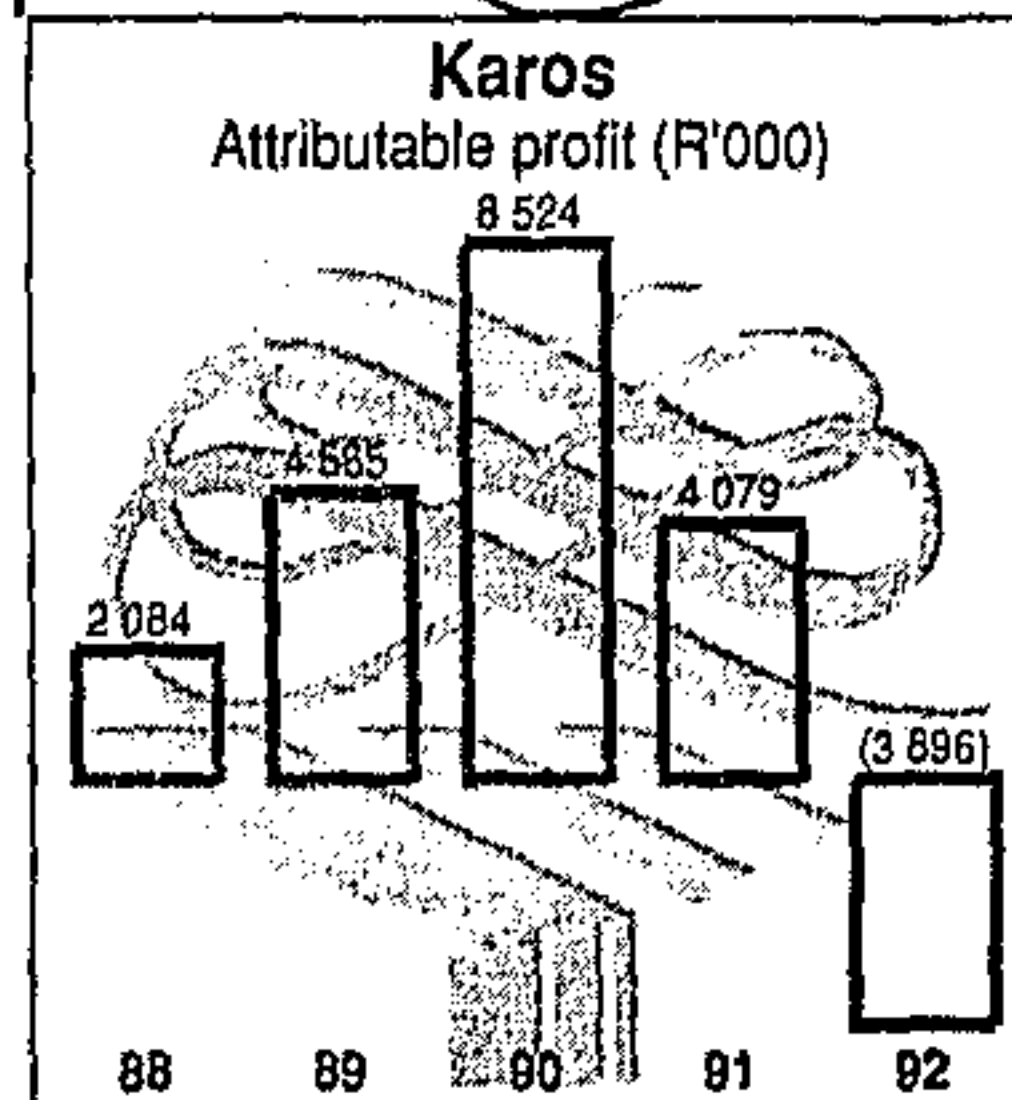
This was due partly to a fair number of cancellations by foreign tourists, which were particularly noticeable in January and February.

Turnover for the year increased by 25% to R88,6m, and operating profit was 15% higher at R20,5m (R17,8m).

But the cost of operating leases rose to R7m from R3,6m, and the interest bill of R9,2m (R5,4m) was higher than budgeted for. This resulted in a R166 000 loss before preference dividends compared with profit of R6,8m in the previous year.

Karos showed a loss of 13,9c a share compared with earnings of 14,5c a share in financial 1991. No ordinary dividend was declared.

Hurwitz said the group had been



Graphic: RUBY-GAY MARTIN Source: KAROS

affected by the recession and by the non-availability of rooms and facilities during its refurbishment programme, now nearly complete.

Forward bookings from overseas were well up on last year, and prospects for 1993 "most encouraging".

Hurwitz hoped there would be a change to the Gambling Act. Karos believed gambling rights should be extended to four- and five-star hotels with a minimum of 100 rooms, and "where the environment was conducive to gambling". Gambling should be strictly controlled and confined to those who could afford it.

Sappi raises R64m in European share option

1974 CT 21/7/92

JOHANNESBURG. — Pulp and paper producer Sappi has raised an additional R64m through the "green shoe" option as part of the group's Euro-equity share placement to fund its Hannover Papier acquisition, the company said.

Sappi undertook a R946m share placement in June to fund the acquisition of NCB Aktiebolag's 80,4% interest and Commerzbank's 10,1% interest in German paper manufacturer Hannover Papier.

It said the "green shoe" option allows the lead manager, subject to demand, to over-allocate shares up to a maximum of 15% more shares than the face value of the issue.

The company said the full 15% option was exercised with lead manager SG Warburg Securities buying in 1 395 000 shares and leaving an additional 1 455 000 new Sappi shares to be issued in terms of the over-allocation option.

After the "green shoe" deal and the proposed issue of a further 2 523 922 shares to Commerzbank on August 3, Sappi's total issued share capital will increase to 148 764 200, it said. — Reuter

Exports put Lenco on profit road

8/10/92 23/1/92
LINDA ENSOR

CAPE TOWN — Exporter Lenco Holdings was expecting reasonable profit in the year to end-February 1993, executive chairman Douglas de Jager said yesterday.

De Jager has recently returned from a trip to Russia and is in the process of finalising export orders for packaging equipment worth about R8,4m.

If, as expected, Lenco acquires 100% of Metkor's Hendler & Hart — which manufactures this equipment and which is presently under Lenco management — the group will derive full benefit from the export orders.

The deal will also give Lenco exclusive distribution rights in Africa for certain Russian products.

De Jager says export orders for packaging equipment worth R14m from the US market will come in by next year, and that inquiries worth R28m have been received.

One of the main reasons for the continued buoyancy of the group's performance is its four-year secured contract for clothing exports.

De Jager says these exports will increase by 50% this year and are responsible for clothing manufacturer House of Monatic operating at full capacity for the first time.

As a result of exports, clothing margins have strengthened, but footwear margins remain under serious pressure. However, the market has responded well to Amshoe's latest range.

Keys will wrap it up

FM 7/8/92

(194)

A freer paper tariff policy could signal a tilt away from special pleading

Finance and Trade & Industry Minister Derek Keys will shortly make one of the most controversial tariff policy decisions of his brief ministerial career. It hinges on whether to implement the Board on Tariffs & Trade's recently completed report on a new regime for the multi-billion rand paper manufacturing and processing industries.

The report, which has not been made public and is now being studied by Trade & Industry Director-General Stef Naudé on Keys' behalf, is the culmination of a complex series of events:

- In June 1990, then Trade & Industry Minister Kent Durr asked the then Board of Trade & Industry to investigate the possible lowering of paper tariffs;
- In 1991, Mondi, one of SA's two giant paper manufacturers, asked the board for a 15% tariff against imports of uncoated papers. The request was later withdrawn. However, the board changed its own brief by including a look at tariff protection for the paper industry;
- The board also decided to look at a possible "simplification" of SA's complex paper tariffs, which might involve a levying of tariffs on grades of paper not made locally;
- Sappi and Mondi both favour the imposition of a 10%-15% tariff on imported newsprint, seen by most newspaper groups as the "thin end of the wedge" for increasing paper contract prices in the years ahead; and
- Earlier this year, an application for anti-dumping duties against imports from Brazil was lodged with the board. This added to the perception that the board had changed its original focus from reducing protection to

possibly increasing it for Sappi and Mondi.

This apparent change of tack set off an avalanche of opposing memoranda, submissions and arguments to the board by virtually the entire printing, publishing and packaging sector. They felt their interests were being threatened by a bias shown by both board and government in favour of protecting big business against downstream processors.

All this occurred against a background of almost complete import substitution in printing and publishing. Between 1985 and 1990, CTP changed from 90% imported paper to 85% local usage; Perskor from 30% local to 80% local; and Nasionale Pers from 10% local to 67% local use of paper products. So the question is asked: why increase tariffs now, when Sappi and Mondi already dominate the local market?

On a broader level, Keys' decision is anxiously awaited as yet another pointer to whe-

ther government will continue with its current protectionist bent, or whether it may yet liberalise restrictive tariff policies. Keys' own views — flavoured by his past as a director of the Industrial Development Corp and chairman and CE of Gencor — will be central to the decision, as will be those of the protectionist-minded Naudé.

Democratic Party MP Ken Andrew says in view of a possible clash in interests, Keys should declare his Gencor shareholding (it controls Sappi), or recuse himself from the paper tariff decision. But, says Keys, he has not held Sappi shares since 1986, while his other shares, which may or may not include Gencor, have been placed in a "blind trust."

Sappi, where Keys was a director until December, and Mondi strongly support tariff increases on newsprint, lightweight coated and uncoated papers, currently imported tariff-free. With global recession depressing export prices, they have asked for what they call a "level playing field," since many countries who now export to SA exercise tariff protection against SA-sourced paper imports.

While most newsprint is sold on three-year contracts to local newspaper groups at competitive prices, Sappi and Mondi fear that their local market is being threatened by cheap newsprint available globally. And they also support what they regard as "reasonable tariffs" on lightweight coated paper (about 22 000 t are now imported annually tariff-free, mainly for printing local magazines), as this would be an incentive to substitute imports with local production.

But local printers and publishers say



Minister Keys . . . measuring the industry's needs

MANUF. — PAPER & PRODUCT.

1991

OCT. — DEC

Large boost for Copi's earnings

196 MARCIA KLEIN

CANADIAN Overseas Packaging (Copi) has increased its earnings by 36% to C\$1,21c (C\$0,89c) a share in the year to end-June on the back of improved operating margins and a change in the company's forex fortunes. *8/10 ay 4/10/91*

Copi, which is listed on the JSE's paper and packaging sector, makes packaging materials.

While turnover for the year grew by 14,5% to C\$106,6m (C\$93,1m), pre-tax earnings were 22,7% up at C\$20,1m (C\$16,4m).

A 50,5% hike in taxation saw earnings after tax increase by 18,5% to C\$16,9m (C\$14,2m).

A dividend of C\$0,50c was declared, 11% up on the previous year's C\$0,45c.

Sunpak to open US facility

B/ Dcm 14/10/91 (194)

BRENT VON MELVILLE

SUN Packaging (Sunpak) has disclosed that it is to relocate certain operations to the US, giving it greater exposure in the lucrative American market.

Speaking at the weekend, recently installed chairman Ian Willis said Sunpak would establish a facility in Cincinnati in the US for the manufacture of synthetic labels, used mainly for the packaging of carbonated beverages.

Willis said although Sunpak had established export markets for these labels in the face of international competition, various factors contributed to a loss in the division for the last financial year.

"We took a hard look at the operation and, convinced of its potential, decided to establish a manufacturing facility in the US. The division contributes about 25% of sales volumes for Sunpak, and the US market represents about 75% of those sales.

"Our technology agreement with Japan-

ese manufacturers Sekisui allows us to do this and we will be closer to our markets," Willis said. Sunpak currently makes label paper in SA and pays huge sums to transport it to customers in the US.

Plans are afoot to transfer certain existing equipment to the US for the establishment of the label facility, while other international customers will continue to be supplied from SA.

Willis said the plant's capital base would be about \$10m, and Holdains would take a direct stake in the operation.

Sunpak, which is engaged primarily in polystyrene packaging, posted a 4,7% rise in earnings to 17,4c (16,7c), and left the dividend unchanged at 8c, off net income of R9,3m (R9m) for the year to end-August.

Willis said demand for white foam trays,

□ To Page 2

Sunpak

B/ Dcm 14/10/91

(194)

□ From Page 1

the company's core business, continued, albeit at a lower rate. He said the move to the US would lead to a "major improvement" in Sunpak's future profits.

Recent VCM-listing Biopolymers, which produces polymer for the Sunpak operation and which has been suffering from start-up problems, improved on its first-half performance although it still came in with a R684 000 net loss. The loss for the first six months was R508 000.

The combined performance of Sunpak

and Biopolymers resulted in a slight decline in earnings for Sunvest, controlled by Holdains since January. Sunvest, which holds 50,1% of Sunpak and 58% in Biopolymers, saw earnings dip to 15,8c (16,6c) off net income of R4,3m (R4,5m).

Willis said he expected the weak trading conditions in the domestic and international markets to persist. Sunpak closed at 110c, and Sunvest at 105c Friday, putting them on p/e ratings of 6,3 times and 6,6 times respectively.

Sappi offer at low end of market

Business Staff

1994 ARG 15/10/91

JOHANNESBURG. — The R32 at which Sappi has pitched its R1 billion rights offer is at the low end of market expectations.

The level reflects the weak market sentiment specific to Sappi and also the current generally sluggish state of the market.

The current market price of R35,50 already incorporates the bearish effect of the expectations of a major rights issue.

In late September Sappi management announced that it would soon be coming to the market.

At that stage the share was trading at R39 having slipped back from a high of R43,50 following the release of disappointing financial 1991 results.

The R32 price takes the share back to the level at which it was trading at

the beginning of this calendar year.

The share subsequently moved ahead on expectations of strong overseas earnings but moved back on results for the six months to end-August which showed a 39 percent slump in earnings.

Shareholders will be offered 35 shares for every 100 held and 32,6 million shares will be issued.

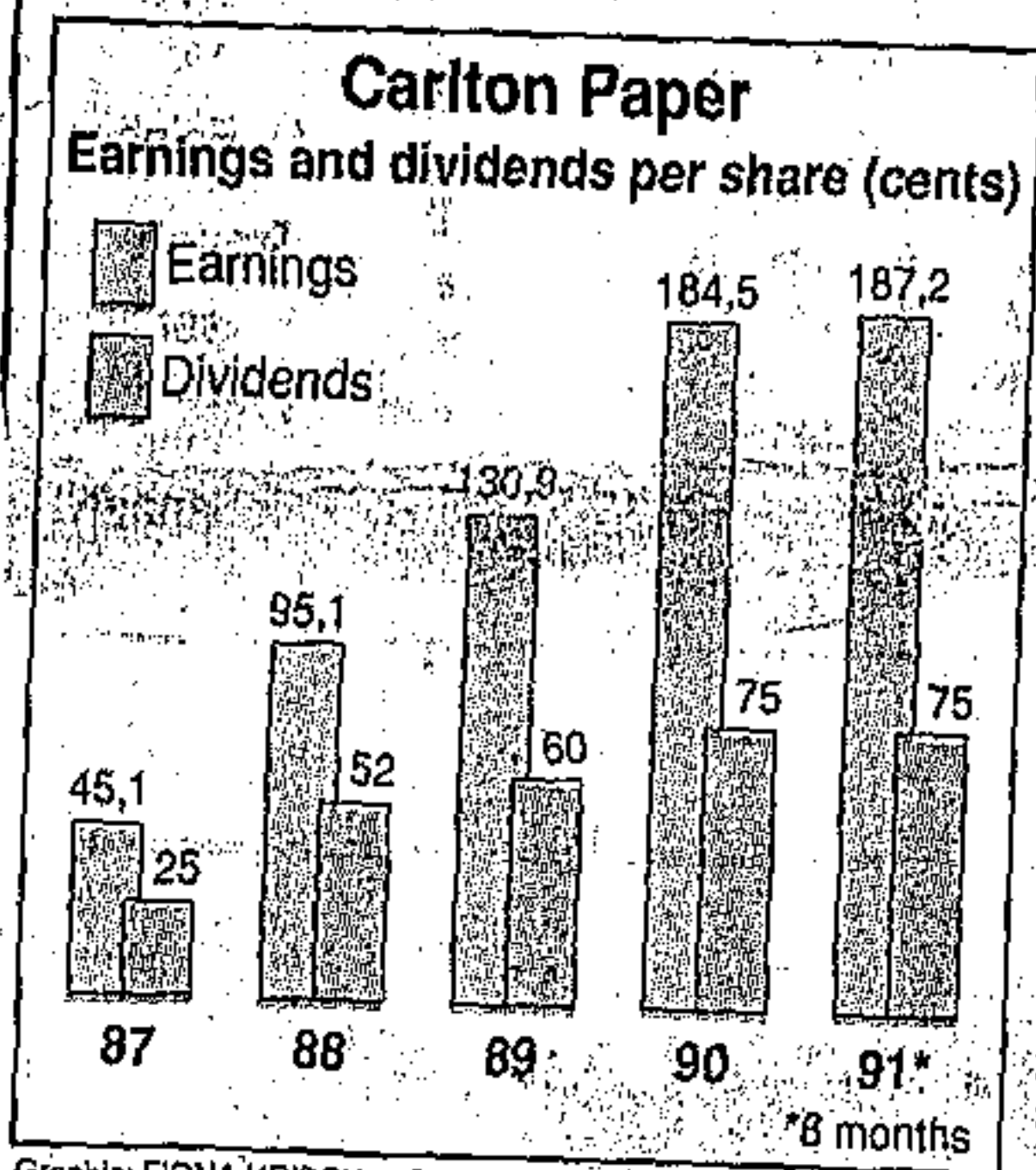
Gencor, which holds 50 percent of Sappi, will be underwriting the offer.

Expenses are estimated at a R19 million. The major expenses will be underwriting costs and stamp duties.

When the full details of the offer are released to shareholders they will include a complete breakdown of the expenses.

The funds raised will be used primarily to fund the upgrading and expansion of Saiccor.

Carlton Paper shows its strength



Graphic: FIONA KRISCH Source: CARLTON PAPER

WILLIAM GILFILLAN

BOOSTED by demand from a growing urban consumer population, tissue and fibre producer Carlton Paper Corporation (Carlcor) achieved a strong performance for the year to August 31.

Having changed its year-end from December to August, the company reported a 51.8% increase in net income which went from R27,2m to R41,2m.

On an annualised basis, Carlcor's turnover climbed 17,1% to R440,5m for the period and thanks to strong volume growth, stable raw material prices and exports, operating income rose 41,9% to R67,1m.

Chairman Ian Willis said a large part of

□ To Page 2

Carlton Paper *Bloay 15/10/91* (194) □ From Page 1

the improvement was as a result of greater productivity. "We have focused on our efficiencies and productivity and were rewarded for our efforts not only through these excellent financial results but also when we won the National Productivity Institute's gold award."

Strict working capital management resulted in strong cash generation which could be seen from the 44,3% decline in interest paid and the fact that the company's debt-to-equity ratio declined from

13,3% at August 31, 1990 to a negligible 1,4%, Willis added.

At the bottom line, earnings for the 12 months to August 31 totalled R41,2m or 260,8c (1990: 171,9c).

Willis said earnings for the eight months to August exceeded those for the previous 12 months ending December 1990.

Shareholders have been rewarded with a final dividend of 75c a share for the eight-month period, which compared well with the 75c paid for the previous 12 months.

Lenco's earnings outstrip inflation

CAPE TOWN — Industrial Holdings group Lenco Holdings achieved a 24% growth in earnings a share on a 5,3% rise in turnover in the six months to end-August.

Lenco's subsidiaries include plastic packaging company Combined Packaging (Compak), Amalgamated Shoes (Amshoe) and men's clothing manufacturer House of Monatic.

The disposal of a subsidiary, the decline in the amount due to outside shareholders and the increase in the weighted number of shares in issue all played a part in the interim result.

Financial director Stanley Stubbs said while the performances of Amshoe and House of Monatic were "pleasing in the circumstances" most growth in the first half came from Compak, the minority shareholders which were bought out by Lenco during the period. The company was delisted in August.

He added, however, that Compak's growth came off a low base as its rigid plastics operation was not performing well when it was acquired from Kohler Packaging in the previous period.

The newly acquired Cravateur, an up-market tie manufacturer bought for R8m, also contributed to the rise in earnings a share to 22,5c (18,2c).

Amshoe experienced little volume

growth, but Stubbs said its margins were tight, while House of Monatic also felt the strain of a depressed market.

Turnover lagged behind inflation with a 5,3% increase to R241,4m (R229m) but Stubbs said the 1990 interim figures included the R35m sales of the flexible packaging division which was subsequently sold back to former owners Rubenstein Holdings when it failed to meet profit warranties.

If this is excluded, turnover from existing operations showed a 24,4% rise. Margins remained static at 12,9%, but there was a reduction in finance costs which offset the slight increase in the tax rate.

The result was a 10,7% growth in after-tax income, translating into a 24% rise in earnings a share because of the decline in the amount paid to outside shareholders to R5,8m (R8,2m) and the increase in the weighted number of shares in issue. About 8,3-million Lenco shares were issued to Compak minorities.

Stubbs said a concerted effort was made to reduce interest-bearing debt with strong operational cash flow assisting in this attempt. Debt dropped to R66,6m (R78,6m) but gearing relatively unchanged at 46% due to the decline in shareholders' funds.

Lenco does not declare an interim dividend.

LINDA ENSOR

194 B/Day 16/10/91

Improved productivity

Lifts Holdains profits ⁽¹⁹⁴⁾

B (Day) 17/10/91

WILLIAM GILFILLAN

IN THE face of declining consumer spending, packaging group Holdains has recorded a 12% rise in earnings to R82m from R73m for the year to August.

Although turnover increased by only 9% to R1,9bn from R1,7bn, focus on productivity within the group turned in an operating profit up 15% at R172m (R150m:1990).

CE Ian Willis said yesterday lower wastage and the payoff from the recent capital expenditure programme had improved productivity levels.

Exports in the Kohler Packaging, Carlton Paper and Sun Packaging Investments's operations helped reduce the tax rate to a low 30%.

Willis noted Carlton Paper's results have been consolidated in Holdains balance sheet (but not income statement) for the first time, following the investment made last year which took Holdain's interest in Carlton to 50,1% from 41,8%. This largely explained why current assets had shot up to R720m from R540m.

Commenting on the performance

of the divisions he said Kohler, which contributes over half of the group's turnover, produced excellent results considering the difficult market. Prospects for the coming year remain positive, he believed.

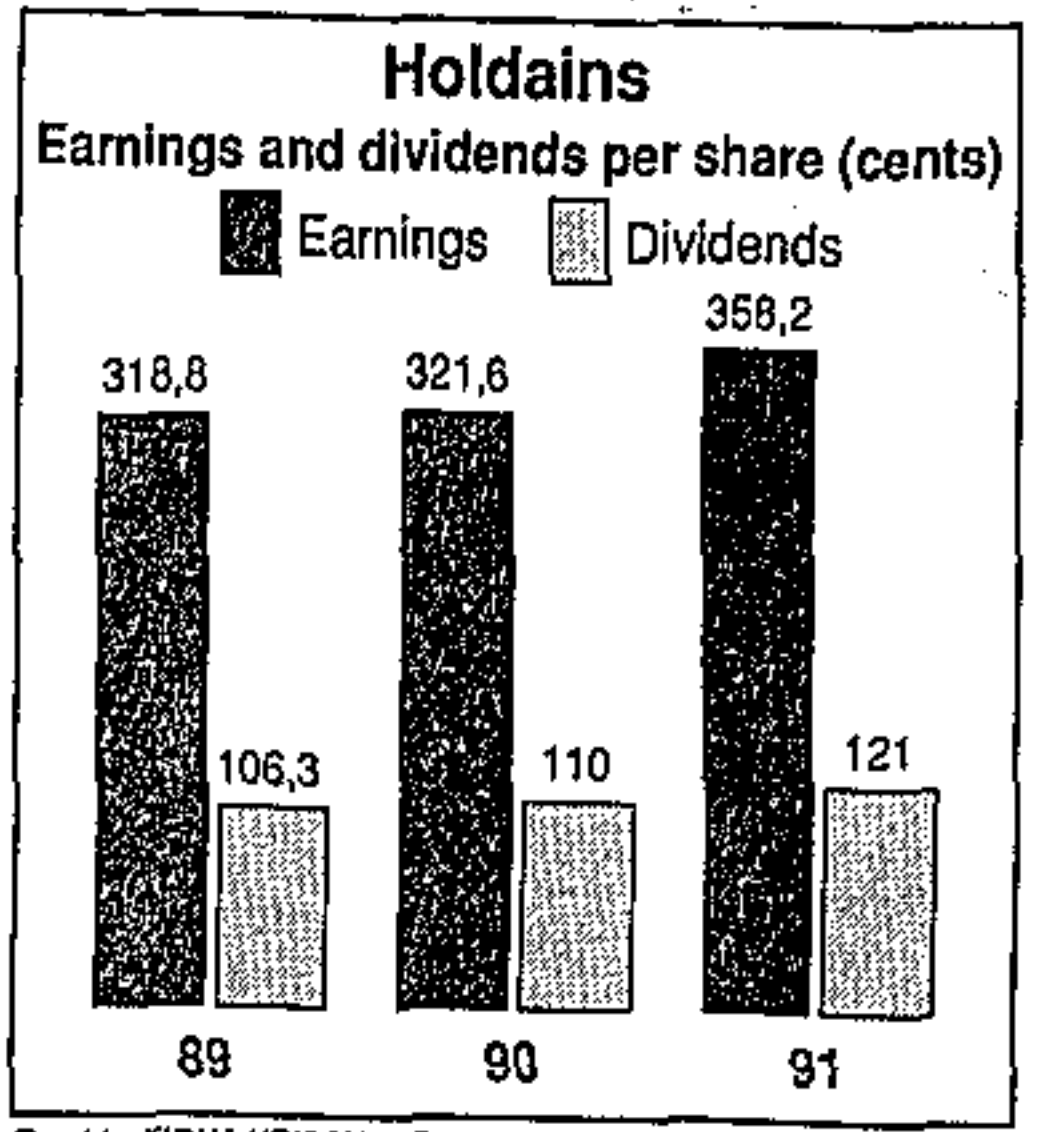
On the other hand he said results from Graphtec Holdings, which turns in 30% of Holdain's turnover, were unsatisfactory but "operational and management changes have now been made and a significant improvement is expected this year".

Earlier in the week Carlton reported a 52% increase in earnings.

Willis predicted Sun Packaging Investments, which succeeded in controlling its earnings decline last year, would have a good year following the transfer of certain synthetic paper equipment to the US and a stronger performance from Biopolymers.

On earnings a share of 358,2c (321,6c) a dividend of 121c (110c) a share was declared, giving a dividend cover of three.

"It is unlikely there can be any



Graphic: FIONA KRISCH Source: HOLDAINS

economic upturn before the end of the company's next financial year end due to the government's steadfast determination to use high interest rates as the tool to bring down inflation.

"In the past year management has achieved excellent results in reducing working capital and increasing efficiencies as witnessed by the reduction of gearing to 28,5% but it is unlikely that such improvements can be repeated.

"In these politically uncertain times profit predictions are extremely difficult, but the recovery at Graphtec is expected to have positive results. It is management's aim to produce modest earnings growth in the coming year," Willis said.

The market needed good results. Carlton Paper has been one of the biggest climbers of the year, climbing almost threefold from R14 to R41 over the past 12 months. Both the company and market it serves are considered to show real promise. Carlton Paper is market leader in tissue-based products, which have shown real growth of 7%. It has also won the National Productivity Institute's Gold Award.

Its results beat even the most optimistic forecasts. Earnings increased by 51,8% to R41m in the year to August with the operating margin up from 12,6% to 15,2%. Carlton is now virtually ungeared, with a debt:equity ratio of just 1,4%. Interest payments fell from R5,9m to R3,3m.

The old year-end was December but comparative figures have been given for 12 months to August 1990. Results for the eight months to August have also been included: operating income and bottom line for that period both exceed the previous 12 months.

Chairman Ian Willis says earnings growth will be more modest in the coming years but brands like Kleenex, Baby Soft and Huggies have a strong position in growing markets.

This year Nampak's tissue wadding plant will come on stream and this will increase its capacity and could eat into Carlton's sales. Previously, Nampak bought wadding from

WIPING UP

Year to Aug 31	1990	1991
Turnover (Rm)	376	440
Operating income (Rm) ..	47	67
Attributable (Rm)	27	41
Earnings (c)	171,9	260,8
Dividends (c)	75*	75

* For year to Dec 31 1990.

Sappi. Willis believes this will not have a significant impact on sales because of export opportunities to Europe and organic growth locally. Carlton also plans to expand Kimberly-Clark's medical care product range, which will have a marginal impact.

At current prices Carlton offers a p/e of 15,7 and dividend yield of 1,8%. These are demanding ratings, though behind consumer companies which are not showing the same growth, such as Consol, Adcock Ingram and Cadswep. It has justified its rating and should at least sustain real growth.

Carlton is certain to be a key profit contributor to parent Holdains, bringing in about a quarter of its attributable earnings. The other listed Holdains subsidiaries had a less exciting year. Sunpak increased earnings by 4% and Sunvest, which holds Sunpak and Biopolymers posted 4,8% lower earnings last week.

Stephen Cranston

incorporate additional data supplied by Joffe. FM 25/10/91

The performance was evaluated at three different levels: an analysis of the underlying trading result was followed by assessments of the effects of the restructuring and of the financing package respectively. Pro forma income statements were drawn up to try to define performance at these stages.

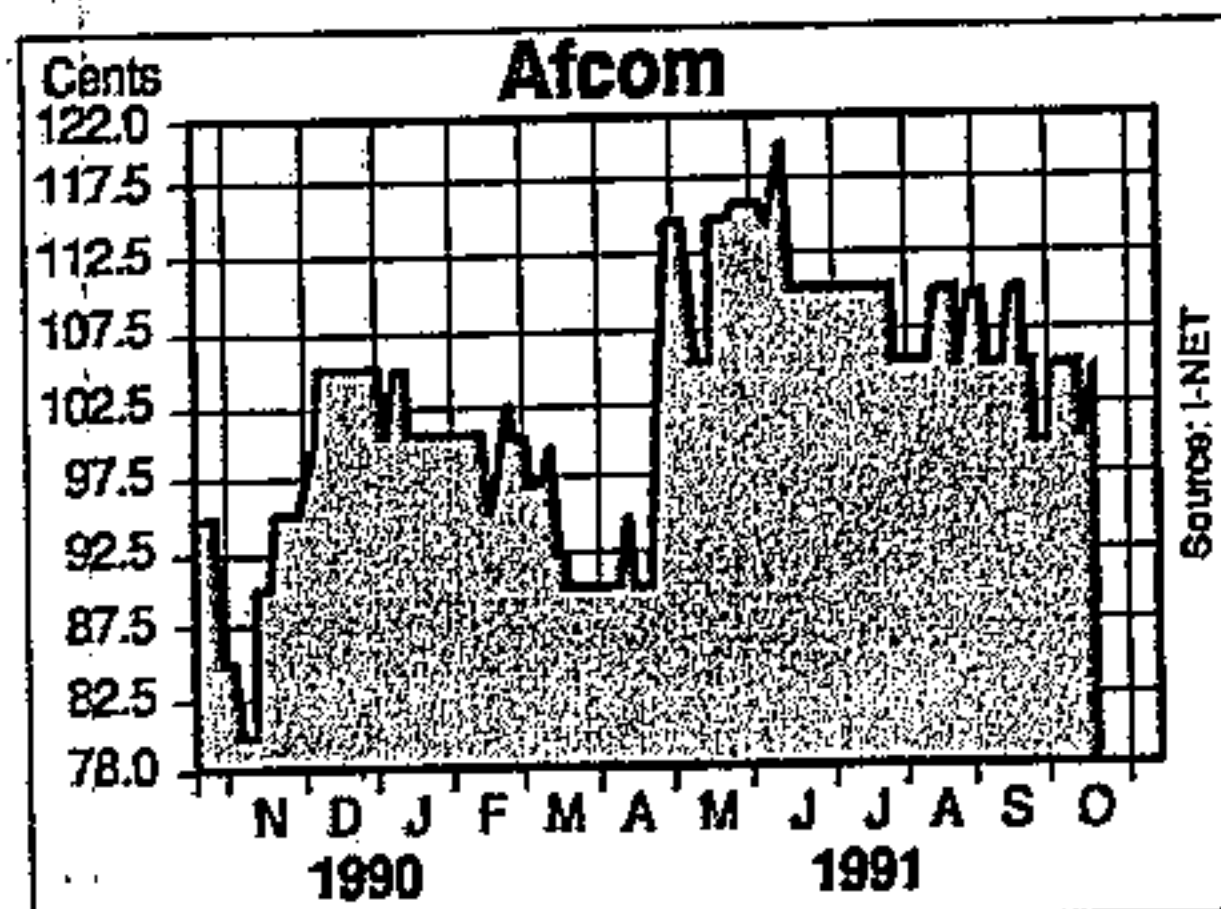
The first step, as indicated, was to estimate what Afcom would have achieved had the restructuring and related rights issue of convertible debentures not taken place. Main adjustments here are the elimination from operating profit of income derived from the financing package, a reduction in interest charges to eliminate the effects of both the financing package and the new debentures, an adjustment to tax to reflect the change in the interest charge and, finally, the reinstatement of an appropriate charge against profit in respect of minority interests.

This indicates that the group, as previously structured, would probably have earned 12,3c a share (on 29,7m ords), or 5,3c less than the 17,6c actually reported. This would also have been 21% below 1990's annualised 15,6c. The fall is partly accounted for by Joffe's statement that management resisted the temptation to do business at any cost and, instead, concentrated on quality sales. This policy presumably contributed to the 6% decline in turnover, which in turn suggests a drop in sales volumes roughly in line with the decline in earnings.

The next stage was to assess the performance in the restructured form, using straight-forward, conventional financing (including the R14,2m debenture rights issue). The minorities charge against profit is eliminated, and there are further adjustments to interest and tax charges. EPS increase by 2,6c to 14,9c (based on weighted average issued 33,1m ords), which the FM views as the most meaningful assessment of the restructured group's performance. These earnings are 0,7c below 1990's annualised figure but, in view of Joffe's comments regarding sales, are probably of better quality.

The same cannot be said for disclosed earnings of 17,6c, as these, by deduction, seem to contain about 2,7c derived from the financing package used in the restructuring. The effect in this instance was calculated in two different ways, both giving basically the same answer: that the financing package as such added a net amount of almost R900 000 to attributable earnings.

To summarise, last year's reported 2c rise



continue →

AFCOM FM 25/10/91
Finance props

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Activities: Makes and distributes fastening, packaging, strapping, adhesive tape and stationery products.

Control: Bidvest 80%.

Chairman: B Joffe; **MD:** A C Salomon.

Capital structure: 34,3m ords. Market capitalisation: R41m.

Share market: Price: 120c. Yields: 5,8% on dividend; 14,7% on earnings; p:e ratio, 6,8; cover, 2,5. 12-month high, 120c; low, 50c.

Trading volume last quarter, 96 000 shares.

Year to June 30	'88	'89	'90*	'91
ST debt (Rm)	0,8	0,4	0,4	0,6
LT debt (Rm)	0,4	2,5	8,1	6,4
Debt:equity ratio	0,07	0,13	0,28	0,22
Shareholders' interest	0,49	0,48	0,52	0,61
Int & leasing cover	10,1	9,6	5,2	3,6
Return on cap (%)	24,0	31,6	25,3	21,4
Turnover (Rm)	53,1	94,5	113,5	107,1
Pre-int profit (Rm)	8,6	17,7	15,8	10,9
Pre-int margin (%)	16,3	18,7	14,0	10,1
Earnings (c)	17,5	21,1	15,6	17,6
Dividends (c)	7	8,6	6	7
Net worth (c)	38	40	50	114

* 16 Months annualised.

First item in chairman Brian Joffe's annual review is an expression of thanks to staff for their contribution to the group's success. In fairness, shareholders should perhaps extend the same compliment to management for its efforts in propping up the bottom line when normal trading profits were under severe pressure.

Management's contribution can be broken into two distinct areas. The first was the decision to restructure, in effect involving acquiring minority interests in the operating subsidiary; the second was the way this series of transactions was structured and financed.

This process was complex, and analysis of the effects is rather like trying to unravel a plate of spaghetti. What follows is based on the FM's calculations, which are not necessarily endorsed by the company, though they

FM 25/10/91

in EPS, from 15,6c (annualised) to 17,6c, appears to be a net figure comprising a 3,3c decline in trading profit, a 2,6c positive contribution from the restructuring (which should be a continuous benefit) and 2,7c attributable to the financing package which, in the FM's, view is non-trading. 194

Non-trading profit of this magnitude inevitably creates problems in assessing future results. MD Alan Salomon is confident of a "satisfactory increase" in earnings this year. But to achieve that without another boost from non-trading sources could prove a stiff order, particularly in current economic conditions. If, for example, one assumes a target of 20c (up 14%), attributable profit would have to increase to around R6,9m, with 34,3m shares now in issue. This is 19% higher than 1991's global R5,8m and, all else being equal, would probably be attainable. But it is also a whopping 36% up on the R4,9m the FM views as the most realistic estimate of 1991 profit for the restructured group.

It remains to be seen whether such results can be achieved purely on the basis of improvements in divisions which underperformed last year, and a first-time contribution from Signode Steel & Plastic Strapping, acquired with effect from July 1. The market seems sceptical. Afcom is one of only five counters to have lost ground this year in an otherwise buoyant packaging sector; a low rating is further emphasised by a p:e of under 7 and a 5,8% historical dividend yield.

Brian Thompson

HOLDING ON

Year to Aug 31	1990	1991
Turnover (Rbn)	1,80	1,95
Operating income (Rm) ..	151	173
Attributable (Rm)	73	82
Earnings (c)	321,6	358,2
Dividend (c)	110	121

the March interim. But Willis says he is satisfied with the price trend.

He says the "sovereignty" of Holdains' operating subsidiaries has been maintained. This may partly explain why Holdains is less well-known to consumers and investors than its major rivals. Nampak, in contrast, has divisionalised its operations; the former Metal Box, now part of Nampak, has been split into divisions such as Bevcan and Glass Division. Holdains does not disclose divisional breakdowns with the preliminary figures. But Willis believes that there are motivational benefits in maintaining separate identities for the underlying operations.

As expected, the contribution from Carlton Paper was the highlight of the results. Carlton's 52% earnings advance was a major contributor to Holdains' 11% increase in EPS. Kohler, which accounts for 56% of group turnover, did reasonably well with earnings rising in line with the group's overall result.

Sunpak, 65% held, raised earnings by 4%, which Willis considers satisfactory in the circumstances. Owing to difficulties with Biopolymers (another subsidiary of the pyramid Sunvest), Sunpak had to buy polymers on the open market at the height of the Gulf War. These high-priced stocks have only just been worked out of the system. Changes in export incentives reduced the profitability of exports to the US. Sunpak will commission a plant at Cincinnati in the US early next year.

The bigger problem for Holdains is Graphtec, which earnings fell and are considered by Willis to be unsatisfactory. He says Graphtec was a growth company which was unable to cope in a static market. It has been merged with First Paper House and First Paper MD Derek Smith was appointed CE of Graphtec. The former Graphtec boss, Frits Waldeck, left to join the printing industry.

First Paper House, which dominated the lucrative carbonless paper market, had excellent results. But the three paper merchants, First Paper, Star and Haddons Trading will continue to trade separately.

The troubled Photra-Allgraphics business was separated from paper merchandising. Allgraphics makes printing plates for newspapers; advertising revenues for its clients has declined 25% and Allgraphics' revenues fell accordingly. There was a sharp decline in demand for heavy printing machinery imported by Haddons. It must be questionable whether all these businesses belong in a focused paper and packaging business.

Management of working capital improved. Though Carlton Paper and Sunpak were consolidated by year-end, bringing a further R35m debt on to the balance sheet,

borrowings fell by R10m, to R146m. Gearing dropped from 42,5% to 28,5%. Willis says tighter working capital management, particularly stock turn, enabled an improvement in the operating margin, from 8,4% to 8,9%. However, Holdains' various businesses operate on very different margins — Carlton Paper enjoys 15%, Kohler 10% and paper merchandising 5%.

For this year, Willis predicts modest earnings growth, but says it would be difficult to repeat the increases in productivity and capital management achieved last year. With recoveries expected in both Graphtec and Sunpak and a continued strong performance in Carlton and most of Kohler, the group should achieve this target. Even so, a longer record of growth would be needed to justify a share rating in line with Nampak or Consol.

Stephen Cranston

HOLDAINS FM 25/10/91

Closing the gap

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Holdains notched up another sound performance in the second year since its formation. It was created in 1989, when Kohler acquired other paper and packaging interests in the Malbak group — Graphtec and Wiggins Teape (now First Paper House) — as well as joint control of Carlton Paper.

Initially, the share was accorded a significantly weaker rating than the other large packaging groups, Nampak and Consol, but the gap has been narrowing. CE Ian Willis notes that the share price has increased from R14,25 in July 1990, to about R41 today. Holdains now stands on a p/e of 11,3. That is below Nampak's 14,8, even though Nampak's earnings fell 8% at the September 1990 year-end and moved in line with Holdains' at

A tough year for Nampak

By Ann Crotty

Nampak management must be very glad to have financial '91 behind it.

It was a tough year on just about every front with industrial relations strife, management problems in one of the divisions and on top of all that, difficult trading conditions.

Against this grim backdrop Nampak did extremely well to produce a 16 percent hike in earnings — up to 491c (422c) a share.

A final dividend of 115c a share has been declared for a total of 190c (166c).

MD Don McCartan points out that real turn-

over was up by a mere 0,8 percent and that earnings growth came from tighter asset management, with a reduced interest bill and a more favourable tax rate.

As he says, earnings growth was internally generated in order to cope with the dismal external (market) conditions.

Turnover rose 14 percent to R3,99 billion (R3,51 billion), operating profit was up 7 percent to R440,2 million (R410,4 million).

Interest payments were down 16 percent to R57,9 million (R69,2 million). This reflects a continuation of the progress that was made at the half-

way stage and is attributed to tighter asset management.

End-September gearing was down to 43 percent from the mid-year level of 46 percent but is up on end-financial '90's level of 37 percent.

The effective tax rate was down to 40,4 percent (42,6 percent).

Attributable earnings were up 17 percent to R232,9 million (R198,7 million).

Referring to sector performances, the directors note that packaging performed well although a prolonged strike in the first quarter impacted adversely on the production and profits of several of

the packaging divisions.

"Most divisions serving the beverage industry achieved good growth but the rate slowed down in the second half of the year."

Although the tissue division achieved real growth in sales and profits the overall paper and printing sector suffered a decline in profits.

For financial '92 the directors are looking to a modest improvement in operating profit. But higher interest charges and an increased tax rate is expected to reduce the growth rate to below that of '91.

Star 1/11/91

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Packaging divisions help boost Nampak's earnings

PAUL ASH and
WILLIAM GILFILLAN

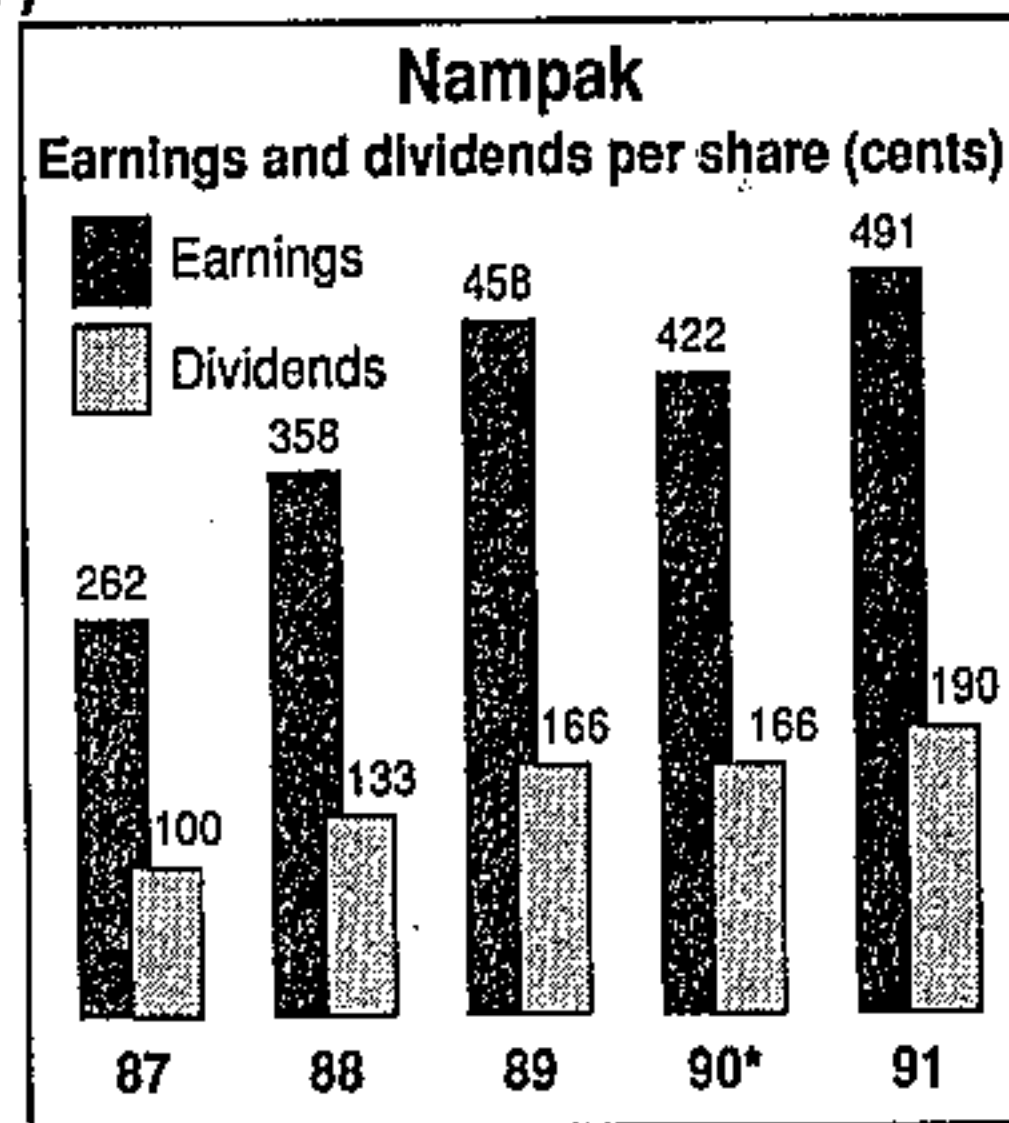
TIGHT financial management and a lower tax rate helped paper and packaging group Nampak increase earnings 17% to R232m from R198m for the year to end September.

Earnings per share, on a slightly increased number of shares in issue, climbed 16% to 491c from 422c in 1990 while dividends per share rose 14% to 190c (166c).

The tax rate dropped from 42,6% to 40,4%, boosting post-tax profits by 18% to R241,4m (R204,5m) and attributable profits grew 17% to R232,9m (R198,7m).

"The rate cut earlier this year was the biggest single factor in the lower tax rate," chairman Brian Connellan said but added that capital investment had also helped ease the tax burden.

Tight asset management helped take 16% off the net interest bill at R57,9m (R69,2m) which along with an 11,3% rise in investment income, raised pre-tax profits by 12% to R395,1m (R352,7m).



Graphic: FIONA KRISCH Source: NAMPAK

Connellan said average debt had dropped about R50m year on year through tight control over working capital.

Turnover for the year climbed 14% to R3,99bn (R3,52bn) from which a 7% higher operating profit of R440,2m (R410,4m) was achieved. He attributed the tighter margin to the two-month strike at the start of this financial year and a tighter market.

The improved performance of the group came solely from the packaging divisions with the paper and

printing sector experiencing a decline in profits. The tissue division, however, experienced real growth in sales and profits, he said.

Most of the packaging divisions improved their performances, especially those serving the beverage industry. Connellan said the new corrugated division team had settled in well and the division was covering market share.

The group's R50m glass furnace in Durban had started contributing in March and the R110m tissue wadding mill at Kliprivier was successfully commissioned at the financial year-end.

The new bev-can project in Springs would be completed before the end of the current financial year, Connellan said.

He predicted growth would be modest this year and probably below that achieved in this past year.

"I do not see any significant upturn at all this coming financial year. Some signal from the authorities regarding a less restrictive monetary policy would be appropriate at this time to restore some confidence."

NAMPAK FM 8/11/91

Back to form

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After a dip last year, Nampak has resumed real earnings growth. Profits from the paper and printing interests declined, but the year to September saw strong performances from some metals, plastic packaging, folding cartons and liquid packaging.

Sales of brown paper products, the raw material for corrugated packaging, fell significantly in the second half. The tissue division showed real growth, but it is not thought to perform as well as market leader Carlton Paper. Its capacity has increased as a R110m tissue wadding plant was commissioned at Kliprivier in September. Nampak previously bought its tissue wadding requirement from Sappi and its own Bellville mill.

Nampak's strength, as usual, was its packaging interests, for beverages in particular. But MD Don McCartan notes a distinct second-half softening, a sign that interim results from highly rated beverage companies such as SA Breweries, Suncrush and ABI may disappoint.

The corrugated division was hit by a strike

FM 8/11/91

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FOX

in the first quarter but recovered much of its lost market share in the second half.

EPS of 491c is 16% up on last year but just 7% better than in 1989. Over the two years the operating margin fell from 12,7% to 11%. Operating profit rose 7% to R440m but interest paid fell by 16% to R58m, and the effective tax rate from 42,6% to 40,4%. At R68, Nampak is on a p/e of 13,8 and dividend yield of 2,8%. It should start making considerable strides when the outlook for beverages and canned foods improves.

STRONGER PACKAGE

Year to Sep 30	1990	1991
Turnover (Rbn)	3,52	3,99
Operating income (Rm) ..	410	440
Attributable (Rm)	199	233
Earnings (c)	422	491
Dividends (c)	166	190

Nampak has a lower rating than other large consumer-based companies, which means its share price is less in need of correction. McCartan expects only modest earnings growth this year, unless there is an economic upturn. He will be succeeded as MD by Trevor Evans of the plastics division early next year. Investors will take another look once Evans settles in. Meanwhile it is difficult to take a medium-term view.

Stephen Cranston

Packaging industry is in growth phase

PLASTIC packaging is making strides in overtaking alternative materials and the industry is in a growth phase despite the weak economy, says Nampak MD-designate Trevor Evans. *B/day 18/11/91*

"We are launching new products on an ongoing basis, while many of our established products still have growth potential.

"Because of this, we have done reasonably well during the past financial year and we expect to continue to do so.

"The 2l milk bottle has proved a winner — it is cheaper than glass and more convenient than plastic bags.

"Another successful product for both the local and export markets is the one-ton bulk bag.

"The soft drinks industry, which is also converting fairly steadily to plastic, has experienced growth despite the economic downturn."

He says the most exciting

new development in plastic packaging is the 1,5l returnable Coke bottle.

This was launched in Upington on a trial basis 18 months ago and more recently in Windhoek.

Next year will see it in western Cape shops and by the end of 1992 it is expected to be on the shelves countrywide.

Technology

Although the concept was originally developed in Germany, the technology for the manufacture of the product is unique to SA.

The bottle is about the same size as the 1l glass bottle — but weighs only 1,6kg instead of 2kg.

"This product is an example of plastic packaging at its best.

"The consumer gets 50% more product in a more manageable, safer container — and the seller can cut transport costs through reduced mass and higher volumes," Evans says.

Sunpak is attracting investor interest again

Packaging group Sunpak has been attracting a lot of interest this month which has seen the share price boosted 42c to a high of 160c before falling back to its current 145c. *Star 20/11/91*

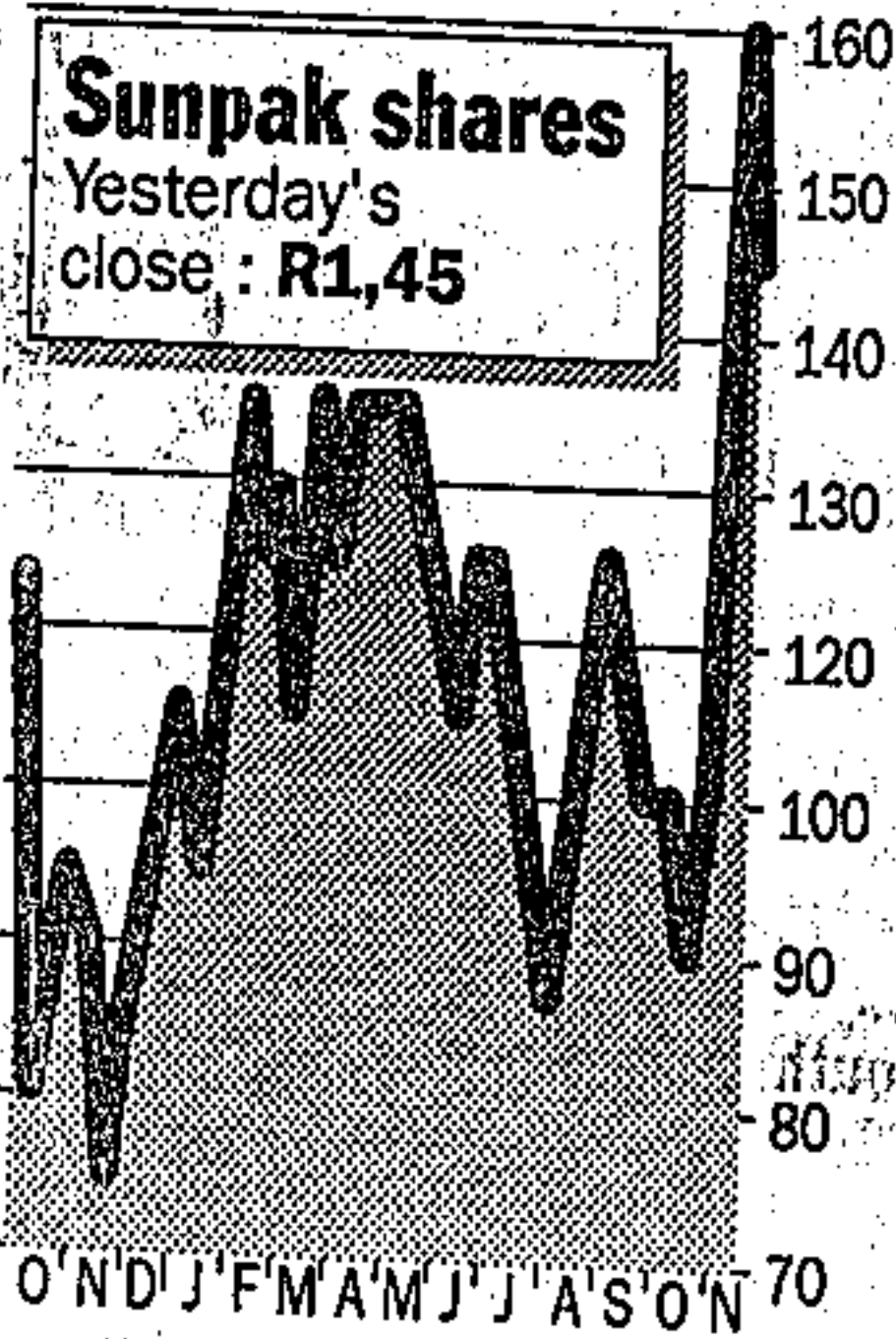
Over the same period more than 1.56 million shares or about 3 percent of the issued share capital changed hands, compared with the normal 322 101 shares.

Sunpak chief executive Ian Strachan puts this down to a combination of factors.

There had been a lot of development and operations were looking a lot better with the rationalisation programme, started some years ago, now completed.

The arrival of Holdains as the ultimate holding company had also brought a lot of investor confidence to the group.

Holdains acquired a controlling stake in Sunvest (Sun Packaging Investments) early this year. Sunvest, in turn holds 50.1 percent of Sunpak.



Diagonal Street
(194)
Jabulani
Sikhakhane



But one analyst noted that major factors could be Sunpak's decision to move the synthetic label plant to Cincinnati in the United States.

Mr Strachan says this move would cut down on the time it takes to get the products to customers in some 20 countries.

The US plant would be operational by April/May next year and should make a contribution to group profits in the second half of financial 1992. But the biggest benefit would come through in financial 1993.

In the current financial year (1992), Sunpak should also benefit from the large stocks which were built up in the past financial year in order to supply customers while the plant was being moved to the US.

The cost of carrying these stocks was charged in last year's accounts and when they are sold in the current financial year, the proceeds should boost profits.

According to one analyst the financial 1991 results, when Sunpak reported earnings of 17.4c (16.7c) and an unchanged dividend of 8c a share, were depressed by high raw material prices.

Sunpak is now getting all its polymer supplies from Biopolymers, which has overcome early technical problems.

Another plus for Sunpak is the technology agreement with Japanese packaging group Sekusuyi. The licensing agreement gives Sunpak exclusivity in areas where it has a plant.

Analysts said Sekusuyi is now shy of expanding outside Japan after previous attempts failed. This gives Sunpak a free-hand in expanding worldwide.

Sunpak is a primary manufacturer of polystyrene white foam food trays through subsidiary Sun Packaging; synthetic papers for export and decorative laminated foam trays.

Holdains 'set to take on' Nampak, Consol

B(004) 21/11/91

SEAN VAN ZYL

194

MALBAK's paper and packaging subsidiary Holdains is about to take on Nampak and Consol in the high growth canning and beverage packaging industry, market sources said yesterday.

They said about R175m of Malbak's R440m rights issue, which opens tomorrow, had been earmarked to develop a canning plant mainly for internal group needs.

Some funds raised from the Malbak rights issue were intended specifically for the Pepsi franchise deal - group subsidiary Fedfood is

strongly backed to emerge as the successful bidder - and for the establishment of the canning operation.

An internal canning plant would rationalise the Pepsi venture's production costs, while meat/food distributor Kanhym Investments was apparently eager to expand into the canned food market, particularly for export into Africa.

However, Holdains CE Ian Willis denied the company had plans to erect or acquire a canning plant, al-

though, it had been looking for growth opportunities in the beverage packaging market.

Willis said Holdains had no intention of proposing a rights issue of its own in the immediate future, the most obvious means of Malbak injecting development capital into the company.

Malbak financial director Dave Kennealy said funds raised via the rights issue had not been earmarked for any specific development and was unaware of any canning project in the pipeline.

(194)
**Sale pays
dividends**

8/8/91
22/11/91
WILLIAM BILFILLAN
PACKAGING group Trans-

spaco Limited reported earnings up 51% to R280 000 from R185 000 on a 12% decline in turnover, to R24m from R27m, for the six months to September.

An interim dividend of 1c a share was declared on earnings of 2,5c (1,7c).

With operating profit up 18% at R1,2m from R1m, the operating margin jumped to 5,2% from 3,8%. Joint MD Mike Abelheim said this improved margin came about largely from the disposal of Transpaco Stationers last year.

The closing of the loss-making builders sheeting section in July this year had also played a part in the higher margin, he said.

Interest charges were slightly down at R709 000 (R811 000) on borrowings down to R1,7m from R2,9m.

Abelheim was optimistic regarding the newly opened industrial packaging division of Transvaal Paper which "continues to grow and is now a significant force in the market place".

The R733 000 extraordinary profit related to profit made on the sale of plant and machinery previously used in the builders sheeting operation.

Abelheim predicted earnings a share of 11c for the year to March 1992.

CTP Holdings 21 Oct 26/11/91 ups earnings

CTP Holdings has increased its earnings per share for the half year to end-September by 15% to 62 cents a share. (194)

However, turnover growth was just over 7% bringing it to R260 646m.

Operating income increased to R28 768m compared with the R25 535m reported at the halfway mark last year.

Earnings attributable to ordinary shareholders amounted to R14 076m.

An interim dividend of 8c a share was declared. — Sapa.

Clegg in 194
Hortors deal

WILLIAM GILFILLAN

CLEGG Holdings has acquired the general packaging business of paper and packaging holding company Hortors for R1,2m, to be financed by the issue of 8-million Clegg shares to Hortors at 15c a share.

In terms of the deal, announced today, Clegg director Arnold Sharp has acquired 6,7-million shares from chairman Harry Clegg for just over R1m, giving effective control of Clegg to a consortium involving Sharp and Hortors.

An offer would be made to take out the minorities at 15c a share. *B/DW*

In an unrelated deal, an offshore consortium headed by John Henry Clegg had acquired 7-million shares in the company from the estate of the late A Bristow at 15c a share. *27/11/91*

Clegg this week recorded a R980 000 loss for the year to June after reporting earnings of R476 000 last year.

B/DW 27/11/91
Provincial sold to Investec for R11m

THE Investec banking group has bought the Natal-based Provincial Building Society for R11m.

The R11m cash consideration was by way of a payment of 25m rand to all qualifying holders of subscription and paid up shares in Provincial. About 1 500 shareholders are involved.

The deal was described by the two parties as mutually beneficial as each will be able to tap the other's key areas of expertise.

Investec, which has been working towards new home loan products for its target market, gains access to Provincial's diversified home loans book. Provincial, constrained in its operations by its mutual society status, is now able to diversify into unit trusts, portfolio management and other investment related products.

Investec executive chairman Bas Kardol called the price a fair one, especially as it was "a very successful business". While rationalisation benefits would eventually be looked for, it was "business as usual" for the time being.

The deal had been put together within the last four weeks, Kardol said.

John Russell, who will remain as Pro-

ROBERT GENTLE

vincial MD, said Provincial was one of the last mutual societies to have changed its status. The only ones remaining in the Republic, he said, were Eastern Province Building Society and Grahamstown Building Society.

He said Provincial had total assets exceeding R140m, of which the home loans book accounted for R100m. Insofar as bottom line profits made any sense — as a mutual society, Provincial had no comparable equity to speak of — these were about R2m last year. This means Investec bought Provincial for about 5,5 times net earnings.

Russell said Provincial had some of the highest performance ratios of the industry. Reserves as a proportion of assets stood at 11,4%. Return on assets stood at 1,46%. By comparison, the successful big five banks have a return on assets of between 0,9% and 1,05%.

Russell said Provincial had been operating for 63 years and had a staff complement of 60. Its home loans book was "evenly spread" throughout the country. There are offices in Durban, Cape Town and Johannesburg.

Strikes at Nampak hinder production

Blow 29/11/91

194 (194) (194)

WILLIAM GILFILLAN

PACKAGING group Nampak lost more than 150 000 man days mostly due to strike action in the year under review, chairman Brian Connellan said in his 1991 report.

A strike on the issue of central bargaining was the major factor behind the lost time.

He also said 1992 earnings from the group — which was the largest packaging operation in SA — would probably be below those in 1991.

Connellan believed the critical need for better productivity remained a tremendously difficult ethic to establish in SA.

"The message that unless SA industry can become world competitive in every sense, inflation will not be defeated and real growth will not eventuate, has yet to gain broad acceptance."

Lost wages — resulting from the lost man days — amounted to R7,5m which he believed contributed in a small way to the nation's downward economic spiral.

"The responsibility that rests with management, workers and unions to understand the real dynamics of an economy and to jointly and actively promote growth is enormous," he said.

Connellan said that despite predictions of an economic upturn developing by mid-1991, reality saw continuing and steepening decline in growth across the entire spectrum of the economy.

This saw demand drop in most markets served by the packaging industry although, he added, the beverage sector remained reasonably impervious to the economic decline until the last quarter, when it also began to show signs of weakening.

"Margins came under severe pressure as market shares were vigorously defended as part of our strategy to maintain

our pre-eminent position in the packaging industry."

He said several new entrants to the already overtraded packaging market, together with the existing surplus in productive capacity in several key areas, further complicated matters for the industry.

However, he said one pleasing trend was the low level of increase in many raw material prices as a result of weak world market demand.

With world economies in recession, he was not bullish on export opportunities.

But Nampak's faith in the long term future of the packaging industry remained at a high level as shown by the R298m of capital expenditure spent this past year.

Of this, R209m was targeted at new capacity and new projects. Significant undertakings completed during the year on schedule were the new R50m glass plant in Durban and the new R110m tissue mill at Klipriver.

Planned capital expenditure for 1992 exceeded R300m and included the new R122m beverage can plant at Springs where work had already commenced and which was scheduled to be commissioned late next year.

On prospects for the coming year he said despite economists and politicians attempting to "talk the economy up", Nampak's reading of the present economic scenario remained pessimistic, with too many factors currently present that militate against any major upturn during 1992.

While operating profit was expected to show modest improvement, higher interest charges and an increased effective tax rate would probably reduce the rate of growth in earnings to below last year's.

Share Price	Consol				
3500					
2500					
1750					
1250					
800					
500					
300					
	1986	1987	1988	1989	1990 1991

Source: I-NET

Consol packs a puncheon

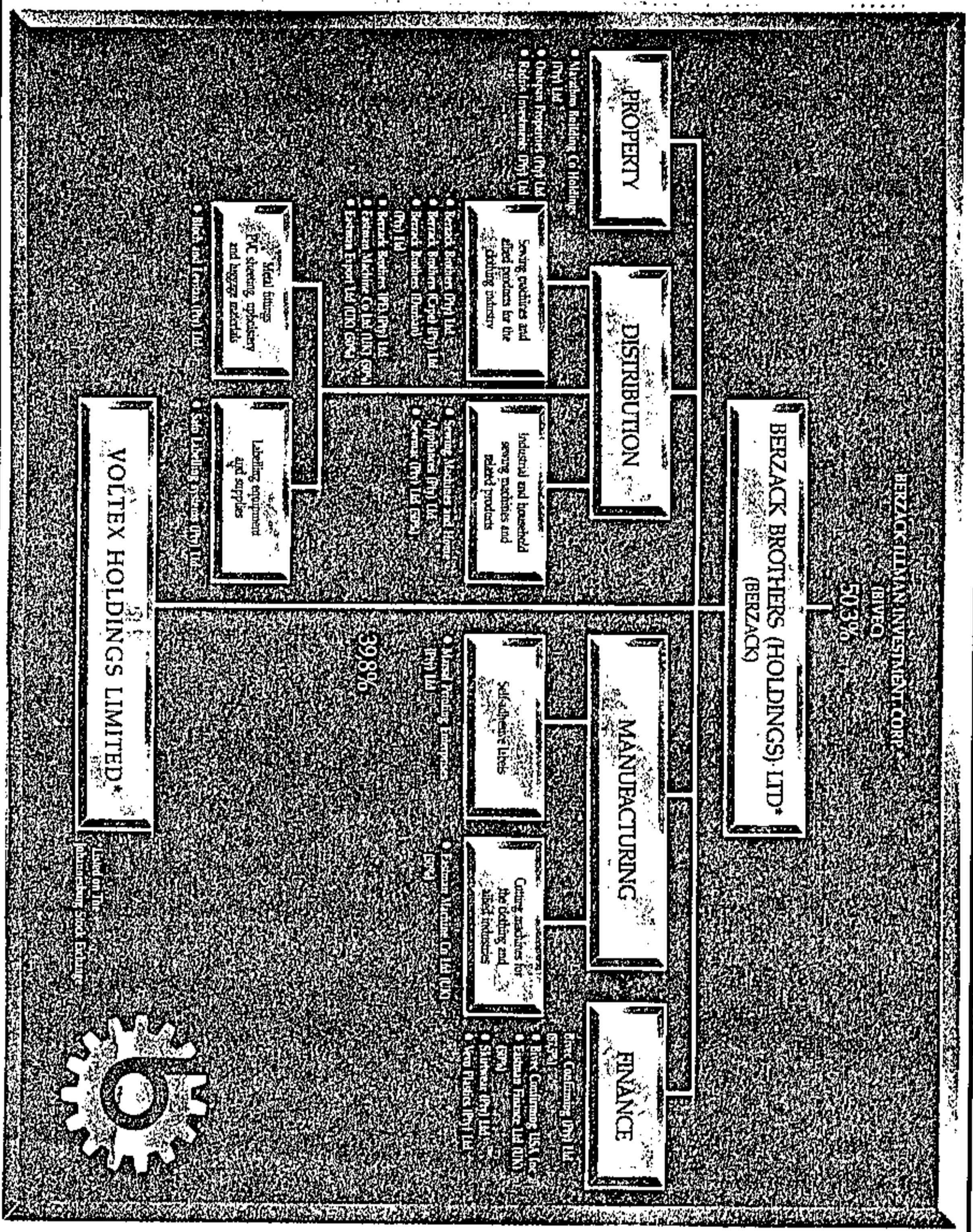
STILL IN THE (BASS) 1/12/91 (194)

PACKAGING and rubber manufacturer and distributor Consol has generated compound average earnings growth of 37% and dividend growth of 30% in the past five years. The exceptional growth and the market's faith in Consol's superior management of sound assets are reflected in an 80% in-

crease in the share price since January 1987. Group managing director Piet Neethling says Consol's underlying exposure to the outstanding growth markets of beer and soft-drink packaging is the fundamental reason behind the exceptional performance. This is substantiated by Consol's average 14.6% operating margin in the past five years. The operating margin of the packaging operations is one of the highest in the industry, this average being reduced by the lower margins of the tyre distribution business.

Mr Neethling stresses, however, that the tyre distribution operations require less investment and can operate on lower margins. The 1989 disposal of troublesome operations Gundle Plastics and Bags & Sacks has also highlighted the fine performers in the group which were previously somewhat disguised by these poor ones.

Further, volumes in SA's tyre market have weakened. Imported tyres have also captured some of the market. Competition in a declining market has increased, resulting in large downward pressure on margins. The proposed abolition of permit protection on imported tyres at the end of 1991 has been postponed at least until mid-1992. If the tyre industry is proven efficient, this protection will stay for longer — along with the duty.



Exposure

Mr Neethling places emphasis on the strong cash-generating characteristics of the packaging division. This was one of the main reasons that Consol was able to effect the R176-million acquisition of tyre manufacturer Goodyear in 1989. The acquisition was subsequently merged with Tredcor into what is now known as Contred, a tyre manufacturer and distributor (61% owned by Consol). Contred has increased Consol's exposure to mass non-durable and semi-durable markets with strong potential and has successfully diversified the group's interests. It would be unrealistic to expect Consol to produce a dynamic earnings performance in the current

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By HEDI VOLLMER
 Investment analyst,
 Simpson McKie Inc



PIET NEETHLING ... packaging a cash cow in beer and soft-drink markets

R180-million for acquisitions. Consol's interest bill should decline by more than 70% in the 1992 financial year, most of the benefit affecting the second half. In spite of poor trading conditions in Consol's mar-

kets this year, analysts forecast real attributable earnings growth for the group, assisted by the rights issue. Most are confident that Consol will resume its above-average earnings performance, given the growth potential of the sectors it serves. The share continues to command a high rating in the market. But on the strength of superior earnings growth prospects, it shows value about the current price of 3 500c.

Bleak

The scenario is, therefore, not quite as bleak as it was a few months ago. Consol's recent rights issue has resulted in the issue of 8.3-million 5% convertible debentures. They are unlikely to convert to ordinary shares until July 1997 after the ordinary dividend exceeds 180c and will thus benefit earnings without any dilution at earnings a share level for some time to come. The rights issue raised R300-million and is expected to reduce debt by about R120-million, leaving

Mondi to broaden base in Europe

MONDI Paper, Anglo American's unlisted timber, paper and pulp subsidiary, is about to broaden its interests in Europe by buying a large stake in a Portuguese pulp and paper company in a multi-million rand deal.

In an interview at the weekend with the London-based Sunday Telegraph newspaper, Anglo American chairman and Mondi director Julian Ogilvie Thompson said: "We have been talking to Arjo Wiggins Appleton about buying their 43% stake in a Portuguese pulp and paper company and we believe this will be successful."

A Mondi official speaking in Johannesburg yesterday would not elaborate further on the proposed deal.

Portugal and Spain have the largest paper and pulp

MATTHEW CURTIN

industries in Europe outside of Scandinavia. It is believed that deal is with Sopracel, an important pulp and paper producer in Portugal.

If it goes through, Mondi will have increased its stake in the European industry after joining a consortium in 1990 which bought 49% of Austrian photocopy and business paper manufacturer Neusiedler AG.

George Huysamer analyst John Clemmow said yesterday that talks between Mondi and Sopracel had been going on for much of the year after rival SA company, Gencor's Sappi, had investigated it and then walked away from a deal in 1990.

Clemmow said Sopracel owned extensive plantations which did not fit in with Sappi's strategy of relying on SA for timber production while looking for

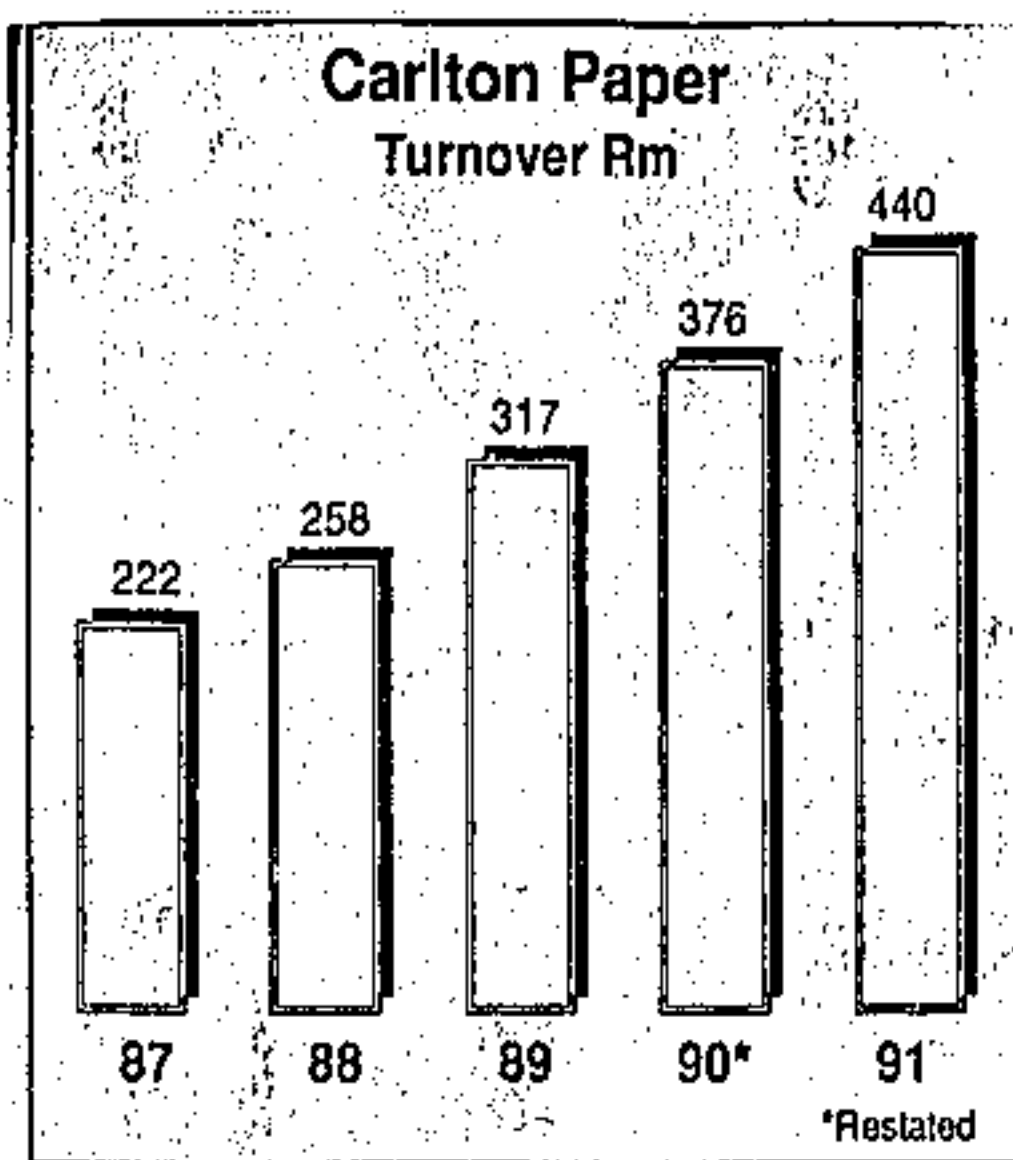
value-added expansion prospects abroad.

Holdains, the paper, packaging and fibre subsidiary of Gencor's industrial arm Malbak, bought out the SA operations of the UK-based Wiggins Teape in 1989. They were renamed First Paper House.

Ogilvie Thompson said at the weekend that Mondi was a tiny company in comparison with equivalent operations in Europe and the US, and needed the backing of a big group to be competitive.

He said Anglo's size and apparent dominance of corporate life in SA were not problematic but brought benefits.

"The US can afford the luxury of preventing what they deem to be unduly large aggregations as this still leaves them with the largest companies in the world. Small countries such as Switzerland, Holland, Sweden and SA cannot," he said.



Graphic: FIONA KRISCH. Source: CARLTON PAPER

Carlton Paper to show only modest growth

MARCIA KLEIN

CARLTON Paper, which has achieved earnings increases of between 38% and 111% since 1987, expects to show only modest growth in financial 1992.

Chairman Ian Willis said in his annual review that since the August year-end "there have been no significant factors indicating an early upturn in the economy", and consumer confidence was unlikely to improve in the new financial year.

Despite similar circumstances over the eight months to end-August 1991 — Carlton changed its year-end from December — the company produced excellent results, Willis said.

Carlton is a subsidiary of KCSA Holdings, which is in turn held by Holdains and US company Kimberly-Clark Corporation.

The tissue and fibre producer, whose brand names include Carlton, Babysoft, Kleenex, Huggies, New Freedom and Be-Sure, increased its earnings by 51% to R41.2m in the eight months to end-August.

Willis said strong real volume growth was achieved as new consumers emerged from lower socio-economic levels. The 17% sales increase to R440.5m and the 51% earnings rise were due to volume growth, pulp prices and real productivity gains.

Good working capital management and strong cash generation reduced interest by 44%.

The company was awarded the National Productivity Institute's gold award for productivity improvement, and Willis said this indicated Carlton's emphasis on customer service and product quality.

Food and packaging

By Teigue Payne
industrial analyst,
Frankel Max Pollak Vinderine

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-oriented 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.

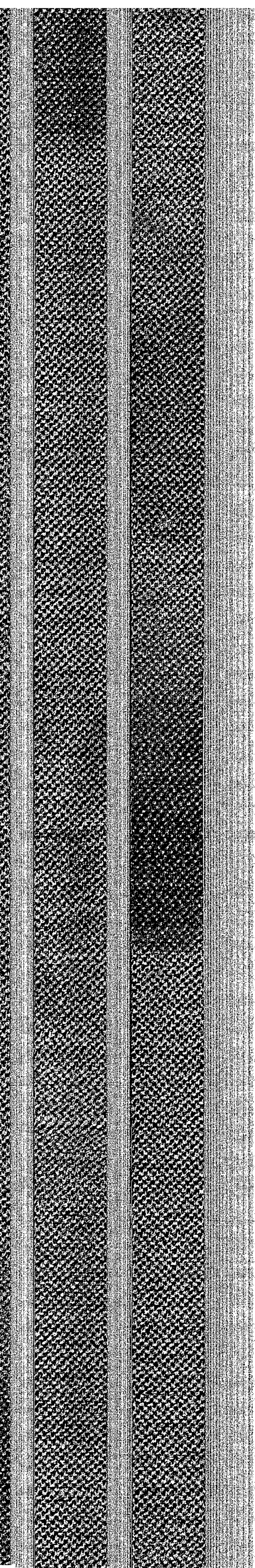
The large increase in food consumption expected on the low road would still take place, but would be stronger because of rising prosperity generally.

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.



MANUFACTURING — PAPER & PRODUCTS

1991

JANUARY — SEPT,

MANUFACTURING — PAPER & PRODUCTS

1991

JANUARY — SEPT,

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194

LINKED TO CONSUMER SPENDING

Activities: Packaging and paper, engineering and mining supplies, branded consumer products, food, construction supplies, development. Also has limited international interests.

Control: Gencor 52.8%.

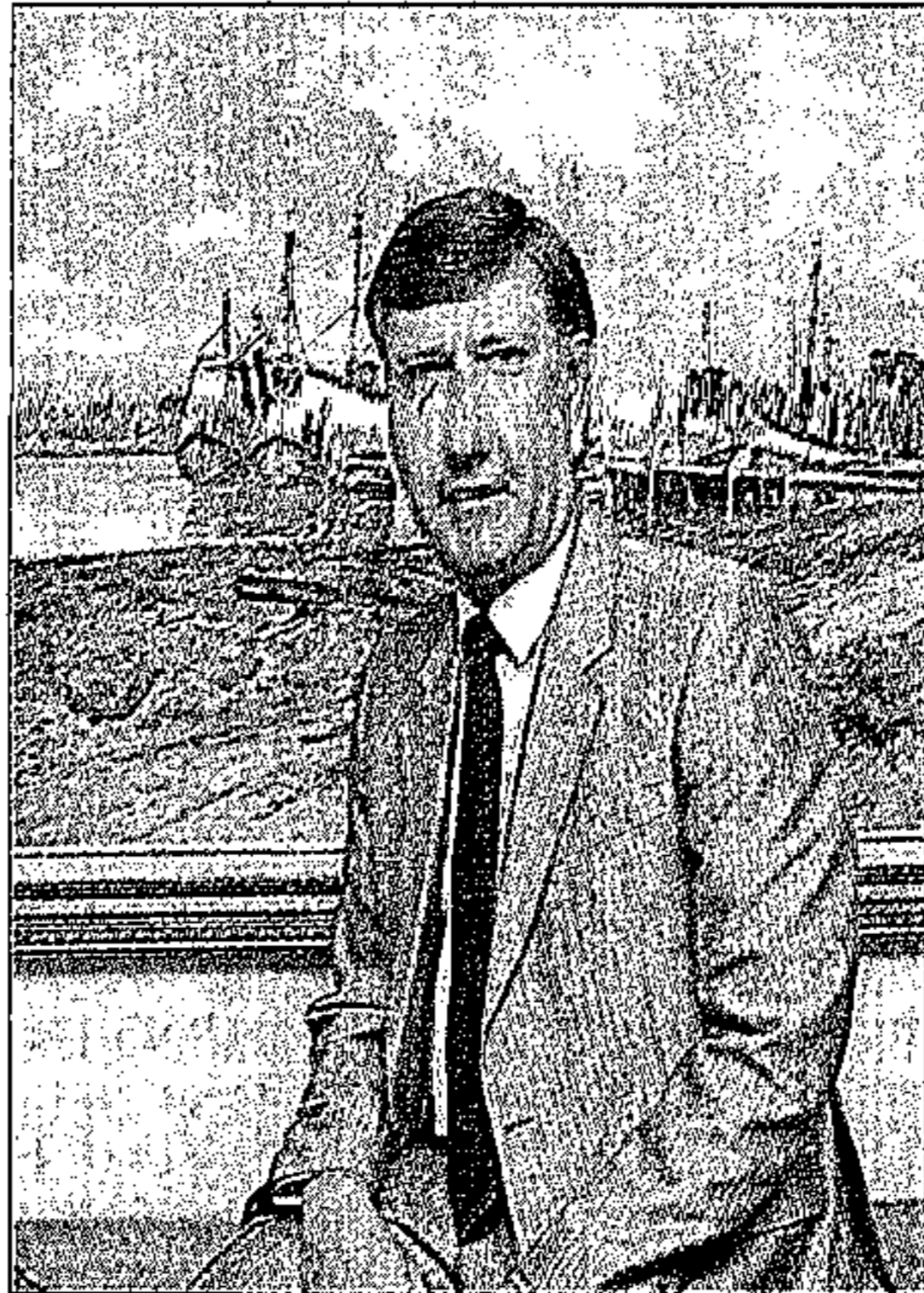
Chairman: D L Keys; MD: G S Thomas.

Capital structure: 197.2m ord. Market capitalisation: R1,23bn.

Share market: Price: 625c. Yields: 4.9% on dividend; 18.9% on earnings; p:e ratio, 5.3; cover, 3.9. 12-month high, 885c; low, 450c.

Trading volume last quarter, 975 000 shares.

Year to Aug 31	'87	'88	'89	'90
ST debt (Rm)	135	281	539	656
LT debt (Rm)	166	186	216	171
Debt:equity ratio	0.18	0.23	0.41	0.38
Shareholders' interest	0.63	0.65	0.54	0.55
Int & leasing cover	5.5	6.0	4.71	3.69
Return on cap (%)	8.0	23.7	20.4	20.0
Turnover (Rbn)	1.96	5.2	7.3	8.4
Pre-int profit (Rm)	153	500	639	681
Pre-int margin (%)	7.8	9.1	8.7	8.1
Earnings (c)	65	107	136.1	118.4
Dividends (c)	20	25	30.5	30.5
Net worth (c)	1 033	574	691	707



Malbak's Thomas ... a satisfactory performance

Two years ago, Malbak began an inevitable phase of consolidation. After the large strides taken since 1984, investors were bound to ask the question: can the growth record be sustained without the aid of more large takeovers?

In the first year of consolidation, acquisitions contributed only 15 percentage points to the 36% rise in attributable earnings. New acquisitions did not influence the 1990 year's performance, when EPS fell by 7%, partly owing to factors beyond management's control.

Executive chairman Grant Thomas contends that "as acquisitions did not feature significantly, the group's satisfactory performance in the downturn can be directly attributed to the skill and dependability of divisional management."

Indeed, for much of the year, organic growth was circumscribed by the wilting economy but Malbak nonetheless maintained its return on total assets at a respectable 20% — though it's notable that the figure has been falling for the past two years. Return on equity dropped last year from 24.1% to 18.4%.

The downward trend recently became

more pronounced, with margins squeezed. Group turnover increased by 14% and operating income by 6% in the 1990 year, while the effect of higher interest rates saw pre-tax profit roughly maintained. Also dampening the bottom line was an increase in the effective tax rate from 30% to 34%, as some of the major companies had exhausted their assessed losses.

Only two of the seven operating divisions, packaging and paper and construction supplies, are still exceeding the group's self-imposed benchmark of a 25% return on funds employed (ROFE), which Malbak defines as operating income divided by the monthly average of balance sheet values of funds employed. Two divisions, packaging and paper and development, contributed a slightly higher earnings contribution.

Consolidation of the packaging and paper interests — now held by Holdains — bore fruit. As well as the increase in attributable earnings, the return on funds employed increased from 28.8% to 29.3%. This was the only division that showed a higher ROFE. A large proportion of the paper and packaging activities are linked to non-durable consumer products; even in times of economic hardship, these should maintain a fairly strong momentum.

Construction supplies' trading performance improved, but earnings were slightly lower, with ROFE dropping from 34.7% to 31.9%. Darling & Hodgson (D&H), which holds the group's investments in the construction supplies industry, did well despite a considerable drop in volumes in the second half. The key to D&H's success was the strength of its balance sheet, which has no

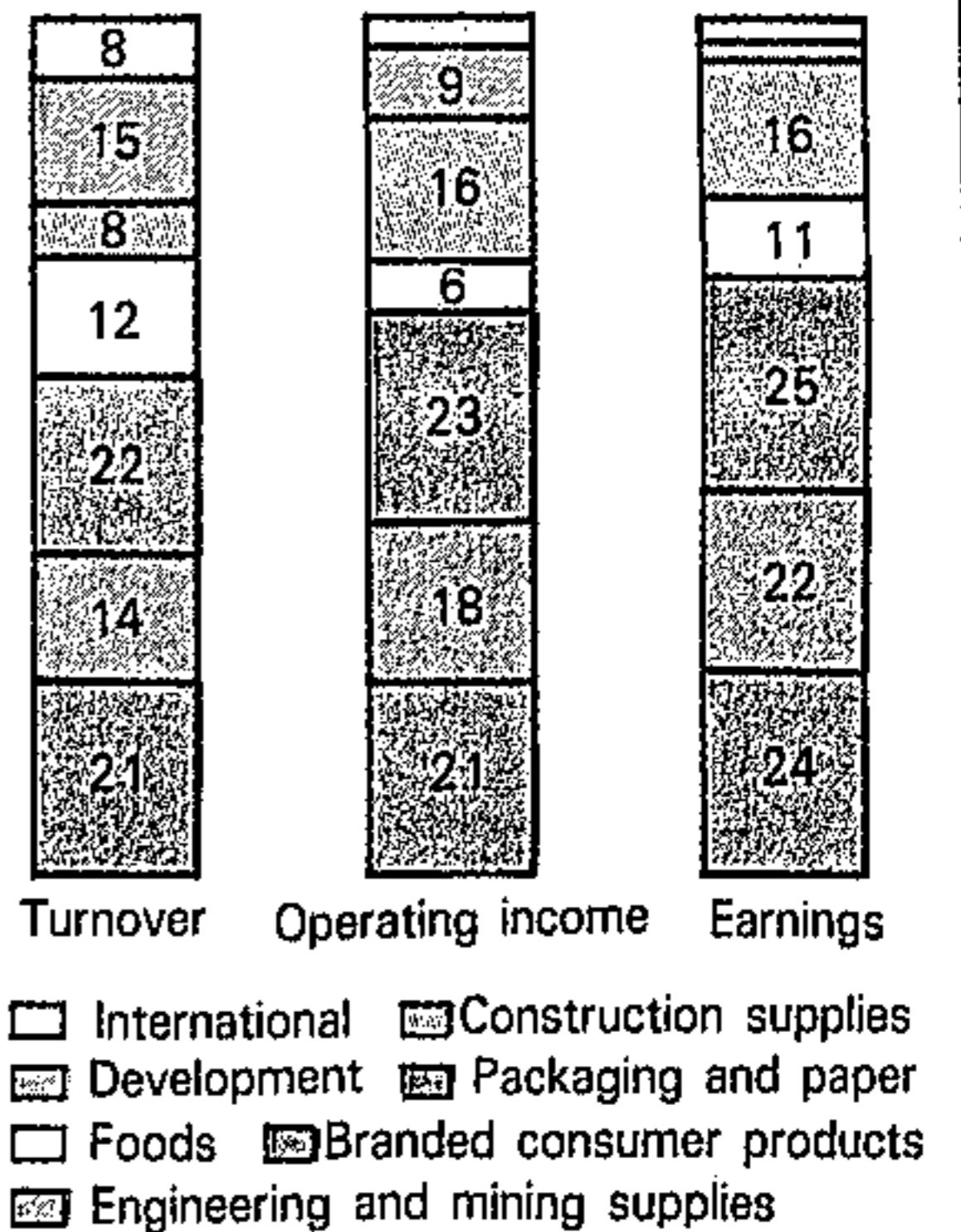
gearing and large cash resources. Management expects a marginal drop in earnings this year.

Even with its diversity, Malbak is broadly dependent on consumer markets. In the branded consumer products division Elleries should hold up, but Tedalex and Malco-mess could continue their downward trend, and the motor business could suffer a setback — though recent acquisitions may help. It's hoped the engineering division will benefit from an export boost; Standard Engineering is actively pursuing opportunities abroad.

One reason why Kanhym, Malbak's food arm, suffered was the decline in red meat prices. However, the lower prices should also enable Kanhym to acquire new stock at lower cost. This could help to bolster its earnings contribution, provided consumer spending improves.

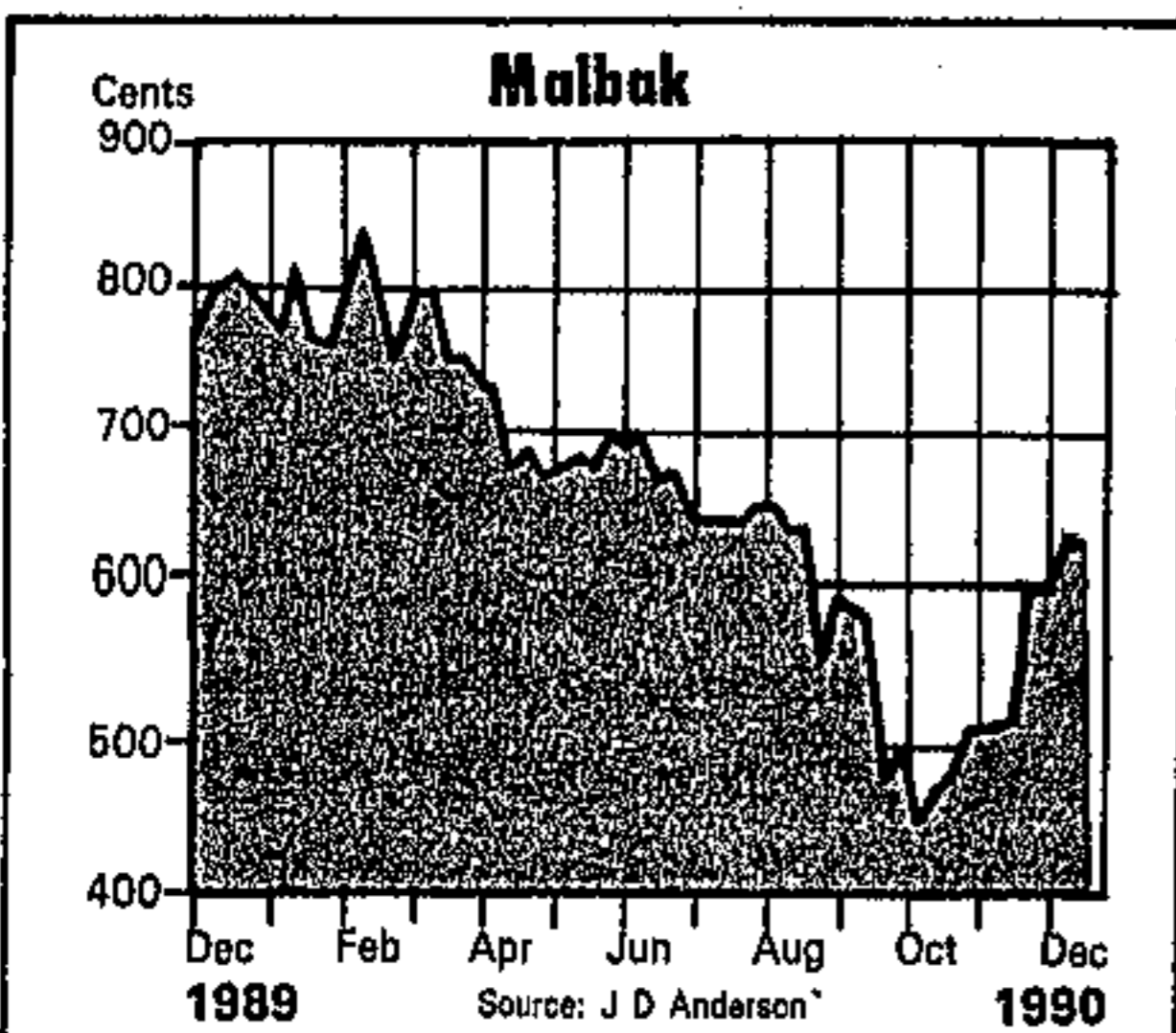
Where it came from

Contribution to group (%)



After reaching a low of 450c, the share recovered to 625c during the recent revival of interest in industrial stocks. This is probably more to do with a rerating of the industrial market than bullish anticipation of Malbak's outlook for 1991. The share trades at 88% of net worth, but looks reasonably priced on earnings prospects.

Gerhard Slabber



Carlcor plans to match demand

CARLTON Paper Corporation (Carlcor) is embarking on a R120m three-year programme to rebuild three tissue machines at its Enstra and Wadeville Mills in preparation for growing demand for its products.

The supplier of tissues, nappies and feminine care products improved its attributable earnings by 41% in the year to December because of growing urbanisation of lower income groups and tight control of costs.

Carlcor, part of Holdains, achieved earnings of 184,5c (130,9c) a share or R29m (R20,6m). A final dividend of 44c a share was declared, bringing the full dividend for the year to 75c (60c), 2,46 times covered.

Turnover increased 24% to R394m (R317,3m), while a lower interest bill stemming from reduced borrowings saw pre-taxed profits soar almost

MARC HASENFUSS

45% to R46,4m (R32,1m). (194)

Carlcor CE Keith Partridge said: "The increased profits highlight our ability to drive increased volumes through our factories in a stable cost structure."

He added that demand for Carlcor's products grew satisfactorily. In addition to local market growth, the European market absorbed Carlcor's exports of large tissue reels. The group wanted to expand its exports of value added products.

In spite of expecting little growth in the economy in the next year, the positive effects of the continuing drive to cut costs and waste, coupled with stable raw material prices, should further improve earnings, he said.

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Clegg reels under high interest rates

8:10 am 4/11/91
MARCIA KLEIN

PRINTING and packaging firm Clegg Holdings' financial results for the year to end-June indicated the extremely negative effect of high interest rates on the group, chairman Harry Clegg said in his annual report. The company recently issued a cautionary announcement to shareholders that it was involved in negotiations which could affect the price of its shares.

In the year to end-June Clegg Holdings posted a 53.4% decline in attributable earnings to R476 000 despite an 11% rise in turnover to R22.9m.

In the report, Clegg said that there was no option but to have the most advanced equipment and supporting raw material stocks in order to supply efficient service and high standards.

During the year to June Clegg Holdings did not declare a dividend because of the company's interest-bearing debt, which arose from the acquisition of fixed assets and increased stockholding. (194)

The expected reduction in interest rates and the resulting positive effect on the economy did not materialise, and this had serious financial implications for the group, Clegg said.

In addition to this, erratic supplies of raw materials brought the need to maintain higher-than-budgeted stock levels.

Clegg said completed building extensions would provide additional marketing and administrative facilities.

Activities: Holding company for a group which manufactures and markets a wide range of products in the paper packaging industries.

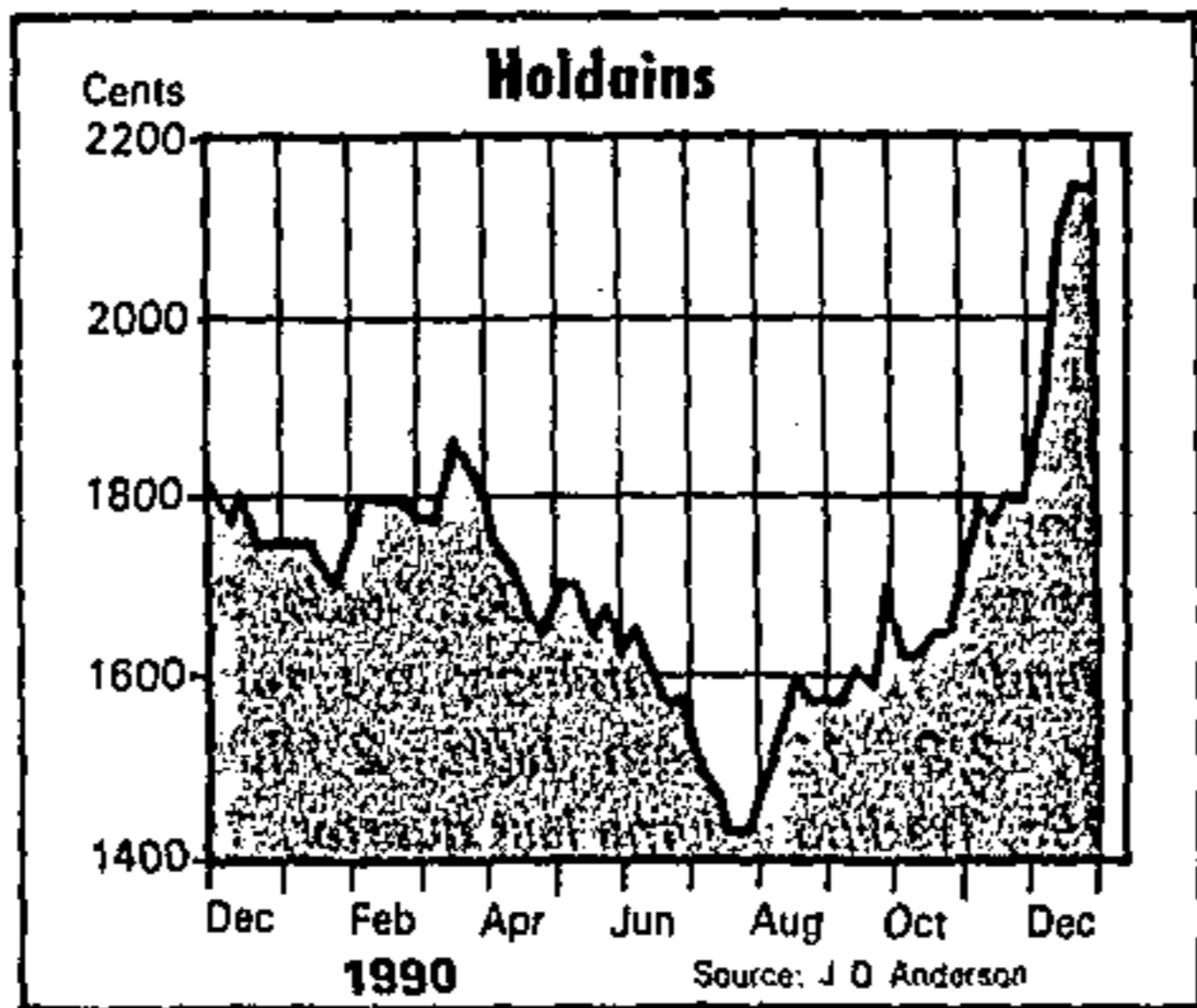
Control: Malbak 76,4%.

Chairman: G S Thomas; MD: I Willis.

Capital structure: 22,8m ords. Market capitalisation: R490m.

Share market: Price: 2 150c. Yields: 5,1% on dividend; 15% on earnings; p:e ratio, 6,7; cover, 2,9. 12-month high, 2 150c; low, 1 425c. Trading volume last quarter, 160 000 shares.

Year to August	'89	'90
ST debt (Rm)	85,7	118,2
LT debt (Rm)	11,3	37,9
Debt:equity ratio	0,30	0,40
Shareholders' interest	0,97	0,90
Int & leasing cover	4,23	3,5
Return on capital (%)	43,1	34,9
Turnover (Rm)	1 655	1 798
Pre-int profit (Rm)	146,6	150,8
Pre-int margin (%)	8,8	8,4
Earnings (c)	318,2	321,6
Dividends (c)	106,3	110,0
Net worth (c)	2 152	1 658



proved earnings are forecast for the division.

In line with the acquisition agreement with Wiggins Teape, the First Paper House division was established on September 1 last year. It has so far held its market share in a declining market, but management is not expecting conditions to improve soon.

The share had a good run since its 12-month low of 1 425c set in July and looks fully priced at a 30% premium to net worth — though the 6,5 p:e is still well below the sector average of 9, which is dominated by the highly rated Nampak and Consol. With a longer track record, Holdains may reduce the gap.

Gerhard Stabber

played improved in the 1990 year.

It is unclear whether synergies created through the consolidation process contributed to last year's performance, or whether such benefits will emerge in future. Nevertheless, management is optimistic the current year's figures will hold up well, given that nearly two thirds of the group's business — other than paper merchanting — is linked to non-durable consumer products which tend to be among the more stable sectors in a downturn. CE Ian Willis says the group is budgeting for improved earnings.

Consolidation continued during last year and various operations were rationalised or disposed of, the most notable being the sale of Kohler's rigid plastics operations for R24,1m. Some R200m of turnover was shed with the disposals, but debt fell by almost R30m; full effects should be seen this year. When the 8,6% advance in turnover is adjusted for the disposals, sales grew in real terms.

The Carlton Paper division is expected to generate significant growth, derived largely from the continued development and urbanisation of lower-income groups. Last year, the division's turnover rose by 25%, while operating profit increased by almost half to R44,1m, of which R18,4m was attributable to Holdains. Stabilising of raw material prices should benefit the bottom line.

Kohler sold four businesses with total annualised sales of R156m and its own turnover thus increased by only 3,1% to just over R1bn, with operating profit rising by 5,6% to R93,6m. This year, management hopes to see positive effects of the disposals and restructuring, as well as a major capital investment in plant and machinery.

The Graphtec division's operating margin came under pressure, but management contends the ratio was influenced by the acquisition of Allgraphics, as well as the shedding of various businesses, which makes comparisons problematic. Whether this is the case, should become clearer at the end of this year. Im-

HOLDAINS 194 FM 11/191
KNITTING TOGETHER

Holdains was established in 1989, when all Malbak's packaging interests were placed into a single listed group. The step was taken as part of the broader consolidation which Malbak embarked upon during the previous year and the effects seem to have been favourable in that Holdains was the only Malbak subsidiary whose return on funds em-

Sunvest sets profit goals

8/04 24/1/91

MARIETTE DU PLESSIS

SIN Packaging Investments (Sunvest) had come out of its consolidation phase geared for increased profitability and better than average earnings, CE Ian Strachan said yesterday.

(194)

While a R4m drop in sales was experienced in the last four months of the year to end-August 1990, the first quarter of the current financial year exceeded budget expectations.

In the annual report for the year to end-August 1990, Strachan said goals for 1991 included growth in exports and an income from international operations which equalled 50% of total earnings.

Sunvest is the holding company of

Sun Packaging Holdings (Sunpak), the primary business of which consists of manufacturing polystyrene foam food trays through its wholly owned subsidiary, Sun Packaging.

New developments initiated in 1990 included a joint venture with Japanese technology partners in terms of which a new grade of foam material had been developed and patented worldwide.

Another undertaking from which Sunvest would benefit was the manufacturing of "nature-friendly" polymer materials by subsidiary Biopolymers.

By William Wells and Jack Lindstrom

COMPANIES

Activities: Packaging, printing and property.
Control: Directors 58%.
Chairman and MD: T P Kane.
Capital structure: 16,1m ords. Market capitalisation: R5,6m.
Share market: Price: 35c. 12-month high, 58c; low, 30c. Trading volume last quarter, 79 000 shares.

Year to June 30	'87	'88	'89	'90
ST debt (Rm)	3,1	1,8	8,9	10,1
LT debt (Rm)	1,2	0,2	2,2	7,4
Debt:equity ratio	0,39	0,20	0,64	1,01
Shareholders' interest	0,58	0,67	0,48	0,39
Int & leasing cover	3,1	8,5	3,1	0,9
Return on cap (%) ..	9,9	15,0	7,1	5,6
Turnover (Rm)	21,1	28,3	40,1	46,3
Pre-int profit (Rm) ...	1,8	3,6	2,8	2,4
Pre-int margin (%) ..	8,7	12,8	7,1	5,2
Earnings (c)	9,2	13,5	6,7	—
Dividends (c)	—	6*	4,1	—
Net worth (c)	137	105	111	105

* Annualised.

Alex White's forecasting has gone badly awry in the past two years. The 1989 interim (published end-February) said that, despite a 5% drop in six-month earnings, the result for the full year should be "satisfactory." In the upshot, 12-month earnings fell 46%. The 1990 interim (published end-March) said that, despite a 65% fall in first-half earnings, the figure for the full year should be "in line with, if not better than, last year's."

Well, a six-month R212 000 profit became a 12-month R258 000 net loss. Without allowing for any year-end adjustments,

NARROWING MARGINS

	Turnover (Rm)		1988	Operating profit (R000)		1988
	1990	1989		1990	1989	
Packaging	29,4	26,2	16,7	2 290	2 046	2 187
Printing	16,7	13,7	11,1	209	866	1 078
Property, etc.....	0,2	0,2	0,5	(77)	(68)	364
	46,3	40,1	28,3	2 422	2 844	3 629

that implies a R470 000 net loss in the second half, against a R441 000 net profit in that period of the previous year. Quite a turnaround — sadly, in the wrong direction. Not surprisingly, financial and operating ratios all deteriorated — some of them sharply — though it should be conceded that at operating level profit held up much better.

Chairman/MD Terry Kane says there were two main reasons for the setback: a seven-month delay in delivery of a new seven-colour press (which also meant costly reshuffling of jobs on existing facilities) and the unexpected loss of some of the staple fruit-wrapping business when large quantities of citrus were exported unwrapped.

The serious consequence is an exploding interest bill (up from R921 000 to R2,7m last year) which, in turn, reflects heavy capital spending — R14,1m in the past two years, according to the cash-flow statement. Borrowings have risen from R2m to R17,5m in the past two years but stock and debtors, which rose alarmingly in 1989, were commendably held back last year.

Kane said in his annual statement that most group companies went through "dramatic changes" last year, to improve profitability and move towards higher-margin markets. The printing side seems to have borne the brunt, with asset sales and cuts of more than 50% in the labour force. The group head office at Randburg was closed and its staff relocated to under-utilised premises at Glen Lea, Roodepoort.

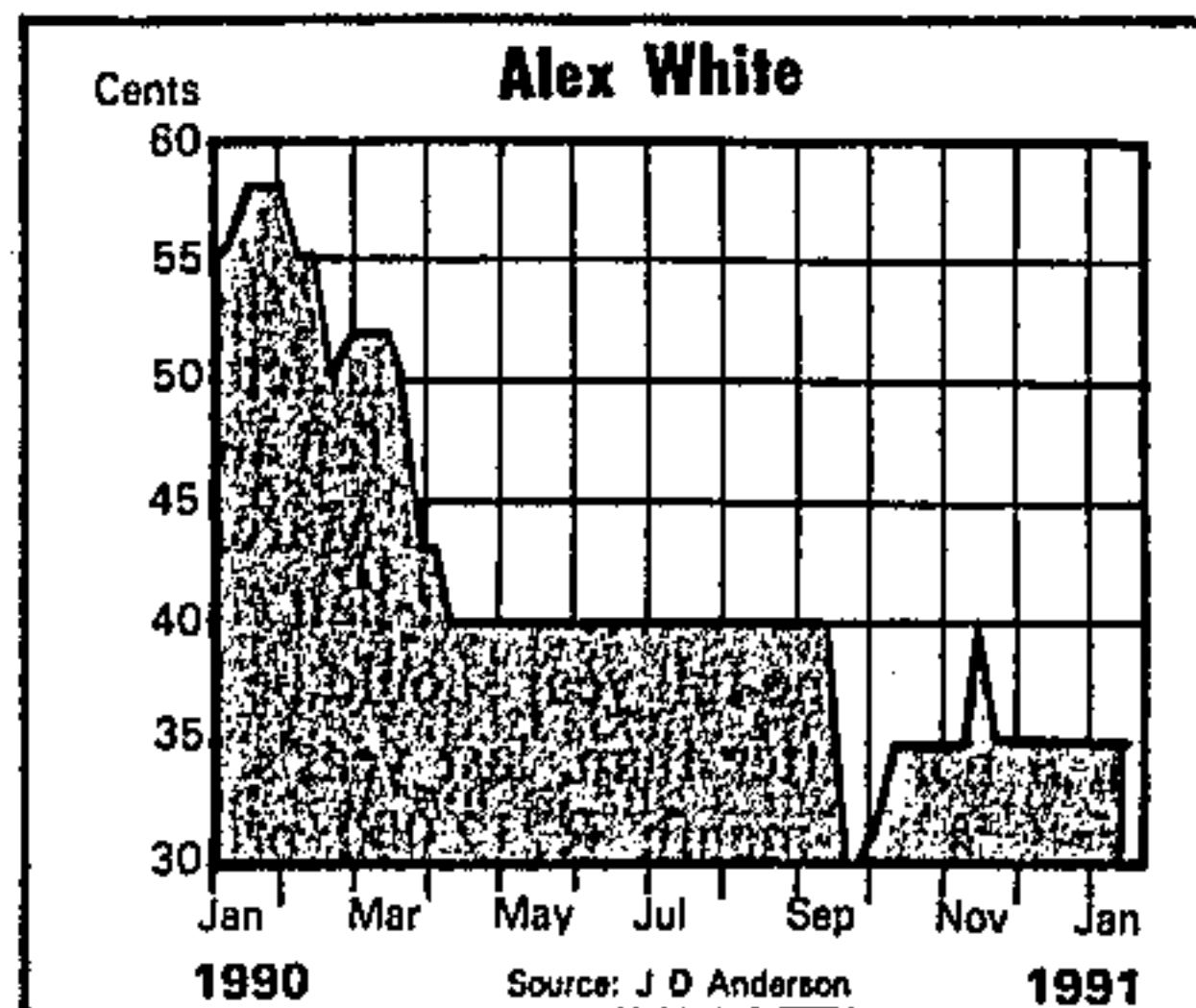
Kane says in his statement that, while economic and political problems make forecasting difficult, this year "should show a marked improvement." Since then, he tells me, some big orders have been won.

Prospective investors will want to see not only a recovery in profitability, but also something being done to restore liquidity. Unfortunately, a share price barely a third of reported NAV (and Kane says replacement values would be significantly higher) is hardly conducive to a rights issue; Kane says

other possibilities are being explored.

Listed in 1987 after a share issue at 100c, this is another of that crop to have brought investors little joy. However, it's a long-established, intrinsically sound business. If it can overcome the immediate problems there could be useful recovery potential.

Michael Coulson



Holdains to control Sunvest

HOLDAINS, the paper, packaging and fibre group, has acquired more than 50% in Sun Packaging Investments (Sunvest) for R20m by purchasing shares through the stock market. *BDay 28/1/91*

Sunvest is the parent company of Sun Packaging Holdings (Sunpak) and the recently listed Biopolymers, and controls more than 40% of the polystyrene foam packaging market.

Holdains chairman Grant Thomas said at the weekend Holdains had been interested in Sunpak for some time. With about 27-million shares in issue, an excess of 13,54-million shares had been acquired from minorities over a period of time.

At end-August 1990, 114 individuals held 71,25% of Sunvest's issued share capital, while 40 investment and nominee companies held 25%, three insurance com-

(194)
BEVERLY HUCKLESBY

panies held 1,88% and three pension and provident funds 3%. The direct and indirect stake of directors was about 1,5%.

Thomas said the takeover was a friendly transaction with the management of Sunpak which would remain an independent company listed on the JSE.

The highest price Holdains paid for its stake was 130c a share. Thomas said Holdains had agreed to keep the share price at 130c this week so as not to prejudice minority shareholders.

The offer to buy minority shares would be open from today until close of business on Thursday this week, he said.

Founded by chairman Tubby Gericke, Sunpak produces and markets polystyrene

□ To Page 2

Sunvest

BDay 28/1/91
packaging products for export purposes and local requirements. Subsidiary Biopolymers, recently listed on the JSE's venture capital market will produce biodegradable polystyrene and other formulations of genetically engineered plastics by the end of 1991.

In a weekend statement Gericke said: "It

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□ From Page 1
has become important for us to have a big brother backing us and we do not expect any changes as a result of Holdains controlling investment."

Sunvest shares closed at 130c on Friday, 25c up on the previous week's 105c close on a weekly volume up 25% at 918 000 shares.

Activities: Polystyrene packaging and allied products.

Control: Sunvest 50%.

Chairman: I H Gericke; **MD:** I Strachan.

Capital structure: 53,8m ords. **Market capitalisation:** R59,1m.

Share market: Price: 110c. Yields: 7,3% on dividend; 15,2% on earnings; p:e ratio, 6,6; cover, 2,1. 12-month high, 165c; low, 85c.

Trading volume last quarter, 1,34m shares.

Year to Aug 31	'87	'88	'89	'90
ST debt (Rm)	0,4	0,5	nil	2,0
LT debt (Rm)	0,8	2,0	7,5	11,8
Debt:equity ratio	0,04	0,02	0,34	0,19
Shareholders' interest	0,57	0,56	0,34	0,52
Int & leasing cover	11,6	15,1	12,3	6,47
Return on cap (%) ..	42,7	47,5	28,5	21,4
Pre-int profit (Rm) ...	6,9	10,9	11,3	15,0
Earnings (c)	19,1	18,0	17,1	16,7
Dividends (c)	5	9	10	8
Net worth (c)	23	32	33	68

that Holdains started buying in late September — just before Willis spoke to the *FM*.

The reason for the acquisition, therefore, is unlikely to be the biodegradable technology, which Sunpak must still get up and running. Sunpak expects the polymer to be available only at the end of 1991. But Holdains now controls 40% of the local polystyrene foam packaging market.

Holdains' timing could not have been better. It bought during a JSE downtrend. Sunpak's capex programme was completed over the Christmas break by moving plant and machinery to the new FPCO factory — the speciality products division which produces colour graphic laminated trays. As this is Sunpak's value-added product range aimed at upmarket retail merchandising, it will help increase margins. Expansion also included doubling capacity at the synthetic paper and white tray divisions.

A rights issue at the beginning of financial 1990 raised R16m, while long-term borrowings rose from R7,5m to nearly R12m. The fresh capital unstrained the balance sheet, but the downside of this method of cutting gearing to 0,19 is that Sunpak has to service

mean relative reductions in stockholdings. Also, special film imported for the production of laminated trays is now produced in-house, which should be much cheaper.

Cash flow should improve this year, with production in all three divisions fully on stream. Management is confident that expansion will bring bigger returns, despite uncertainties ahead. The share price almost halved from its 160c July high to 85c end-November. The market now rates Sunpak on a 6,6 p:e ratio — on par with Holdains.

Holdains chairman Grant Thomas says his group will buy any Sunvest shares offered by minorities through the market this week at 130c. The 130c seems reasonable as Sunvest has eased since end-September, reaching a 95c low three weeks ago. A switch to Sunpak could be worthwhile on long-term considerations.

Gerhard Stabber

tive tax rate from 35,6% to 31,3%. Also contributing was market disruption in the second half, mainly because unrest and strikes hit customers' ability to accept deliveries. This forfeited R4m sales in the last four months. Nevertheless, operating income increased by a third to nearly R15m.

It is not clear from the report what happened to asset management. Stocks rose by 41%, possibly the combined effect of the disrupted market and increased manufacturing capacity. Debtors shot up by 67%, though it is hard to judge whether this points to loss of control, as turnover is not disclosed. Creditors, on the other hand, fell by 15% and cash more than doubled to R6,88m.

Benefits from the expansion will flow not only from the doubling of capacity; the new plant will allow improved production efficiencies and response times which, in turn,

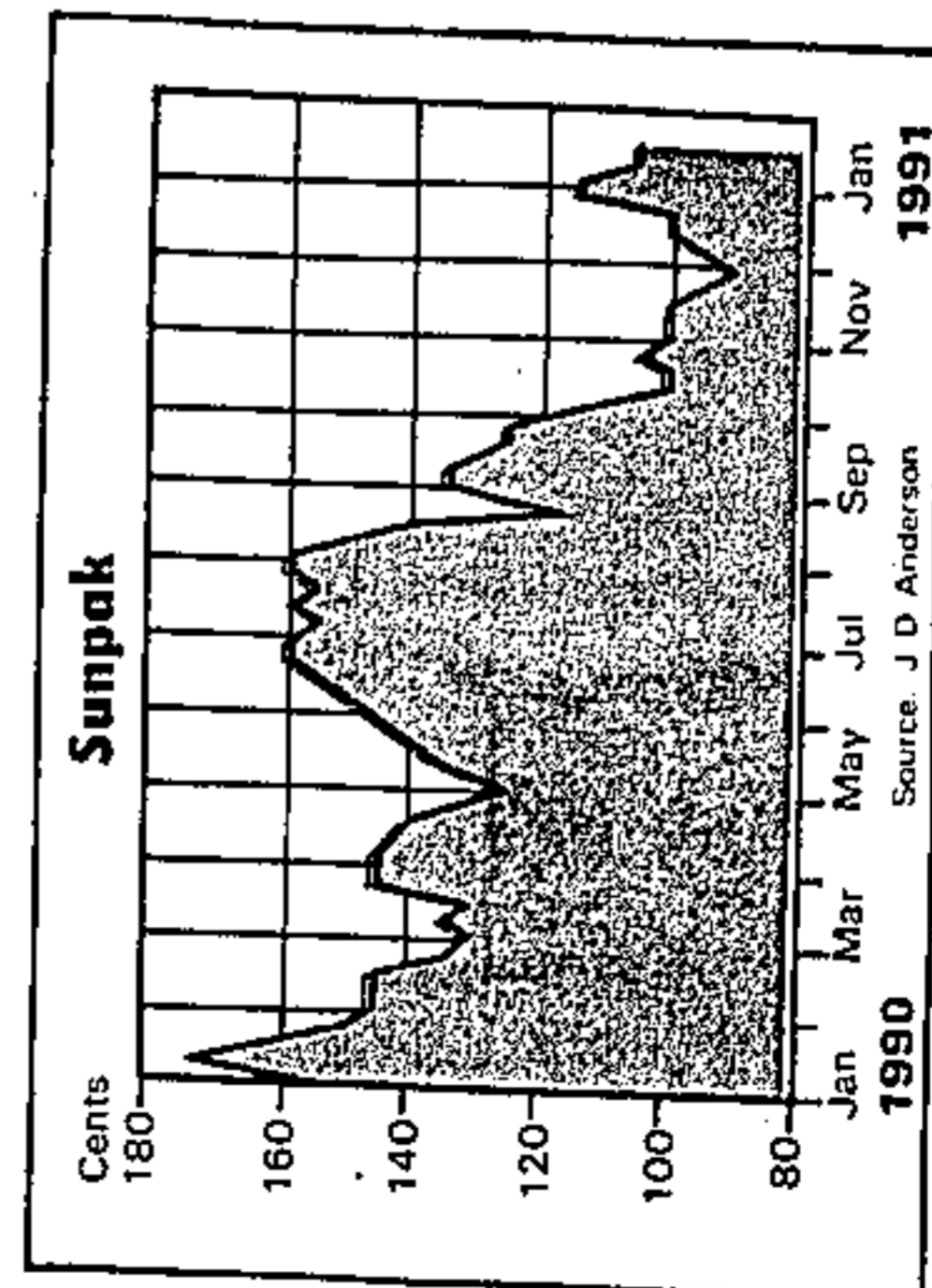
SUN PACKAGING FIM 1/2/91
HOLDAINS BUYS (194)

Four months ago, Holdains MD Ian Willis told the *FM* that biodegradable packaging material is only a sales gimmick, as so-called degradable material doesn't work in real situations because of time problems. Now Holdains, Malbak's packaging arm, has acquired control of Cape-based Sunpak — a leader in environmentally safe packaging.

Holdains has paid R20m for 50%-plus of Sun Packaging Investment (Sunvest), buying shares through the market. Sunvest holds 50% of Sun Packaging Holdings (Sunpak) and also controls recently listed Biopolymers. The highest price of 130c suggests



Sunpak's Gericke ...
a new big brother



53,8m shares instead of 40m. To maintain EPS, attributable earnings had to rise by 34%, but several factors curbed growth to 31%. Interest charges more than tripled to R1,9m, though the effect was marginally softened by a reduction in effec-

A fair deal for Sunpak

ST Times 3/2/91

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SUNPAK minorities might believe they have been left out in the cold after the change of control of parent Sunvest.

Packaging giant Holdains bought more than 50% of Sunvest through stock-market trading, and extended an offer to the other shareholders of Sunvest for their shares at 130c.

Sunvest's only investment is its 50% of Sunpak. When Sunvest was listed in June 1988, Sunpak members were not offered the opportunity to exchange their holdings for Sunvest shares, nor were they offered the opportunity to subscribe — an unusual event.

Holdains' offer closed at the end of January. The closing date of the offer beat by a day the deadline after which the new Securities Regulation Panel rules come into effect.

But even if the new rules

had been in effect, there would have been no need for Holdains to extend an offer to the Sunpak minority. The rules were drafted to avoid retrospective changes.

It was also a fair bid by Holdains in that it bought through the JSE, to which everyone has access.

From now, if a bid is made for control of a pyramid company formed after February 1, the same offer must be made to members of companies down the line.

Some parties objected to the continued protection afforded to pyramid holding companies and the potential for prejudicing minorities. But retrospective changes are odious in themselves.

Sunpak recently floated Biopolymers on the JSE's Venture Capital Market, members being offered 22 Biopolymers for 100 at 50c each. Sunvest followed its rights through the issue of deferred ordinaries — 22 for 100 at 70c. They are now 110c. Both rights offers were well supported.

Tubby Gericke, founder of the Sunvest group of companies, spent 10 years working for the the Bakke group, which became part of Malhak, the holding company of Holdains, in the 1930s. He then studied archaeology for five years before establishing Sunpak in 1984.

Carlcor wraps up 40% more earnings

JOHANNESBURG. — The growing urbanisation of lower income socio-economic groups and a relentless focus on cost control has led Carlton Paper Corporation (Carlcor) to post a staggering 41% improvement in earnings.

Reporting for the 12 months to December 31, Carlton shows an impressive 24,2% increase in turnover which rises from R317,3m to almost R394m. But it is at the operating profit level that the greatest impact of Carlcor's programme to cut costs and waste is felt.

Operating income is 34,4% higher at R49,9m and, after a sharply lower interest bill as a result of much reduced borrowings, pre-tax profit is 44,6% ahead of last year.

Income before tax stands at R46,5m (1989: R32,1m) and earnings per share increased 41% to 184,5c from 130,9.

Carlcor has increased its final dividend from 36c a share to 44c a share, making 75c (60c) for the full year, 2,46 times covered. — Sapa

Cost-cutting Carlcor lifts profits 41%

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Carlcor is in Holdains, the giant paper and packaging group.

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Earnings per share increased 41 percent to 184,5c from 130,9c.

Carlcor has increased its final dividend from 36c a share to 44c a share, making a 75c (60c) payout for the full year 2,46 times covered.

Keith Partridge, Carlcor's chief executive offi-

cer, says the results reflect over three years of dedicated effort to make Carlcor more efficient.

"We've worked throughout the group at our total quality process — reducing waste, making processes simpler and more efficient, improving our people's skills and generally using our capital more competently," he says. — Sapa.

PROFIT WRAPPED UP

After a mediocre performance during the first seven years of the Eighties, Carlton Paper staged an impressive turnaround over the past three years, recording compound annual growth in EPS of 60%. In the year to end-December, earnings rose by 41%. How long can Carlton sustain this pace?

Latest results show return on total assets increased from 37,9% to 48,3%, with operating margins widening from 11,7% to 12,7% and the asset-turn rising from 3,24 to 3,81. The turnaround came in 1988, when the group embarked on a "total quality" plan, which reduced costs — with 90 management jobs shed — and a withdrawal from the Sullivan Code, which generated annual sav-

ings of R2m.

Management attributes the performance to tight control over operating costs, stable raw material prices and favourable market conditions, locally and abroad. Cash flow remained strong. Gearing swung from 21,4% a year ago, to a net cash position.

Helping to boost trading profit, two machines became fully operational, after being rebuilt. A non-woven materials machine was installed at a cost of R10m, saving import costs and helping to reduce inventory levels.

The group is probably close now to performing at peak efficiencies. Near-term growth should be aided by expansion into the tissue market. Carlton plans to spend R60m this year and next year on raising annual production from 60 000 t to 72 000 t. It will be funded from trading cash flow, possibly crimping earnings growth.

After 1992, growth will probably hinge on the pace of urbanisation, which is seen as a big factor driving demand for the group's products in the past.

The share price appreciated by 60% over the past five months and with a 10,3 p/e, it is accorded one of the better ratings in the paper and packaging sector. However, the share is tightly held by the Malbak group, through Holdains, and institutions.

Gerhard Slabber

Carlcor plan for a healthy investment

ZILLA EFRAT 194

CARLTON Paper Corp (Carlcor) is examining a major expansion into the health care business which could entail an investment of about R30m, says CE Keith Partridge.

This will involve a move into making protective products, such as clothing, drapes and sterile wraps, for use in hospitals where there is a greater need for disposability.

Partridge says production could start in 1993. The technology will come from US-based Kimberly-Clark, which jointly holds Carlcor with Holdains.

Carlcor, a manufacturer of tissues, nappies and feminine care products, announced earlier this week a 41% improvement in attributable earnings for the year to December.

Although the economy is expected to show no significant improvement in 1990, directors are confident about the group's future.

Chairman Ian Willis says Carlcor will change its year-end to August to bring it in line with Holdains' and the prospects for the next eight months are good.

He says the group is enjoying a stable raw material price situation helped along by a pulp surplus. In addition, lower socio-economic groups are beginning to emerge as real consumers for Carlcor's products. *8/2/91*

The group will also benefit from its drive to cut costs and waste. It will also benefit from the total quality process, which was introduced three-and-a-half years ago and which has reduced product defects and inventory.

Carlcor is also embarking on a R120m, three-year general expansion programme to rebuild three tissue-making machines at its Enstra and Wadeville Mills.

Holdains on course to better its earnings

HOLDAINS was on track to report an improvement in earnings for the current year to end-August in spite of increasingly difficult trading conditions, deputy chairman and CE Ian Willis said at the group's AGM in Sandton yesterday.

Holdains controls Kohler Packaging, Graphtec Holdings, Carlton Paper Cor-

By Day 8/2/91..

ZILLA EFRAT

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poration (Carlcor) and First Paper House, formerly Wiggins Teape.

Willis said Sun Packaging Investments, in which Holdains acquired control two weeks ago, was expected to make a positive contribution to Holdains' earnings this year.

"In the absence of buoyant trading conditions the managements of our companies have addressed themselves to strict asset management and improving efficiencies," he said.

An example of these efforts could be seen from Carlcor's results published earlier this week.

Its turnover rose only

24%, but its attributable earnings improved 41%.

However, Willis said Carlcor's results were exceptional and that Holdains' earnings rise would be of a more modest nature.

Holdains' interim results for the six months to end-February would be published in about the third week of March.

Lower tax rate helps Afcom to lift results

10 Aug 12/2/91.

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AFCOM's attributable earnings rose 21% in the six months to end-December in spite of lower sales and a fall in operating margins caused by local recessionary conditions.

The packaging company, a Bidvest subsidiary, benefited from a lower tax rate.

In its first results since the restructuring of the Bidcorp group, effective July last year, Afcom has announced a 13% rise in undiluted earnings to 8,7c (7,7c) a share.

Diluted earnings increased 2,7% to 7,7c (7,5c) a share and an interim dividend of 3,25c (3c) a share was declared.

Chairman Brian Joffe says the decline in demand for the group's products, because of the current economic downturn, has reduced Afcom's economies of scale, adversely affecting operating margins.

Afcom's packaging and fastening divisions performed well with the emphasis being placed on reduced operating costs and asset management.

The tape division, however, was severely hit by surplus market capacity which resulted in its products being subject to a price war. "This division did not contribute meaningfully to group profits," says Joffe.

ZILLA EFRAT

While turnover fell to R54,2m (R55,9m), operating profit dropped 20,6% to R6,2m (R7,8m). The interest bill fell 10,5% to R1,5m (R1,6m).

Pre-tax profits were down 23%, but the company benefited from a lower tax rate of 42% (47%) because of increased export incentives and allowances.

With no earnings attributable to outside shareholders, compared with the R1m paid in the previous comparable period, the group achieved attributable earnings of R2,8m (R2,3m). However, Afcom's net asset value fell to 74c (75c) a share.

Group MD Alan Salomon expects satisfactory results for the next six months.

"Management's policy of creating smaller, more entrepreneurially orientated units with greater focus on specific business activities has proved successful and will enable the group to maximise its potential.

"Management is currently addressing the problems in the tapes division, the benefits of which should accrue in the future."

Profits rise 41,5% after Bidcorp reorganisation

ZILLA EFRAT

BIDCORP has benefited from its recent reorganisation, turning in a 41,5% rise in attributable profit for the six months to end-December despite the economic downturn.

The industrial holding group, which is the pyramid holding company of Bidvest, has posted earnings of 63,8c (45,4c) a share and declared an interim dividend of 25c (15c) a share, up 67%.

Chairman Brian Joffe said in the latter part of 1990 the packaging market picked up while the catering business deteriorated.

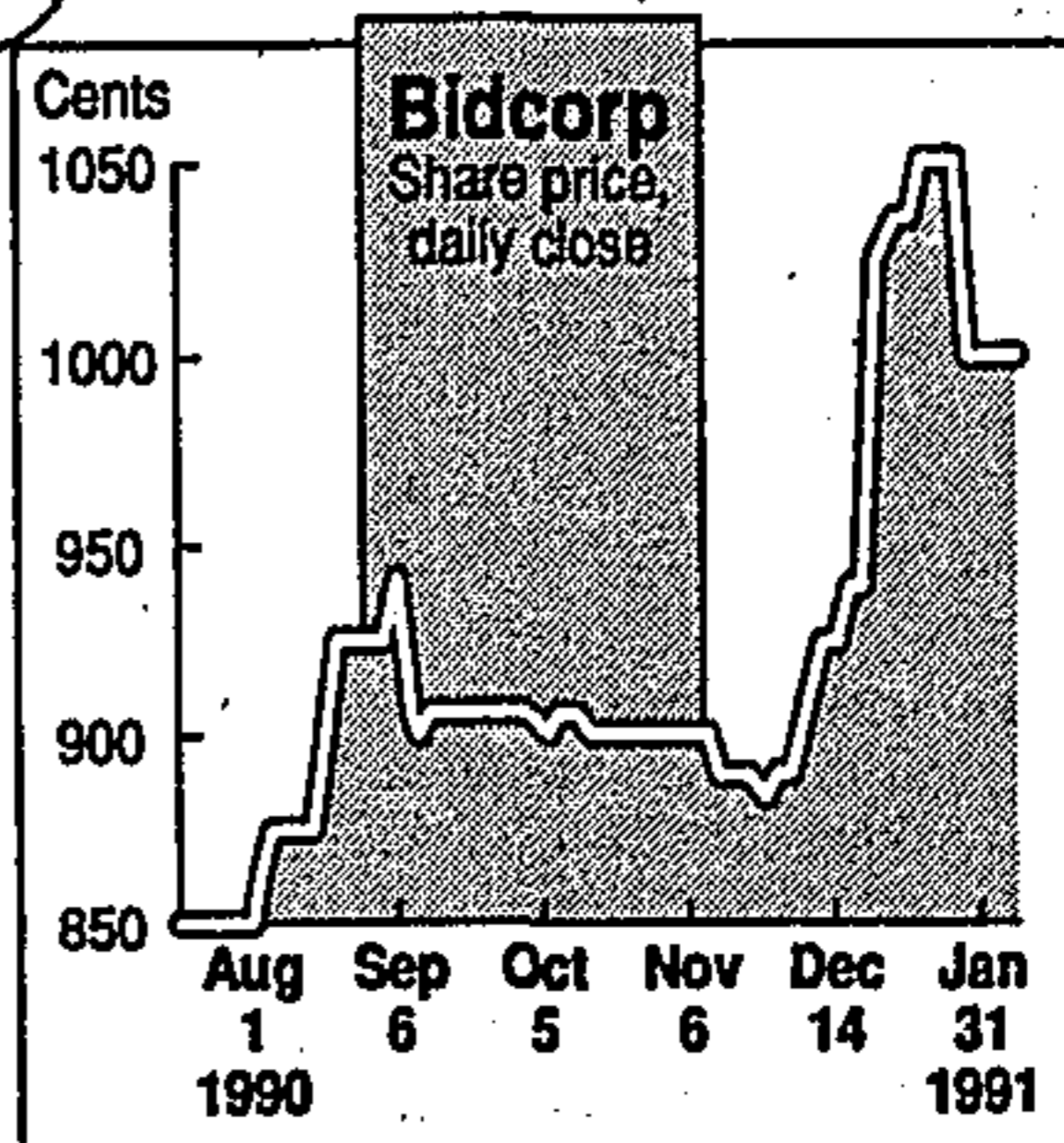
Bidvest subsidiary Cater Plus was affected by the economic downturn as retrenchments hurt staff canteen turnover and the Gulf war dented the local airline and hotel business.

However, cosmetic group Justine's performance was in line with the previous year's. It improved its asset management and was now looking at ways to expand its business through exports and new products.

The past six months were a period of consolidation, especially for packaging subsidiary Afcom, said Joffe.

Afcom yesterday announced an increase of 21% in attributable earnings for the period. While the recession affected sales and operating margins, it benefited from a lower tax rate.

Bidvest's results are not comparable with the previous interim period, because of the restructuring which became effective at the beginning of the period. This involved Bidcorp's stake in Cater Plus and Justine being placed into Bidvest, which



Graphic: FIONA KRISCH Source: JSE

also holds Afcom and cash shell Afpac.

However, Bidvest today announced attributable profits of R7m (R2,8m). Undiluted earnings are 171,7c (121,3c) a share, while diluted earnings are 139,6c (121,1c) a share. It declared a dividend of 50c (45c) a share.

Bidcorp's turnover rose 11,5% to R197,2m (R176,9m), while operating profit increased 14% to R18,7m (R16,4m) on a slight improvement in operating margins.

Its attributable profit is R6,3m (R4,4m). On Bidvest's prospects, Joffe said management was confident of achieving satisfactory results during the second half.

Joffe said the group was not about to rush into any hasty acquisitions despite raising R48m in new capital through a recent rights offer and the possibility that cash shell Afpac, which is sitting with R50m, would have to delist by the end of March if it made no acquisition.

Tyre sales push Consol profits up

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81 Day 15/2/91
CONSOL, Anglovaal's packaging and rubber subsidiary, has posted a 31% rise in attributable profits in the six months to December, with results boosted by its tyre businesses.

Attributable earnings of R58,8m (R45m) or 91,9c (70,3c) a share, follow earnings growth of 48% in the year to end-June.

Turnover improved 65% to R1bn (R632m) largely because of growth in the rubber sector. Tyre retreading and distribution subsidiary Tredcor was only merged into the group from January 1 1990 and therefore did not contribute in the previous comparable period.

In addition, Tycon (formerly Goodyear) had experienced an 11-week strike during the previous interim period.

Group MD Piet Neethling says both Tycon and Tredcor achieved good volume growth in the passenger tyre market. However, adverse economic conditions affected sales of commercial vehicle tyres.

Turnover of Consol's packaging sector rose 12% with volume growth experienced in all divisions, except glass tableware. Its turnover was affected by the disposal of its flexible plastics operations in the second half of the previous year.

The packaging operations suffered from higher fuel and energy costs and labour instability, said Neethling.

In addition, adverse economic conditions resulted in shorter production runs, and the glass division experienced production problems because of the introduction of new manufacturing technology at the Clayville factory.

Consol's operating profit rose 61% to R141m (R87,5m). With net financing costs at a similar level to the previous year, pre-

ZILLA EFRAT

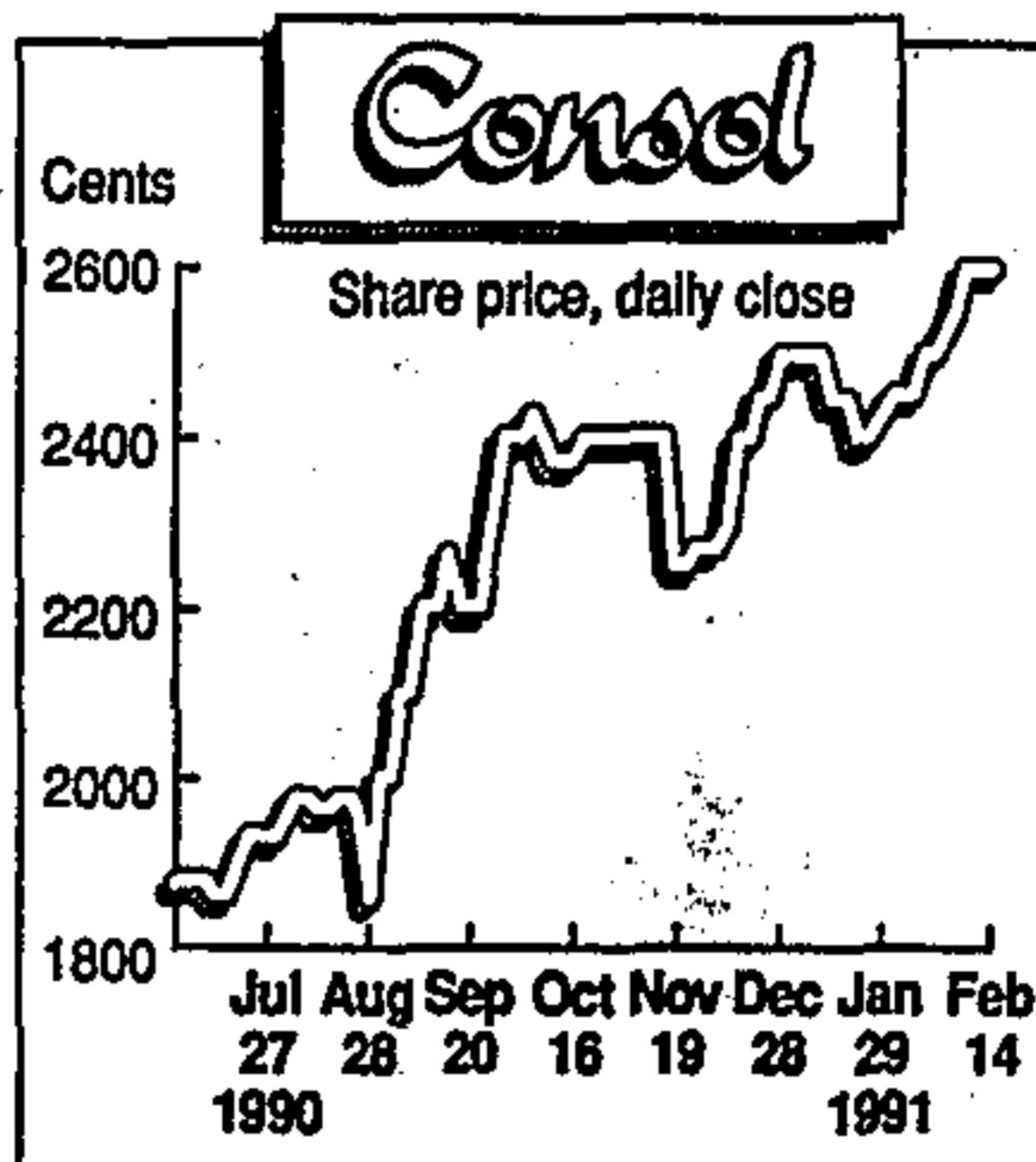
tax profit rose 70%.

The tax rate jumped to 45,1% (37%) largely because of lower capital expenditure and a decrease of the wear and tear allowance on plant and machinery in the year of acquisition. Taxed profits were 48% higher at R71,6m.

Consol's capex for the half-year fell to R32,8m (R42,8m) and a further R31m (R54m) has been authorised.

Notwithstanding the relatively soft market conditions and the unsettled social environment, an earnings improvement is anticipated for the full year.

However, Neethling says the rate of increase will not equal that achieved in the period under review, as the first six months of the previous year had included the adverse effect of the Tycon strike.



Graphic: FIONA KRUSCH Source: JSE

Consol gets extra bounce

Consol's figures for the six months to December were boosted by two exceptional factors.

As these will not affect second-half results, a more pedestrian performance is expected for the full year.

Interim earnings were up 31 percent to 91,9c (70,3c) a share, from which a dividend of 45c (33c) will be paid.

Turnover shot up 65 percent to R1,043 billion (R631,7 million) and operating profit rose 61 percent to R141 million (R87,5 million).

The sharp hike in turnover is attributable to the group's rubber division, where turnover almost trebled to R559,5 million (R200,5 million).

By contrast, sales at the packaging division were up only 12 percent to R483,4 million (R431,2 million).

Management says that turnover in the packaging division was adversely affected by the disposal of two operations in the six months to June '90.

It says there was volume growth in all divisions except glass tableware.

Reason for the extent of the increase in turnover at the rubber division was that the previous year's figures did not in-

8 Jan 15/2/91
Diagonal Street

ANN CROTTY



clude Tredcor — the tyre retreading and distribution operation, which was only merged into the group from January '90.

In addition, Tycon (formerly Goodyear) was hit by an 11-week strike in the first half of financial '90. While this had some impact on turnover, it had a much greater effect on profit.

The rubber division's operating profit soared from R7,1 million to R53,5 million, compared with the 8,9 percent increase at the packaging division.

This meant that the rubber division accounted for 38 percent of group operating profit in the '91 interim, compared with eight percent at the previous interim.

Rubber provided 54 percent of group sales in the review interim, compared with 32 percent in the first half of '90.

The figures reflect the much higher margins enjoyed by the packaging division — 18 percent, against the 9,5 percent at

194 (199)
rubber. The overall margin of 13,5 percent is slightly down on the previous year's 13,85 percent.

Net finance costs were virtually unchanged. Pre-tax profit was up 70 percent to R130,4 million (R76,8 million).

The tax rate was up to 45 percent from 37 percent, which meant that the taxed profit increase was restricted to 48 percent — up from R48,3 million to R71,6 million.

The higher tax rate is attributed to the reduced level of capex and a decrease of the wear-and-tear allowance on plant and machinery in the year of acquisition from 50 percent to 20 percent.

As a result of the Tredcor merger, the review figures include earnings attributable to outside shareholders of R9,4 million. This left attributable earnings of R58,8 million (R45 million.)

The second half is expected to see a continuation of the soft market conditions and the unsettled social environment.

The directors say: "An earnings improvement is expected for the full year, although the rate of increase will not equal that achieved in the six months under review."

8/04 22/2/91
**Aries battles
in a hostile trading climate**

LIZ ROUSE

ARIES Packaging's earnings plunged by 52,6% in the year to end-December as a result of squeezed margins, increased operating costs and the failure of the Transvaal operations to reach breakeven point.

This fall in earnings was anticipated by the declaration of a final dividend of 2,5c on February 8. The interim dividend was passed when interim earnings fell by 66%. Last year total payment was 5c.

Aries directors predict improvements for 1991 as the Transvaal operations have traded out of their loss situation. But with the economy not expected to improve this year, margins will remain under pressure.

The Cape-based screenprinter and manufacturer of packaging, paper cores and tubes posted a 21% increase in turnover to R21,7m (R17,9m), which yielded a pretax profit of R1,6m (R3,2m). That means that the operating margin declined to 7,4% from 1989's 17,9%.

The tax rate increased to 50,3% from 47,3% as a result of underprovision in 1989.

Aries was plagued by labour disputes last year. Directors say that labour relations are now good.

Metaclo picking up 194

By Ann Crotty *Star* 8/3/91

A substantial improvement in the second half enabled Metal Closures to reduce a first half earnings fall of 48 percent to a full year drop of just 9 percent.

For the 12 months to end-December the group reported earnings of 262,6c (289,9c) a share. A final dividend of 75c (92c) a share has been declared for a full year payout of 100c.

The group which last year was involved in a hotly disput-

ed and eventually aborted bid, to buy-out the minorities at R23 a share reports net asset value at end-December of R19,29 a share.

The directors attribute the disappointing results to the depressed state of the economy and lack of confidence; the substantial under-utilisation of capacity by the Plastics & Tubes division and; escalating costs (particularly labour) which could not be offset by increased productivity.

Metaclo's dividend ¹⁹⁴

18,5% down

Bloom 8/3/91
BEVERLY HUCKLESBY

DIFFICULT trading conditions caused Cape packaging company Metal Closures (Metaclo) to report a 9,4% drop in earnings a share to 262,6c (289,9c) in the year to end-December 1990.

Attributable profits of R6,8m (R7,5m) were posted and a final dividend, covered 2,6 times, of 75c (92c), was declared. This represented a decrease of 18,5% in dividend payout.

A reduced interest bill to R837 000 (R1,5m) and a 22,5% decline in taxation failed to increase attributable profits despite the 8% rise in turnover to R143,9m (R133m).

Borrowing levels decreased by almost 95% to R491 000 (R9,6m) which represented 1% of the authorised limit.

Capital expenditure for the year ahead is expected to rise by 353% to R7,5m (R1,7m), but directors declined to divulge details.

In a statement released today, directors attributed the reduced profits to the depressed state of the economy and a lack of confidence in the industry.

Additional factors were revealed as the under-utilisation of the plastics and tubes division, and escalating labour costs.

Lenco and ¹⁹⁴ Ruhold undo *Star 12/31/91* the package

By Ann Crotty

Last year's merger between the Lenco and Ruhold's packaging operations is to be unwound with Ruhold buying its packaging business out of Compak and selling its shares in Compak to Lenco. Each leg of the deal is valued at R22 million.

In March last year, Lenco and Ruhold merged their respective packaging operations into a company called Compak. Ruhold contributed its flexible packaging interests and Lenco contributed its rigid packaging interests to the new company.

At the time analysts considered it to be quite a good move for both parties but it now appears that the expected benefits from the merger have failed to materialise and the parties have decided to pursue their own interests.

Ruhold is buying back its flexible packaging division for R22 million payable in cash. And Lenco will acquire Ruhold's 28,1 percent stake in Compak for R22 million payable in cash. The deal values the Compak shares at 64,7c each.

As a result of the deal Lenco will increase its stake in Compak from 49,3 percent to 77,4 percent. In future Compak will concentrate on expanding only Lenco's packaging operations.

Lenco will make an offer to minority shareholders of Compak at 64,7c a share.

Ruhold and Lenco in deal over Compak

B (Day 1213191)

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RUBENSTEIN Holdings (Ruhold) is to dispose of its 28,1% stake in Combined Packaging (Compak) for R22m (64,7c a share) in exchange for Compak's flexible packaging business.

Directors of joint owners Lenco Holdings will make a cash offer of 64c a share to Compak minority shareholders.

Benefits

Compak, a plastic packaging company, was formed from the merger of Ruhold's Rusplas division, which manufactures plastic bags for the retail market, and Lenco's plastic bottle company Elvinco. Compak was listed on the JSE in March last year.

Compak is the fourth largest packaging manufacturer in SA and, at the time of listing, directors expected an annual turnover of more than R100m.

Ruhold said in a statement today that "the benefits envisaged at the time of the merger have not materialised and in the interests of the respective parties it has been agreed that direct ownership of the flexible packaging business will revert to Ruhold".

Ruhold was reported previously to have been rethinking the merger because the warranted profits had not materialised.

Net asset value of Ruhold at end-February would have increased by 40% to 111c (79c) because of the reorganisation.

BEVERLY HUCKLESBY

As a result of the restructuring of Compak, Lenco's stake will increase to 77,4% from 49,3%.

Cape-based clothing, shoes and packaging holding company Lenco, said in a statement today that if the transactions had been effective in the six months to end-August, it would have had a significant effect on earnings.

Lenco's expected earnings would have risen by 42,9% to 26c from 18,2c, and Compak's by 38,9% to 8,2c from 5,9c.

// After the reorganisation, Compak would concentrate on expanding Lenco's packaging interests.

Ruhold has interests in financial services, plastic carrier bags, sheeting and shrink-wrap manufacture, and plastic waste recycling.

Eliminated

Its reason for entering the merger was to reduce gearing, which fell from more than 210% to less than 100% during the first eight months after the merger.

As a result of the transactions Lenco's gearing would have dropped 24% to 37,6% from 49,5%, if they had been effective at end-August, while Compak's 25,6% gearing would have been eliminated.

On the JSE yesterday, Lenco shares closed at 200c, Ruhold shares at 73c and Compak finished the day at 60c a share.

Business Day SURVEY

Last year's tough trading conditions left their mark on the earnings of pulp and paper groups Sappi and Mondi. But despite the slowdown, both have embarked on huge capital expansion programmes. The easing of sanctions will give local producers a boost, enabling them to re-enter long closed markets. ZILLA EFRAT reports.

Office technology ¹⁹⁴ boosts paper sales

A POPULAR belief is that new technologies will lead to a paperless society, but at the moment this is far in the future.

Mondi's Merbank paper division marketing and sales manager Mike Stewart says new technology in office equipment, particularly laser printers and telefaxes, has boosted demand for paper.

Demand for Rotatrim photocopy paper has increased with the widespread use of laser printers and telefaxes as business communication systems.

Stewart says:

"High demand growth for cut papers is coming from the trend to link high-volume, high-speed laser printers to main-frame computers, replacing impact or dot-matrix printers using continuous forms.

"In lower volumes, this is also happening where laser printers are coupled to PCs."

Stewart says laser printers are also essential to desk-top publishing, an increasingly popular medium by which companies can produce their own product, mar-

keting and sales literature.

The overall effect of this trend is that the photocopy paper area of Mondi's business is growing strongly in volume terms.

There are several other factors boosting demand. Telefax machines provide only an original copy and if the document requires inter-office distribution, it has to be photocopied.

As telefaxes operate on thermal paper, it is also common practise for the original document to be photocopied for long-term filing or archiving.

Colour

Also, some originals, particularly those printed in colour, can only be faxed in photocopy form.

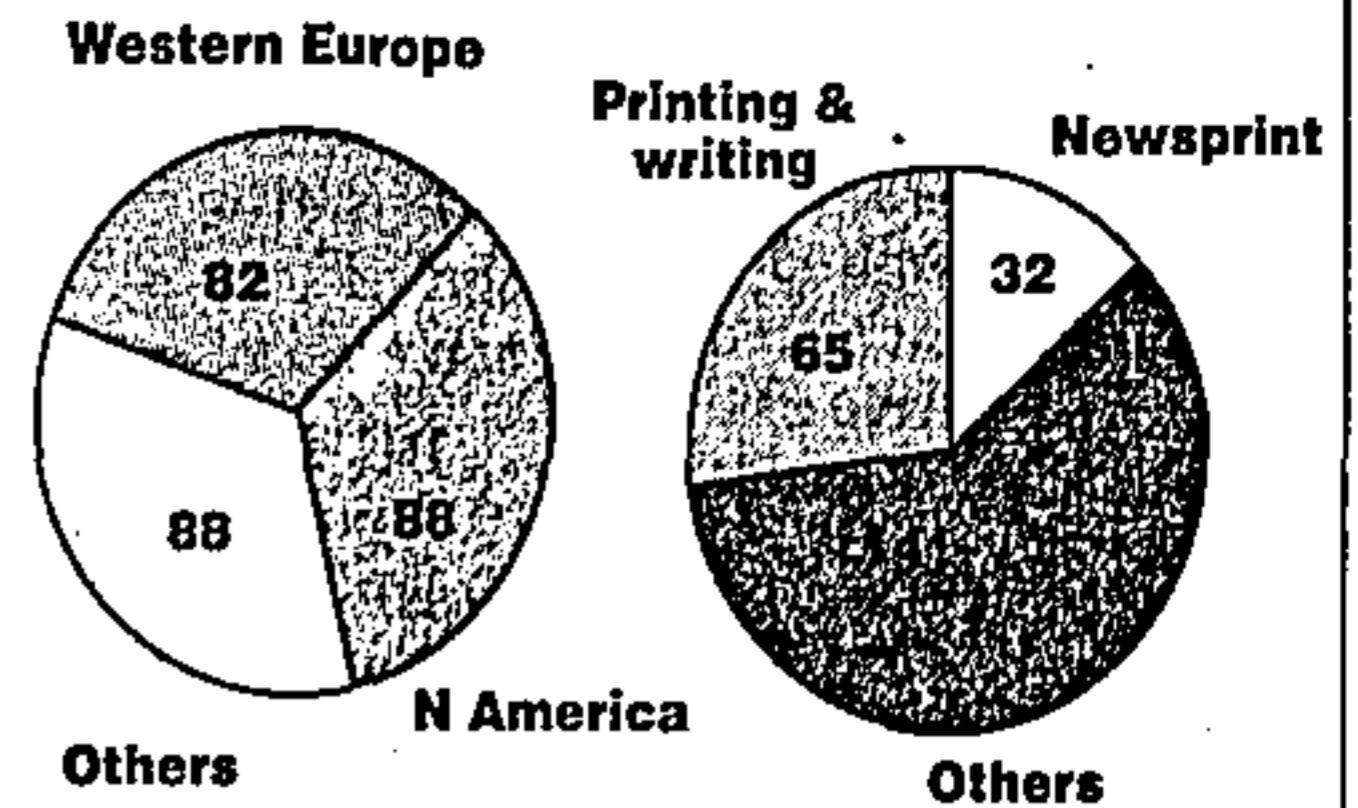
Stewart says high-value telefax machines operating on ordinary photocopy paper are also becoming popular and are also contributing to increased photocopy paper demand.

Other growing areas in office papers include A4 sized note pads, self-adhesive note stickers and stylised security access and egress forms.

B1 Day 14/3/91

Worldwide paper & board production 1989

238 million tons paper & board



Graphic: LEE EMERTON Source: 3rd INTERNATIONAL BUSINESS PLANNING CONFERENCE (PARIS)

Consumption is ^{14/3/91} expected to show ^{14/3/91} steady growth

PAPER and pulp consumption is expected to show steady growth this decade, which could be boosted by developments in Europe.

According to Ekono's studies, the average growth rate to the year 2000 for pulp will remain at 1.5%, while paper will grow at about 2.6%.

Davis Borkum Hare analyst Pierre Greyvensteyn says that since 1970 world paper consumption has been growing at an average of about 3% a year.

In the '80s, however, growth accelerated to 3.6% in spite of the recession.

The US is the leader in per capita consumption of paper, at 310 kg.

Asian

But densely populated Asian countries, which are net importers of paper and pulp, are coming to the fore in world paper consumption.

Greyvensteyn says an important development for the paper industry is the European market in 1992, which is set to be-

come the world's largest market.

European per capita paper consumption today is only 45% of the US's.

Worldwide, paper and board production is estimated at 238 tons, with North America the largest market, followed by Western Europe.

Slow down

Greyvensteyn says growth has averaged about 3.6% a year during the '80s, but is forecast to slow down to between 2.6% and 2.9% in the '90s.

However, with the advent of a single European market in 1992 and following the developments in Eastern Europe, Europe should emerge as the largest market for paper and paperboard consumption.

Greyvensteyn says environmental pressures and increased usage of recycled paper have resulted in an immense change in the circuit of raw material.

As a result, growth in market pulp should be lower relative to paper and board.

Forestry industry is quiet giant of the national economy

SA's forestry industry has often been called the quiet giant of the national economy.

In 1989, the forest and forest products industry contributed 3,4% to SA's GDP — almost double its stake in the national economy of just four years ago.

Its contribution to the national manufacturing GDP was 13,7%, larger than that of the motor industry.

Some 122 000 people are employed directly in timber growing and processing, many of them in the rural areas where jobs are sorely needed.

Over R13bn is invested in the forestry and forest products industry, in which the private sector is the major player.

Last year, timber growers were paid R900m for their products with the value of finished industrial products sold amounting to around R6,8bn.

The industry's star performer in recent years has been the pulp and paper industry with an annual turnover nearing R6bn.

Sawmilling and mining timber were the other main contributors, with a combined annual turnover of R850m.

Surplus

In 1981, imported timber products exceeded exports by R133m. Just four years later this has been turned around to a net surplus of R500m and last year export earnings stood at a staggering R2bn — a net surplus of R850m.

Few South Africans realise just how diverse and important SA's forestry industry is, because only 1% of SA's land surface, covering 1,2-million hectares, is planted in timber.

SA produces more than 17-million cubic metres of timber a year, entirely

from man-made plantations, making it one of the world's foremost plantation forestry countries.

SA's plantations are located in an arc stretching from the northern and eastern Transvaal, through Natal, Zululand and Transkei to the southern and western Cape.

Because of favourable climatic growing conditions, SA is able to grow trees on much shorter rotations and with yields comparable to those achieved elsewhere in the world.

Of SA's 1,2-million hectares of plantations, half is dedicated to growing softwoods. SA pine has become the staple product of the local softwood forestry industry and has found its way into virtually every facet of SA industry and life.

Pine timber is used extensively for building purposes, largely roofing timbers. SA is only starting to

follow the world-wide trend towards timber frame housing.

In the industrial sphere, pine timber is used for the manufacture of doors, furniture, cable drums, crates and pallets.

The other major timber species planted in SA are eucalyptus and wattle, both native to Australia.

Mining

Eucalyptus is used primarily in the pulping industry, from which many grades of paper and board are manufactured, and by the mining industry as the major form of underground support.

Wattle growing accounts for some 11% of plantation production, most of it concentrated in Natal. The tree's bark is one of the most important ingredients in the leather tanning process, while the wood is mostly pulped.

Merchants expecting tougher times

PAPER merchants have been experiencing harsh trading conditions and things could get tougher this year.

Graphtec CE Frits Waldeck says the local recession has affected nearly every facet of the paper merchants' market.

Reduced adspend has dented the print advertising market and business form sales are down. Many of the smaller and medium sized printers are struggling and a few have gone

out of business.

With the market declining, the merchants face increased competition which resulted in price cutting and has placed pressure on their margins, eroding their levels of profitability.

However, Waldeck says to counter the drop in their markets, merchants are concentrating on controlling costs and improving their productivity.

Demand for paper in 1990 remained static and he expects it to show a decline of

between 1% and 3% this year.

While 1991 will be a tough year for paper merchants, Waldeck does not expect any shakeout in the market place. This is because all the paper merchants have the support of three large groups, Gencor, Barlow Rand and Anglo American.

He hopes to see an improvement in the market in the second half of 1992 as the SA economy moves out of the downturn.

Waldeck says long-term prospects for the paper merchanting business are sound. Once normal patterns of paper consumption resume, he expects the market to show an average yearly real growth of around 4,5% for the decade.

This growth will come from a broad range of factors in a changing SA such as increased spending on education, more people entering the work environment and a higher level of skills.

Equipment developed to replace imports

^{B Day}
DELKOR Technik of Sandton, a process equipment company, is developing local equipment to replace imports for the pulp and paper industry.

Equipment adapted and modified includes the horizontal vacuum belt filter and the sludge bed clarifier. Delkor has an agreement with ALB Klein of Germany to manufacture a range of belt presses.

Pilot test programmes,

^{14/3/91}
initiated by Sappi, proved belt filters could be used for pulp and paper processing.

During 1989, Sappi, in conjunction with Delkor, developed and installed a 54m² belt filter to replace the three-stage drum washers on brown stock at the Enstra Mill.

The filter can treat up to 300 tons a day of pulp using a three-stage counter current wash. A major benefit

^{B Day}
of the belt filter used as a horizontal pulp washer is the high wash efficiency using low dilution factors.

The Delkor sludge bed clarifier offers high consistency underflows and low suspended solids in the overflow.

Sappi has installed 20m clarifiers for newsprint backwater at Ngodwana and 26m and 30m clarifiers for pith effluents at Stanger.

The Delkor Klein belt

press has been used in the paper industry in Europe for 40 years and the reduced cost of these presses through Delkor's local manufacture makes them an attractive alternative to imported machines.

Delkor has manufactured seven Klein Belt Presses, one of which has been ordered for Sappi's Stanger Mill and one for Nampak's Klipriver plant.

BACK TO NORMAL? 194

Activities: Manufactures plastic products including bags, sheeting and furniture.

Control: Danglo owns 86%.

Chairman: W A R Wenteler.

Capital structure: 14,4m ords. Market capitalisation: R5,0m.

Share market: Price: 35c. 12-month high, 80c; low, 35c. Trading volume last quarter, 15 000 shares.

Year to September	'88	'89	'90
ST debt (Rm)	1,0	1,4	6,2
LT debt (Rm)	1,8	1,3	1,6
Debt:equity ratio	0,35	0,17	0,66
Shareholders' interest	0,37	0,45	0,38
Int & leasing cover	2,6	4,3	nil
Return on cap (%)	13,9	16,8	(0,1)
Turnover (Rm)	46	52	69
Pre-int profit (Rm)	3,0	4,3	nil
Pre-int margin (%)	6,7	8,3	nil
Earnings (c)	13,6	22,0	(9,3)
Net worth (c)	56	80	81

Just as some people are accident-prone, so certain companies appear to be jinxed — it doesn't matter who owns them or what they do, they just seem to attract more than their fair share of problems.

The corporate entity that is now Plastall started its JSE career in 1973 as Trumcor — an episode most of us old enough to remember would rather forget. From there it found its way into the Mercabank stable where, as Mertru Mining & Manufacturing Services, it drifted into technical insolvency, with negative shareholders' funds of R2,3m at the end of the 1987 financial year.

Another retread saw it emerge as Plastall, by now part of the Dicor group, which acquired it as a vehicle to consolidate its interests in plastics manufacture.

During the next two years — 1988 and 1989 — it seemed that the ghosts of the past had at last been laid to rest. While it is true that 1990 EPS fell somewhat short of the forecast and projected dividends were not paid, profits were at least tilted in the right direction and there seemed reason for share-

FM 15/3/91.
holders to hope that just rewards would be forthcoming in due course.

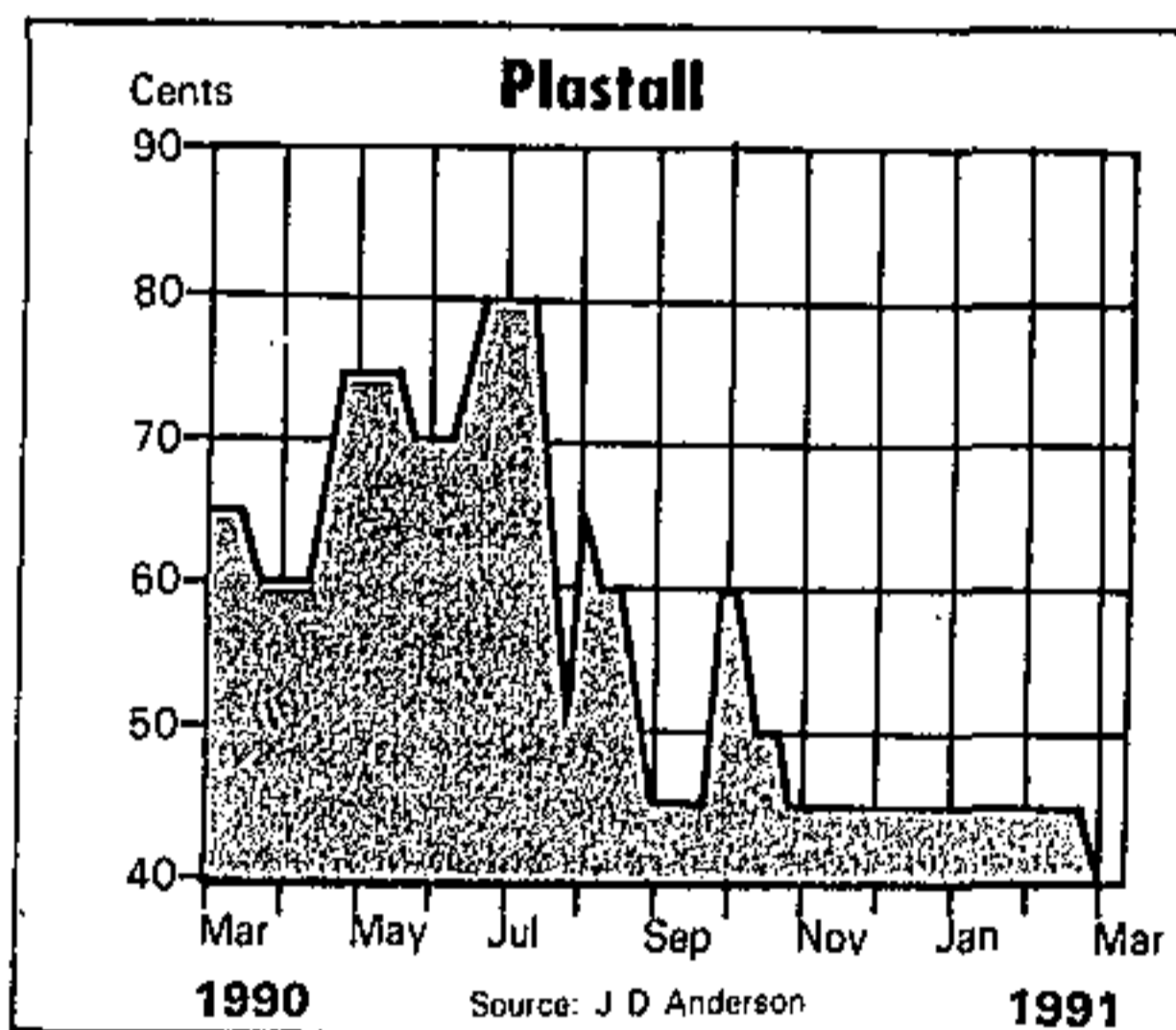
That happy situation lasted up to the middle of the 1990 financial year. After an excellent showing in the six months to March 1990 — EPS were up 76% — the company's view was that, in the absence of unforeseen circumstances, "the improved performance is expected to continue."

Instead, however, in a breathtaking reversal of fortune, attributable losses of more than R3m were incurred during the second half, wiping out the first-half profit of R1,9m and leaving a net deficit for the year of R1,3m.

Given the magnitude and, to outside shareholders, unexpectedness of this reversal, the explanations to be found in the annual report are, at best, inadequate. This has in all probability contributed to the collapse of the share price from 100c to the current 35c — its worst since the 1988 restructuring.

From discussions with management, it would appear that the factors responsible for the second-half loss were extraordinary and unlikely to be repeated. This being the case, earnings should now rebound. In fact, chairman Bob Wenteler says sales and profits in November (ahead of the traditionally flat Christmas season) were both records.

Wenteler says there were three main problems. First, protracted delays in physically taking possession of certain plant acquired in the takeover of a portion of Gundle from Consol (not simply problems in commission-



continue →

ing this plant, as indicated in the annual report). Second, and related, stock acquired in this takeover had to be offloaded at a loss when market conditions deteriorated. And thirdly, there were nonrecurring costs and disruptions associated with the merging of Highpak Plastics into what now trades at Plastall Gundle.

Improved distribution network

With these problems said to be out of the way, Wenteler believes Plastall Gundle is set to become a major contributor to earnings. It should: Gundle, apart from extending the product range, has provided a vastly improved national distribution network and could thus enhance the performance of existing (pre-Gundle) interests as well.

So on paper Plastall looks to have quite a lot going for it. It caters to a series of carefully selected niche markets which, historically, have shown good growth. Having overcome last year's difficulties, 1991 should see a return to more normal profitability.

Brian Thompson

use the heaviest possible materials. Now that local content is defined by value, plastic will suddenly seem more attractive — car bumpers are a case in point.”

He says the medical field could also become a growth area if health becomes more of a national priority. Plastics are used for a wide range of items in medicine from specialised plastic implants to disposable products such as syringes and gloves.

Plastic packaging, which accounts for 43% of consumption, is riding high on the back of the growth in the beverage market. Rigid plastic fruit juice containers and 2l plastic bottles are steadily taking market share from traditional paper and glass products. There has been even higher growth, however, in the nonpackaging use of plastics. Total consumption has grown from 52% to 57% in five years.

Consol Plastics MD Dave Spindler says, however: “Markets have been soft over the past 18 months. We have enjoyed growth by

bottle is difficult to judge because a bottle of this kind has never been launched on a market where there was already a well-established 2l bottle as well a traditional 1l bottle.”

However, it was sufficiently successful in test markets to justify a nationwide launch. The new bottle has the advantage that it is lighter than a glass bottle but fits into the same crates.

The new bottle might, however, miss out on the lucrative beer market because bottling plants are not yet geared up for it. SA Breweries’ system of heat pasteurisation does not allow for plastic bottles to be used (cold pasteurisation has already made its appearance in Japan). Company spokesman Adrian Botha says SAB is aware of the 1,5l and 1l returnables being developed but has not done feasibility studies on them.

“Plastic is not very significant to us,” he says. “We have a 2l plastic bottle but it accounts for less than 1% of sales. The glass quart bottle accounts for 72% of beer sales and is very well entrenched.”

As a visible, nonbiodegradable material, plastic is broadly considered far more environmentally unfriendly than glass or paper. But it has withstood the Green revolution quite well — largely because the arguments against it are more emotional than rational.

Says Spindler: “We do not cause air, smell or sound pollution. We do not generate as much industrial effluent as other materials and electricity consumption in the manufacturing process is far



Driving growth ... new containers to the market

developing our own niches or products, for instance in childproof packaging and in-mould labelling.”

Yet despite the overall growth, in some areas plastic manufacture is still a low-margin business. There are 1 000 plastic converters in SA. Says Crewe-Brown: “Most companies have wanted to keep their machines running at any cost, so tended to take high-volume, low-margin work. We have taken the opposite view. We have cut out marginal work and concentrated on the profitable lines, even if it has meant working below capacity at certain times.”

Higher returns are enjoyed only in areas where the product is either protected by a patent or a high cost barrier. For instance, to import an extruder for specialised films costs R5m-R6m, which gives a significant advantage to companies that are already operating in the field, such as M&R’s Mega Films.

Both Nampak and Consol have made multimillion-rand investments in the new, returnable bottle because they are assured of large volumes. By the end of May, National Beverages, which holds the Coca-Cola franchise, will launch the 1,5l plastic returnable. It is designed to replace eventually the 1l glass bottle. But Nampak’s Trevor Evans warns: “The success of the new bottle will be difficult to predict. Its impact on the 2l

lower than it is with alternatives.”

Packaging Council executive director Owen Bruyns says anybody who claims his product is more environmentally friendly should be treated with scepticism. “The problem is not the material itself, but the abuse of the material through littering. Biodegradability is not necessarily a plus point. Biodegradable plastics are available but they are inappropriate for recycling.”

In SA, 17,4% of plastic packaging is recycled compared with less than 3,3% in the US and 6,4% in the UK.

In municipal dump sites in the US, the proportion of waste accounted for by plastics has increased from 16% to 17%, but paper waste grew from 37% to 54% over the past five years. There has been an explosion in junk mail and the use of paper in the office, but only a small increase in the volume of plastic packaging.

One indication that the tide might have turned has been the change of heart at Pick’n Pay. Chairman Raymond Ackerman announced last year that the company was considering changing from plastic to paper bags. But a paper bag costs between two and three times more to make and the number of trees that would have to be cut down to make paper bags was enough to persuade him to bury the issue quietly.

PLASTICS INDUSTRY ^{Fm 15/3/91}
WINNING FRIENDS ¹⁹⁴

Despite environmentalist pressure, the plastics industry — which employs 45 000 people — appears to be weathering the recession better than many others.

And a new, returnable 1,5l soft drinks bottle about to make its debut should see a further increase in plastic output.

Though the use of plastics continues to grow, Murray & Roberts Plastics MD Ray Crewe-Brown, says consumption is still low relative to other countries. A total of 17 kg per head is consumed here compared with 98 kg in the UK and a massive 130 kg in Germany.

Crewe-Brown notes, for instance, that there has been little incentive to use plastics in SA-made cars because of the previous local content programme. “When local content was defined by mass it was important to

Silence follows the honeymoon

SITimes 17/3/91

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A CONSPIRACY of silence by public companies involved in a deal always brings out my suspicious nature.

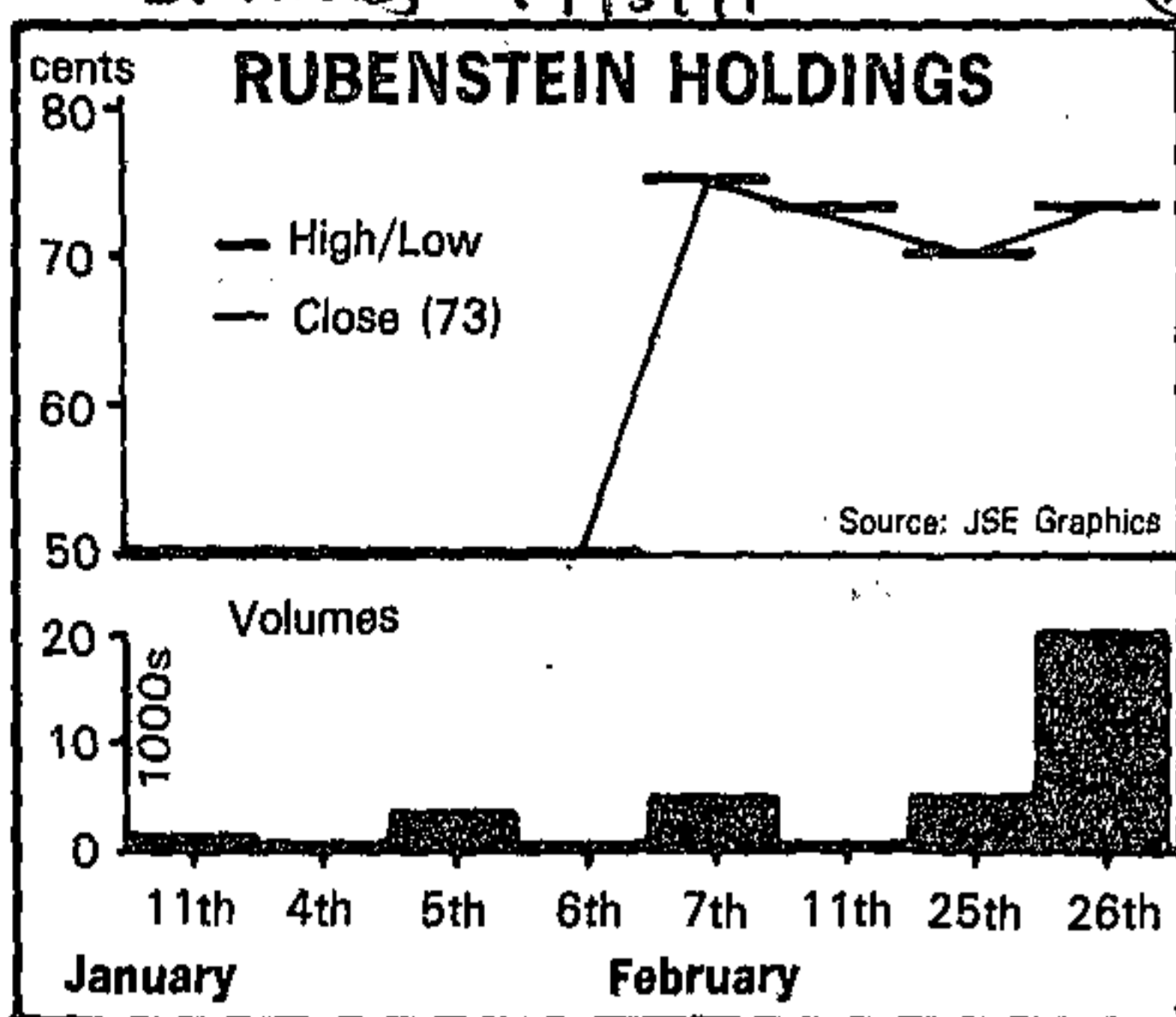
On Tuesday this week Rubenstein Holdings announced it had bought the flexible packaging business of Combined Packaging for R22-million. At the same time, Ruhold sold its entire holding of 34-million Compak shares to Lenco for R22-million. The consideration for this zero-sum game will be settled in cash.

In March last year Ruhold merged its flexible packaging interests Ruplas with Elvinco, the rigid packaging interests of Lenco, to form Compak.

Compak was launched through the Alfa listing, thus rescuing Alfa from serious liquidity problems. Alfa had a flexible plastics division which was retained, and its other packaging interests sold.

Alfa paid R27,2-million for Ruplas, discharged by the issue of 38,8-million Alfa shares of 70,2c. The price was subject to adjustment should profit warranties not be met, the adjustment to be six times the shortfall.

Ruhold has now bought



Ruplas back at nominally R5,2-million less than it sold it for because the expected benefits never materialised.

In the annual report covering the eight months to February 1990, chairman Jeff Rubenstein said he was "very excited about the prospects for our plastics interests".

He added: "The restructuring has resulted in the creation of a sound and well-structured operation which is well poised to tackle and take advantage of the challenges which it faces."

"Our link-up with Lenco through Compak no doubt augurs well for the future."

Encouraging words in-

deed. But the honeymoon was apparently over within nine months.

When Ruhold announced its results in December, it said the holding in Compak was likely to be adjusted "as a result of failure to achieve a certain warranted profit".

This passively worded statement avoids laying blame at the feet of either Ruplas or Elvinco.

This week Ruhold's financial director Peter Riskowitz told me that neither his company, nor Compak, nor Lenco, would provide me with any details about the deal.

He said shareholders would be sent a circular in due course, and that there were several reasons why the parties had agreed to blanket silence. He would not disclose any of those reasons.

Lenco director Stanley Stubbs also kept mum although I got the feeling he was sorely tempted to say something. He said that any comments which might be made would add nothing material.

Lenco's shareholding in Compak will increase from 49,3% to 77,4%. An offer to Compak minorities will be

made at 64,7c a share. The current market price is 60c, down from 110c in May.

Compak shareholders look to have better prospects now it has shed Ruplas. Had the deal been in effect for the six months ended last August, gearing would have been zero, not 25%. Compak would have earned 8,2c, not 5,9c.

Net tangible asset value would admittedly have been 13c lower at 56c, but who cares about paper values when the market price determines worth? (The Frame group is a prime example of this.)

The share price of Ruhold has behaved in a peculiar way since the start of the year.

The lightly traded counter made a sudden jump from 50c to 75c on a foreign deal of only 5 000 shares on February 7. The last trade was 20 000 shares at 73c on February 26.

Lenco's shares have traded steadily between 180c and the current 200c. Compak has halved to 50c since September, but is now 60c bid.

I put it to all the parties involved that they were shareholders with privileged information behind a deal that went wrong, and that they had a duty to pass on this information to shareholders.

Both seemed satisfied that they had done their duty with the corporate announcements, but it hardly inspires one to think the best of either of them.

Holdains looking for further growth

Star 19/3/91.

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By Jabulani Sikhakhane

Paper and packaging group, Holdains has reported a 11 per cent increase in attributable earnings for the six months ended-February. This increase is in line with market expectations.

The share base rose slightly, limiting earnings per share growth to 10 percent at 166,7c (151,6c). A dividend of 51c (47c), which is covered 3,3 times has been declared.

Chief executive, Ian Willis says the manufacturing divisions Kohler and Carlton did well while the paper merchanting operations showed diminishing returns because of tighter trading conditions.

The corrugated packaging division, which is estimated to account for 40 percent of Kohler's turnover, showed increased market share because of the eight-week strike at Nampak.

Mr Willis says although Nampak may recover some of the lost business, customers are more likely to spread business around.

Holdains results also include Sunvest which was acquired in January. Mr Willis says Sunvest performed well in all sectors of its business and its exports of synthetic paper were particularly strong.

Exports, largely due to Sunvest and Carlton, rose to five percent of turnover at R50 million.

Turnover was up seven percent to R969,556 million

(R906,657 million). But improved operations and cost control boosted operating profit, which rose 16 percent to R86,874 million from R74,918 million. The margin rose from 8,2 percent to 9 percent.

The increase in financing costs was kept at 7 percent to R21,151 million (R19,820 million), despite the cash acquisition of Sunvest and the R35 million capital expenditure during the review period.

Total interest bearing debt was up only 13,4 percent to R213,275 million (R187,936 million), resulting in gearing reducing 54 percent to 51 percent. Management attributes this to tighter working capital management.

Financial director, David Price describes this achievement as remarkable because Holdains' debt ratio traditionally goes up in the first half.

He says this is due to a number of factors which taken together push up the debt ratio. Among others is the fact that exports tend to go out in the January/February period, tying up cash and stock. About 55 percent of group profitability is realised during the second half.

The tax charge rose 26 percent to R24,415 million (R19,406 million). The effective tax rate was up to 37,1 percent from 35,2 percent due to a number of tax allowances no longer applicable. This limited growth in after-tax income to 16 percent at R41,308 million (R35,692 million).

Subsidiaries and tighter controls boost Holdains

MATTHEW CURTIN

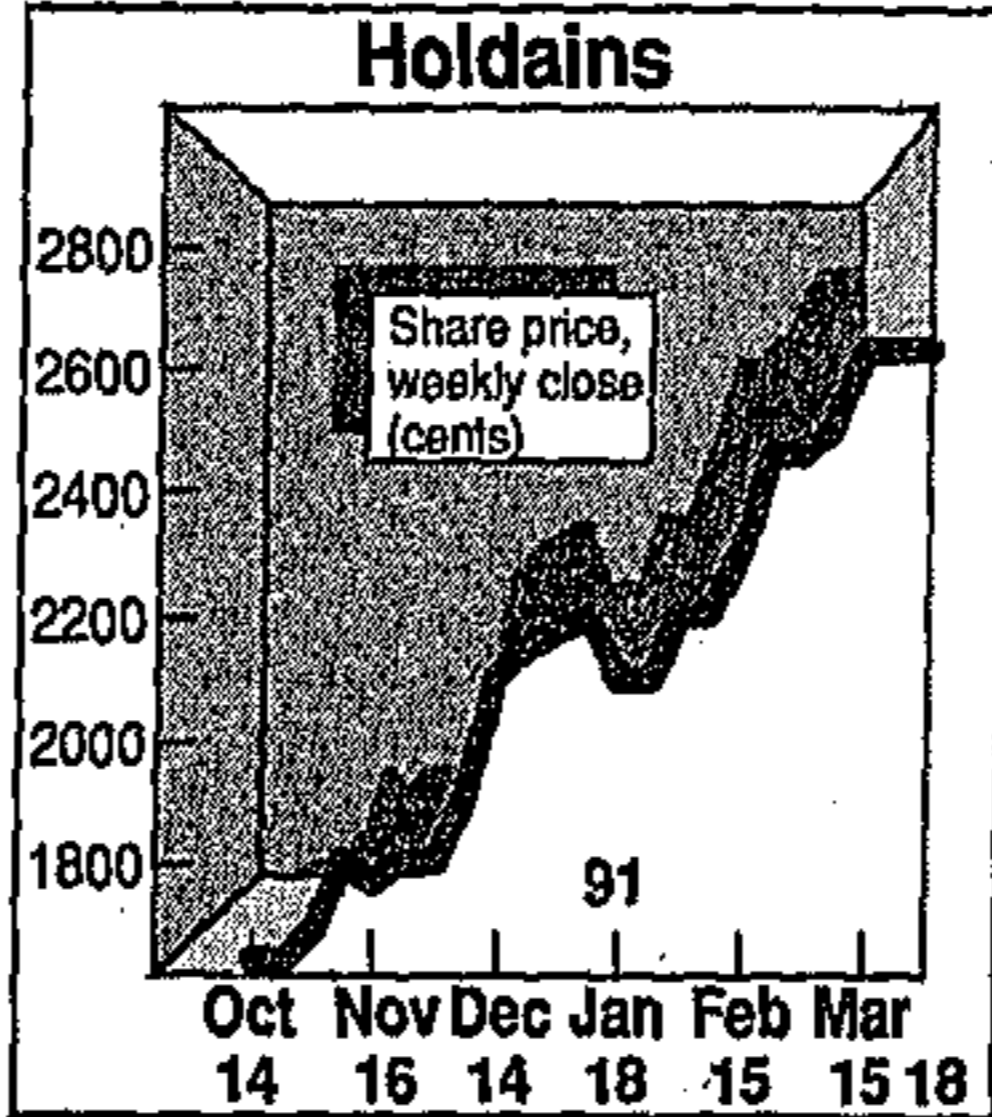
7. **HOLDAINS**, the paper and packaging giant, pulled through six months of difficult trading conditions to post a rise of 11% in attributable earnings on the back of tight cost control and the impressive year-end results of its major subsidiaries Kohler Packaging and Carlton Paper Corporation (Carlcor).

8. **REQUIRE**
 (a) Holdains CE Ian Willis said in a statement yesterday the economy was unlikely to recover by 1992 so the group would continue "to concentrate on greater operational efficiencies (with) a strong focus on working capital control". He said earnings for the full year "should reflect further growth".

(b) The 18-month-old group, comprising Malbak's reorganised paper and packaging interests and new acquisition Sun Packaging Investments (Sunvest), saw its earnings a share rise 10% to 167c (152c), the increase diluted by the larger number of shares in issue.

(c) The group's interim dividend rose 4c to 51c a share. Dividend cover was almost unchanged at 3.3 times.

Ellis said despite the acquisition of Sunvest for cash, the group's gearing



Graphic: LEE EMERTON Source: JSE

stood at 51%, down from 54% a year ago thanks to tighter working capital management.

He said Kohler enjoyed "positive results from the increased focus on its core activities and tight control of costs". The company, SA's second largest packaging firm with corrugated, carton and print, and flexible packaging divisions, was the main contributor to the group's profits.

Holdains sold Kohler's rigid plastics division for R24.1m in 1990. The company contributed to 62% of group operating profit last year.

Behind Kohler was Carlcor which had an "outstanding" year in 1990 as

its earnings rose 41%.

The company, SA's major supplier of facial and bathroom tissue, nappies and feminine care products, had benefited from stable raw material prices and good export and home market volumes.

In contrast, Ellis said Holdains' paper merchandising companies, Graphtec Holdings and First Paper House, operated in difficult market conditions.

Graphtec's profits fell away in the face of the depressed printing industry although management aimed at improving profitability at lower volumes in the coming months.

First Paper House had produced "exceptional results" as the new products the company had introduced during the year had exceeded expectations.

Ellis said Sunvest, in which the group now has a 56% stake, performed well — making its first contribution to company profits — although its Biopolymer subsidiary made a loss in the interim, "in line with start-up expectations".

Holdains turnover climbed 7% to R970m (907m).

Its operating profit margin improved to 9.0% from 8.3% for the six months to end-February 1990.

ARIES PACKAGING FM 22/3/91
SURPRISING RERATING

Activities: Screenprinters and manufacturers of packaging, paper cores and tubes.

Control: Directors 71%.

Chairman: G E Kohler; MD: D Neckel.

Capital structure: 11m ords. Market capitalisation: R6,6m.

Share market: Price: 67c. Yields: 3,7% on dividend; 10,9% on earnings; p:e ratio, 9,2; cover, 2,9. 12-month high, 70c; low, 45c.

Trading volume last quarter, 17 700 shares.

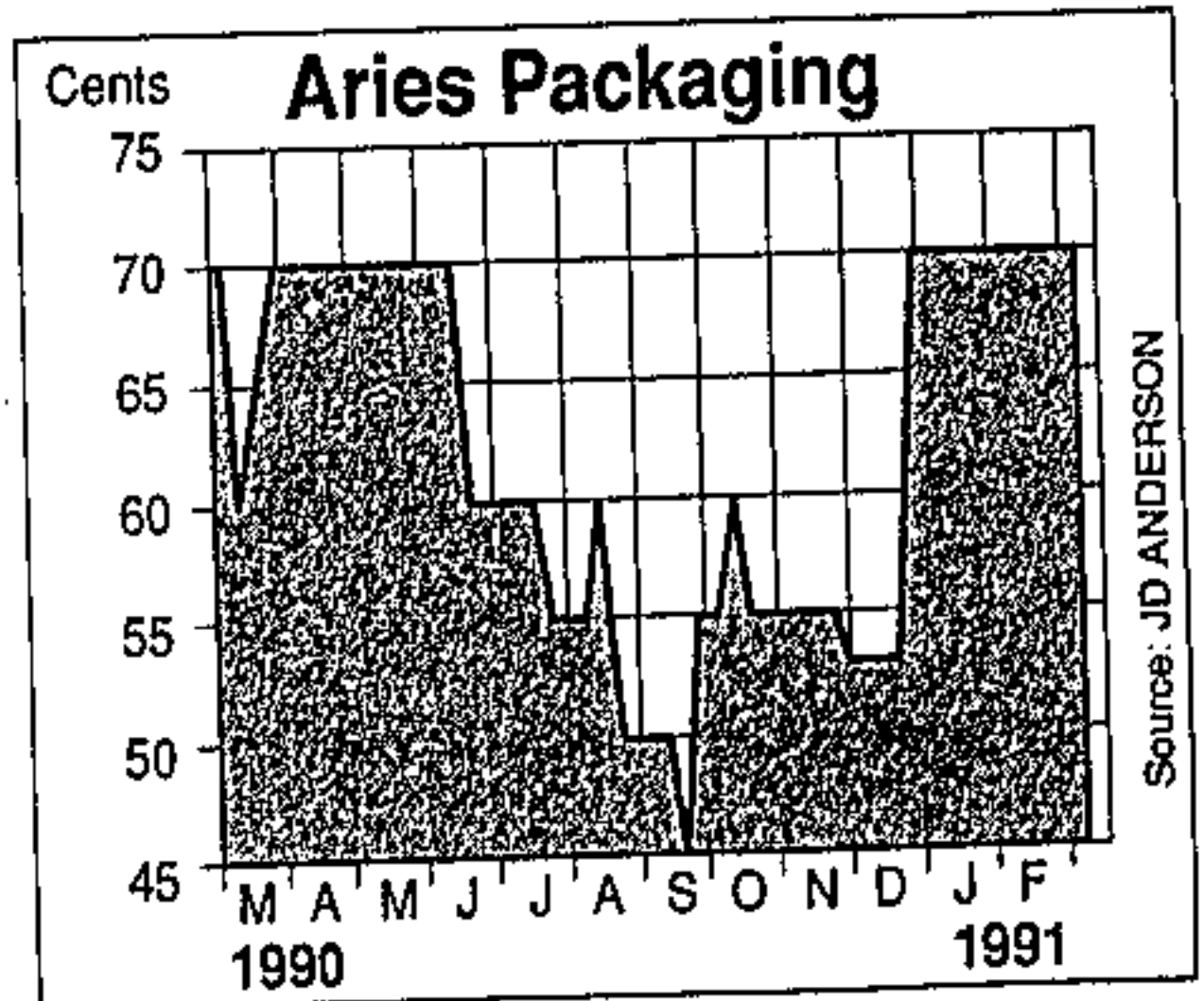
Year to Dec 31	'87	'88	'89	'90
ST debt (Rm)	0,07	—	0,5	0,6
LT debt (Rm)	0,03	—	0,27	0,3
Debt:equity ratio	n/a	n/a	n/a	0,12
Shareholders' interest	0,62	0,75	0,68	0,6
Int & leasing cover	n/a	n/a	n/a	20
Debt cover	17,5	n/a	3,3	1,9
Return on cap (%)	43	43	35	15
Turnover (Rm)	11,8	16,2	17,9	21,7
Pre-int profit (Rm) ...	2,0	2,8*	3,1	1,6
Pre-int margin (%) ..	17,1	14,4	17,2	7,5
Earnings (c)	11,8	15,2	15,4	7,3
Dividends (c)	3,5	4,5	5,0	2,5
Net worth (c)	26,3	40	54,9	60

* Before non-trading item R0,5m.

194 FM 22/3/91

Even though there was a commendable 21% increase in turnover, CE Dieter Neckel cites four reasons for the 52,5% fall in earnings:

- Efforts to retain market share resulted in a fall in margin to 7,5% from the 16% average of the previous three years. This was not simply a function of mark-up reduction. Neckel points to an escalation in expenses of about 18%, whereas prices could not be raised by more than 12%. While there was a reduction in volume in Cape operations, this was more than compensated for by an increase in volumes from the Transvaal plants;
- Even though there was an increase in number of orders, tonnage fell and the average order was smaller, indicating deliberate destocking in the market;
- In the Transvaal, both the cores and tube and the corrugated operations did not reach break-even, though volume targets were at-



tained. Again, lower margins led to losses; and

- A fibre drum manufacturing plant was established on the Reef during 1990. Justification for this was provided by a detailed market study. Until now, there was no local

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manufacturer. The product is attractive because of its disposability — it is both biodegradable and easily incinerated — and also because it is competitively priced to its metal options. The first commercial delivery of this new venture took place at end-February. This project is to be financed by an IDC loan of R1,8m (not reflected in the 1990 year-end accounts).

The major balance sheet change is in creditors, which rose from R811 000 to R2,6m. Neckel says most of the increase reflects costs of setting up the fibre drum plant. The IDC loan will replace these. Other changes are shown up by the deteriorating ratios in the accompanying table and are clearly a result of last year's poor trading.

Neckel says that even though margins for the first two months of this year show no improvement, the overall position has improved. It's encouraging that the Johannesburg operations are performing better than break-even. He expects 1991 profits to equate those of 1989, in spite of the increased cost of borrowing on increased loan funding.

The share appears to have been rerated. This time last year it was on dividend and earnings yields of 8,3% and 25,6% respectively. Either the potential for fibre drums is greater than is evident or the market thinks

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that profit potential for the company as a whole is considerably better than it appears.

Gerald Hirshon

HOLDAINS FM 22/3/91

BEDDING DOWN

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Interim results from Holdains indicate the group could post real growth in attributable earnings this year. Holdains was created in 1989 to house all the paper, packaging and fibre interests of Malbak. In financial 1990, the first full year after the merger, attributable earnings increased by only 2,6%. Latest figures suggest the growing pains may be over.

In the six months to end-February, operating profit rose by 16% on a turnover advance of 7%. Kohler — the group's biggest profit

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RIISING TREND

Six months to	Feb 28 '90	Aug 31 '90	Feb 28 '91
Turnover (Rm)	907	891	969
Operating profit (Rm)	75	76	86
Attrib profit (Rm) ..	34	39	38
Earnings (c)	151,6	170	166,7
Dividend (c)	47	63	51

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contributor in 1990, with R93,6m — continued to perform well.

Some benefits of the shedding of the rigid plastics division was felt in the first half. MD Ian Willis says more of these benefits should come in the second half. Also, in the first six months, Kohler had the benefit of running its corrugated division at near full capacity, thanks to the eight-week strike at Nampak.

Carlton Paper Corp had outstanding results, gaining from stable raw material prices and a growing market. Additional capacity was installed in the company's diaper facility and management hopes to see the effects in the second half. Carlton is to change its financial year-end to August, in line with the rest of Holdains.

There was also a good result from First Paper House, formerly Wiggins Teape, which Willis ascribes to two factors: excellent financial discipline stemming from the days when it had a foreign parent; and the advantages of operating in niche markets.

The group's biggest problem still seems to be Graphtec. It suffered reduced profitability due to lower volumes, though Willis is forecasting a turnaround in the second half.

Poor performers which were considered to be peripheral companies in the division have been sold. Based on the last full year's figures, these disposals would have resulted in the shedding of turnover of around R30m. Sale of these companies resulted in a 25% staff reduction at Graphtec and working capital is now said to be under control. Willis expects the company will make a significant profit contribution in the second half.

Holdains' performance should also be helped by profit contributions from Cape-based packaging group, Sunvest, acquired with effect from January 25 1991.

Since last July, the share price has more than doubled to R26,25c. It stands on an earnings multiple of 8,2, compared with the sector average of 9,6, and may appreciate further.

Gerhard Stabber

No dividend after dip ¹⁹⁴ from Sunvest

SEAN VAN ZYL

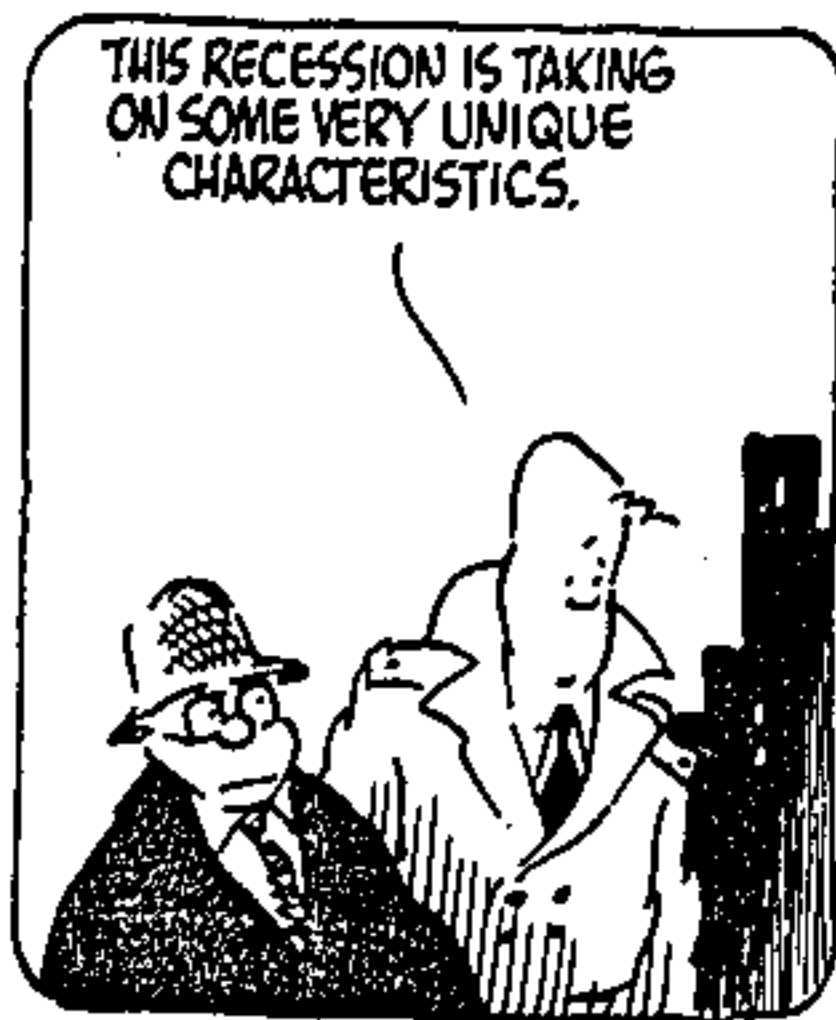
SUN Packaging Investments (Sunvest), holding company of Sun Packaging Holdings (Sunpak) and recently listed Biopolymers (Biopoly), has disclosed a 3,2% drop in attributable earnings to R3,1m (R3,2m) for the six months ended February. *B/Dam*

Sunvest's earnings clocked in at 5,9c (6c) a share, Sunpak's earnings came in slightly higher on the previous period at 6,7c (6,1c) a share while Biopoly suffered a loss of 3,2c a share. No dividends were declared. *22/3/91*

A significant factor influencing Sunvest's performance was depreciation of R2,935m (R1,234m) which was 137,8% higher than the previous period. The difference between Sunvest's depreciation and Sunpak's depreciation of R2,910m (R1,234m) was due to the greater asset base which arose from the start-up of the Biopoly polymer plant last year, said chairman Tubby Gericke.

Sunvest's borrowings of R21m (R12,4m) almost doubled on the previous period which, Gericke explained, was due to additional loans mainly from the IDC for the Biopoly start-up. About 95% of long-term liabilities are owed to the IDC. As a result, Sunvest's interest payments climbed dramatically.

EXECUTIVE SUITE



Harwill records 5,2% rise

BEVERLY HUCKLESBY

CAPE-based Harwill Investments recorded a 5,2% rise in earnings to 11,31c (10,75c) a share in the six months to end-December.

The company manufactures low density polythene bags, shrink and stretch film, sheeting and tubing used for packaging in the clothing, textile and food industries and components and containers for pharmaceutical, cosmetic and liquor industries and medical equipment.

November. No interim dividend has been declared.

Trading in traditional sectors of Harwill's markets was being affected by the continued economic recession. This, together with a four-month delay in the commissioning of a new plant, may affect sales volumes as well as profit margins for the next six months, they said.

Despite a 68,2% decline in finance charges, profit before tax rose marginally by 9,1% to R2,4m (R2,2m).

Goodwill and restraints of trade written off shown as an extraordinary item lifted net profit by 27,5% to R866 000 compared with R679 000 in 1989.

Directors said in a statement today that subject to satisfactory results, a final dividend would be paid in

Tip of the ~~the~~ hat to Bowler Metcalf ¹⁹⁴

Own Correspondent

CAPE TOWN — Plastic packaging firm Bowler Metcalf lifted pre-tax profits by an impressive 65% to R2,3m (from R1,4m) in the year to end-December. This was achieved on an 18% rise in turnover to R14,5m (R12,3m).

Operating profit after allowing R923 000 (R679 000) for depreciation was R2,8m (R1,8m).

The tax bill was R611 000 (nil), leaving after-tax profit of R1,7m (R1,4m). Earnings at share level were 6,8c (5,6c).

The final dividend is 1,5c a share, making a total of 2,75c (2,25c) for the year, covered 2,5 times.

Chairman Geoffrey Spalding pointed out that the company — listed on the JSE in 1987 and included in the list of Top 100 companies in 1990 — produces a steady return on shareholders' funds at the 30% level.

27/3/91
Enlarged

Predicting further growth, MD Horst Sass said: "We have continued to develop several new processes and are currently active in the roll-on bottle market which we believe has great potential considering the current animosity to aerosol propellants."

The Cape Town factory has been enlarged. The Johannesburg factory, opened in 1988, contributed 26% of bottom line profit. It is expected to contribute 35% in the current year.

Sass says the group will be looking aggressively at other profitable areas of the plastic packaging field in 1992.

Director Michael Brain said it had expanded into Johannesburg without any takeover but it was now looking seriously at two companies. Good opportunities would arise in the current state of the economy.

Afpac minorities get 127c a share distribution

BIDCORP 27/3/91

MARCIA KLEIN

MINORITY shareholders of Afcom Packaging & Industrial Corporation (Afpac), the cash shell which resulted from the restructuring of the Bid Corporation (Bidcorp) group last year, are to be paid out about 127c a share, it was announced today.

Bidcorp's restructuring saw the manufacturer of packaging equipment and materials, Afpac, become a cash shell holding R48m.

Following the disposal of its assets in September 1990, Afpac was given six months to make a suitable acquisition or its listing would be terminated. Directors said that it would now not be possible to

make a suitable acquisition as the six-month period expired tomorrow.

Bidcorp directors had said last year that if they could not find a vehicle for Afpac's listing, they would make a special distribution to shareholders.

Directors said yesterday that the cash held by Afpac and any income earned after providing for tax and any other liabilities would be distributed to shareholders, and Afpac would be delisted.

The full amount available for distribution was estimated at

R51,5m, representing 127c an Afpac ordinary share after taking into account the conversion of the convertible debentures issued by Afpac. This included an estimate of the net income earned by Afpac since July 1 1990.

In October last year the Afpac cash shell had assets equivalent to 120c an ordinary share.

The cash distribution would take place by way of the conversion of the minority shareholders' ordinary shares in Afpac into redeemable preference shares which would be redeemed immediately at about 127c a share.

Directors said the final amount

to be distributed would be determined once a record date had been set to determine minority shareholders entitled to participate in the distribution. This would be no later than the end of May. Afpac shares would continue to be suspended until the record date.

Afpac's unaudited earnings for the six months to December amounted to R2,31m, representing 5,7c a share.

Unaudited net asset value was 123,4c a share based on a total of 40,6-million ordinary shares in issue after the conversion of the convertible debentures in Afpac. No interim dividend would be paid.

(194)

Abercom reduces losses on the road to recovery

BRENT VON MELVILLE

THE interim results of the new, streamlined Abercom show that the group is on the road to recovery — but the company continues to be the financial thorn in Malbak's side.

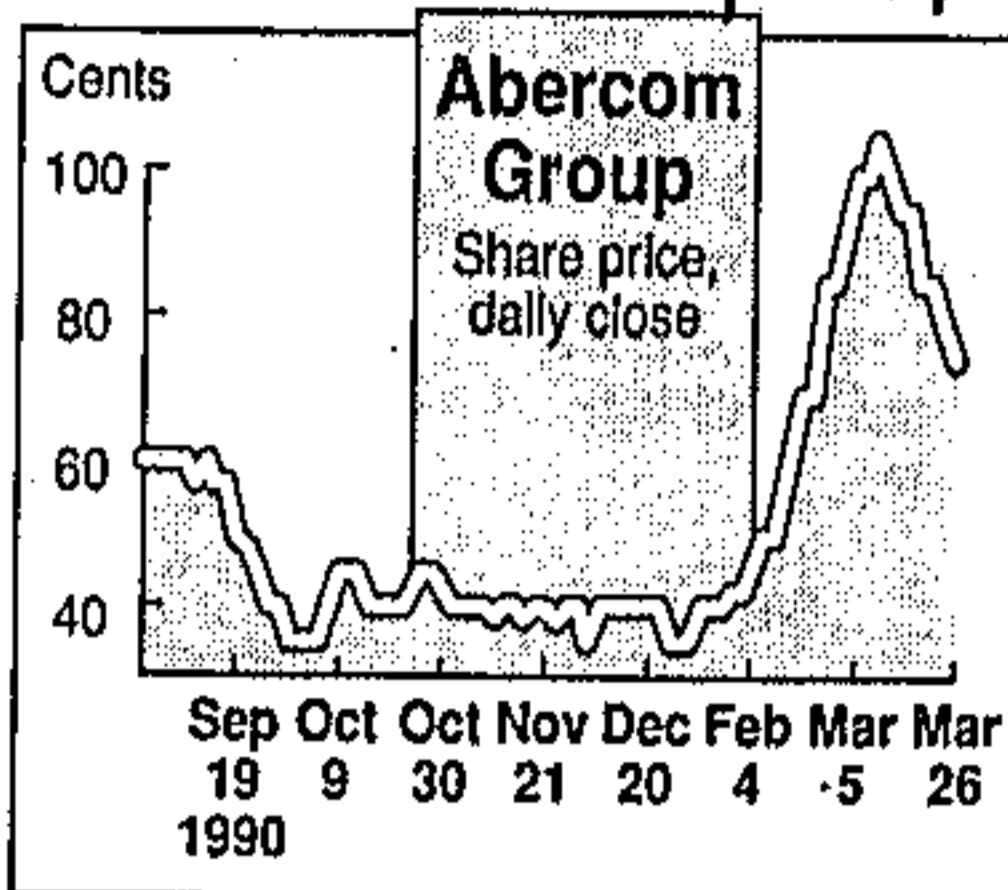
Abercom, whose sole investment is its 86% holding in UK-based packaging group M Y Holdings through wholly owned Tawneydown, has trimmed its bottom line loss to R3,8m after posting a R15,5m loss last year (R10,6m at half year).

Malbak (the parent company of Abercom) last year injected R50m into the struggling M Y Holdings in the form of an interest-free loan.

The result has been the conversion of an operating loss of R925 000 for the comparable period last year to a profit of R2,7m.

Sales were reduced to R96,8m (R114m) and interest payments were slashed by a dramatic 36,6%, to R6,7m (R10,6m). The end result was a loss a share of 13,3c compared with a loss of 36,8c for the comparable period in 1990.

Chairman Ian Willis, who was sent from Kohler last year to sort out the problems at M Y Holdings, said that



Graphic: FIONA KRISCH Source: JSE

although conditions continued to be difficult in the UK, the M Y businesses improved significantly.

He said that with the exception of M Y Crescens Bushill, all divisions turned in reasonable performances over the first six months.

M Y Crescens Bushill, however, continued to make losses as a result of reduced volumes, lower margins and very high interest charges on capital equipment.

In order to reduce the interest burden and stem the loss, Willis said the decision had been taken to scale down the operation "significantly".

On the positive side M Y Corrugated again produced "very creditable"

results in what Willis described as "difficult industrial conditions" and exceeded budgeted profits.

M Y Trondex also remained profitable despite the decline in consumer durable and computer sales.

Declining sales, however, had an impact on M Y Sharp Interpack although it still showed a profit close to budget.

In line with Abercom's desire to streamline the group, over the past six months total assets have been cut down to R183,9m from R204,9m.

Over the same six months borrowings have moved up slightly to R86,1m from R82,9m for the full 1990 year.

Willis pointed out that the UK economy was beginning to show signs of recovery with interest rates and inflation reducing, albeit slowly.

"However the damage to the economy is deep and a full recovery will take some time," he said.

He warned that while M Y's divisions were expected to show a further improvement in the second half of the year, it was unlikely to eliminate the first half loss and shareholders are again advised that recovery will be slow.

SUNPAK

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AIMING HIGH

Fm 29/3/91

Investors are unlikely to be much encouraged by the latest performance from Sunpak. Attributable income for the six months to end-February was up by only 10.9%, when management is looking for growth for the year of 25%-33% (Fox October 5).

Pre-tax income was actually down by a fifth, largely because depreciation was lifted by nearly two-thirds and the interest bill leapt by 208%. There were acceptable explanations for this — both changes stem from funding the additions to production facilities in 1989 — but it was only because of the change in the basis of deferred tax that net income increased at the rate reported.

What is encouraging, however, is that operating income before depreciation and interest rose by 18%, with the operating margin rising at a similar rate.

"Tremendous savings have been achieved in the plant and operating costs are right down," says Ian Strachan, CE of Sunpak

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FOX

and Sunvest. "We have spare capacity because turnover is not up to anticipated levels and we are well poised to take advantage of any advance in the economy. When such a rise does take place, profits are likely to increase dramatically."

Chairman Tubby Gericke, referring to the white foam tray business, notes that the food and packaging distributors and Sunpak's major customers — white and red meat bulk producers — have all experienced lower-than-expected demand for their products. This is seen as a function of the economy.

Strachan adds that better trading conditions are expected during the second half and the group is well structured for further growth when demand increases. He says tight asset management, evidenced particularly by the 44% drop in current liabilities, will remain a top priority.

For earnings to rise by 25% this year, EPS in the second half would have to be 14.2c — representing about 85% of the full 1990 year's figure of 16.7c. That is a tall order, especially if there is not much improvement in the economy. But Strachan is emphatic that the first six months was ahead of budget and the group is looking so strong from an operational standpoint that he is confident the trend will continue through the rest of the year.

At 135c, the share yields 5.9% on dividend and stands on an earnings multiple of 8.1. That compares with an average yield of 4% and p/e of 10.1 for the sector. *Gerald Hirshon*

B/day 3/4/91

Clegg margins feel squeeze

ZILLA EFRAT

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PRINTING and packaging group Clegg Holdings' attributable earnings plunged 72% in the six months to end-December as operating margins remained under severe pressure in a competitive market.

Directors do not expect a significant improvement in earnings for the full year because of the current economic climate.

Attributable earnings of R215 000 (R773 000) or 0,71c (2,57c) a share for the interim period follow a 53% fall in earnings in the year to end-June and a 10% drop in the 1989 financial year.

Clegg's policy is to declare an annual dividend only, but it paid no dividends in the previous two financial years because of economic conditions and interest-bearing debt.

Turnover rose 10% to R12,5m during the interim period, but operating profit dipped 43% to R817 000.

However, the group's policy of strict asset management resulted in the interest bill falling 9% to R602 000.

Tiger Oats' rating boosts commercial paper market plans

B/day 4/4/91

ROBERT GENTLE

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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."



Malbak's Thomas ... pleased with the margin

advance in turnover was thus maintained at the bottom line.

Borrowings dropped from just over a R1bn to R951m, a reduction which Thomas attributes mainly to shrinking working capital, with average debtor days dropping to 52 and average stock days to 66. Gearing declined from 62% to 49%, and Thomas expects it will be about 40%-45% by the year-end. That, with the cut in rates already announced (the group's debt is mainly short-term), would imply a further fall in the interest charge in the second half.

But Malbak's second-half trading result will depend on how well markets — particularly spending on consumer products — hold up. A recession in which suppliers of consumer durables and semi-durables keep growing strongly in real terms remains improbable.

Management is forecasting a modest earnings improvement in the second six months, and the group is almost certainly looking at a maintained dividend for the year. Underlining the market's expectations of at least stable results, the current 875c share price is about a third above the February 28 NAV — at the end of August, the price was only 600c compared with NAV of 671c.

Andrew McNulty

MALBAK FM 5/4/91

CONSUMER BOOST

Not long ago Amic, Barlow Rand and Anglovaal Industries (AVI) were among the best performers — and also enjoyed premium

share ratings — of the large, diversified industrial groups.

Of these three, only AVI, whose profit growth has remained relatively firm, still retains its rating intact. But Malbak, whose share price had weakened during much of last year, enjoyed a favourable rerating since last October ahead of what turned out to be steady results for the six months to end-February, with EPS up by 6%.

The swing in relative ratings for the leading conglomerates is indicated in the dividend yields: an historical 1,5% for AVI, 3,5% for Malbak, 4% for Amic and 4,4% for Barlow Rand. Without detracting from the role of management, the more stable results from Malbak and AVI at least partly reflect the character of the present recession.

Neither of these groups has much direct exposure to commodity markets or to exports in general; both depend essentially on local demand. Malbak, in particular, gains a large portion of its trading profit from businesses exposed to consumer spending. Of the group's total operating income of R357m, the significant increases in contributions

EDGING UP

Six months to	Feb 28 '90	Aug 31 '90	Feb 28 '91
Sales (Rbn)	4,0	4,38	4,19
Operating inc (Rm)	335	389	357
Attributable (Rm) ..	111	122	118
Earnings (c)	56,6	62,1	57,0
Dividends (c)	12,5	18,0	12,5

came from the branded consumer goods, packaging and paper, and development divisions. These divisions, as well as a fourth, construction supplies, together contributed about 80% of total trading profit.

Among Malbak's listed companies, the strongest performers were suppliers of consumer durables, particularly 96%-held Tedalex and Ellerine. Packaging and paper increased its contribution to group earnings by 9%, with help from another outstanding result from Carlton Paper.

Abercom, the vehicle for expansion abroad, remains a loss-maker, though its attributable loss fell from R8m to R3,8m.

Unlisted companies weigh in with about 20% of Malbak's income, and on the whole these operations roughly maintained or improved their earnings. Chairman Grant Thomas sees no cause for concern about any of these operations. Malbak Motors — part of the branded consumer products division — was hit by shortage of stock from Mercedes, but some of the unlisted saw good growth.

In Thomas's view, the most pleasing aspect of Malbak's interim figures was the maintained operating margin. The debt: equity ratio fell, without help from sales of problematic companies, and the interest bill was down by R2m. Benefits of the reduced finance charge were broadly offset by a slightly higher effective tax rate, and the 5%

Talk of upturn as packaging rockets

Blow, 8/4/91

1944

ZILLA EFRAI

THE share prices of SA's major packaging groups — Nampak, Holdains and Consol — reached record highs on the JSE last week.

While some analysts attributed this to the general upward trend of quality industrials, others said the moves signalled expectations of an economic upturn.

The packaging sector was expected to rise faster than many other sectors when economic conditions improved.

On Thursday, Nampak peaked at 5 350c a share, a sharp rise from its yearly low of 3 450c, while Holdains reached a new high of 2 850c on Friday, double the 1 425c seen in February last year.

Consol closed at a new high of 2 950c on Friday, off its peak of 2 900c on Thursday.

Some analysts ascribed the price increases to a movement towards the consumable sector. Following the re-rating of the food sector, sentiment for the packaging and pharmaceutical sectors was strengthening, they said.

Better

Many of the packaging groups were seen as defensive stocks that did not perform as badly as other companies in a downturn, but showed strong performances in an upturn.

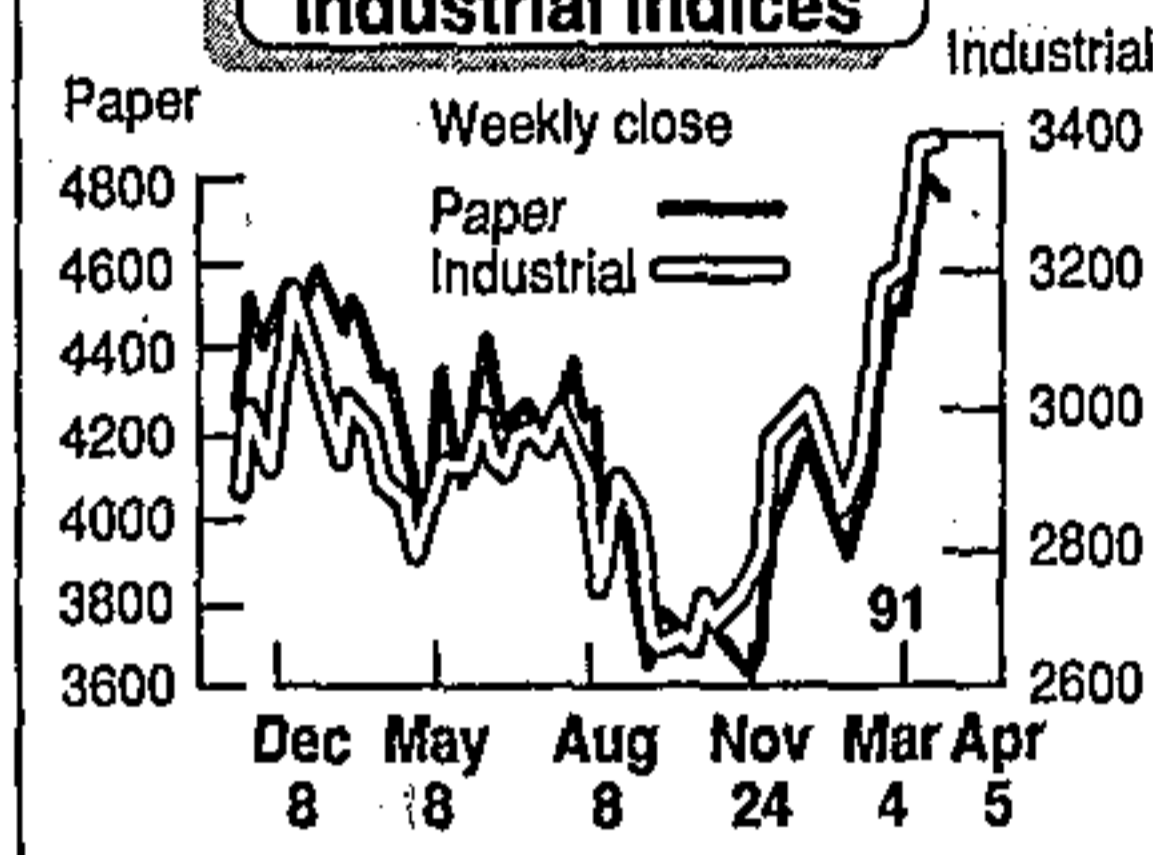
Analysts said packaging companies had built-in growth factors because they were tied to the ever-growing beverage and beer markets and the food sector.

Packaging generally showed an annual real growth of 2% above GDP growth level. While people downgraded their food choices in a recession, they still had to eat.

Another factor that could be boosting the share prices was that recent interim results were seen as better than those of other industrial companies.

Holdains announced an 11% rise in attributable earnings for the six months to February and Consol posted a 31% rise in attributable earnings for the six months to December after strong growth from its rubber interests.

Comparison of Paper & packaging and Industrial indices



Graphic: LEE EMERTON Source: JSE

Nampak's results for the six months to March are expected out shortly.

In addition, analysts said the market was now more informed about the 18-month-old Holdains group following a communications campaign by management.

Also, Holdains' disposal of loss-making businesses was expected to boost its future growth.

Nampak had suffered from industrial action and rampant speculation as to the seriousness of alleged irregularities, but analysts said Nampak was now looking better.

They believed there was still room for further increases in the packaging groups' share prices and did not see these companies as over-valued compared to the rest of the industrial index.

While following the upward trend of the industrial index, the paper and packaging sector was lagging slightly

Analysts said this was because the sector was being dragged down by Sappi, which had the sector's largest weight.

On Friday Sappi shares closed at 3 500c, down from its high of 3 975c in June but up from its yearly low of 2 675c in September.

While Sappi's share price had strengthened, analysts were not expecting good results from the paper giant this year because of the cyclical downturn in the world paper and pulp markets.

Better profit likely for Metaclo

METAL Closures Group SA (Metaclo) should improve profitability this year given a favourable economic climate, says chairman Abraham Steyn in his annual review.

He says the group is continuing to market its products aggressively and to innovate in order to improve utilisation of resources and hence profitability. 8/Dec 11/4/91

Re-organisation of the Paardeneiland factory will be completed by mid-1991. This will improve efficiencies, enabling Metaclo to respond better to short-term changes in market demand as well as reducing overheads.

The group experienced a difficult 1990 with sales growing by a disappointing 8% and shareholders' earnings declining by 9,4% to 262,6c (289,9c) a share while the dividend

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LIZ ROUSE

total was cut to 100c (140c).

Steyn attributes the poor result to the depressed state of the economy, the substantial under-utilisation of capacity by the plastics and tube division and rising labour costs not offset by increased productivity.

The group rationalised certain operations which resulted in a staff reduction.

Capital expenditure was limited to essential items and a strict control over working capital and overheads was maintained.

Borrowings were repaid by the end of October 1990, resulting in a cash balance of R5,2m at the December year-end and a reduction in the interest bill to R800 000 (R1,5m).

Sappi earnings plunge by 38%

CHT 7445 17/4/91

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Own Correspondent
JOHANNESBURG. — Paper and pulp giant Sappi's attributable earnings fell 38% in the year to end-February, with lower international selling prices, a depressed local market, a stronger rand and high interest rates contributing to the slide. Attributable profits of R374,7m (R605m) or earnings of 402c (650c) a share reflect a 44% fall in earnings at the interim stage. Sappi group MD Eugene van As says: "The world markets were against us, with steadily declining selling prices in international markets, a depressed market at home and we had to contend with a full year of a stronger rand and high interest rates."

The year opened with prolonged strikes at two mills and this was followed by production problems. Also, Sappi was particularly af-

ected by developments in the dissolving pulp market. Van As says Sappi has maintained its dividend at 200c a share because it believes that it has hit the bottom of the current volatile cycle in the paper industry. However, it is difficult to judge when the upturn will come, he says. During the year Sappi Europe was established from the five UK mills Sappi acquired. This operation is settling down and already contributing to earnings. Sappi also acquired the Hong Kong-based international pulp and paper trading house Speciality Pulp Trading (SPT) which holds contracts to distribute Sappi's non-rand denominated sales. Turnover was slightly down at R2,67bn (R2,73bn) and does not include recent acquisitions which fall into equity accounted earnings. Dividends from associate com-

panies fell 62% to R5,3m. Van As says the contribution from Sappi's off-shore associates was about an additional R1bn. The lower sales and rising costs resulted in Sappi's operating profit falling 34% to R482,3m (R730,5m). Finance costs were significantly higher because of high interest rates, the maturing of some favourably priced fixed interest financing and the higher level of Sappi's debt:equity ratio deteriorated to 0,68 (0,56), while its current ratio stood at 0,97:1. Capex is expected to amount to R1,15bn over the next three years, but will be tight over the next three to six months. Spending will rise as conditions improve and interest rates fall. On prospects, Van As says that Sappi should achieve a modest increase in earnings in the current year.

Sappi earnings plunge by 38%

CMT Times 17/4/91
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Own Correspondent

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Attributable profits of R374,7m (R605m) or earnings of 402c (650c) a share reflect a stronger second half following a 44% fall in earnings at the interim stage.

Sappi group MD Eugene van As says: "The world markets were against us, with steadily declining selling prices in international markets, a depressed market at home and we had to contend with a full year of a stronger rand and high interest rates."

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The lower sales and rising costs resulted in Sappi's operating profit falling 34% to R482,3m (R730,5m).

Finance costs were significantly higher because of high interest rates, the maturing of some favourably priced fixed interest financing and the higher level of general financing required.

Sappi's debt:equity ratio deteriorated to 0,68 (0,56), while its current ratio stood at 0,97:1 (1,04:1).

Capex is expected to amount to R1,15bn over the next three years, but will be tight over the next three to six months. Spending will rise as conditions improve and interest rates fall.

On prospects, Van As says that Sappi should achieve a modest increase in earnings in the current year.

PAPER INDUSTRY FM 19/4/91

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JUMPING ON THE BANDWAGON

To its great credit, the paper industry has built up its key business in uncoated paper, the bread and butter of printing and magazine publishing, without tariff protection. In fact, SA is the only paper producing country that has no tariff on uncoated paper imports, say local producers Sappi and Mondi.

But with a full-blown recession under way, and government concerns about mounting unemployment, it's a good time for industries to ask for increased protection, whether they really need it or not. So Mondi has asked the Board of Trade & Industry for a 15% tariff on uncoated paper, getting in line behind the steel, glassware, textile and other primary industries looking for government shelter during the rough economic weather. The board has not said when it will rule.

Imports of uncoated paper comprise only 7% of the SA market but Mondi is afraid that foreign sales could mushroom, given the glut on the international paper market. So far Sappi, SA's other paper giant, has stayed on the sidelines, but it is known to favour a 10% duty.

Mondi makes the same case as any company enlisting government's help against competition: it argues that it must contend with distinctly unfree import policies in its major foreign markets, so why should foreign companies enjoy free access to the SA market? It conveniently forgets that it enjoys a tremendous amount of natural protection due to SA's great distance from competitors and the low value of the rand.

Says chairman Tony Trahar: "We have managed to build up our business without tariffs, even though in our export markets we face tariffs of 9% in the EC, 14% in Japan and 25% in Brazil. But there is now worldwide overproduction and we may be forced to curtail production if exporters are allowed to continue selling their products here tariff free."

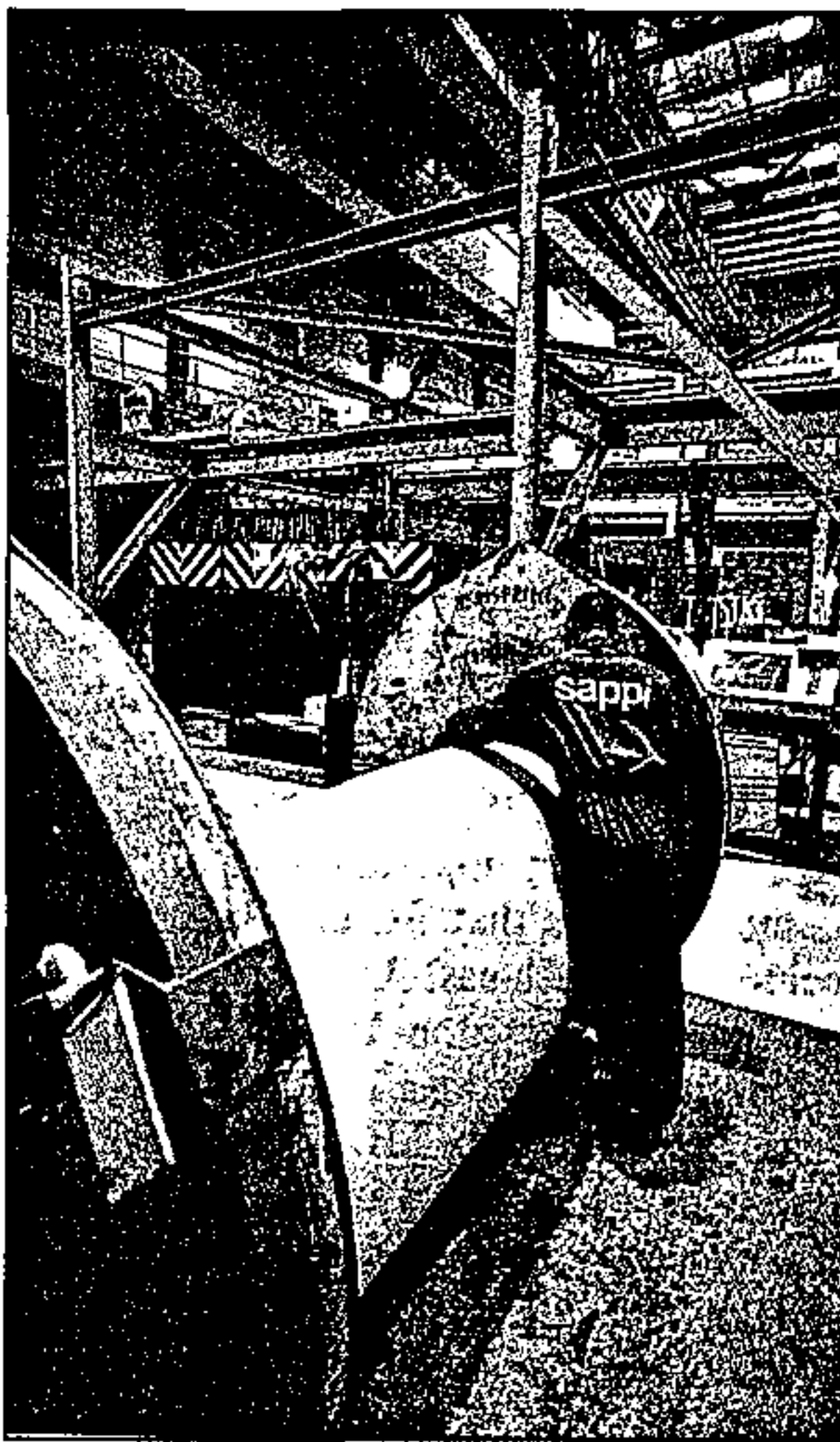
Paper production is highly capital-intensive, and Mondi has R3bn of fixed assets, on which it made R88m last year. "If we mothball capacity it plays havoc with our suppliers, such as the private timber growers, and we would have to shed jobs," he says.

Trahar says Mondi's parent company, Anglo American Industrial Corp, accepts that paper production is a cyclical industry and it's certainly not looking for immunity from these cycles. "What we are asking for is in line with the present policy, which accepts reasonable tariffs to encourage the manufacturing industry. It is in everyone's interest to have secure domestic suppliers."

Derek Smith, of paper merchants First Paper House, agrees there is a case for reasonable duty but says 15% is much too high. "The printing trade is already surviv-

ing on very low margins and price increases would lead to a number of failures. Sappi and Mondi may have to contend with tariffs but they also enjoy limited competition in their domestic markets."

The Association of Paper Distributors strongly objects to the application. Says as-



Import tariffs ... even paper giants want protection

sociation chairman Vince van der Bijl: "A 15% tariff is a long-term solution to a short-term cyclical problem. As it is, SA books are imported from Hong Kong and Singapore at prices that local printers can't match."

The tariff would cover many types of paper not manufactured locally, such as paper for Bibles, diaries and cheques. Trahar says the way that items are classified makes it inevitable that products not made by Mondi will be caught in the tariff net.

The Newspaper Press Union argues in its submission to the board that this shotgun approach has enabled Mondi to avoid presenting its case on specific types of paper.

As with many tariffs, local producers peg their prices to just below the imported price, known as import parity pricing. Says Chris Sykes, of the Printing Federation. "Local mills will be able to increase their prices and still remain below the landed cost of imports."

Sykes says he is particularly concerned that textbooks and writing paper will cost more — effectively a tax on literacy. "For Mondi, asking for tariffs is a knee-jerk reac-

tion to lower profitability, but its continued profitability will be at the expense of the printing and packaging industry, which is just as strategic as the paper industry."

Consumers would be hit hard by the price hikes. Says the Consumer Council's Jan Cronje: "I cannot see why the price of Bible paper has to be forced up when it's not produced locally. Keeping out imports limits competition and leads to higher prices."

It has been a bone of contention for some years that rival Sappi enjoys a tariff of 15% on its coated art papers — used for magazine covers and the pages of high gloss publications such as *Leadership*. Uncoated papers, produced by both companies, face no real tariff now. A 10% tariff applies only when the landed cost of uncoated paper is less than R900/t, as it was before 1985.

"Coated papers are more subject to disruption," argues Sappi's Eugene van As, "and local demand for coated paper is so low that we do not benefit from significant economies of scale."

Meanwhile, newspaper publishers are determined to get a better newsprint deal when the agreement between the press union and mills is renegotiated at the end of the year. The agreement, which began in 1974, gives publishers a steady supply of newsprint and ties up markets for the mills — though the price is primarily determined by the mills. But the agreement guarantees that price increases will be below the CPI.

Says Times Media's Roy Paulson: "We would like to see pricing based more on the cost of production than on world currency. We accept that they must make a fair return but not by socking the domestic market."

The union estimates that a ton of newsprint costs R1 100 to produce and is exported at R1 500/t but sold for R2 000 on the local market. But Trahar says Mondi is now barely breaking even on exports because its costs are substantially higher than R1 100/t. Transport costs push up the final cost to Mondi's overseas customers. He says the delivered cost of newsprint in neighbouring states is between R1 950/t and R2 100/t. "At times the agreed price has been below the international price, and it remains constant for six months while the international price fluctuates."

But the union is likely to treat newsprint imports as more of a last resort than a real alternative. "There's been no great joy in importing," Paulson says, "because it means that we need to carry stocks. There is uncertainty in delivery dates and we do not know how reliable overseas suppliers would be. Because of transport costs inland, Cape Town is considered the only place to which imports of newsprint would be viable." ■

Carlcor set for good results

Bloom 23/4/91 ZILLA EFRAT (194)

CARLTON Paper Corporation (Carlcor) is expected to produce real growth in the eight months to August, chairman Ian Willis says in his annual review.

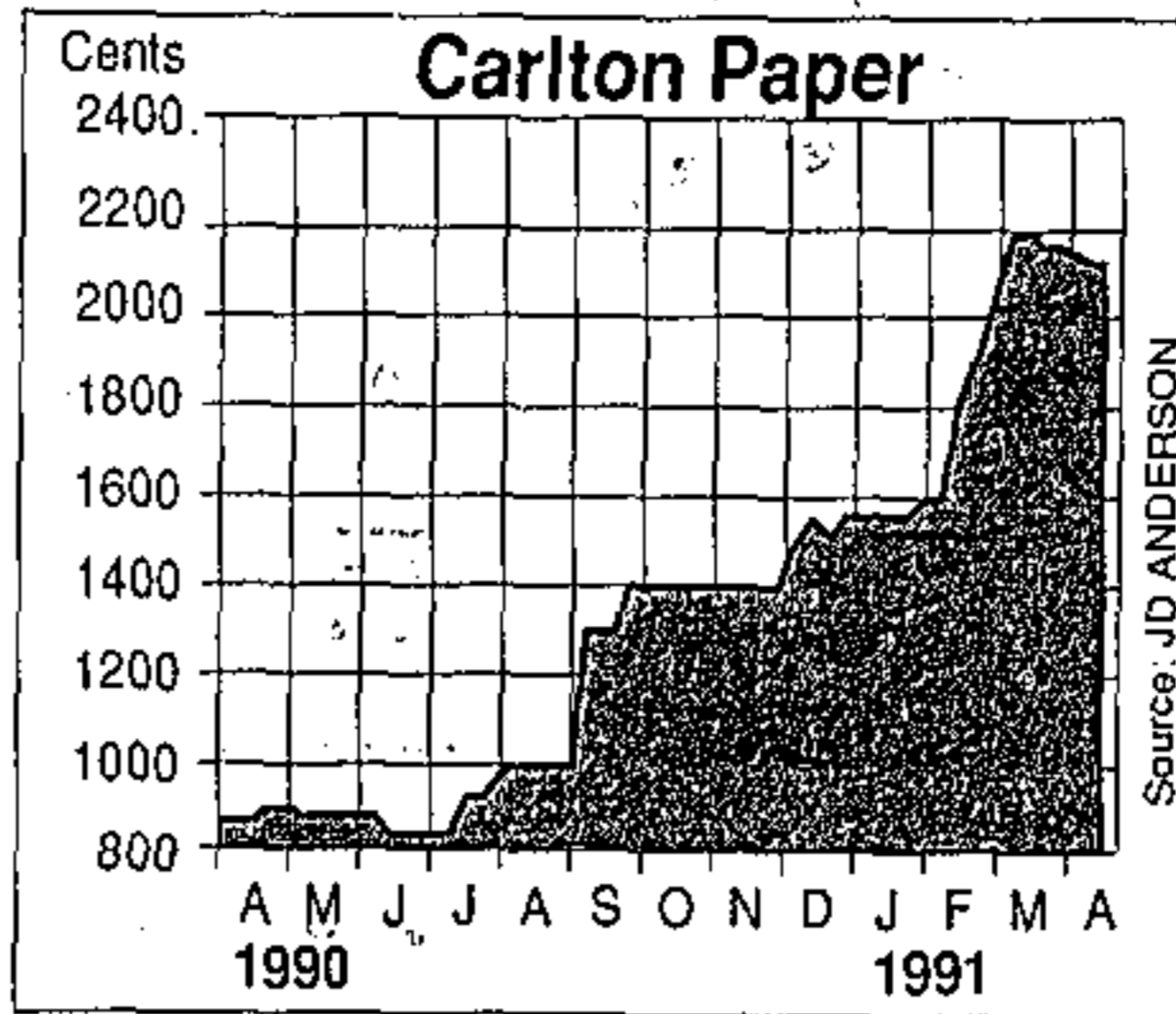
The group, which will change its year end to August to coincide with Holdains', posted a 41% rise in attributable earnings to R29,2m or 184,5c a share in the year to December against a difficult economic background.

It declared a dividend of 75c (60c) a share, 2,5 (2,2) times. There was a 24% growth in turnover to R394m and operating margins improved to 12,8% (11,9%).

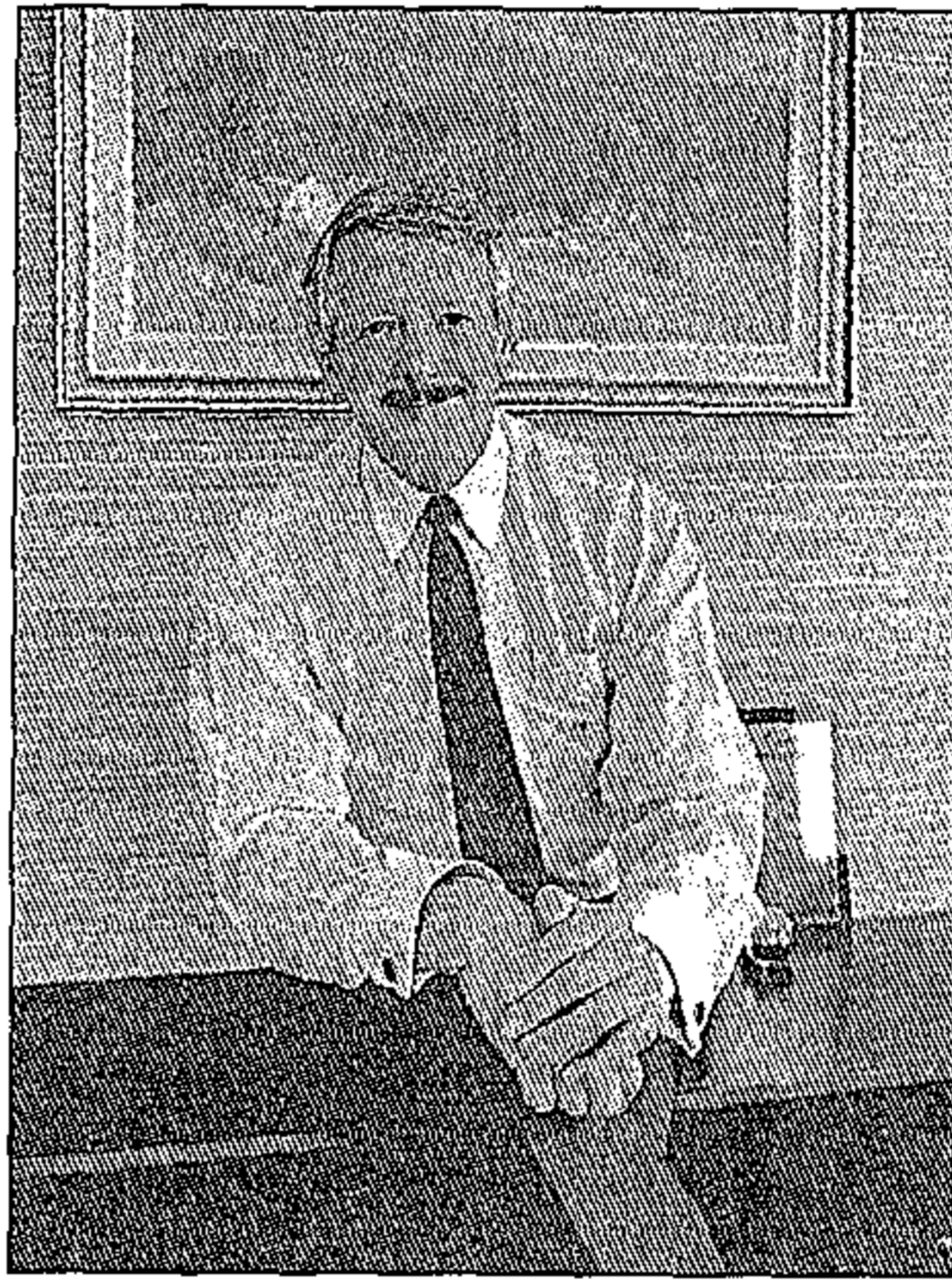
CARLTON PAPER Fm 26/4/91
BUOYANT TRADING (194)

Carlton Paper (Carlcor)'s share has been a strong performer over the past year, having risen by 136% since last April. This partly reflects a rerating of the paper and packaging sector, whose p:e has climbed from 8,1 a year ago, to the present 10,6.

The group has continued to enjoy favour-



there is a change in US legislation, the joint controlling shareholder, Kimberly-Clark, will be unable to take up its options in a



Carlton Paper's Willis ... gains from asset management

Activities: Manufactures disposable tissue products.

Control: Holdains and Kimberly-Clark of US control holding company, KCSA.

Chairman: I Willis; MD: K J Partridge.

Capital structure: 15,8m ords. Market capitalisation: R360m.

Share market: Price: 2 200c. Yields: 3,4% on dividend; 8,4% on earnings; p:e ratio, 11,9; cover, 2,5. 12-month high, 2 200c; low, 850c.

Trading volume last quarter, 228 000 shares.

Year to	'87	'88	'89	'90
ST debt (Rm)	12,2	3,7	9,5	7,6
LT debt (Rm)	16,8	12,9	19,9	7,8
Debt:equity ratio	0,52	0,19	0,21	—
Shareholders' interest	0,38	0,50	0,49	0,52
Int & leasing cover	5,4	10	6,9	13,2
Return on cap (%)	13,7	21,7	20,7	24,5
Turnover (Rm)	222	258	317	394
Pre-int profit (Rm)	18,2	31,8	37,6	50,3
Pre-int margin (%)	8,2	2,3	11,9	12,8
Earnings (c)	45	95	131	185
Dividends (c)	25	52	60	75
Net worth (c)	315	472	564	673

able trading conditions, and profit has risen accordingly. Urbanisation is helping to fuel demand for Carlcor's main-products, particularly toilet paper. The toilet paper market is growing in real terms by 7%, and there is still growth potential. Per capita consumption of toilet paper by urban blacks is said to be only half that of urban whites.

Carlcor has also benefited from exports to Europe, where there has been a shortage of tissue wadding. And, because of the downturn in world pulp markets, raw material prices were lower than in the previous trading period.

Sales were up last year by 24%, and earnings by 41%. At year-end the balance sheet was ungeared, with cash exceeding borrowings by about R6m. Interest payments were down by 30,3%. Cash flow improved, aided by tight asset management — both stocks and debtors were reduced, and creditors were stretched; net working capital fell by R16m from the 1989 year-end.

Chairman Ian Willis notes that, until

rights issue. This has forced Carlcor to be self-funding and has proved "very beneficial" in a high interest rate environment.

Willis says asset management — and the balance sheet — have benefited from the group's "Total Quality" programme. There has also been strong cash flow generated by the trading operations. These include fast-moving brands such as Carlton, Kleenex, Babysoft and Huggies.

Management believes cash flows are strong enough to enable the R100m capital programme to be financed without affecting gearing, though it admits this could change if the recession deepens.

Carlcor is rebuilding three tissue-making machines at its Enstra and Wadeville mills and will increase its tissue-making capacity from 60 000 t to 72 000 t. Sole competitor Nampak is also building a tissue factory to cater for increased demand. Group MD

Keith Partridge says the company will invest R30m in an expansion into the health-care market with products such as clothing, drapes and sterile wraps. Kimberly-Clark makes these products, but they have represented a minor part of Carlcor's business up to now.

The group is changing its year-end to August 31, in line with that of parent company Holdains. Willis is forecasting real earnings growth in the eight-month period.

Carlcor's p:e of 11,8 is higher than the paper and packaging sector average of 10,6, but the dividend yield of 3,4% is below the sector average of 3,8%. But direct comparisons with other companies are problematic. Nampak is widely diversified and the results of its tissue division cannot be determined from that company's disclosure. Carlcor's share looks fully priced but is worth holding for the long term.

Stephen Cranston.

Metaclo minorities may get new offer

By Jabulani Sikhakhane

194

Trading was suspended yesterday in packaging company Metal Closures shares at the request of directors, sparking rumours that there may be another bid to buy-out the minorities.

Metal Closures is controlled by UK-based Wassall PLC via the Metal Closures Group (UK) which has 76,9 percent of the equity of the local operation. Other significant shareholders are the Mine Officials Pension Fund with 3,3 percent and Mine Employees Pension Fund holding 1,8 percent. In addition Standard Bank Nominees has 7,9 percent of the equity.

Last year Wassall made an offer of R23 per share to the holders of 23 percent of Metal

Closures SA equity. But Wassall had to back down from the bid after the matter was taken to court by minority interests represented by stockbrokers Martin & Co, Mine Official and Employees Pension Funds.

Minorities based their objections on the fact that the offered price was too low in terms of the group's asset valuation and its earnings potential.

A spokesman for Metal Closures SA head office in Cape Town declined to comment yesterday and referred all enquiries to David Roper of Wassall's in London. However Mr Roper was not available for comment.

In the absence of official comment, market sources speculate that Wassall may be attempting

another bid for the minorities. If Wassall's bid is successful it could then use standstill debt to re-capitalise the local company. A plan of this sort was thought to be behind last year's effort to buyout the minorities.

Another possibility is that Wassall's may be selling the local operation.

Metal Closures derives 97 percent of its pre-tax income from packaging activities which include the manufacture of metal and plastic closures, plastic crates and the sale of closure sealing machinery.

The group was recently awarded 25 percent of the long-term contract to manufacture plastic crates for SA Breweries. The rest was awarded to Sentrachem.

Star 3/5/91

Tetra Pak could lose 194 carton machine rights

STimes (Sun Times)

By DIRK TIEMANN STPA

TETRA PAK, which has a major share of the liquid packaging market, might soon get a taste of the medicine it gave Consol.

Swiss-based Tetra Pak also has a large share of the SA carton packaging market. It supplies cartons for milk and fruit juices.

Tetra Pak, one of the world's largest liquid packaging companies, is the licensee for US-made Cherry Burrell filling machinery. The licence may be lost to a competitor in the carton market, Metal Box's liquid packaging division, because Cherry Burrell of the US has been bought by International Paper.

Similar

International Paper supplies carton paper to Metal Box.

Tetra Pak may face a problem similar to that which Consol found itself in a few years ago.

Consol managing director Piet Neethling says: "We were the third player in the carton liquid packaging market. Consol's international machine supplier was taken over by Tetra Pak.

"We offered our business to Tetra Pak, because we knew the technology would flow to our competitors. We could have survived, but not thrived."

Will the loss of the Cherry Burrell



PIET NEETHLING: The boot's on the other foot for Consol
licence leave Tetra Pak customers stranded?

Tetra Pak SA managing director Richard Tonkin says those who bought machinery should not suffer. "We do not expect any loss of business if we lose the licence. We can supply support without it."

Mr Tonkin says he is not too worried about the development, although the Cherry Burrell licence could be lost. "We have been exclusive distributors of Cherry Burrell machinery

and it has a contractual obligation. Our working relationship is excellent.

"International Paper's ties with Metal Box are strong and there must have been a purpose to the acquisition of Cherry Burrell."

Mr Tonkin says Metal Box will not have it all its own way. It would have to adjust the machines at a cost of R100 000 each to fit its carton configuration.

Apparently the current Metal Box carton cannot simply be

reproduced on the Cherry Burrell machinery.

Carton-specific machinery generally will take only a carton for which it was designed.

Metal Box marketing director Ray Canny says it is too early to reach conclusions. Metal Box has two other licences which could be adequate.

But competition for market share is tough.

Mr Tonkin says Tetra Pak is by no means without machine suppliers.

"We are a licensee of the Tetra Pak group and have access to the Tetra Rex machine."

Family

Tetra Pak is privately owned by the Rausing family of Sweden and has succeeded by sticking to its core business of producing paper-based containers for milk and fruit juices. In SA, Ceres fruit juices, Nels milk and Everfresh longlife milk are packed by Tetra Pak.

Tetra Pak's international's turnover for 1990 was the equivalent of about R11,4-billion at current exchange rates.

It changed its corporate strategy of concentrating on niche markets by acquiring Alfa-Laval in January this year for about R7,4-billion. The acquisition of the Swedish dairy and food-processing equipment company is expected to double turnover to about R22-billion.

A third of the cost came from Tetra Pak's cash reserves, the rest from bank loans.

Mondi may make bid for Portuguese mill

Star 10/5/91

194

By Jabulani Sikhakhane

Mondi, Anglo American Investment Corporation's pulp and paper subsidiary is reported to be working on a deal to acquire a pulp and paper mill in Portugal.

According to sources the deal, believed to be worth between \$200 million and \$300 million, will be financed by a loan from Minorco.

The mill had initially been offered to Sappi which turned it down, sources added.

Mondi's commercial director, Grahame Perrins confirmed yesterday that some early discus-

sions had taken place with the UK-based Wiggins Teape about their pulp and paper mill in Portugal.

He added that Wiggins Teape had initially sold off the Portugal mill to a Swedish pulp and paper company, but the deal had been cancelled.

"Then there were reports in a Portugal newspaper to the effect that the Anglo American group (because it has an office in Portugal) was doing this deal," Mr Perrins said.

One market analyst said the deal — if it comes off — would be a cash drain on Mondi.

Waltons slips for first time in decade

B (D) ay 10/5/91

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MARCIA KLEIN

DEPRESSED economic conditions and a hike in its tax rate resulted in a 17,3% drop in earnings for Waltons Stationery Company (Waltons) in the year to end-February.

This is the first time in the past decade that the group has not shown profit growth.

Waltons, whose interests include Helios Minolta, Ozalid and toy and babywear chain Reggies, reported turnover growth of 5,7% to R685,3m (R648,1m) on the back of a deteriorating economic climate. However, a reduction in finance costs to R19,7m (R27,9m) saw operating income up by 6,5% to R86,4m (R81,1m).

Financial director Mark Davis said management continued to concentrate on reducing gearing, managing working capital and closely controlling operating expenditure. This resulted in the level of gearing being reduced from 79% to 48%, which was the group's lowest gearing level since 1985. He said this should satisfy analysts' earlier worries that Walton's gearing was too high.

An increase in the group's effective tax rate from 38,5% in 1990 to 48,7% in 1991 saw tax up by 34,7% to R42m (R31,2m), which brought attributable income before extraordinary items down by 15,4% to R35,9m (R42,4m).

Net attributable income for the year was R35,6m (R35,2m).

Earnings decreased by 17,3% to 52,6c (63,6c) a share. A final dividend of 12c a share was declared, bringing the full year dividend down by 9,5% to 19c (21c) a share.

Dividend cover was reduced from three times to 2,8 times.

Group chairman Frank Robarts said he was satisfied with the results. Subsidiary Helios Minolta had excellent results, and Reggies had returned to profitability.

"On this basis, considering the continued growth in pre-tax earnings, the present efficient debt management policy and the increased contribution of the subsidiaries, the group is well placed to take advantage of any improvement in the economy".

Lower dividend

Waltons has not provided for its contingent tax liability of about R8,4m (including interest and penalties of R3m) because, on the advice of its attorneys, it was felt that the liability would not actually arise. The liability follows the Receiver of Revenue's decision to disallow losses arising in some of the group's investments in Film Partnerships entered into during 1987 and 1988.

Holding company Walhold, which has a 50,1% investment in Waltons, posted a 17,2% drop in earnings to 50,5c (61c) a share, and a full year dividend of 19c was 9,5% lower than the 21c a share declared at the end of financial 1990.

Walton's share closed on Wednesday at 610c, after reaching a peak of 700c in April and a low of 350c in August last year. The shares had risen on speculation that CNA Gallo, which had a 20% stake in the group, would make a bid for control.

Star 19/5/91

Tax and tough trading conditions hit Waltons

Finance Staff

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Difficult trading conditions and a higher effective tax rate caused Waltons Stationery's attributable earnings to decline by 17,3 percent in the year to end-February.

Earnings per share fell from 63,8c to 52,6c resulting in a 9,5 percent decline in the dividend payment to 19c (21c) a share.

Waltons, which has significant holdings in Minolta, Ozalid and toy producer Reggies, improved its sales by 5,7 percent to R685 million (R648 million), but the bottom-line was hard hit by the weaker economy and difficult trading conditions.

In addition, says group chairman Frank Roberts, the effective rate of taxa-

tion increased from 35,5 percent in 1990 to 48,7 percent this year.

Commenting on the performances of Waltons' subsidiaries, Mr Roberts said Helios Minolta achieved excellent results, while Reggies returned to profitability during the year.

The company also managed to substantially reduce its borrowing levels reducing the level of gearing from 79 percent last year to 48 percent, the lowest since 1985.

In line with its 50 percent holdings in Waltons, holding company Walhold recorded a 17 percent drop in earnings per share to 50,5c (61c) and reduced its dividend by 9,5 percent to 19c (21c).

METAL CLOSURES ^{FM 10/5/91}

NEW OFFER

(194)

Minority shareholders in Metal Closures last year rejected an offer from the group's UK-based parent, Wassall Plc, to buy out their shares at R23 apiece. Wassall has now made a new offer of R30 a share.

Minorities objected on two counts: over the procedure being adopted by Wassall, and because it was felt that the price of R23 was too low. With its new offer, Wassall may have overcome their concerns. Minorities hold only 23% of the 2,6m issued shares, so the 30% increase in the offer price will cost Wassall an additional R4,2m. The total cost rises to R17,9m.

Since the last offer, another financial year has passed for Metal Closures. In the year to end-December, despite a turnover increase of 8%, EPS fell for the second consecutive year. A heavy capital expenditure programme was evidently completed in 1990. However, there was a large depreciation write-off, and cash flow remained strong. All interest-bearing debt was eliminated.

On the positive side, therefore, the balance sheet is strong. While short-term prospects do not appear to be buoyant, the group is mature and has considerable expertise and long-term potential. At R18, the share was trading at a discount to stated net worth of 1929c. After the asset enhancement programme, new efficiencies should be in place.

On the negative side, however, since 1982 average compound growth in EPS has been only about 5% per annum. Taking inflation into account, this is a poor record. Competition is tough, and the present economic out-

FM 10/5/91

(194)

look is not optimistic. There is no reason to believe prospects for a significant rise in earnings in the near future are good.

Perhaps Wassall has done its homework with the minorities in mind this time. There is every likelihood that most have been canvassed to establish whether the R30 price is acceptable. In my view, it would not be easy to justify anything higher. My guess is that the minorities will accept.

Gerald Hirshon

62% premium for Metaclo

(Times (Bus Times) 12/5/91)

By JULIE WALKER

METAL CLOSURES (Metaclo) minorities will receive R30 a share in an offer presented by British parent Metal Closures Group.

This is a 62% premium on the last traded price before suspension of the share, and R7 more than the offer thwarted last year when JSE member Martin & Co championed minority interests.

Martin placed advertisements which claimed that Metaclo was worth much more than the sum offered and that the deal was unfair because minorities had no effective say.

Trade in the share resumed on Tuesday after a two-day suspension. Stockbroker Simpson McKie said negotiations were under way and Metaclo directors were considering proposals which would be affected materially by share-price fluctuations.

Members were told of the price on Tuesday, but not the mechanism by which they would be bought out. The shares could then be relisted without fear of prejudicing minorities who might other-

wise have sold at the previous ruling price of R18,50.

There are only 2,6-million shares in issue, of which 77% are held by the parent. Passing of control of the parent to Wassall plc last year precipitated the bid to take out the Metaclo SA minority.

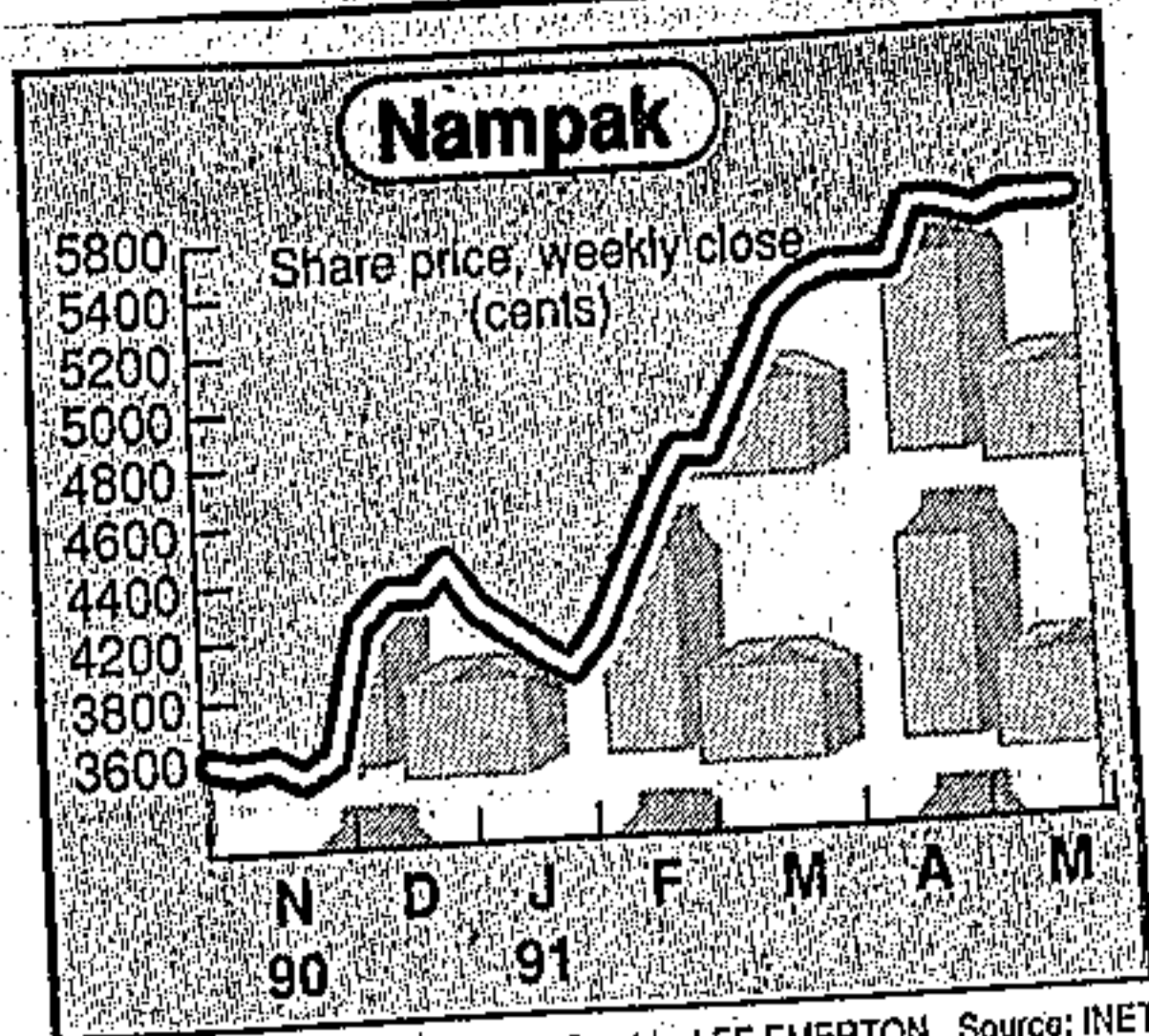
The rules have changed since the introduction of the Securities Regulation Panel on February 1.

Egg

Panel rule 29B protects minorities in that the major shareholder may be forced to withhold its vote on matters concerning the elimination of a minority holding.

It seems unlikely that the British parent will want egg on its face again and co-operation from the larger minority shareholders has probably been secured ahead of the vote.

Details of the deal should be announced in the coming week.



Graphic: LEE EMERTON Source: INET

Nampak to invest R122m in new plant

15/5/91 ZILLA EFRAT (194)

PACKAGING giant Nampak, which today announces a 12% rise in attributable profits for the six months to March, is to build a R122m beer and soft drink can plant in Springs.

It will also spend R30m on a new gravure printing plant to produce cigarette cartons and beer and can labels.

Interim attributable earnings of R108,5m (R96,6m) or 229c (205c) a share were achieved in the face of tougher than envisaged economic conditions and eight weeks of strikes.

Earnings for the full year are expected to show a similar level of growth, but will follow a 7% slide in earnings in the year to September 1990. An interim dividend of 75c (68c) a share has been declared, up 10% and covered three times.

Chairman Brian Connellan said trading conditions varied considerably across the group's divisions and Nampak suffered from the impact of political unrest on most of the sectors it services.

The packaging group benefited from strong growth in segments of the beverage industry, but other areas of the economy were less buoyant.

The Bevcan, Plastics and Carton divisions performed solidly and the Foodcan division recovered from last year's loss.

However, lower profits were achieved by the Glass and Corrugated divisions, the latter bearing the brunt of the strike action. The business forms operations continued to compete in an overtraded market.

Turnover grew 15% to R1,957bn (R1,7bn), but overall volume rose by only 1,4%. Operating profit, however, increased

□ To Page 2

Nampak

15/5/91

8% to R215,7m (R200,4m) with operating margins being affected by industrial action and a highly competitive market. Firm control over working capital and lower interest rates led to a 19% fall in the interest bill to R27,2m (R33,6m). On a lower effective tax rate of 42,5% (43,5%), the benefits from the recent reduction in company tax, taxed profits were up 14% at R112,7m (R98,6m). Gearing improved to 46% (52%).

(194) □ From Page 1

Commenting on the R122m beer and soft drink can plant to be built in Springs, Bevcan division CE Alastair Lang says this investment is over and above the R75m can plant to be built in Botswana. Both plants are expected to produce 550 million cans a year initially. However, capacity at the Springs plant, which will come on stream in the third quarter of 1992, could triple depending on market conditions.

FM 17/5/91 (194)

FRACTURED RECORD

Year to February 28	1990	1991
Turnover (Rm)	648	685
Operating profit (Rm)	109	106
Earnings (Rm)	42,4	35,9
Earnings (c)	63,6	52,6
Dividends (c)	21	19

either turnover or profit but the decline in group turnover in real terms is evidence that demand for basic stationery, drawing office equipment and other office products suffered substantially.

With operational costs increasing disproportionately faster than turnover, margin declined from 16,8% to 15,5%. The result was a 2,7% fall in operating income to R106m.

Thanks to tight working capital management, a prudent rein-in on capital expenditure and, says Robarts, a reluctance to enter into new ventures, a substantial reduction in long-term debt was achieved, to R41m from R92m. Correspondingly, finance costs fell to R19,7m from R27,9m.

Pretax profit thus rose by 6,5%, but this was wiped out by a higher tax rate of 49% (39%). Thus EPS fell 17,3% to 52,6c. Robarts remains convinced that the group has not lost market share. Rather, he says, the whole market has taken a pounding.

Robarts stayed out of new ventures because he wanted to get gearing down. In a large measure, he succeeded laudably. But there is still more to go before management can relax. Eliminating goodwill and trademarks, total interest-bearing debt of R87m represents still high gearing of about 70%.

That is the bad news. The good is that with all major divisions leaned out and a stated intention to cut borrowings still further, there is every chance that budgeted growth of 16% for both turnover and profits will be achieved this year. There is also the prospect of "a couple of acquisitions." Provided these do not add to gearing, the group could revert to the growth path again.

Gerald Hirshon

WALTONS FM 17/5/91 (194) LESS THAN STATIONARY

There was once a school of thought that the business of selling stationery was recession-proof because paper and associated products were necessities for which demand would grow even in bad times. Waltons discredits this view.

Chairman Frank Robarts points to massive cutbacks in the mining industry as a significant factor in the poor 5,7% turnover growth during the financial year to February 28. It was in the Transvaal, he says, that business was really tough; added to this, unrest and work stoppages all over SA had a severe impact on sales.

Ozalid and Helios Minolta improved on last year's performance and toy and babyware chain Reggies made a welcome return to profitability. While he is pleased with the progress they made, Robarts says their profit contribution was not significant. He will not divulge a divisional breakdown of

COMPANIES/FINANCE

Ruhold's net earnings have more than doubled

Monday 28/5/91
194
RUBENSTEIN Holdings (Ruhold) has surpassed expectations with a 107,3% rise in taxed earnings for the year to February.

The group, which has interests in financial services, the manufacture of plastic carrier bags, sheeting and shrink wrap, and recycling plastic waste, recorded a taxed profit of R5,08m for the year to February 1991 compared with an annualised taxed profit of R2,45m for the eight months to February 1990.

Its dividend has been maintained at 6c, representing 2,5 times cover.

LIZ ROUSE

Ruhold chairman Jeff Rubenstein says the group's performance during the past year, in which it repurchased its plastics operations from Combined Packaging, which Ruhold jointly controlled with Lenco Holdings, exceeded expectations.

The synergies and benefits expected in the Compak merger never materialised and Ruhold believed it prudent to repurchase its plastics operations. This reduced the gearing of these operations to about 40%.

No major capex is envis-

aged for the current year, says Rubenstein.

He says Transpoly, Ruhold's plastics manufacturing plant, has become a leading supplier of plastic carrier bags to the retail trade and of shrink and sheet wrapping to the industrial market under the guidance of newly appointed MD Paul Pescivolo.

Ruhold is beginning to bear the fruits of the extensive capital expenditure it has made in recent years.

Part of its success can be attributed to the performance of plastic waste recycling plant Recyco, which supplies almost half of

Transpoly's raw materials.

Recyco recycled about 5 000 tons of plastic waste during the past year.

Referring to the group's financial services division, Rubenstein says the hallmark of its performance was the fact that bad debts were contained to less than 0,5% of the book.

The division is to continue with its conservative approach.

Rubenstein says that despite the fact that the group is going through a consolidatory phase, synergistic acquisitions in line with its core business cannot be ruled out.

WHAT PRICE?

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A hushed silence has followed in the wake of UK-based Wassall's R30 a-share offer to minorities announced three weeks ago. It seems that important minority shareholders, namely, the Mine Officials Pension Fund, the Mine Pension Fund and the Anglo American Pension Fund are not yet convinced that R30 is sufficient.

The offer has involved two main issues. The first involved the treatment of minority shareholders; the second, which is more relevant at present, the way that a company's earnings potential is evaluated and used as a basis for pricing the share.

Until the new Securities Regulation Code took effect, minorities were in a much weaker position against majority shareholders. Wassall's offer last year (at R23 a share) was a good example of an attempt summarily to disregard the wishes of the minority.

With a controlling holding of 77% of the local Metal Closures Group, Wassall attempted to steam-roller minorities into converting their existing ords into redeemable prefs, and then to redeem these at R23 each. Some large minority shareholders challenged this scheme on the basis of "fairness" and took Wassall to court. Rather than face lengthy litigation, Wassall withdrew and the offer lapsed. Though they fought and won round one on the basis of "fairness", the main reason for minorities' resistance was that they deemed R23 too low.

Now, Wassall has returned on a "fair" platform with the higher offer. But some insist R30 is still not enough.

Winston Floquet of broker Martin & Co justifies this view by arguing that the circumstances responsible for Metal Closures' relatively poor earnings record over the past two years (*FM* May 10) have changed. He contends that its EPS should be about 400c in 1991, that a major 25% slice of the SA Breweries (SAB) multimillion rand plastic crate contract just awarded to the group will enhance the earnings prospects further into

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the future and that, therefore, a p:e of about 10 is appropriate. This would value the shares at R40. Flocquet reckons that an acceptable price would be at least R35.

On the other hand, sponsoring broker Simpson McKie sees 1991 EPS of 350c as an absolute maximum — even with the SAB contract. At R30, this attaches a prospective p:e of 8,5 to the share. The question then is what p:e is most realistic, and to which earnings forecast should it be attached?

Metal Closures' share was suspended earlier this month when the new offer from Wassall was announced. The price was then 1 850c and with historical EPS of 262,6c its p:e was 7. This year EPS will have to increase by 33% to reach 350c, and by 52% to reach 400c. The *FM* believes 350c is more realistic.

3115/91

In arriving at an earnings multiple for the share, comparisons could be made with Nampak and Consol, which are both exposed to the beverage industry. But these companies are more marketable than Metal Closures, and also have far better earnings records over the past five years. Metal Closures has yet to show that it is capable of turning a greater volume of business into a commensurate advance in EPS.

Metal Closures remains a sound company with potential. To rate the share on a p:e of only 7,0 is to value the share essentially on the historical performance. But the mere prospect of better profitability may not be enough to justify a markedly improved market rating — especially when the performance has been weak for several years. Using a compromise p:e of, say, 8 times, then projected EPS of 350c would give a share price of R28; EPS of 400c would give a price of R32. In my view, Wassall's offer at R30 is not only fair and reasonable but just about spot on.

Gerald Hirshon

Packaging up despite poor forecasts

SHARE prices of leading packaging companies have moved up strongly since the beginning of this year despite expectations that their earnings and dividend growth will not match these gains.

In a survey of SA's packaging industry, Davis Bokum Hare analysts Gil Catton and Dana Wakefield say a significant factor driving the prices upwards has been the weight of institutional funds, with managers ensuring that they do

ZILLA EFRAIM

not miss out on the market's strong rise.

This has pushed the price to earnings ratios of all the leading packaging stocks to a high level. But while the index has been rerated, there is no commensurate anticipated rise in earnings and dividends.

This is because packaging companies are experiencing highly competitive trading conditions.

ers' ordering patterns call As a result, Catton and Wakefield say the market appears due for a breather.

After a technical analysis, Wakefield says Nampak has had mixed fortunes over the past year. After falling 33%, its 61% rebound could give rise to near-term consolidation on fading volume. Its performance is slowing at prior resistance levels.

Carlton Paper Corporation's (Carlcor) low volume of shares traded exagger-

ates price moves, but although overbought near term and due for profit-taking or consolidation, the share remains underpinned by enthusiastic moving averages at present.

Holdains is overbought near term after its re-rating and is striking some turbulence. This may promote sideways trading in the short to medium term, but good recent volume should underpin it, says Wakefield.

Consol has been a steady performer on slowing volume since last year, and the share price's moving average seems likely to continue underpinning it.

Catton and Wakefield say Nampak produced 58,5% of the packaging industry's approximate turnover of for shorter, less economical production runs.

R6,5bn in 1990, while Holdains accounted for 15,4% and Consol for 13,1%.

Paper and board accounts for 41% of the material used by the industry, metal for 24%, plastics also for 24% and glass 7%.

The analysts forecast that Consol will enjoy 80% of the supply of glass bottles, while Nampak will supply 90% of food cans, 70% of beverage cans and 60% of diversified cans used in the market.

They believe Carlcor will hold a 65% share of the tissue products market, with Nampak having a 30% share.

Holdains should take 50% of the Multiwall sack market, 40% of the plastic crate market, 75% of the flexible packaging market and 90% of the Thermoflex form food tray market.

Streamlined Transpaco back on track

Bidam 11/6/91

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ZILLA EFRAT

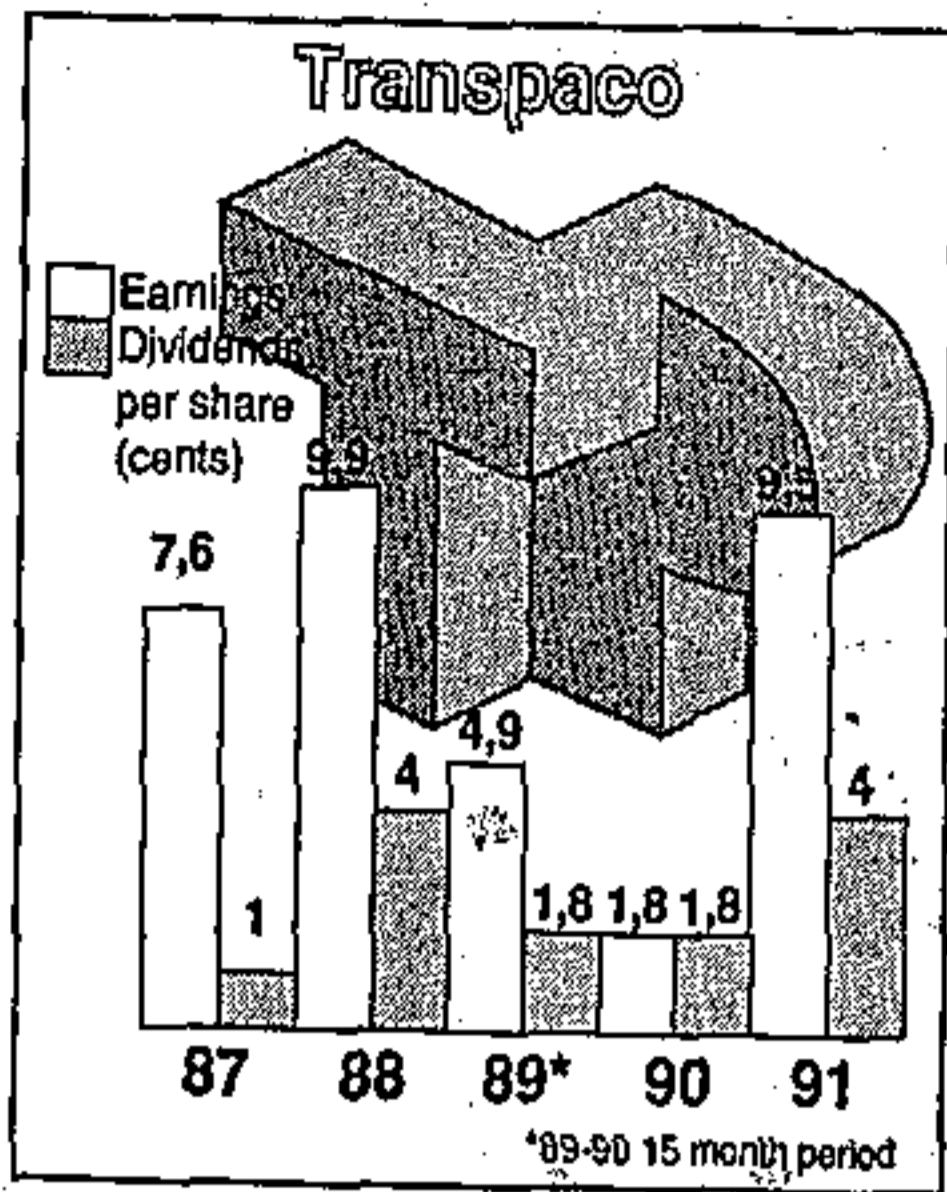
PACKAGING group Transpaco is back on track after major steps were introduced to streamline its operations during the year to March.

Earnings of 9,5c a share, before extraordinary items, follow the earnings of 1,8c a share achieved in the previous 15 months in the wake of adverse market conditions and the economic downturn.

In the last nine months of this 15-month period, the family-run group turned in a loss of 3,15c a share.

After a R1,2m extraordinary item, the result of the sale of Transpaco Stationers, earnings for the year to March are 20c a share. A dividend of 4c a share, covered 2,4 times, has been declared.

The results are, however, slightly below the earnings of 10c a share forecast at the interim stage when the group started improving



Graphic: LEE EMERTON Source: TRANSPACO

on its previous loss-making position.

Joint MDs Mike and Philip Abelheim said major streamlining measures included a large staff reduction, the introduction of stringent budgets and better use of existing resources.

The results include the full

decentralisation benefit for the year under review, as well as the R110 000 applicable to 1990, but which could not be accrued in that year as negotiations over the benefits were still in progress.

All group companies improved their performances, except Consumer Plastics which suffered from deteriorating conditions in the building industry. Major steps are being implemented to further streamline this division.

During the year, Transvaal Paper, wholesale distributors of paper and packaging, established a new division specialising in industrial packaging. This division has traded profitably since its inception and is expected to significantly increase its share of the industrial packaging market.

After adjusting for the effects of the sale of Transpaco Stationers and annualising sales for the previous 15-month period, turnover rose 28% to R51,3m.

Operating margins were higher at 5,8% (3,8%) and financing costs slightly down at R1,2m, compared to R1,6m for the previous 15 months. As a result, Transpaco's pre-taxed profits of R1,8m were significantly up on the R588 000 achieved in the previous 15-month period.

A lower tax rate of 43% (52%), contributed to the group's attributable profits, before extraordinary items, rising from R198 000 in the previous 15-month period to R1,05m.

The current ratio improved to 1,4:1 (1,2:1) and the interest-bearing equity ratio was down at 87% (166%).

Further improvements in gearing and earnings are expected in the current year following the measures introduced to streamline the group, and if economic conditions improve, say the Abelheims.

Compak writes off R25m on sale of lagging Ruplas division

BLOOM 14/6/91

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CAPE TOWN — Combined Packaging (Compak), the packaging manufacturer in the Lenco Holdings stable, has written off R25m on the sale of its flexible packaging division back to its previous owners, Rubenstein Holdings (Ruhold).

The division, Ruplas, was sold effective from September 1 last year.

The write-off together with the sale of assets to Lenco for R6,4m and the transfer of R6,7m arising from the reduction of share capital, resulted in the after-tax profit of R12,7m in the year to end-February translating into income after extraordinary items of R787 000.

Chairman Doug de Jager said Ruplas had performed "substantially below expectations and produced a poor return on capital employed.

"It is anticipated that the restruc-

LINDA ENSOR

tured company will achieve an increased return on capital employed during the current year."

He said Lenco was compensated for the write-off by not paying the premium it should have paid on the 34-million Compak shares (28,1%) it recently purchased from Ruhold. In doing so it had gained a greater stake in a performing asset and got rid of an underperforming one.

De Jager said Ruplas had pulled back the profits of Compak considerably — resulting in Compak not achieving its earnings forecast of 15,9c a share made in March last year. The forecast was done after Lenco had bought a majority stake in the rigid plastics division of Kohler Packaging for R25m. Earnings of

10,5c were achieved.

No comparative figures were given in the profit announcement due to the restructuring last year. A margin of 10,5% was achieved on a turnover of R138,8m to generate an operating income of R14,6m. At year-end Compak had only R1,7m in interest bearing debt but carried a R11,8m loan from holding company, Lenco. Since year-end Compak has received the proceeds from the Ruplas sale and is now debt-free.

Lenco has purchased Ruhold's 28,1% stake in Compak and has offered to buy minority shares on the basis of 100 Lenco shares for every 300 Compak shares held or 65c for every Compak share held. The purchase of Ruhold's interest gave Lenco a 77,4% stake. Compak will be delisted on July 19.

tion services, further acquisitions appear likely. As well as providing M-Net with an entry into the credit information business, the acquisition of ITC (formerly the local subsidiary of Dun & Bradstreet) is intended to improve operational efficiencies. But such improvements will take some time to reach the bottom line.

Postponement of the introduction of the news service is a blow to subscribers but probably comforting to shareholders, as the operation could have become a drain on resources. CE Koos Bekker says the news facilities, which will cost R20m, will meanwhile be used for production of TV programmes.

Pacak says the group's accumulated tax loss should ensure that it starts paying tax only in financial 1993. The conservative dividend cover of 4,3 is intended to ease the pain of these payments.

Pacak says it's difficult to forecast earnings growth for this year, as gauging demand for decoders has proved almost impossible. Introduction of the M-Net broadcasts to rural areas and neighbouring states via satellite is expected to give sales a fillip, and the group should meet its internal projection of earnings improvements of 25%.

At 430c — up from the issue price of 100c — the share looks expensive and may be due for a correction. But on the results so far its p/e of 14,4 is hardly excessive and the share may be worth buying on price weakness.

Simon Cashmore

LENCO

HIDDEN VALUES ~~194~~ Fm 21/6/91

No company writes off R19,5m without good reason. Chairman Douglas de Jager won't detail just why this write-off took place when he sold the flexible plastics division of Compak back to Rubenstein Holdings (Ruhold), after only consummating a relationship with Ruhold late in 1989. But there is more to it than appears at first sight.

The write-off, plus increased dividends of R5,2m (R3,6m), ran retained income into a net negative R5m in the February year-end results. However, the figures do not show the benefit of the actions.

De Jager reasons that, since the write-off also provided for the acquisition by Lenco of Ruhold's 28% of Compak, this transaction will, by the end of financial 1992, considerably enhance Compak's earnings and net asset value and hence Lenco's as well. One cannot and will not be able to argue with that because, when February comes around, Compak will have been delisted.

The strains of the overstretched national economy are evident. While turnover of R441m rose by 55% the increase in operating income was just half as much. Margin clearly took a beating in the second half, falling from 15,5% in the first six months to 11,6%.

But it was mainly in the first half that violence, especially in Natal, and work stop-

pages took their toll on trading figures and productivity. Since then, but for margin, matters improved: attributable earnings showed a 61% improvement on the first half.

The mid-1990 rights issue raised R31m. Considering that this pushed up issued equity by about 20%, the group has done well to restrict the fall in EPS to 2%.

This bodes well for the current year since, De Jager points out, "Compak's contribution to attributable earnings ... was R7,1m;" it should reach R16,1m this year. He is optimistic about the other divisions, as well.

De Jager says Monatic had a very good year and the outlook is good. Orders exceed capacity. Strategy to cut debt and improve exports should also help. Interests in Amshoe and Budget Footwear are also showing the benefits of a somewhat more stable environment, a trend De Jager hopes will continue.

It's best to await the annual report, due in about a fortnight, before commenting on the value that the share offers at the current 245c and dividend yield of 4,1%. But De Jager's optimism is catchy. Lenco could be set for gratifying performance this year.

Gerald Hirshon

CHARTER CONS

HOLDING UP WELL

Nobody was expecting a good year from Charter Consolidated (CC), given its exposure to the UK construction industry and British Coal. New building dropped 17% in calendar 1990 and by 26% in the first quarter of 1991. And British Coal, facing drastic shrinkage as privatised electricity generators gain freedom to buy cheaper on the open market, slashed its investment by 22% — a savage blow for its biggest supplier, Anderson, which is one of the four pillars of CC.

Hence CE Jeffrey Herbert has reason to feel satisfied when unveiling a 2,2% increase pretax to £77,5m for the year to March, after "the toughest trading conditions I can remember." EPS are up by a similar margin to 44,6p and the dividend goes 8% higher to 21p.

The balance sheet is rock solid. Disposals raised £56m, boosting net cash by 48% to £133m — 26% of market capitalisation of £502m, with the share at 474p.

The star operating division was Pandrol (rail track equipment). Sales rose 43% to £83,7m, but with margins up to 12,9% (from 10,4%) profits jacked up 77% to £10,8m. Exports now account for 88% of the business.

Cape (building products and services) managed a healthy £182,3m sales (up 21%) but shaved margins left profits only 12,6% up at £17m. No early recovery is expected in UK construction but Cape has moved into the Far East and Europe; these now contribute 30% of business, which could rise to 40%.

CAST (quarrying and coal mining in the US) had a flat year with a surplus of £2,7m (up 17%) on turnover 50% higher at £60,5m.

Anderson (coal mining plant) is still not

Acquisitive Waltons buys Pac-King

CAPE TOWN — Office supplies and toy distributing group Waltons, which has budgeted a turnover of about R800m this year, has bought packaging company Pac-King from Anglovaal's Sheetmetals subsidiary for an undisclosed sum.

And other acquisitions were being considered, group chairman Frank Robarts said in an interview yesterday.

Pac-King manufactures and distributes packaging, string, twine, plastic bags, tape and wrapping paper and has branches in Cape Town, Durban and Johannesburg. Robarts said the group would like to open more branches in due course.

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He said the acquisition, effective from end-June, expanded the range of office supplies provided by Waltons and was made possible by the improvement in the group's gearing which has dropped to its lowest level (48%) in five years.

Robarts said further improvements in gearing were expected by the end of the current year and the group would be cash flush very soon. (194) (80)

The group is making preparations for an export drive with the lifting of sanctions and will first focus on exports to the UK.

B Day 16/7/91

Consol unveils new bottle

AFTER two years of research costing R1m, Consol Plastics has begun production of its new 1.5l returnable plastic beverage bottle.

The new PET (Polyethylene terephthalate) bottle is of similar external size to SA's well-known 1l glass bottle and can be displayed, transported and stored in the same amount of space needed for those bottles, Consol Plastics said in a statement yesterday.

Consol Plastics also manufactures the 2l PET bottle which, unlike the new bottle, is not returnable.

PAUL ASH

The new bottle is designed for 20 trips after which it will be recycled, possibly as primary packaging, Consol Plastics MD Dave Spindler said.

The old one-litre bottles would not disappear. "The choice of packaging is a decision of the producer," a Consol Plastics spokesman said. The new bottle had technical advantages, however, over glass bottles, he added. There was little chance of chipped threads or sealing surfaces which meant contamination. Leakage would be kept to a minimum.

PAPER INDUSTRY FM 19/7/91

GIMME SHELTER



Does the Board of Trade & Industry merely rubber-stamp the applications for tariff protection submitted by the country's powerful business interests?

This charge has been made before and it was made again last week by the Newspaper Press Union (NPU). Responding to the board's proposal last month to slap a 10% tariff on imported uncoated paper, the NPU challenged the board to state publicly whether it conducted an independent investigation to come up with its recommendations or just gave the seal of approval to the tariff request by paper manufacturing giant Mondi in February.

Mondi, whose key business is uncoated paper, asked the board for a 15% duty on uncoated paper, getting in line behind the steel, glassware, textile and other primary industries looking for government shelter during the recession. One week after the board made its proposal, Mondi withdrew its application, apparently feeling it would get most of what it wanted.

Rejecting suggestions that the move is the result of widespread opposition to the proposed tariff — more than 700 objections from the printing, packaging and paper distributing sectors have been lodged with the board — Mondi manufacturing director Ian Halliday says the application was withdrawn largely for technical reasons.

What happened was that at the same time Mondi was asking for more protection, the board was revamping its paper tariff system. The board's proposal last month, in addition to imposing a 10% tariff on uncoated paper and raising other tariffs, would reduce the paper tariff headings from 477 to 212. While the industry welcomes the simplification, it has sharply attacked provisions that would impose duties on types of paper that never had tariffs before, including some types that are not even made in SA.

Board chairman Lawrence McCrystal denies that the proposal will raise tariffs on average; he says the revamp is so complete that it's impossible to say whether the average level would go up or down. But Mondi and Sappi, the two paper giants that dominate the local market, seem satisfied enough that they're getting more protection.

Sappi has said that if government implements the board's proposal, the threat of imports will decrease. Halliday says: "We favour the proposed 10% though we still believe 15% would be more appropriate."

If the board's proposal means an increase it will be counter to the recent IDC report urging that tariff protection be reduced to make companies more competitive and export-orientated. Says the IDC's Flip Kotze: "There is a danger that tariffs can be used to create monopolies."

Mondi's justification for government protection is the usual story. Says Halliday:

"In First-World European countries, we face fairly substantial duties, but these same countries are exempt from duty in SA — still a developing country." Halliday says Brazil imposes a 25% duty.

He dismisses arguments that Mondi and Sappi enjoy a great deal of automatic protection because of SA's great distance from competitors and the low value of the rand. "We are a capital-intensive industry

and there is no incentive for capital investment for initial investments. SA's tax on interest on capital raised is one of the highest in the world. Without a viable local industry, the alternative is a monopoly of European suppliers in SA."

Rejecting these arguments, the NPU says the paper manufacturing industry in SA is not merely viable internationally, it is thriving. "No losses have been made for at least the last 10 years," says the NPU in its formal objection to the board's proposal. It argues that Mondi and Sappi are well established manufacturers and ultimately owned by the largest mining house (Anglo American in Mondi's case) and the largest insurance conglomerate (Sanlam in Sappi's case).

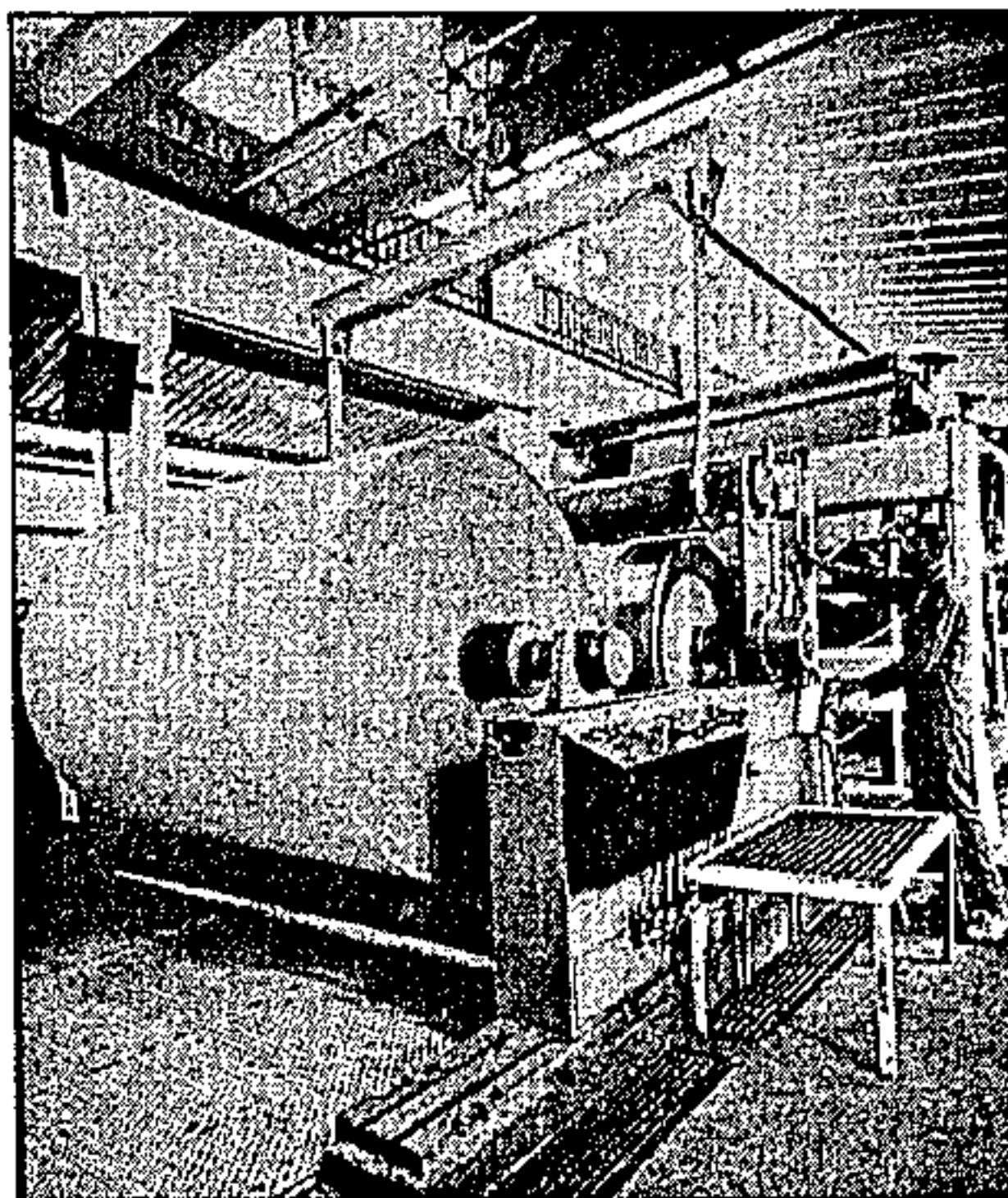
"They in no way deserve any form of protection for poor-quality goods or for having failed to produce a proper range of goods that are required locally," says NPU GM Syd Pote. "If it is not economic for local paper producers to provide a full range, then that is precisely where they suffer a relative disadvantage compared with manufacturers in broader-based economies overseas. But the local paper-consuming industry should not be penalised for that." He argues that a

tariff is also not justified simply because it is low. "This would mean that there's a justification for a low general tariff in every country, thereby negating its effect and leading to a tariff war and reducing world trade."

If approved, the tariff will have a considerable effect. Magazines, books, packaging and many other items may cost more.

Says Roy Paulson, Deputy MD of Times Media Ltd, the FM's owner: "We will be hard hit as will Nasionale Pers. Over the years we have been loyal in supporting Mondi, even when its paper has been inferior. There shouldn't be a duty on any paper. The market should be free to choose."

The deadline for objections to the board's proposal is today. The board will make its final recommendation to the Trade & Industry Minister, who will decide the issue. The numerous jobs that are lost whenever tariffs are raised hang in the balance. *Mirryena Deeb*



Sappi and Mondi ... higher tariffs could make them paper tigers

Speculation follows big rise in Carlton Paper unit

SEAN VAN ZYL

CARLTON Paper Corporation's share price has risen 19% to a new high of R37 in the week since the US lifted sanctions.

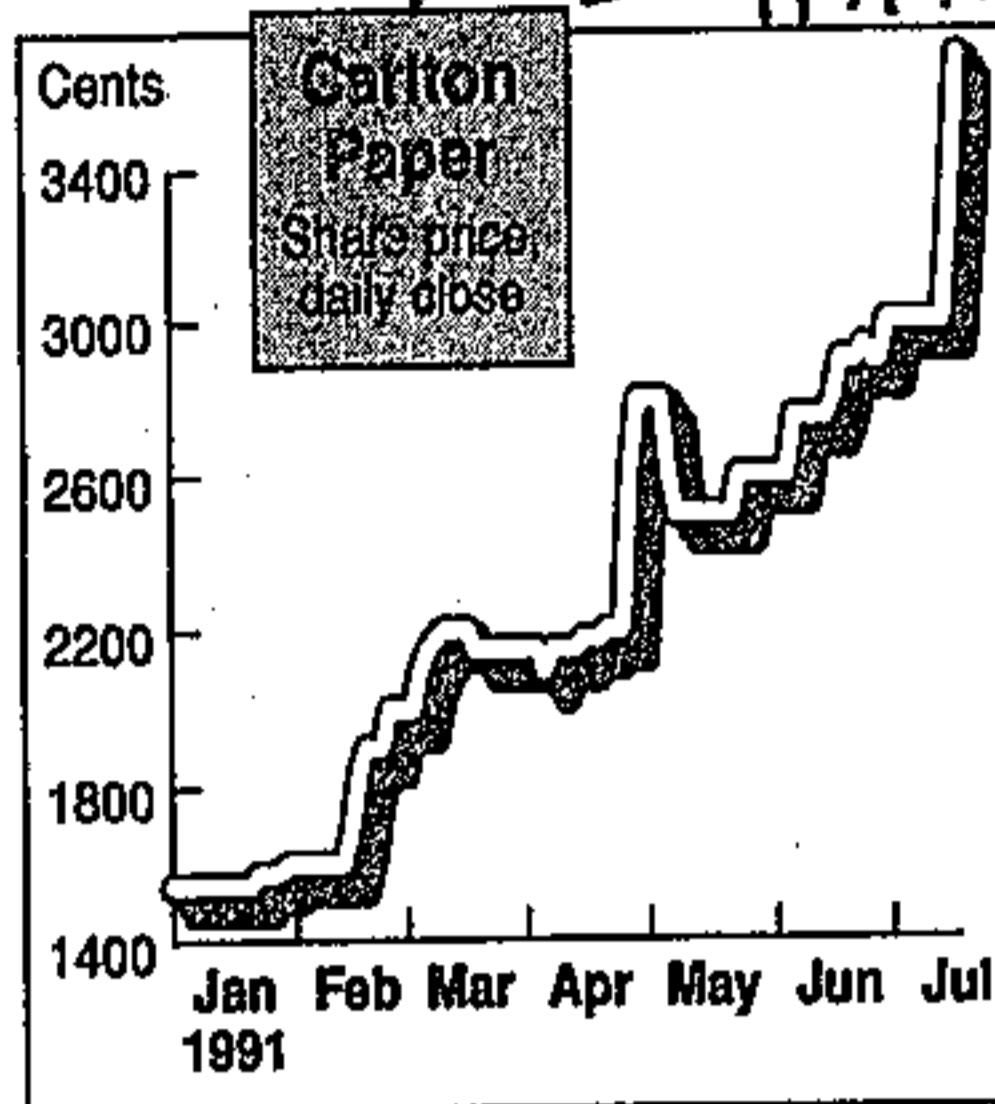
US-based paper group Kimberly Clarke Corporation holds a 12,7% stake in the toiletry paper group.

Its unexplained advance raised suggestions on the JSE that its US shareholder might be interested in increasing its investment in the company.

However, a Kimberley Clark Corporation spokesman said from Dallas this week that "no decision has been taken to increase our holding in Carlcor", and that the company had no intention of disinvesting its stake.

Carlcor MD Keith Partridge said he was unaware of any "deal in progress" by either Malbak or Kimberley Clark.

The recent rise in Carlcor's share price was on thin volumes. However, activity in the shares in the first half of 1991 was more than five times its historic average with 396 000 shares



Graphic: FIONA KRISCH Source: FNET

changing hands against 69 000 for the whole of 1990. Although the volume represents only 1,7% of its issued capital, the increased interest saw its share price more than double from R16 to R37.

About 52% of Carlcor's issued shares are held by holding company Kimberley Clark SA which in turn is jointly controlled by Malbak and the US company. Furthermore, Malbak holds an additional 16% of Carlcor's share capital directly and Sanlam

(the ultimate controlling shareholder in Malbak) an 8% stake.

The combined interests of the majority shareholders in Carlcor therefore exceeds 88% of the issued shares. As a result, analysts ruled out a bid for Carlcor as any takeover deal would require consent by one of the two majority shareholders.

They said the sharp price hike probably reflected the shortage of quality industrial script on the market. They noted that Carlcor had enjoyed 60% compounded growth in earnings over the past three trading years: "With the rate the industrial market has been running, Carlcor is worth acquiring even at current prices."

While there has always been big demand for the share, market sources indicated that stockbroker V H Simmons & Co was behind the recent deals which boosted the price. V H Simmons & Co director Jerry Fisher said the company had recently acquired Carlcor shares on behalf of non-institutional clients: "The share looked a good investment," he said.

Business Editor

WALTONS Stationery Co is preparing to export to the UK, following the lifting of a restraint of trade, chairman and MD **Frank Roberts** told shareholders at the annual general meeting yesterday.

It has continued to reduce gearing, which was brought down to 48% by the end of the financial year on February 28 from a high of 138% in 1989. Roberts said he thought it might now be below 42%.

But, he continued, although the group had seemed "recession-proof" in the past because there was always a need for its stationery and office equipment, it was being affected this time by falling demand as a result of retrenchments, business failures and strikes.

It was avoiding carrying high levels of stock in branches.

Discussing possible expansion overseas, Roberts said that the **Croxley** factory — the largest manufacturer of stationery in the country — which **Waltons** owned jointly with **CNA** had been subject to a restraint of trade when it was bought from **DRG**.

It had been forbidden to compete with **DRG** in any overseas market — and had run into trouble over this when it tried to supply the retail operation it started in Australia.

Waltons

CIT 23/7/91

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Stationery

prepares for

UK exports

Now that **DRG's** operation in the UK had been bought by **Sappi**, which wanted the paper mills, the restraint there had been lifted. But it would take months of preparation before **Waltons** could enter the UK market and it would not be ready before 1992.

Roberts said there were no plans to enter the Continental European market. The UK market was a huge one, and **Croxley** would not be able to supply both it and Europe.

He said he would not consider starting an overseas operation until he was certain a company with SA connections would not encounter hostility. The operation **Waltons** had started in Australia — now doing well after a management buyout — had encountered troubles including bomb threats and the withdrawal of bank credit.

Sunvest warns of reduced profits

SUN Packaging Investments (Sunvest), holding company of listed operations Sun Packaging Holdings (Sunpak) and Biopolymers (Biopoly), issued a statement yesterday warning shareholders to expect reduced profits for the year to end August.

The group, announcing that results are likely to be below last year, cited the poor economic climate and high costs of the raw mate-

WILLIAM GILFILLAN

rial styrene, which form a large component of the group's cost structure, as reasons for this.

The cost of the styrene impacted on the group's interim profits but continued to put pressure on profitability, the statement said.

Sunvest chairman Ian Willis said technical difficulties had delayed the start up of Biopolymers.

194 The problems at Biopolymers have been resolved and the operation is now "back on track".

But the white foam trays operation, which is the group's core business, continued to reflect growth Willis said.

Also the synthetic paper operation has enjoyed strong demand especially from exports.

Biopolymers was floated on the JSE's Venture Capital Market in December 1990 when Sunpak's members were offered 22 Biopolymer shares at 50c each for each 100 Sunpak shares held. *Biopoly 25/7/91*

The Biopolymers plant is the second to produce polystyrene in SA.

Packaging giant Holdains took control of Sunvest in January when 56% of Sunvest shares were bought through open market trading on the JSE.

Attributable earnings, down 3,2% to R3,1m from R3,2m, were reported by Sunvest for the six months to end-February.

Shares in Sunvest, Sunpak and Biopoly closed yesterday at 115c, 110c and 40c a share respectively.

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WALTONS

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DEBT SLASHED

Activities: Manufacture and supply of commercial stationery, toys and babywear.

Control: Waltons Consolidated Investments 50,1%.

Chairman and MD: F E A Robarts.

Capital structure: 68,3m ord. Market capitalisation: R464m.

Share market: Price: 680c. Yields: 2,8% on dividend; 7,7% on earnings; p:e ratio, 12,9; cover, 2,8. 12-month high, 700c; low, 350c.

Trading volume last quarter, 1m shares.

Year to Feb 28	'88	'89	'90	'91
ST debt (Rm)	10,9	38,8	40,0	56,5
LT debt (Rm)	34,5	119,4	92,1	41,1
Debt:equity ratio	0,55	1,87	0,95	0,56
Shareholders' interest	0,38	0,25	0,36	0,43
Int & leasing cover	23,3	4,8	3,9	5,4
Return on cap (%)	27,3	26,0	30,5	29,3
Turnover (Rm)	330	548	648	685
Pre-int profit (Rm)	52,5	85,6	109,0	106,0
Pre-int margin (%)	15,9	15,6	16,8	15,5
Earnings (c)	39,6	55,0	63,6	52,6
Dividends (c)	13,0	18,0	21,0	19,0
Net worth (c)	88,7	90,2	149	184

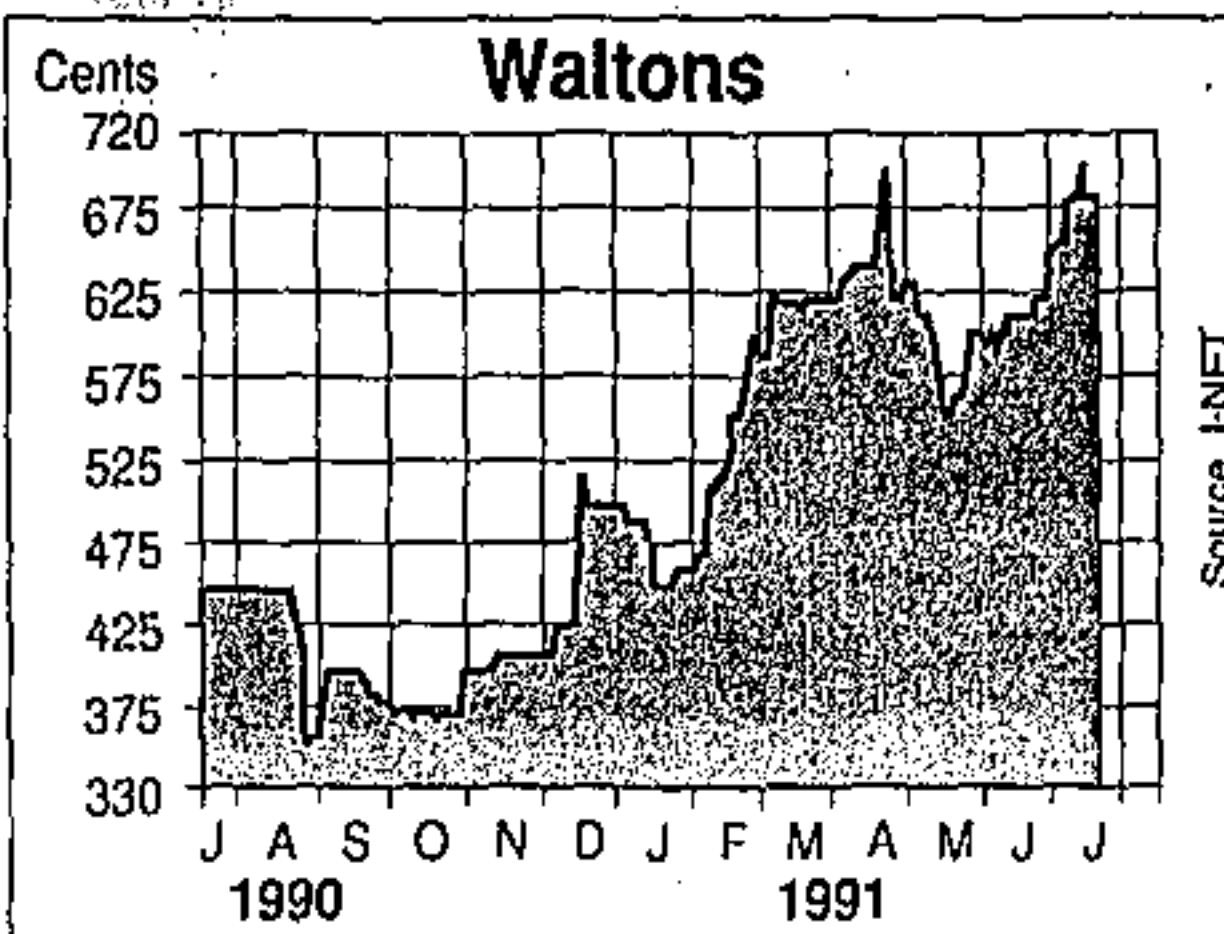
A year ago, Walton's share price was 355c. Since then it has twice peaked at 700c, the second time being earlier this month. Why is the market pushing the share to these heights when earnings growth in the 1991 year was negative, the dividend was cut and prospects for real growth this year are not good?

The answer lies partly in the progress that has been made in reducing the debt burden. Net interest-bearing debt has been almost halved since it peaked at R152,8m in 1989.

This has been achieved by the issue in 1990 of an additional 3m shares for R18m, tight control of working capital, disposal of assets (all the manufacturing divisions of Redwoods Holdings were disposed of for R8,5m late last year), fewer acquisitions and a higher rate of profit retention. Stronger cash flow, which was also enhanced by a significant drop in finance costs, enabled retirement of R56,3m of long-term debt during the year.

The core business remains profitable. Despite meagre turnover growth of 5,7% and a marginal drop in pre-interest profit to R106m (R109m), return on equity was 29% and return on capital was virtually unchanged. Considering that the margin fell by almost 8%, it can be inferred that the core business is poised to take advantage of an upturn when it comes. By that time there should also be improvements in the problem areas.

But the immediate earnings outlook remains unexciting. Chairman Frank Robarts says "it would not be prudent for the board to



forecast more than a modest increase in earnings." Financial director Mark Davis tells the *FM* this means no real growth in EPS this year, especially if conditions encountered so far are an indication of what the rest of the year will be like.

There seems no justification for rating the share on an earnings multiple in line with that of, say, Pepkor. Management is doing a good job to restore the group's profitability. But, at this stage, better investments are available.

Gerald Hirschon

Sum Packaging group warns of lower profits

Finance Staff 29/7/91

CAPE TOWN — After an earlier forecast of better trading conditions and increased export sales, Sun Packaging has warned shareholders to expect lower profits for the year to August.

The company reports net profits of R3,6 million — up 11 per cent at the half-way stage.

The group, which consists of Sun Packaging Investments, Sun Packaging Holdings and recently

listed Biopolymers, blames poorer economic conditions and the residual impact of the high priced raw material, styrene.

Ian Willis, chairman of both Sunvest and Sunpak, says while the group's core business of white foam trays continues to perform well, the recession is affecting the business generally.

The start-up of Biopolymers, the manufacturer of polystyrene materials has taken longer than expected.

¹⁹⁴⁴ The loss for the year in Biopolymers is likely to be in line with that forecast in the issue document.

“Although the product coming from Biopolymers has been of a high quality, the operation has experienced technical difficulties.

“These problems have been resolved in July and Biopolymers should be back on track in the next financial year.”

He says Sunpak was forced to buy raw materials offshore to re-

place those expected from Biopolymers and this was done at the height of the Gulf War when prices were highly unstable.

In Sunpak's more traditional business — white foam trays — Mr Willis says the division continues to reflect growth and is performing well.

“However, high styrene costs — a large component in our cost structure — in the first half of the year continued to put pressure on profitability.”

COMPANIES

Metal Closures riding crest of the wave

Monday 2/8/91
UK-OWNED packaging group Metal Closures reported a hefty increase in interim earnings on the back of improved trading in its plastic injection moulding division.

Directors stressed that the 94% rise in earnings to R3,75m (R1,9m) or 144,3c (74,3c) a share in the six months to June should be viewed in the context of a particularly depressed interim period the previous year.

"Profitability has only now recovered to levels achieved in June 1989."

Turnover lifted 10% to R71m (R64,5m), while better margins helped Metal Closures boost operating profit 52% to R7,2m (R3,9m) for the period under review.

According to group policy, no interim dividend was declared.

Last year the interim payout was 25c. The retained income bolstered Metal

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MARC HASENFUSS

Closures' reserves to a healthy total of R52,6m.

The group was also aided by a positive cash balance which earned R515 000 in interest.

The group's capital expenditure commitments have more than doubled to R17,8m (R7,5m at year end), but no details were disclosed.

The improved results were anticipated by the market, as the share recovered from a R18 low in April to R30 in June.

The share was bid at its high on the JSE yesterday.

Metal Closures plc, which holds 76% of the SA subsidiary, is attempting to buy out Metal Closures minorities.

Expansion costs

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Some acquisitions just don't work. An example is the injection into Compak (77%-owned by Lenco) — of flexible packaging manufacturer Transpoly, formerly a division of Rubenstein Holdings (Ruhold).

Ruhold obtained a stake in Compak and its rigid plastics division in return. Because of "irreconcilable differences in management style and philosophy," the arrangement was a disaster and Lenco chairman Douglas de Jager decided to dismantle it. This was at the cost of a R25m write-off in Compak.

Lenco acquired Ruhold's shareholding in

Continue →

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Activities: Clothing, footwear and rigid plastics packaging manufacturing.

Control: Lenco Investment Holdings 50,2%.

Chairman: G D de Jager.

Capital structure: 52,4m ords. Market capitalisation: R128m.

Share market: Price: 245c. Yields: 4,1% on dividend; 17,6% on earnings; p:e ratio, 5,7; cover, 4,3. 12-month high, 250c; low, 165c.

Trading volume last quarter, 699 000 shares.

Year to Feb	'88	'89	'90	'91
ST debt (Rm)	7,0	21,8	6,0	24,5
LT debt (Rm)	10,8	21,9	28,3	34,4
Debt:equity ratio	0,40	0,16	0,42	0,48
Shareholders' interest	0,32	0,42	0,47	0,51
Int & leasing cover	3,2	8,9	5,7	3,3
Return on cap (%) ..	12,0	22,4	24,4	22,3
Turnover (Rm)	120	201	284	441
Pre-int profit (Rm) ...	11,6	29,9	42,3	54,2
Pre-int margin (%) ..	9,7	14,4	14,9	12,3
Earnings (c)	21,2	35,6	45,3	43,2
Dividends (c)	5,0	7,0	9,0	10,0
Net worth (c)	72,6	88,7	141,2	154,7

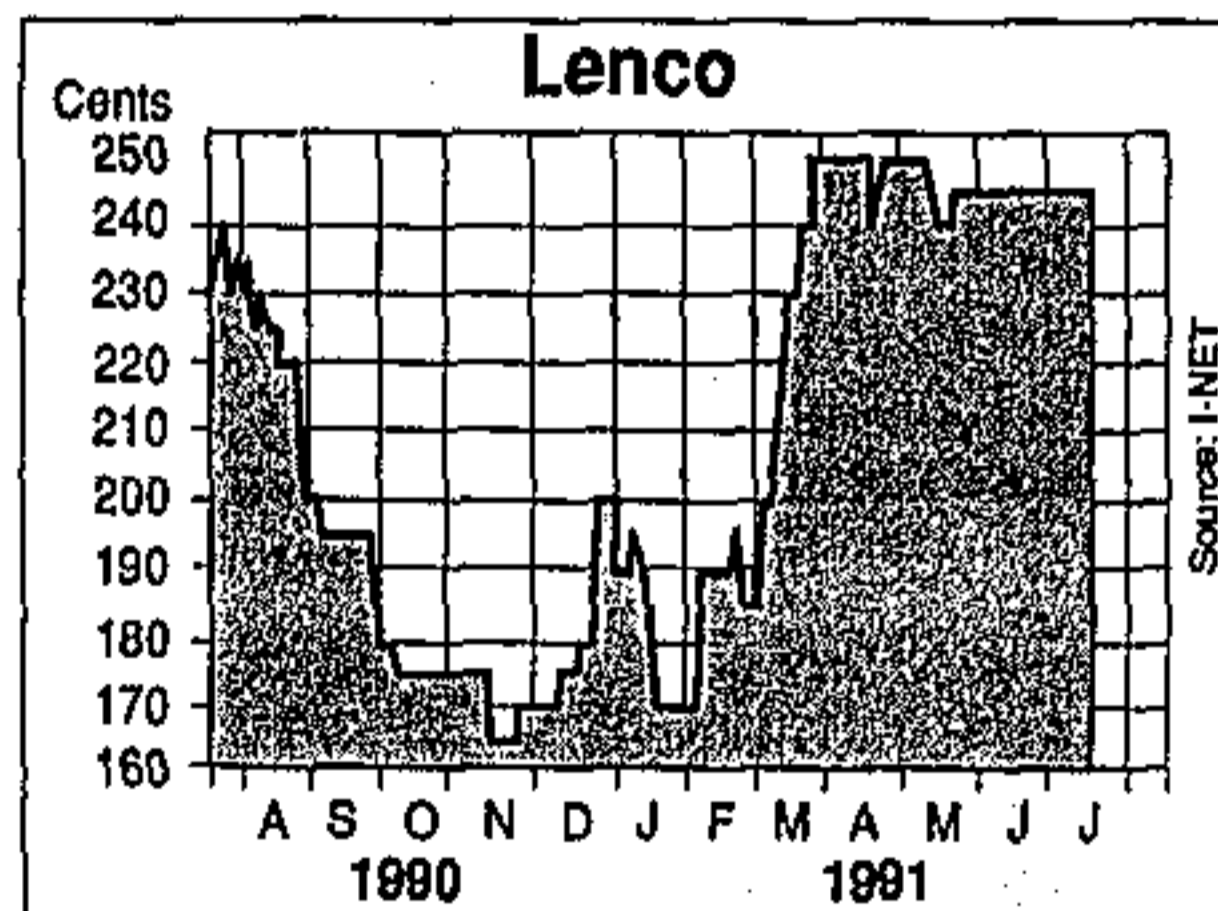
Compak for the same consideration received by Compak for the return of Transpoly. De Jager says he is now much happier about Lenco's investment in the more focused Compak, which last year contributed 34% of turnover and 29% of operating profit. Lenco is offering to take out the minorities, who have the opportunity to acquire one Lenco share for three Compak shares held, and delist the company.

Lenco also controls Amalgamated Shoes (Amshoe), which contributed 50% of turnover and 55% of operating profit. It was a torrid year for this operation, which was hampered by the unrest, particularly in

up by 15% but the dilution resulting from the enlarged issued share capital saw EPS drop by 4,6%.

The share price stands below the June 1990 rights offer price of 250c. If based on the historical earnings, this may be justified. De Jager contends that Lenco has the strengths and the structures in place to survive "and even grow" in difficult times ahead. He believes both Amshoe and Compak should produce improved earnings this year. Monatic has order books full for the rest of the year and De Jager is seeking to improve margins in this operation.

His forecasts suggest real growth is being targeted. Lenco is on a low earnings multiple and remains a share to watch. *Gerald Hirshon*



Natal, where most of its manufacturing plants are. Turnover increased by 5% but operating income fell 15%.

House of Monatic, now wholly owned by Lenco, must have been one of few clothing companies to increase turnover by as much as 35% last year. But this growth was achieved at a price. As De Jager puts it: "It leaves much to be desired in terms of the return on capital employed. Borrowings increased by over 200% to fund a 37,4% escalation in working capital." Monatic contributed 16% of both turnover and operating profit.

Lenco held a successful rights issue last year, doubling its issued capital. In addition to the R26,5m in new equity capital, interest-bearing debt increased by 72% to R58,9m. Funds were invested mainly in fixed assets and in working capital.

Finance costs more than doubled, from R7m to R16,2m. Attributable income was

Millions for research on safe packaging

PAUL ASH

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KOHLER Packaging will spend millions of rands over the next decade on a product research programme aimed at producing environmentally safe products.

The design, manufacture and marketing of environmentally friendly and commercially viable products would be Kohler's challenge, CE Derek Minnie said recently.

The company's Paarl-based Bakke division has spent R6,5m on a programme to eliminate the use of CFC gases in the making of polystyrene foam.

Kohler has also set up "Care Groups" to monitor and investigate manufacturing sys-

tems, to ensure that processes were not harming the environment.

"Risk Audits" were done regularly to ensure the company's suppliers were also following Kohler's environmental regulations.

13/10/91

An example of this was to encourage suppliers to start using lead-free inks, not only to lessen the risk of damage to the environment but because their use would mean cheaper effluent control systems could be used.

Other moves initiated by the company included the use of solvent-free adhesives.

Aries Packaging achieves 65% increase

DESPITE a R2,5m outlay on its new fibre-drum plant, Aries Packaging has shown a 65% increase in earnings for the six months to end June compared with the same period last year.

However, MD Dieter Neckel said yesterday that while the group's performance sounded good, it had not been its best year.

"The results are off a low base and although we have reversed a downward trend, it is not that fantastic an achievement," he said. *5 Day 9/8/91*

Group turnover for the six months to end June 1991 was R12,1m (R9,4m) while retained income for the period was R264 000 (226 000).

PAUL ASH

Earnings per share for the interim was 3,4c (2,1c). A one-cent dividend would be payable towards the end of September. The dividend was passed in 1990.

The new fibre-drum plant, which had severely drained profits, was still being commissioned and would be in full production by the end of the year.

The drums, used mainly in the packaging of chemicals, slurries and pastes, have the advantage of being environmentally friendly and are easily disposable and can be recycled.

Afcom benefits from tax drop

Finance Staff *Star 14/8/91*

The Afcom group boosted profits by 35,2 percent to R5,8 million (R4,3 million) in the year to end-June after a sharp drop in its tax payments.

Earnings per share were up 21,4 percent at 17,6c (14,5c), while a final dividend of 3,75c boosted the total payment for the year to 7c (5,6c).

The increase in attributable earnings was in spite of a minor drop in sales from R110,7 million to R107,1 million on the back of depressed demand by consumers.

Operating profits subsequently fell from R14,9 million to R12,2 million, but a sharp drop in taxation from R5,46 million to R3 million and no payments to outside shareholders (R1,9 million) boosted the bottom line.

Kohler Packaging ties up South American contract

HOLDAIN Group subsidiary Kohler Packaging signed its largest export order to date yesterday — a R30m contract to supply corrugated cartons to four of South America's biggest agricultural companies.

Holdain CE Derrick Minnie said: "We have been active in Chile for the past seven years and have managed to broaden our market to other South American countries."

"I am hesitant to name which South American companies the orders were received from yet, because the group is on the verge of cracking another big contract."

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ROBERT LAING

He said Kohler beat the world's major packaging groups to the deal.

"We are a market leader in agricultural packaging, holding patents on certain types of containers which give us an edge on competitors. The exchange rate also helped us."

He said the SA packaging industry was very competitive offshore. "Kohler is exporting flexible plastic packaging to North America and we are very big in Africa."

The firm has chartered three container ships to take the 14-million cartons to South America.

R30m deal for Kohler

STimes (Bus) 18/8/91 (194)
KOHLER PACKAGING has won export contracts worth R30-million for corrugated cartons for the South American fruit market.

The company has chartered three container ships to deliver the 124-million cartons, says chief executive Derrick Minnie.

Mr Minnie says: "The packaging market is competitive because of the depressed world economy. We are looking at other promising foreign markets."

Kohler has spent R80-million on plant and equipment at factories in Cape Town, Port Elizabeth, Pinetown, Nelspruit and Brakpan. The high quality of the packaging helped to clinch the South American deal.

HORTORS
FM 23/8/91
Stronger mix

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Activities: Printing and packaging.

Control: CTP 88%.

Chairman: E M Jankelowitz; **MD:** S F Cormack.

Capital structure: 51,6m ords. Market capitalisation: R36m.

Share market: Price: 70c. Yields: 4,3% on dividend; 11,9% on earnings; p:e ratio, 8,4; cover, 2,8. 12-month high, 80c; low, 30c. Trading volume last quarter, 6 000 shares.

Year to March	'88	'89	'90	'91
ST debt (Rm)	2,0	1,9	0,4	0,2
LT debt (Rm)	0,2	0,09	0,05	0,04
Debt:equity ratio	0,09	0,05	-	-
Shareholders' interest	0,86	0,81	0,85	0,76
Int & leasing cover ..	n/a	43,5	n/a	n/a
Return on cap (%) ..	n/a	8,2	7,1	9,1
Turnover (Rm)	8,4	40,4	40,9	48,8
Pre-int profit (Rm) ...	(0,6)	4,0	3,4	5,3
Pre-int margin (%) ..	n/a	9,7	8,4	10,9
Earnings (c)	(13,3)	7,8	5,4	8,3
Dividends (c)	4,5	2	1,5	3
Net worth (c)	361	77	80	86

Hortors is becoming a more focused printing business. Just before year-end it sold Kalamazoo Business Systems to its Cape Town management, which had been a loss-maker in previous years. On April 1, after the financial year-end, Hortors acquired CTP's 62,5% interest in R T Sparhams, a typesetting and colour reproduction house, for R5m.

Sparhams had acquired the Standard Press and Studio Press, which have been combined into Hortors Print, giving the group market leadership of annual report and advertising agency print work.

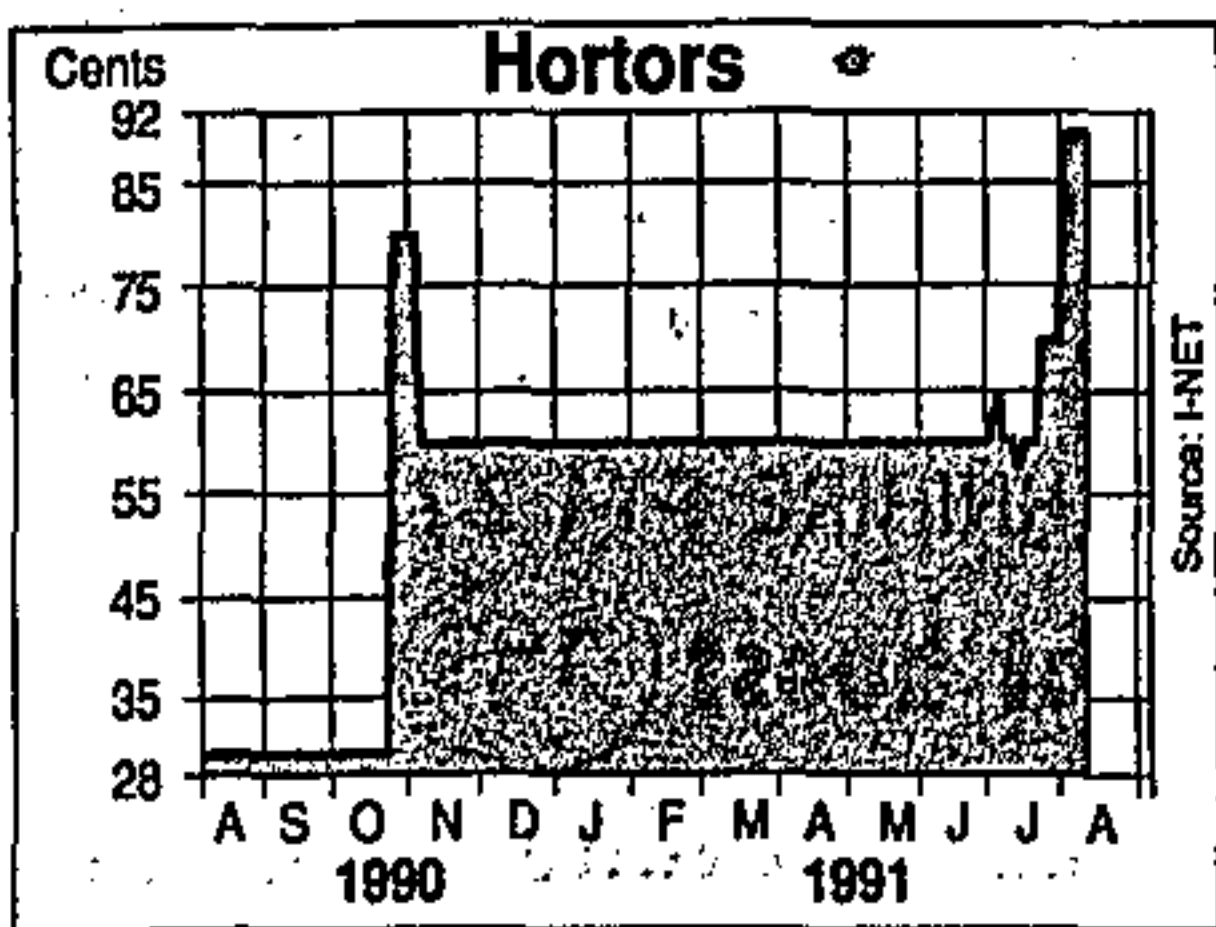
The original Hortors interests sell into some fast-growing consumer markets, which goes some way to explaining the 54% earnings advance. CTP-Artone makes beer labels and cigarette packs, as well as cartons and labels for soft drinks, food, cosmetics and pharmaceuticals. The Artone Press prints material for records, tapes and compact discs. All these markets are still showing good growth.

At year-end the balance sheet was effectively ungeared, with net borrowings of less than R250 000 against shareholders' funds of R44m. Though details are not available, the balance sheet has changed materially since the Sparhams deal.

Returns, however, remain low at 9,7% on equity and 9,1% on capital. On a p:e of 8,4, the share enjoys a higher rating than either

FM 23/8/91

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able. In the last quarter only 6 000 changed hands, not an unusually low volume for the counter.

Stephen Cranston

Hortors' parent, CTP (6,3) or pyramid, Caxton (8,1). The printing business was the backbone of the Caxton family last year — the publishing interests are no longer star performers. However, Hortors maintains a much lower dividend cover of 2,8, and has a higher dividend yield of 4,3%, compared with CTP's 3,2%. Overall, Hortors has a stronger mix of companies than in previous years, and is very different from the group that made a loss in financial 1988. But it needs to produce more good results to justify a re-rating of the shares — which in any event are almost unobtain-

Consol's results reflect benefits of prolonged strike at Nampak

By Day 28/8/91.

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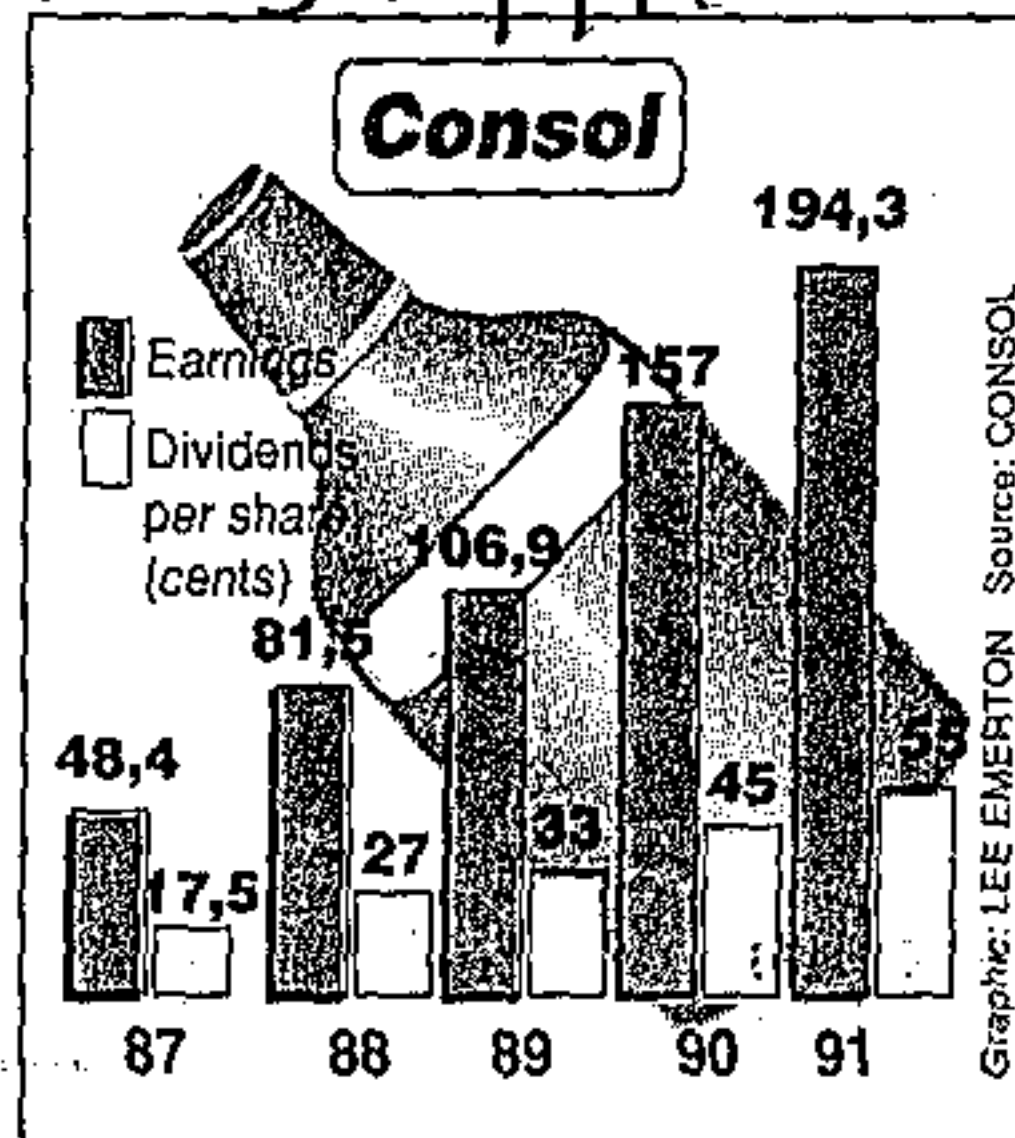
PAUL ASH

THE favourable spinoff from a strike in the previous financial year, disinvestment in loss-making businesses and overall volume growth in the packaging division saw Consol post a 32% increase in taxed profit to R155,8m (R117,9m) for the year to end-June, the group announced yesterday.

Turnover growth in all divisions of the packaging sector was restricted to 15% by a lower plastics division turnover after the sale of Gundle Plastics and the disinvestment from bag and sack manufacture in the 1990 financial year, said Group MD Piet Neethling.

However improved operating margins led to a 23% growth in earnings to R124,5m (R100,9m) — equivalent to 194,3c a share (157,7c) — from which an improved final dividend of 55c is to be paid (45c).

On future prospects, Neethling said while good volume growth had been seen, the current market appeared sluggish. Consol was pinning its hopes



Graphic: LEE EMERTON Source: CONSOL

on the packaging sector, and supplies to the beverage industries, especially glass and plastics, and in time tyre business should pick up, he said.

During the year under review demand for the 2l soft-drink bottle increased and launches of new in-mould labelled products broadened the customer base, he said.

Equipment worth R15m was installed to manufacture the newly-developed 1,5l returnable bottle and sales started towards the year-end.

Good sales growth and improved

manufacturing performance boosted profits in glass packaging.

The corrugated carton market experienced reduced sales for the second year running, but the paper division as a whole achieved volume growth, helped mainly by a prolonged strike at Nampak.

In the rubber sector, operating profits increased 107%. The extended strike at Tycon in the first six months of the previous financial year contributed to the turnover and profit increase in the year under review.

Tyre sales, especially of light truck and passenger tyres, increased and the Tycon market share returned to its pre-strike level.

The depressed mining industry reduced demand for conveyor belts. Poor market conditions in transport, mining, construction and agricultural industries saw declining sales of large-truck and off-road tyres.

The rubber sector spent R20m at Tycon on the expansion of the rubber-mixing capacity and increasing the capacity of large truck tyres, as well as R10m on the upgrading of the Eagle passenger car tyre plant.

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Sep 28/8/91

Consol considering making rights issue

By Jabulani Sikhakhane

Consol, with earnings growth of 23 percent and a dividend increase of 22 percent for the year to June, is considering coming to the market to raise funds.

Group MD Piet Neethling said yesterday details were being worked out and shareholders would be duly informed.

He said Consol was not in a desperate position. At year-end gearing stood at 29,2 percent, down from 34,8 percent, compared with the group's internally imposed ceiling of 40 percent and 50 percent, depending on interest rates.

Gearing of 29,2 percent is based on the R50 million in redeemable preference shares being included as equity.

If they were included as group debt, gearing would be around 42 percent.

Mr Neethling said it was felt that with the current strong share price, the market would be receptive to a rights issue.

Part of the proceeds would be used to repay interest-bearing debt of R159,31 million on the balance sheet date and redeem the R50 million in preference shares, which are due for redemption in August and December 1992.

In financial 1991, Consol's turnover rose 33 percent and operating profit 49 percent. (See table).

A major factor was the consolidation of the Tredcor figures for the full year, against only six months in financial 1990.

The rubber division's turnover rose 53 percent to R1,13 billion — equal to 55 percent of Consol's turnover. Margins improved sharply, rising from 9,4 percent to 12,7 percent.

Operating profit more than doubled from R69,68 million to R144,29 million.

This was largely due to Tycon

	12 mth to 30/6/90	12 mth to 30/6/91	% Change
Turnover (Rm)	1555	2071	+33
Operating profit (Rm)	214,7	319,4	+49
Operating margin %	13,8	15,4	11,5
EPS (c)	157,7	194,3	+23
Dividend (c)	45	55	+22
Share price	1950	3950	+102
PE ratio	12,4	20,3	+64

regaining market share lost through a strike in the first six months of financial 1990.

Changes in legislation governing tread depth of tyres helped boost sales in the first half of the year.

The scheduling of price increases, timing and the magnitude of discounts which Tredcor obtained from tyre manufacturers enhanced profit growth.

The packaging division's turnover, which rose 15 percent, was affected by the lower turnover in the plastics division after the sale of Gundle Plastics and the bags/sacks businesses.

Removing the Gundle Plastics and the bag/sacks businesses from the equation, the packaging division's turnover for the review period would be up 21/22 percent — with seven percent being volume growth.

Margins in the division were affected by higher fuel and energy costs, labour instability and commissioning problems in the glass division.

Nevertheless, margins improved slightly from 17,8 percent to 18,6 percent. Operating profit was up 21 percent.

The tax charge rose 91 percent to R132,62 million due to lower capex allowances and the provision of deferred tax.

Because of a 139 percent rise in outside shareholders' interest, Consol's growth at operating level fell to 23 percent.

Despite tougher trading conditions, the directors hope for earnings growth in financial 1992.

CONSOL FM 30/8/91

Firing all round

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Latest Consol results provide further proof of the endurance of consumer spending. The packaging and rubber group increased earnings for its year to end-June by 23%, despite an increase in the effective tax rate from 37% to 46%. The share price has more than doubled over 12 months, and is trading at a high of 3 950c.

The 1990 results were particularly strong because the business of Goodyear (now Tycon) was included for the first time, and rereader Tredcor was included for the second half. So apart from the full contribution of Tredcor in the year under review, these results are on a like-with-like basis.

The core packaging business again had a solid year, with sales up 15% and operating profit up 21%. Group MD Piet Neethling points out that the group had disposed of interests in flexible plastics and bags and sacks, which reduced sales growth. Volume growth on the retained business was about 7%. The beer and soft drink markets have remained the engine for growth in glass, and the corrugated division picked up market share from Nampak, which suffered from a prolonged strike.

Tycon, which had been torn by a long strike in the previous year, regained market share, leading to a 107% increase in rubber operating profit, to R144,3m. But packaging continues to provide a healthier operating margin of 18,6%, compared with 12,7% in

STRONG PACKAGE

Year to June 30	1990	1991
Turnover (Rbn)	1,55	2,07
Operating profit (Rm)	215	319
Attributable (Rm)	101	124
Earnings (c)	157,7	194,3
Dividend (c)	45	55

continue →

FOX FM 30/8/91

rubber products.

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Consol is now contemplating holding a rights issue. After another fine set of results, Neethling believes it is a good time to come to the market.

He says the group does not have any major acquisitions planned, but it would like to wipe out its borrowings of R160m and R50m of preference shares. Even now, gearing is respectable at 35%, with R86m of goodwill excluded from shareholders' funds.

Neethling says that Consol and its major shareholder, Anglovaal Industries, still have to decide on the size of the rights offer and the instruments which will be used; but AVI is anxious not to dilute its 56% holding. Meanwhile, Consol shares are not cheap. They offer an earnings yield of 4,9% and a dividend yield of 1,4%.

Phasing out of protection is a cause for concern. It has sought protection from imported glass tableware from the Far East, but is adapting its product range to meet the challenge.

Chairman Clive Menell says the group supports import permits on tyres, as tyre manufacturers are unable to buy raw materials at world prices, and because of the higher manufacturing unit costs in SA. The liberalisation of trade policy may have a negative impact on group earnings. But Consol is largely dependent on the buoyant markets for beverages and fast moving packaged goods. If, for example, Pepsi Cola enters the market, there could even be increased demand for Consol's glass and plastic bottles.

Stephen Cranston

Boustred: SA needs big groups

SHARON WOOD

SA needed more Anglo Americans if the wealth-creating ventures necessary for the country's economic future were to be developed, Anglo deputy chairman Graham Boustred said yesterday.

Speaking at the opening of the R220m improvements to Mondi's Merebank Mill paper machine in Durban, he said that unless more such development could be brought about to create jobs and generate exports and domestic growth, the economic future was bleak.

Criticism levelled at Anglo for being too big and too monopolistic was quite wrong, he said.

"Political leaders who have never been part of the wealth-creating process should realise that large projects . . . can only be created by powerful groups with the necessary management, technical skills and financial resources," Boustred said.

SA's people could work together to create wealth and build world-class industries.

"Provided we are not conned into believing there is a free ride if we spout the correct political slogans, or support now completely discredited ideologies, we can build the future together."

He said about R6bn was needed to bring a new deep-level gold mine into production, about R4bn for a stainless steel plant and the same for a new pulp mill.

Projects of this size were not going to be developed by "tin-pot" organisations or a "dismembered Anglo American".

Mondi Paper Company executive chairman Tony Trahar said the main objective of the R220m investment in rebuilding the Merebank machine was to improve the quality of supercalendered magazine papers.

Broadside fired at trade unionists

Business Staff

(194) 19/5/94

DURBAN. — Anglo American deputy chairman Graham Boustred fired a broadside at trade unionists and politicians who advocated breaking-up corporate conglomerates.

Opening the rebuilt paper machine one at Mondi Paper Company's Merebank mill in Durban, Mr Boustred — who also is chairman of Anglo American Industrial Corporation (Amic) — said critics of Anglo's size and monopoly of the economy were "dead wrong".

"As our chairman Julian Ogilvie Thompson has pointed out, South Africa needs more Anglos, not fewer, if wealth-creating measures are to be taken," he said.

A new deep-level gold mine would cost between R6 billion and R10 billion to develop, a stainless steel mill or a pulp and paper mill from R3 billion to R4 billion.

"Investments of this magnitude

are not going to be created by tinpot companies or dismembered Anglo Americans, but by large, well-capitalised and well-managed groups with the necessary knowhow and expertise," said Mr Boustred.

"Political leaders who have never been part of the wealth-creating process but who spend other people's money should realise this. Unless we can bring about new grassroots Mondi-type developments, producing jobs and domestic and export earning growth, the economic future of our country is bleak."

The executive management of Anglo and Amic were determined to make this type of progress and would do so "once counter-productive obstacles to growth and job-creation" were removed.

"I appeal to our trade union colleagues — who aren't here, although they were invited — to assist us by sending the right messages to their leaders."

Mr Boustred said Anglo strong-

ly supported the investments in pulp and paper manufacture being by Mondi in Britain and he regarded as "ridiculous" the view expressed by "black leaders" that this type of spending was "tantamount to economic treachery".

"These important links we have and are continuing to develop are very important for the future of Mondi and the rest of South Africa."

■ Mondi executive chairman Tony Trahar told guests at the opening the paper machine — developed in the early Seventies at a cost of R17 million — had cost R220 million to rebuild. Its capacity had been increased from 88 000 tons to 128 000 tons a year, making it the first expansion of uncoated mechanical paper production in the country for several years.

The improved quality and greater productivity had convinced several major magazine publishers to buy the local product and stop importing paper.

Industry players link up over paper tariffs

B/B am 5/9/91 PAUL ASH (194) (194)

PAPER manufacturers, distributors and printers have set aside their differences to tackle the Board of Trade and Industry's (BTI's) proposed tariff structure for the paper industry.

At a meeting last Wednesday of the industry's major players, including Sappi, Mondi, the Association of Paper Distributors and the Printing Industries Federation of SA (Pifsa), it was agreed that all concerned parties would approach the BTI to argue against its proposed new tariff structure.

While it reduced the number of product categories from 477 to 212, the result would be more protection for the industry as duties would be levied on nearly all kinds of paper products, whether produced locally or not.

"All parties at the meeting agreed that tariffs should not be imposed on board and paper products that are not, and will not be, manufactured in SA," Pifsa chairman Chris Sykes said.

A list of main products that should be exempt from tariffs had been drawn up and a proposal would be submitted to the BTI.

While there had been some "differences of opinion", the most important point was that the industry's players were talking, Sykes said.

The BTI proposals, which were announced in June, came after an application by Mondi in February for a 15% duty to be levied on imported, uncoated paper, one of the paper manufacturer's major products.

The Mondi application caused an outcry from printers and paper distributors, and Trehar said it had been withdrawn "some months ago".

In its new structure, the BTI has included a 10% duty on imported, uncoated paper, which Sappi described yesterday as "totally reasonable".

BTI CE Ruel Heyns said yesterday the board was still investigating the matter and it was impossible to say when a final recommendation would be made.

CONSOL

Extending the product range

FM 6/9/91. 194 ~~196~~

Activities: Manufactures glass, plastic and paper packaging and glass tableware. Manufactures tyres and has tyre retreading interests.

Control: Anglovaal Industries 55,7%.

Chairman: C S Menell; MD: P J Neethling.

Capital structure: 64m ords. Market capitalisation: R2,56bn.

Share market: Price: 4 000c. Yields: 1,4% on dividend; 4,9% on earnings; p:e ratio, 20,3; cover, 3,5. 12-month high, 4 000c; low, 1 850c. Trading volume last quarter, 171 000 shares.

Year to June	'88	'89	'90	'91
ST debt (Rm)	3,7	7,5	21,9	22,9
LT debt (Rm)	18,2	63,2	144	136
Debt:equity ratio	—	—	0,67	0,51
Shareholders' interest	0,46	0,44	0,34	0,40
Int & leasing cover .	51,0	—	7,8	10,3
Return on cap (%) ..	24,9	23,5	24,3	31,4
Turnover (Rm)	637	738	1 556	2 071
Pre-int profit (Rm) ...	96	121	215	319
Pre-int margin (%) ..	15,1	16,4	13,8	15,4
Earnings (c)	81,5	102,3	157,7	194,3
Dividends (c)	27	33	45	55
Net worth (c)	280	352	314	453

Consol describes the year to end-June as one of consolidation after the acquisition in the previous year of the major tyre interests, Goodyear and Tredcor. Focus last year was centred on marketing and new products.

Though Consol is in mature industries, its share has held the highest rating in the packaging sector, owing partly to successful product development. The glass packaging division alone launched 13 new products. The returnable bottle remains the most popular beverage package and Consol launched a 1,5l PET plastic returnable bottle for National Beverage Services. In tyres, the Eagle Two Star was relaunched and a locally manufactured range of Wrangler recreational tyres were also launched.

Consol has been fortunate to have key customers in the buoyant beer and soft drinks industries but it also trades in markets which are far from easy. Among the latter are the declining corrugated sector, the highly competitive flexible plastics industry and the motor industry.

These developments have all taken place without an undue strain on either capital expenditure or working capital require-



Consol's Neethling ... predicting more profit improvement

ments. Consol last year invested R78,1m in capex, including a R20,3m expansion of rubber mixing capacity and of capacity for large truck tyres. Most of the R15m earmarked for the PET plant to produce the new returnable bottle was spent.

Tight working capital targets were met, except in Tycon, where the finished goods stocks exceeded targets by R16,1m. Sales of commercial and off-road tyres were disappointing in the second half. Group stocks grew by a quarter, but if Tycon's excess level is excluded stock would have increased by 19% compared with sales growth of a third. This is a notable achievement considering the destocking by customers, particularly in paper and glass tableware.

The rubber division is larger in both sales (R1,13bn or 55% of the total) and in net assets (R473m or 60%). Packaging, however, still provides 55% of operating profit. Moreover, 39% of Tredcor is held by minorities who enjoyed R24,6m of Consol's R155,8m after-tax profit. This was more than double the R10,3m attributable to minorities in the previous year.

As a steady spender on capital expenditure, Consol enjoyed sizeable tax breaks from the former allowances for depreciation. In the year of acquisition, the group was able to write off half of its investment on plant and machinery in the first year. Reduction of this to 20% was the main reason why Consol's effective tax rate increased from 37% to 46%. It is now unlikely to increase further, so the tax rate should not further impede earnings growth.

Group MD Piet Neethling is predicting an improved profit performance, which looks likely on past form. Apart from a small dip in 1986, EPS has grown solidly over seven

years, increasing 450% in that time. The impending rights issue (*Fox* August 30) will dilute EPS, but at the present market price of R40, an issue for R200m would have a dilution of less than 8%. With Consol trading at almost nine times tangible NAV, it looks a good time to come to the market. There are strong reasons for shareholders to follow their rights and clearly Anglovaal Industries has no intention of diluting its stake.

Consol continues to test new highs. At R40, and even at demanding yields of 4,9% for earnings and of 1,4% for earnings, the share should be accumulated over time.

Stephen Cranston

GENBEL FM 6/9/91

Cash rich

Activities: Long-term investor, holding portfolio of investments mainly in SA mining and resource industries. Also manages a trading portfolio and controls significant mineral rights.

Control: Gencor 49,98%; Sanlam 9,41%.

Chairman: T L de Beer; MD: A D Botha.

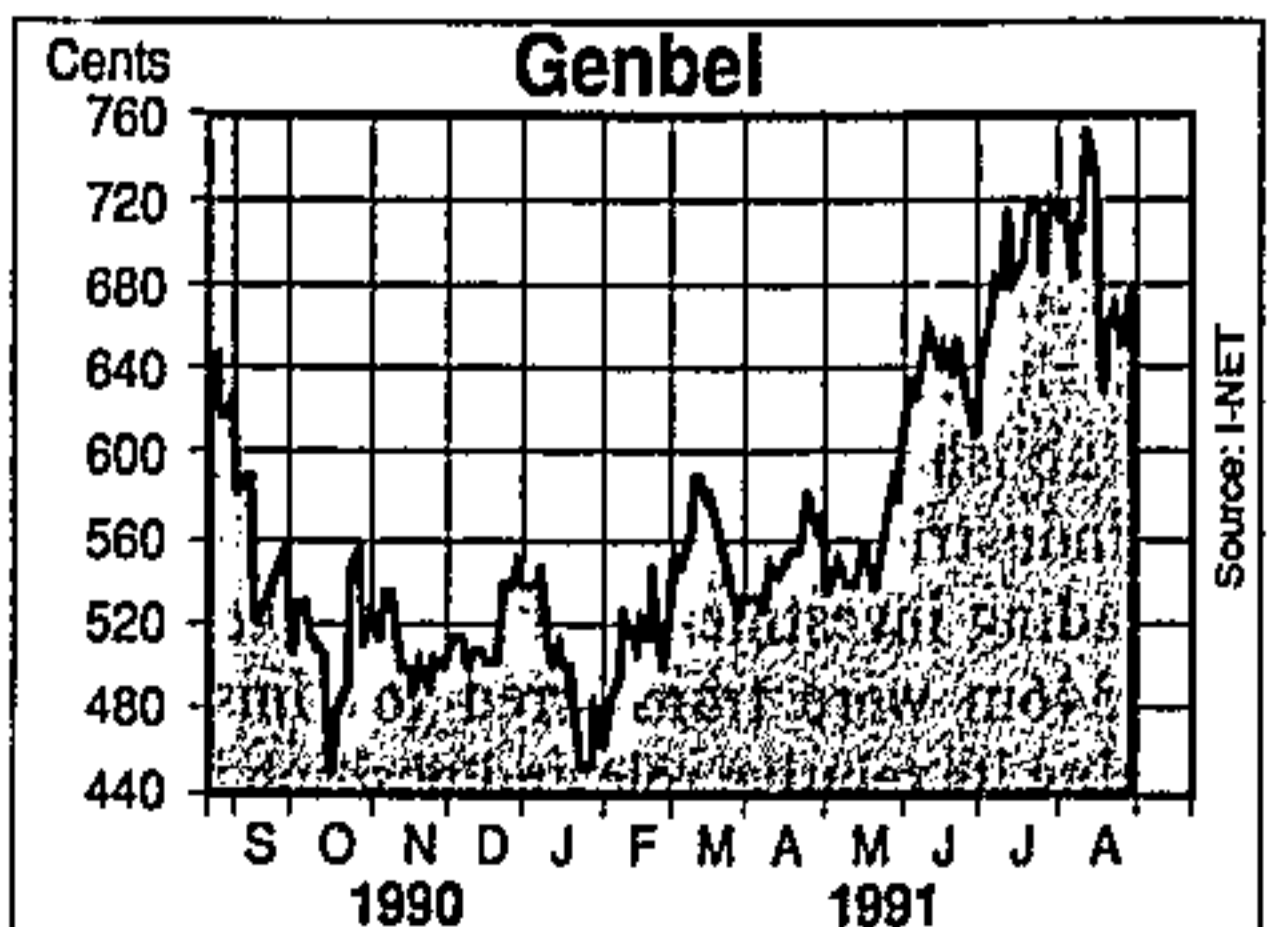
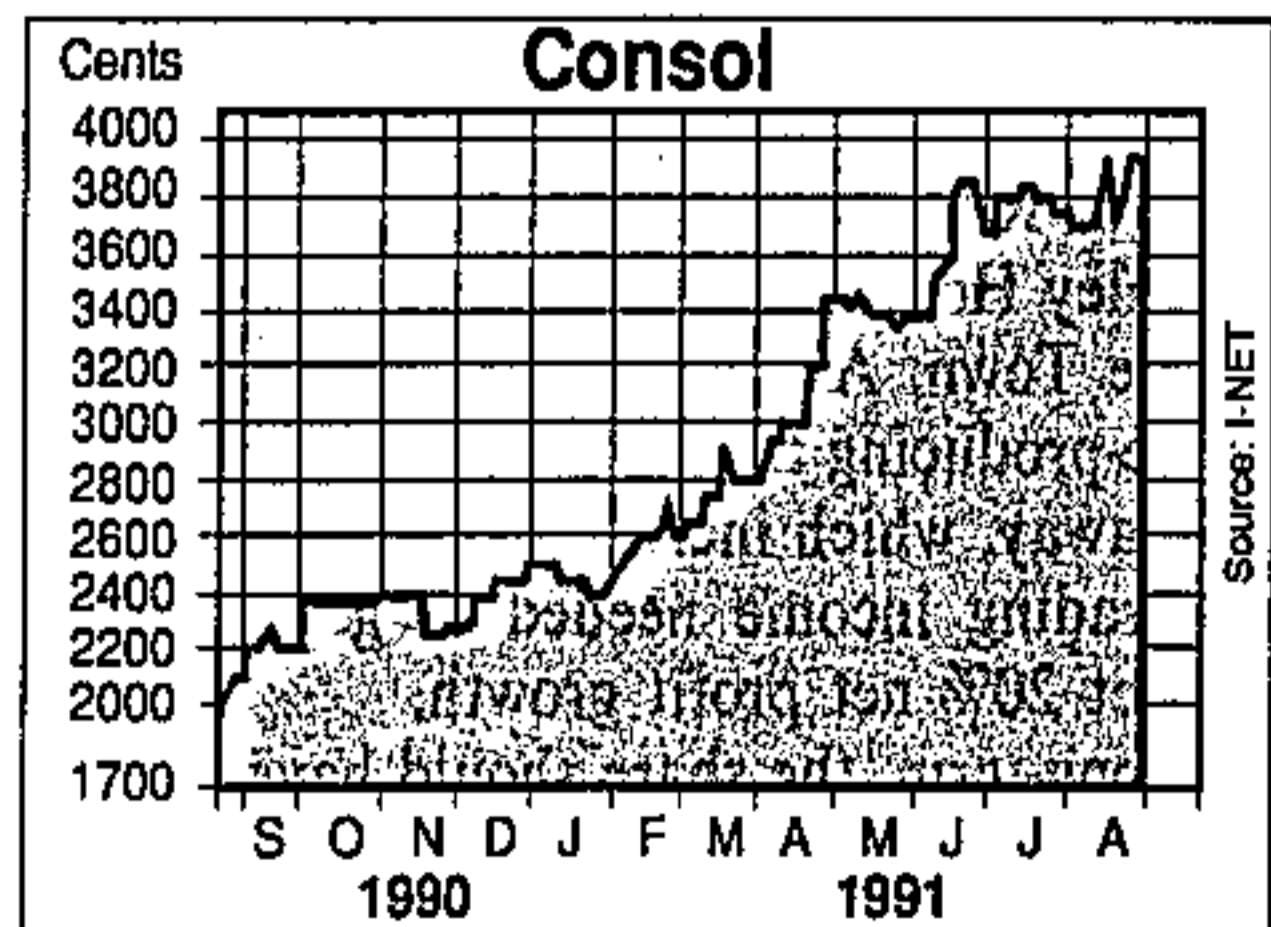
Capital structure: 432,3m ords. Market capitalisation: R2,85bn.

Share market: Price: 660c. Yields: 4,9% on dividend; 4,9% on earnings; p:e ratio, 21; cover, 1,0. 12-month high, 750c; low, 450c. Trading volume last quarter, 4,7m shares.

Year to June	'88	'89	'90	'91
Investments (Rbn) ...	1,64	2,53	3,64	3,03
Net income (Rm)	128	100	157	415
Earnings (c)	25,1	25,9	28,8	32
Dividends (c)	25	26	27,5	32
Net worth (c)	458	664	785	740

Refocusing of Genbel's interests has continued and both distributable earnings and the dividend grew roughly in line with inflation in the 1991 year, though the NAV was slightly lower at year-end. After reorganisation of the portfolio, liquidity has risen sharply. There was a cash balance of R324m at June 30, while net current assets have swung from the previous year's net indebtedness of R252m to a positive R173m.

Chairman Tom de Beer says the growth in



COMPANIES

New plant puts White in black

B/pam
194
11/9/97
ROBERT LAING

ALEX White Holdings' new packaging machinery began to pay its way last year, helping the group return to profit and resume dividends.

Chairman Terry Kane said in his annual review: "The new machinery is now well utilised and attention will be focused on increasing output levels and improving all levels of services."

Alex White spent R11m on plant in 1989, resulting in high borrowings which pushed 1990's earnings down to -1,6c from 6,7c a share.

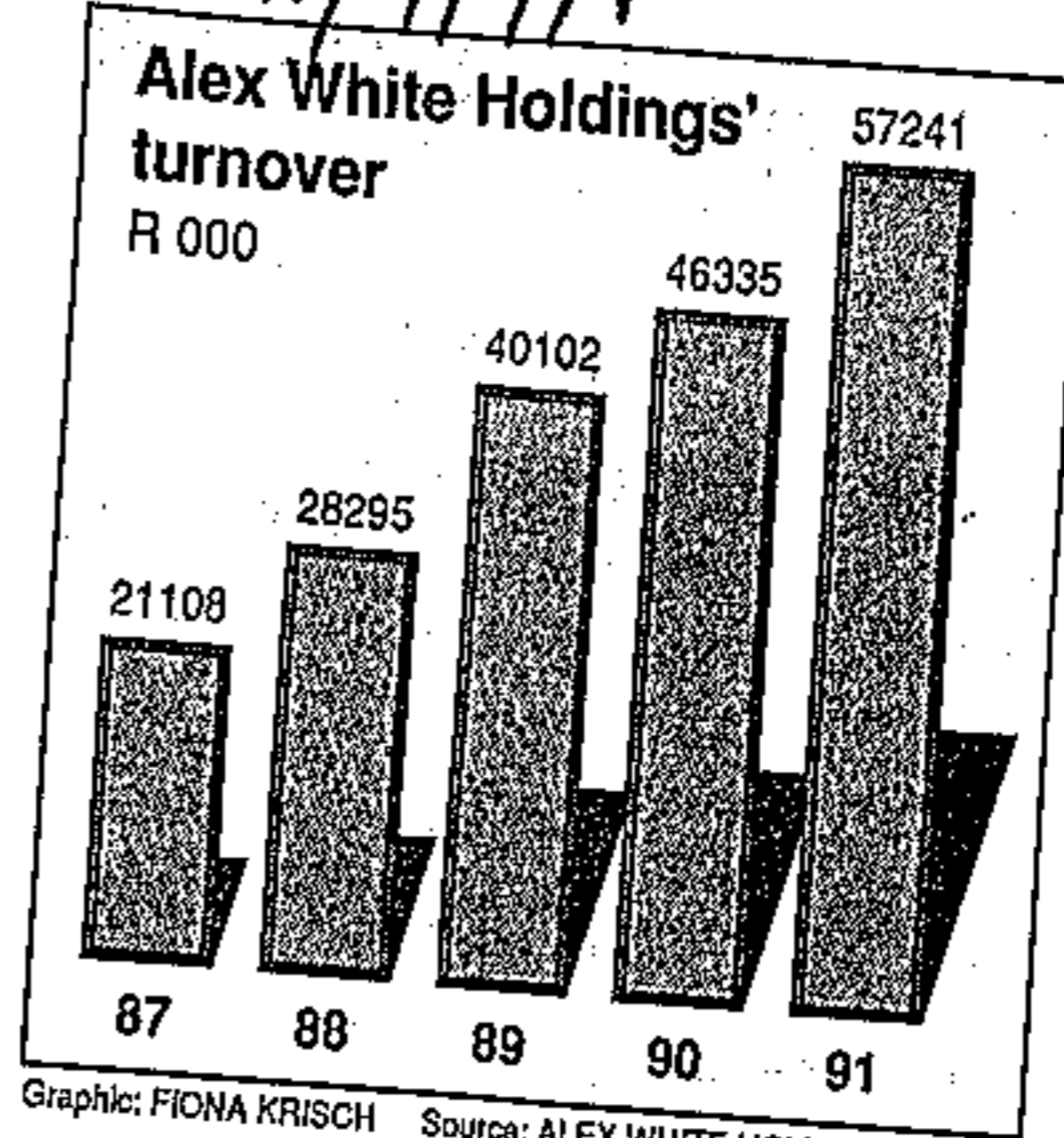
Expanding

Its results for the year to end-June showed earnings recovered to 5,6c a share and a final dividend of 2,5c a share was paid.

The group's R57m turnover was derived from its packaging (66%), printing (33%) and property (1%) interests.

Financial director Patrick Kane said Alex White concentrated on niche markets in the packaging industry, including fruit wrappers.

The new machinery produces lami-



nated wrappers used to package soap and margarine. Kane said the group intended expanding into the medical packaging market.

He said the business form market, in which Alex White's printing division competes, was overtraded and faced shrinking demand as electronic data interchange (EDI) gained popularity among businesses.

Alex White's property interests were limited to owning the land its assets are housed in and no significant changes took place in its property portfolio, Kane said.

The group is poorly rated by the market, trading at 45c while its net asset value is 106c a share.

Holdains lifts stake in Carlc^{Star}cor^{16/9/91}

By Finance Staff

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Holdains has increased its direct interest in Carlton Paper (Carlc^{Star}cor^{16/9/91}) to 24,94 percent.

Earlier this year, it swooped on Sun Packaging Investments, acquiring a 57 percent stake in that company and so consolidating its position in the styrene packaging market.

Holdains, as joint share holder in KCSA Holdings (Pty), which controls 52 percent of the issued share capital of Carlc^{Star}cor^{16/9/91}, has now increased its direct stake in the company.

Holdains now controls 50,04 percent of Carlc^{Star}cor^{16/9/91}'s equity and will consolidate its financial results for the year to August.

Holdains chief executive Ian Willis, who is also chairman of Carlc^{Star}cor^{16/9/91}, says Holdains raised its holding because Carlc^{Star}cor^{16/9/91} presents a good investment opportunity.

Carlc^{Star}cor^{16/9/91} posted earnings growth of 41 percent in the year to December 1990 and continues to experience real growth in the demand for its products, he says.

Consol sounds note of caution

PRIEST IN
REV. D.N.
TEL:

Packaging and rubber manufacturer Consol turned in a bumper performance in the past year, but no immediate let-up in the recession is expected to dampen sales growth this year.

In the latest annual report, chairman Clive Menell says past results were heightened by the consolidation of a full year's trading of Tredcor, compared with only six months' contribution in the previous year, and by a marked improvement in the profits of the plastics division.

He adds that the group also benefited from the fact that its businesses focus on non-durable or semi-durable products, the demand for which generally held up well. *Star 16/9/91*

The year ahead, according to Mr Menell, could see a turning point in the economy, which could boost performance in the second half of the financial year.

Mr Menell says packaging is a good barometer of the state of the economy and that volumes are expected to pick up early in the upswing.

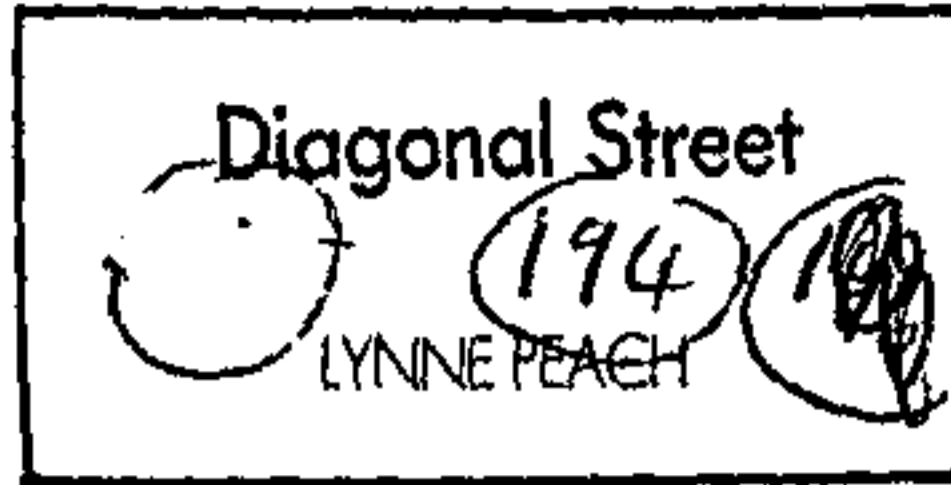
He concludes that even if recovery is slow, some earnings growth should be produced in the current financial year.

Consol, 57,7 percent-held by Anglovaal Industries, is active in two sectors — packaging and rubber.

The packaging sector manufactures and markets glass, plastics and paper packaging and glass tableware. It also mines and processes industrial minerals.

The rubber sector manufactures and markets new and re-treaded tyres and industrial rubber products.

In the year to June, group turn-



over climbed 33 percent from R1,6 billion to R2,1 billion and operating profit shot up 49 percent from R214,8 million to R319,4 million.

After net financing costs rose 13 percent from R27,4 million to R31,1 million, pre-tax profit soared 54 percent from R187,3 million to R288,3 million.

An increase in the effective tax rate from 37 percent to 46 percent reduced the rise in taxed profit to 32 percent from R117,9 million to R155,8 million.

After taking into account outside shareholders' interests and preference dividends, attributable profit advanced 23 percent from R101,0 million to R124,5 million.

Earnings per share grew from 157,7c to 194,3c. The dividend for

the year was 55c a share, compared with a payout of 45c in the previous financial year.

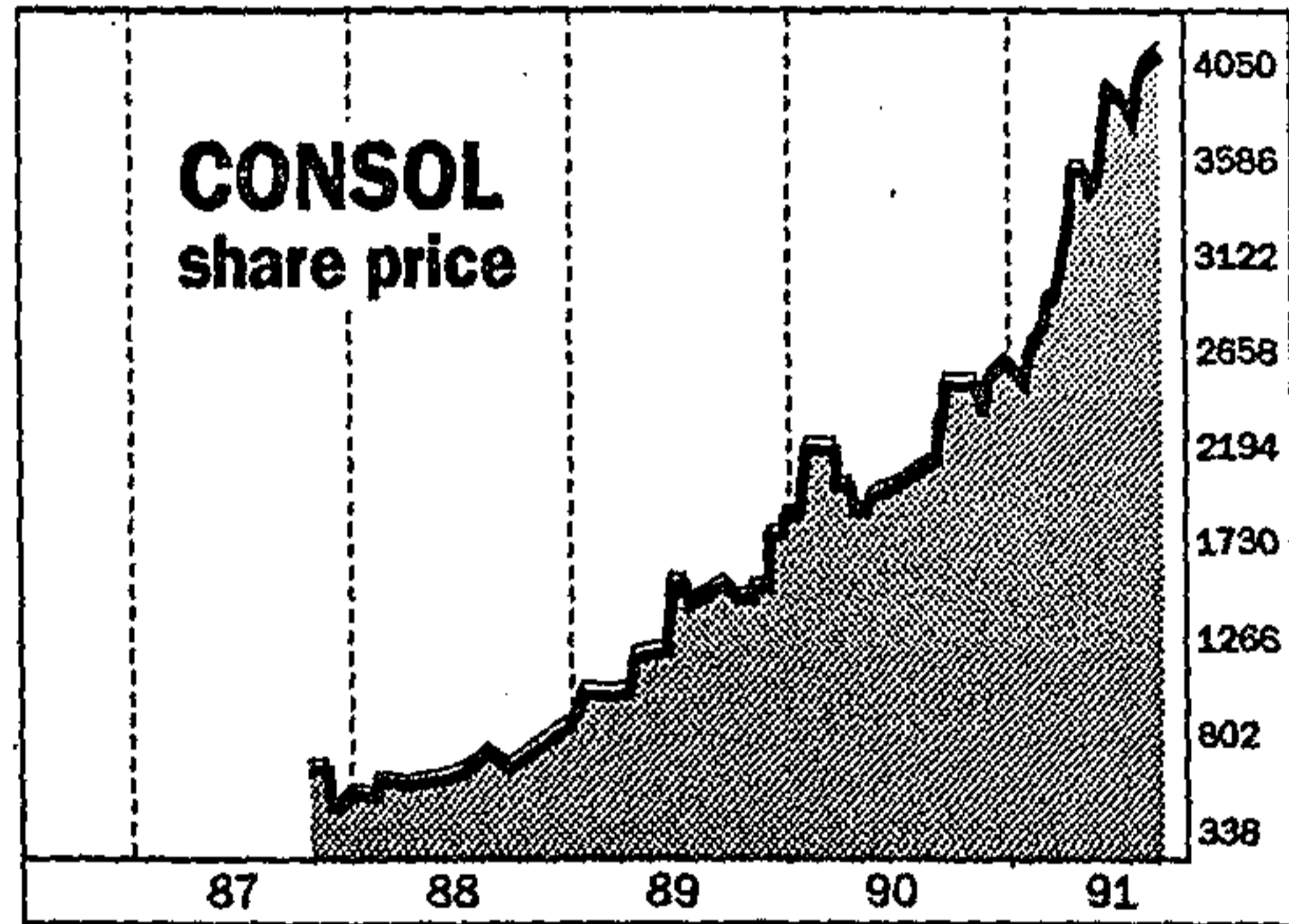
The balance sheet remains strong, with gearing down from 34,8 percent a year ago to 29,2 percent.

Mr Menell says strict cash requirement targets have again been set for all divisions in the current year.

COMMENT: Consol, priced at R40,50, is trading on a P/E ratio of 20,8 and provides a dividend yield of 1,4 percent.

Although the share with its excellent track record and sound long-term prospects deserves a high rating, it is relatively expensive compared with other blue-chip shares.

Consol's shares have been particularly strong performers, having moved up from less than 600c four years ago to a current high of R40,50. The trend remains positive and will only be threatened if the price starts slipping below R35.



Holdains swops shares to lift stake in Carlcor

By Jabulani Sikhakhane

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Paper and packaging group Holdains swapped shares with the metal industries pensions funds and other investors to increase its stake in tissue converter Carleton Paper Corporation (Carlcor), Holdains deputy chairman and chief executive Ian Willis said yesterday.

Holdains issued 1 315 838 shares in exchange for 1 296 800 shares in Carlcor, lifting Holdains' direct stake in Carlcor to 24,04 (15,80 percent). Taken together with Holdains' indirect stake of 26 percent, it means that Holdains now has 50,4 percent of Carlcor.

According to the latest share register, the Metal Industries and Engineering Industries pension funds together held 979 500 shares or 6,2 percent of Carlcor. The other 317 300 shares were acquired in the market, Mr Willis said.

The deal is effective from August 29, one day before Holdains year-end, which allows Holdains to consolidate Carlcor figures.

Financial director David Price said only Carlcor's balance sheet will be consolidated, and will only equity account Carlcor's income for the year ended August. For financial 1992, both income state-

ment and the balance sheet figures will be consolidated.

Holdains, via its 100 percent-held subsidiary Malbak Investment (Carlcor), is a joint partners with Kimberley-Clark Corporation in KCSA Holdings which controls 52 percent of Carlcor. Kimberley-Clark also has a direct stake of 12,7 percent in Carlcor.

Mr Willis said Carlcor was "a first rate investment which has shown real volume growth when the rest of the economy was in decline".

The Carlcor share price has had a strong run since the beginning of the year, rising R21 to R37. This sparked rumours that

the Kimberley-Clark Corporation might be looking at increasing its stake in the group. However these have been squashed by the Holdains deal. Holdains' share price has also had a strong run, rising from R20,50 to R40.

Of interest is whether Sanlam will sell off its Carlcor holding to Holdains. Sanlam has increased its stake in Carlcor by 90 000 shares from 1 176 100 to 1 266 100 shares.

Early this year Sanlam sold its 23,4 percent stake in Sunvest to Holdains to help it acquire control of the Cape-based packaging group.

Zurich base for Sappi offshore trade

1994
cr 18/9/91

JOHANNESBURG. — SA Pulp and Paper Group said it has established a new Zurich-based company, Sappi Trading Ltd, as a holding company for its offshore trading activities.

Sappi's offshore sales exceeded R1bn in its financial year to last February 28, and it called the formation of Sappi Trading a step in its ambition of becoming a global pulp and paper player. It said its thrust into international markets by way of exports from SA and via the recently formed Sappi Europe division is set to grow as trade barriers are removed.

Robert Hope, appointed Sappi Trading MD, said the company would have responsibility for the group's trading businesses in the Far East, the United States, Europe and Africa.

Sappi Trading will manage the group's international trading including selling and distribution, while the manufacturing divisions will be responsible for product and market development, and the ultimate pricing structure of their products. — Reuter

ALEX WHITE FM 20/9/91

Recovering

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The recovery at Alex White has been welcomed by the JSE, which has run the share up from a low of 30c to the current 45c to equal its 12-month high. Any celebrations, however, are likely to be muted by two other considerations. Firstly, the price is still 55c

continue ->

Activities: Packaging and printing.
Control: Directors 57,5%.
Chief Executive: T P Kane.
Capital structure: 16,1m ords. Market capitalisation: R7,2m.

Share market: Price: 45c. Yields: 5,8% on dividend; 12,4% on earnings; p:e ratio, 8,0; cover, 2,2. 12-month high, 45c; low, 30c. Trading volume last quarter, 85 000 shares.

Year to June	'88	'89	'90	'91
ST debt (Rm)	3,0	9,1	11,7	9,8
LT debt (Rm)	0,3	2,2	7,4	5,6
Debt:equity ratio	0,16	0,65	1,11	0,88
Shareholders' interest	0,67	0,48	0,35	0,42
Int & leasing cover	9,2	3,1	0,9	1,6
Return on cap (%) ..	15,0	7,9	5,6	11,3
Turnover (Rm)	28,3	40,1	46,3	57,8
Pre-int profit (Rm) ...	3,6	2,8	2,4	4,7
Pre-int margin (%) ..	12,8	7,1	5,2	8,1
Earnings (c)	13,6	6,7	(1,6)	5,6
Dividends (c)	6*	4,1	—	2,5
Net worth (c)	104	111	105	108

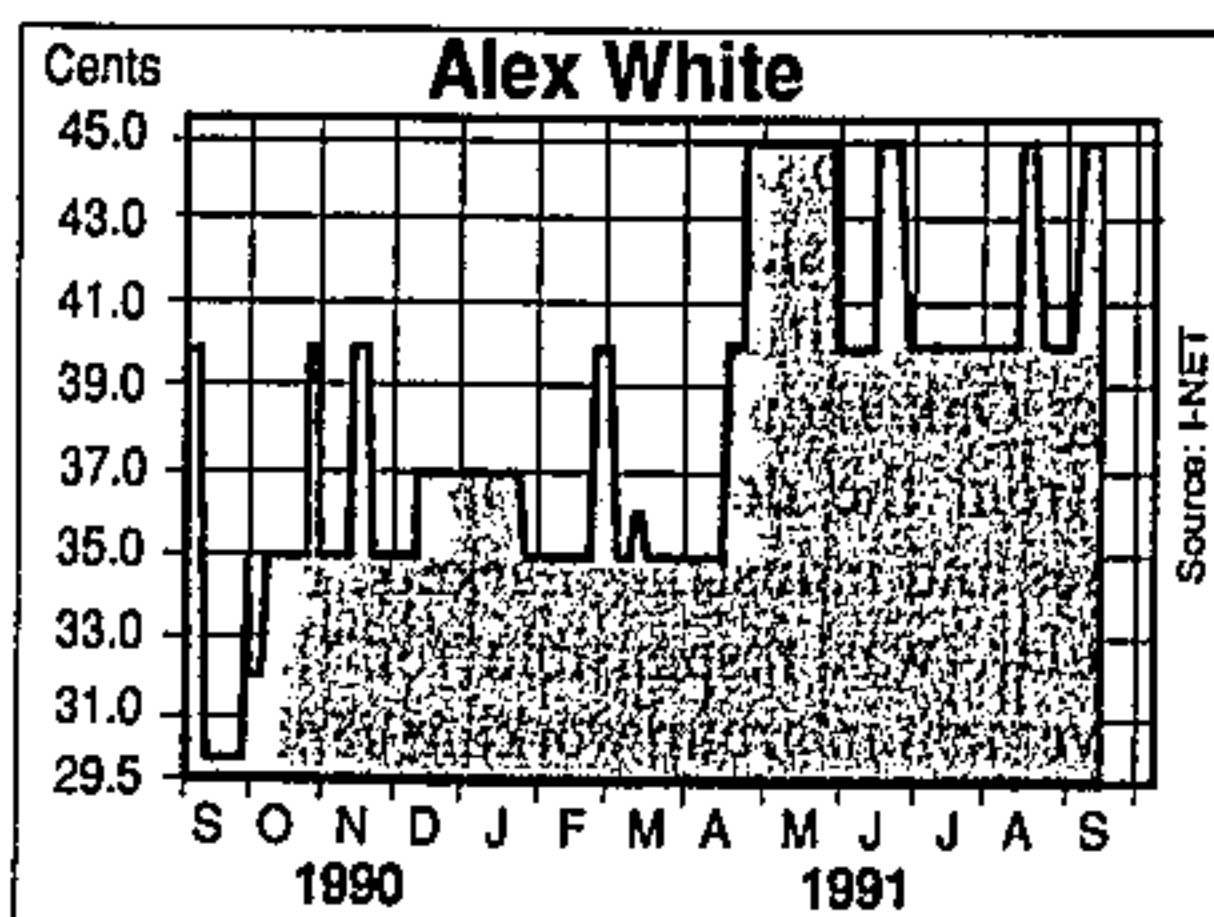
* Annualised

short of the original issue price, underscoring the very poor results of 1989 and 1990, when the group suffered severe indigestion from a multimillion rand expansion programme. Secondly, the recovery still has a long way to go before the group can be said to be fully out of the woods.

Problems started in 1989 when Alex White enlarged its total asset base by almost 50%. Much of the increase was funded with debt, and a combination of deteriorating trading margins and rising interest rates led to severe negative profit gearing. These conditions continued into 1990 and the upshot was that, though operating profit for that year was still about two-thirds the level of 1988, EPS over the same period plunged from 13,6c to a negative 1,6c.

If that sounds like a pretty conventional scenario, so too has been the recovery. There were two dominant features in the 1991 results. The first was the improved margins, which probably reflected better capacity usage and a more focused product mix. The second was much-improved asset management. Total assets were pared slightly despite a 24% turnover gain and, significant in this context, net working capital requirements were reduced. This enabled the group to repay more than R3m of debt. While this has not yet made an impact on the income statement, it should contribute to a continuation of the recovery during this year.

All this is, of course, positive. But it does not change the fact that the overall financial position remains far from strong. For example, though operating profit was a record



R4,7m last year (a point that the group strangely does not mention), the still-heavy interest burden meant that pre-tax profit was little more than half the 1988 peak. This difference carried through to the bottom line, with EPS of 5,6c still 59% down on their level of three years ago.

Turning to the balance sheet, though debt has been reduced, net borrowings are still the equivalent of 88% of total shareholders' funds — far too much for a group whose peak profitability was a fraction over 18% on capital employed, excluding interest-free liabilities. The current return, similarly calculated, is 13,6%, from which it is apparent that the problem of negative profit gearing has yet to be overcome, a point that is underlined by the slender 1,6 times interest cover.

If the recovery is to continue, the present process of consolidation must be maintained. It is not going to produce any fireworks, but over a period of, say, two years the group should be able to trade itself into a materially stronger position.

Brian Thompson

DARMAG FM 20/9/91

Tighter controls

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Activities: Manufacture of rubber and plastic products for industrial applications.

Control: Zimco 51% — controlled by Anglo American Corp.

Chairman: D A Buchanan; **CE:** R M Dersley.

Capital structure: 22,2m ords. Market capitalisation: R7,8m.

Share market: Price: 35c. Yields: 5,7% on dividend; 25% on earnings; p:e ratio, 4,0; cover, 4,4. 12-month high, 40c; low, 25c. Trading volume last quarter, 120 000 shares.

Year to Mar	'88	'89	'90	'91
ST debt (Rm)	1,0	0,6	3,8	1,8
LT debt (Rm)	2,4	2,3	2,7	1,7
Debt:equity ratio	0,34	0,33	0,69	0,26
Shareholders' interest	0,44	0,5	0,5	0,6
Int & leasing cover	7,9	7,0	1,3	3,2
Return on cap (%) ..	20,1	21,8	7,5	17,4
Turnover (Rm)	18,9	23,8	26,4	26,2
Pre-int profit (Rm) ...	3,1	4,0	1,5	3,2
Pre-int margin (%) ..	16,6	16,8	5,6	12,0
Earnings (c)	11,6	11,1	3,0	8,8
Dividends (c)	2	5,3	—	2
Net worth (c)	32,3	39,1	42,4	49,3

A 62% slump in operating profit for the 1990 financial year was followed this year by an even more dramatic turnaround, with profit rising by 113%. Perhaps there is something to be said for having a capable big brother to call on when the going gets tough.

Darmag and Sondor, though operating in different ends of the plastics and rubber industry, are effectively controlled by Anglo American Corp (Anglo), through unlisted Zimco. For Anglo, these companies represent a strategic investment. Should there be evidence that all is not well, Anglo can step in, take control, institute remedial action and ensure that there is follow through. In the case of Darmag, this appears to be what happened.

Some of the problems were apparent in the

Continue ->

ANGLOVAAL INDUSTRIES

Coming to market

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FM 20/9/91

Anglovaal Industries (AVI) is well-placed to raise additional capital from the market after announcing 13% earnings growth for the year to end-June. It is one of the few industrial conglomerates to maintain earnings growth through the recession.

AVI intends to raise R388m by offering 14 debentures for every 100 ordinary shares. It needs R234m to follow its rights in two issues being held simultaneously by its strongest listed subsidiaries, Consol, whose own issue will raise R300m, and Irvin & Johnson (I & J), whose issue will raise R97m. The remaining R154m will be used to "maximise future business opportunities." Altogether, R480m of group debt will be eliminated.

The three issuing companies' shares all enjoy buoyant ratings; AVI stands on an earnings multiple of 14,9 and a dividend yield of 1,2%; Consol on 20,6 and 1,4%; I & J on 14,9 and 2,2%. Consol, I & J and unlisted National Brands contributed almost three-quarters of earnings and more than offset the reduced contribution from construction and textiles.

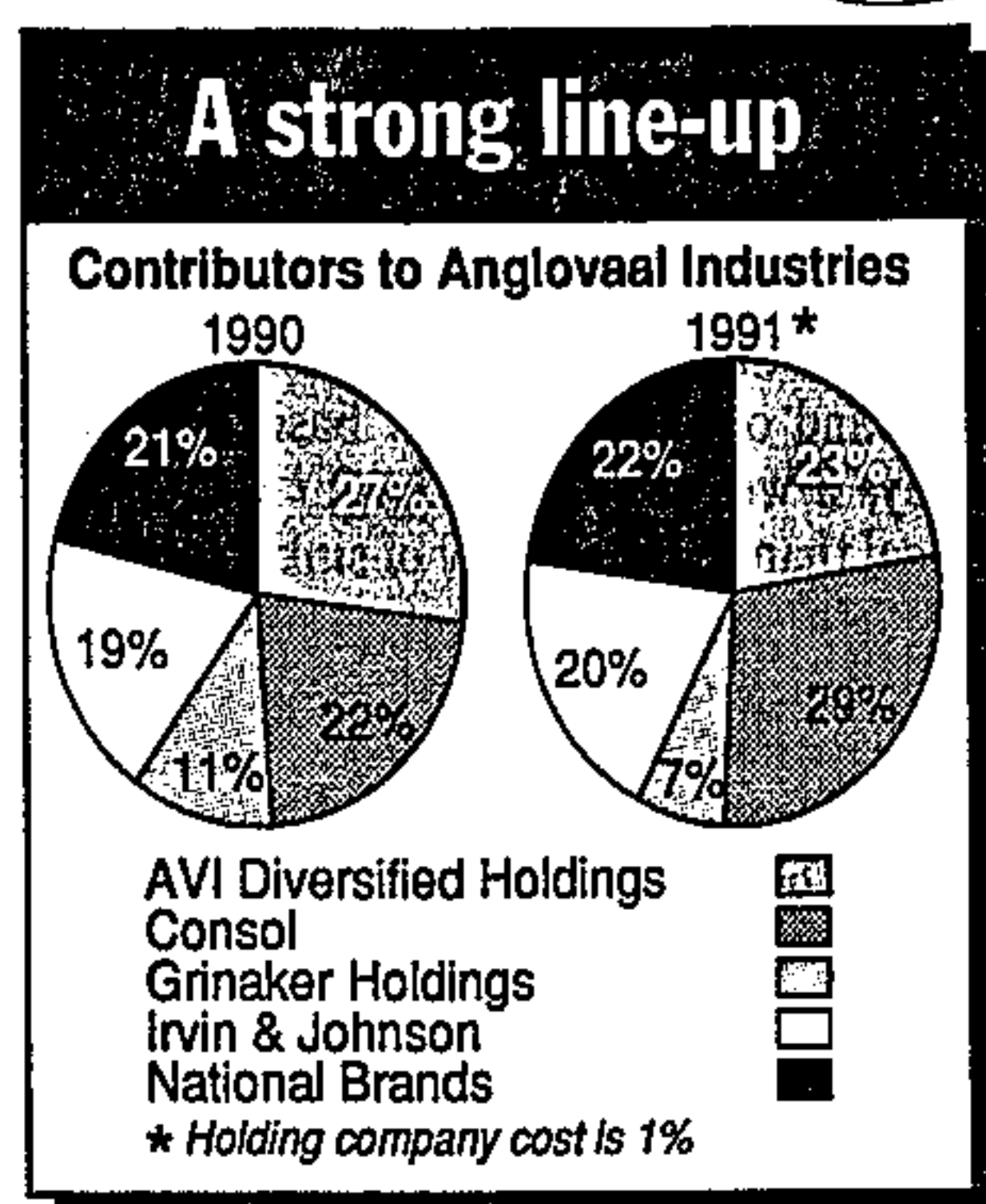
AVI group MD Jan Robbertz says that, ideally, rights issues should coincide with an acquisition or major expansion, but in the real world conditions are not always ideal at that time. AVI's capital spending will accelerate — R1,1bn will be spent over three years compared with R206m in 1991 — but there is no dominant headline-grabbing project.

AVI has a good eye for acquisitions, which often take place at short notice. Most significant was Consol's purchase of Goodyear from its American parent in July 1989. Others have included HiPerformance Systems, the former Hewlett-Packard, and Mooi River Textiles.

AVI has an excellent opportunity to raise cheap finance. Existing shareholders will find that the interest available from convertible debentures give a much more attractive yield than ordinary shares. AVI and Consol are offering 5% and I & J 6% — about three times the current dividend yield. Even after tax, the debentures will still offer a better yield, yet these dividend pay-outs cost AVI much less to service than loans.

For Anglovaal, which holds 60% of AVI's ordinary shares, the rights issue does not threaten control. Anglovaal's philosophy is to preserve control but keep gearing low, which can be a delicate balancing act, particularly for a family-controlled company.

Anglovaal's share of the rights issues will be R242m, a sum it can afford without upsetting its own gearing. When new shares in AVI were last issued in 1989, Anglovaal's stake fell from 66%. Now, Anglovaal has agreed to underwrite the offer, so its stake in



AVI will remain intact. AVI is likely to provide the group with better earnings growth than its mining interests in the short term, so Anglovaal cannot afford to reduce its exposure to industry.

At R97, the AVI debentures are being offered at a 13,4% discount to the current market price of R112. The debentures will convert to ordinary shares when dividends match the debenture interest payments. Analysts expect this to be between 1997 and 2000. And AVI has just one class of ordinary shares. A storm was caused during last year's Anglovaal rights issue, as the group had earlier issued N shares, which carry only 1/500th of the voting power of A shares. No such device has been used by AVI.

The market generally supports the rights issue, not least because it will bring high-quality scrip into play. AVI's earnings and dividends have doubled since 1987. The operating margin has increased from 9,3% to 9,8%. Gearing peaked at 31% in 1990, but it is now down to 25%.

AVI's gearing has already been improved by the sale announced this week of 16,2% of Cadbury Schweppes. This might seem a strange decision in view of Cadswep's record and prospects. But Anglovaal does not like passive investments and it had hoped to buy a larger stake in the future, perhaps if Cadswep Plc had disinvested.

AVI sold the stake for R177m — a capital

WINNING THROUGH

Year to June 30	1990	1991
Turnover (Rbn)	6,49	7,39
Operating income (Rm) ..	631	722
Attributable (Rm)	208	234
Earnings (c)	733	825
Dividends (c)	135	150

gain of R154m. This money can be made to work much harder for the group, as only the dividend income from Cadswep was brought to account. Short-term borrowings, which were R200m in the last balance sheet, will be almost wiped out by this deal. Once the surplus of the rights issue is paid in, gearing will be barely 10%.

Ostensibly, I & J has the least need for a rights issue. It has more cash than borrowings. But it has established a joint venture with a Soviet consortium in Namibia and may have further expansion plans. I & J has had few disappointing years in its 28 as a listed company, though 1990 was prominent among the lean years. In 1991, however, I & J lifted earnings by 20%, despite low chicken prices and no real growth in the processed foods market.

Consol is now the star performer of the quoted companies in the AVI group, and it contributed 29% of 1991 earnings. However, the share is widely considered to be overpriced, so there is a deeper discount for Consol debentures. At R34, they will be issued at a 15% discount to the current market price of R40,50. So the issues have been carefully structured to allow for the recession and a generally tired-looking stock market.

Stephen Cranston

TEMPORA FM 20/9/91

More sweeteners

Normally, investment trusts trade at a discount to net asset value, but this has not been the case with Suncrush subsidiary Tempora. It now trades at R19,50, a premium on current NAV of R18, calculated by chairman Robin Hamilton.

The shape of the trust has changed significantly over the past two months. Tempora has had a rights issue and R100m was placed with institutions to fund the purchase of 16% of Cadbury Schweppes, to increase the group's holding to 22%.

Hamilton expects the share to be more tradeable than either of its two major investments, Cadswep and 20% of Dalys, the Suncrush holding company. Suncrush's stake in Tempora has fallen from 62% to 43%, and the recent R100m placing was spread among eight institutions. Tempora is now predominantly a vehicle for investment in the soft drink and confectionery market. Its stake in Cadswep is worth R240m, in Dalys R130m. Its other significant investments are R30m in Sakers and Saficon, and about R3m in Seardel and Searcon.

Hamilton says he does not expect the Suncrush interests to be involved in any way with

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DERRICK MINNIE: Some cheaper

Housing stalled

STATE spending on low-cost coloured housing has been slashed.

House of Representatives director of housing Anton Fuchs says reduced cash allocations for coloured affairs have caused the cuts.

One of the more successful projects to get the axe is the Delft scheme on the Cape Flats.

Mr Fuchs says there will be no State financing for new houses at Delft this year. But

CSS figures in new row

CENTRAL Statistical Service (CSS) may have committed another boob with the producer price index. *S/Times*

Corrugated cardboard prices rose by 22% in the year to July 1991, according to CSS. *(Burr)*

But three packaging manufacturers — Nampak, Consol and Kohler — disagree. They account for about two-thirds of the business.

Nampak managing director Donald McCarton says: "A 22% increase is nonsense. The average was 12% to 13% a year ago. Our corrugated board price increased by 12% on average in the 12 months to July." *22/7/91*

Consol Group managing director Piet Neethling says the 22% increase seems wrong. He believes there has been an average 14% increase.

Kohler managing director Derrick Minnie says his company has raised prices by an average of less than 10% and has not recovered increased costs.

Mr Minnie says: "In some cases we have even reduced prices. Paper mills have passed through lower price in-

By DIRK TIEMANN

creases. In the current competitive environment, we are struggling to pass them on.

"This year the price of raw material from the mills has risen only once — by 12% to 15%. This is the first time that increases have been so low. In the past prices have gone up twice a year."

The cost of packaging could be one of the biggest factors lifting processed food prices. Corrugated cardboard is used mainly for outer containers for food.

Check

CSS bases its PPI estimates on replies received from manufacturers. It is difficult to understand why its increase is much higher than those given by the Big Three.

CSS deputy director David van den Heever says: "We send our questionnaires to a representative sample. Although we cannot disclose the figures supplied by respondents, we check them."

"When there is an anomaly in a price, we check with the manufacturer. We also quote the last price he gave us on the new questionnaires."

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Blockbuster rights issue on the cards for Sappi

194

Aug 25/1991

Business Staff

SAPPI is gearing itself up to take full advantage of the coming business boom.

A sharp drop in profits in the six months to August has not stopped the company from announcing it intends asking shareholders to subscribe R800 million to R1 billion for the expansion of its Saiccor rayon viscose plant in Natal and other projects.

This is believed to be the biggest rights issue ever proposed by a South African industrial company.

The news follows hard on the heels on an announcement that three companies in the Anglovaal group, also with an eye to expansion, are planning to raise between them about R785 million.

As the financial institutions which own most of the shares of the Sappi and AVI groups are flush with cash, the two groups are not expected to have any difficulty raising the money.

Saiccor, which Sappi bought recently, is the largest single dissolving pulp producer in the world. It is also the lowest-cost

producer, says Sappi executive chairman Eugene van As.

The intention is to increase the size of the previously planned expansion to convert the mill to oxygen bleaching.

This is likely to make it the first major dissolving pulp mill in the world to be completely free of elemental chlorine, which is a major environmental advance.

Flexibility Plans are to make the mill more flexible to enable it to produce not only viscose pulp, but dissolving pulp for acetate markets and for solvent-spun viscose.

The cost is expected to be more than R700 million.

Borrowing the money would increase the group's debt load and therefore the board has decided on a rights issue to raise the capital.

Initially this will enable Sappi to reduce its loans, which are higher than the company would like.

It will also permit future cash flows to be made available for the expansion of the Enstra and Tugela mills.

A special general meeting of the company will be called for

shareholders to approve the proposed increase in capital.

As forecast by Sappi earlier this year, its earnings for the six months to August dropped 39 percent from R168,7 million, equal to 181c a share, to R102,4 million, equal to 110c.

However, the interim dividend is unchanged at 80c a share.

Turnover rose nine percent to R1,4 billion. But operating income fell 22 percent to R178,9 million, while finance costs rose 53 percent from R75 million to R114,7 million.

No tax was payable. Taxed income fell from R182,6 million to R74,3 million, but income from associated companies jumped from R7,9 million to R48,9 million.

An amount of R20,8 million (R21,8 million) accrued to minority shareholders.

Mr Van As says the lower profit was mainly the result of:

- A continuing decline in the dollar world market price for forest products;
- The high level of interest rates;
- Weak domestic trading conditions;

RUHOLD Fm 24/9/91
Capital profits (194)

Activities: Financial services and the manufacture of flexible packaging products.

Control: Directors (56,1%).

Chairman: J Rubenstein; MD: A C Alves.

Capital structure: 33,2m ords. Market capitalisation: R23,2m.

Share market: Price: 70c. Yields: 8,6% on dividend; 21,9% on earnings; p:e ratio, 4,6; cover, 2,6. 12-month high, 87c; low, 40c.

Trading volume last quarter, 89 400 shares.

Year to Feb 28	'88	'89	'90	'91
ST debt (Rm)	21,6	27,3	24,2	37,0
LT debt (Rm)	11,4	18,3	3,6	10,2
Debt:equity ratio	2,29	3,39	1,19	1,16
Shareholders' interest	0,25	0,18	0,35	0,35
Return on equity (%) ..	31,7	24,5	10,5*	14,1
Pre-tax profit (Rm) ..	5,1	6,5	3,1	3,4
Earnings (c)	13,6	9,9	7,4*	15,3
Dividends (c)	5	6	6*	6
Net worth (c)	43	40	70	108

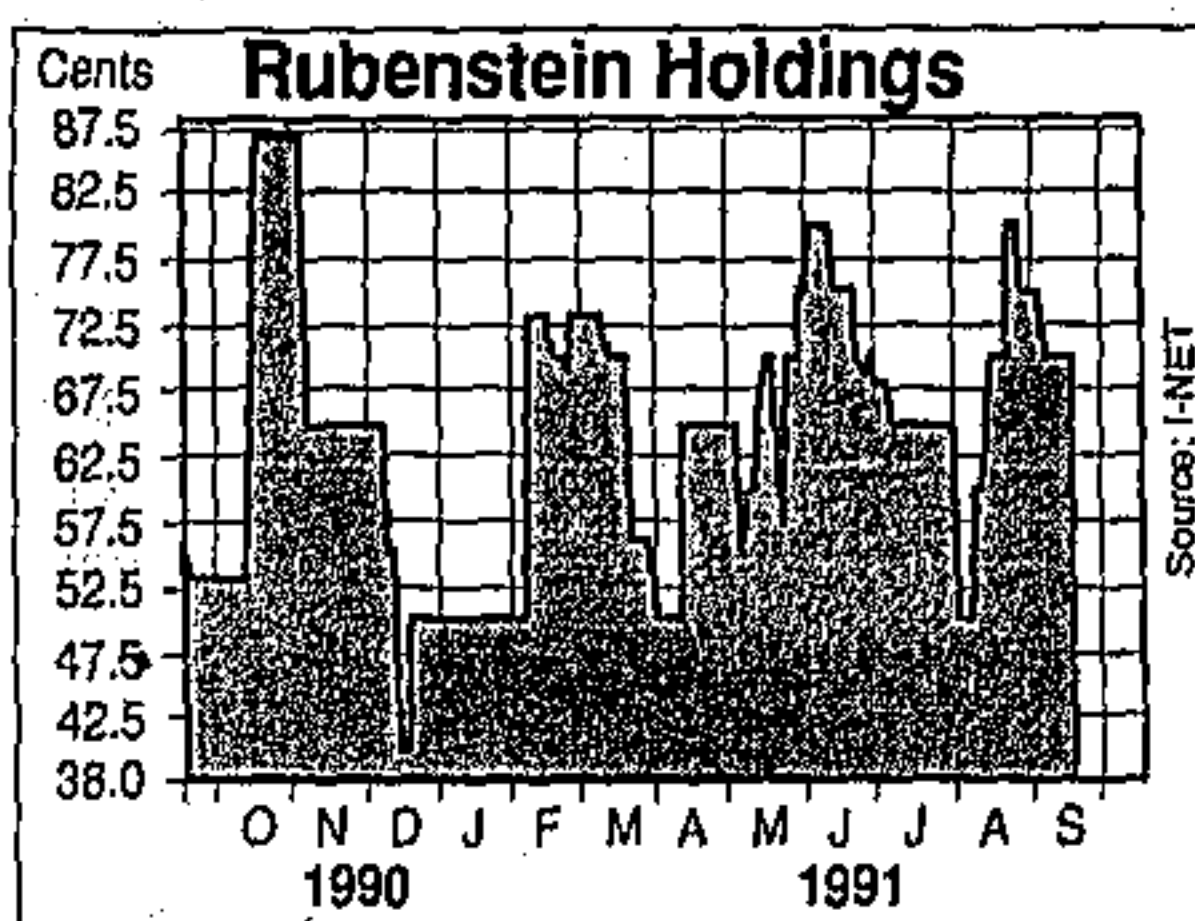
* Annualised.

Not many companies can boast of having sold and repurchased the same assets in a single year — and to have made substantial capital profits on both legs of the transaction. This is exactly what Rubenstein Holdings achieved in the sale, with effect from March 1 1990, of its flexible packaging interests to what was to become Compak, followed six months later by the dissolution of this merger.

The effect on the balance sheet has been quite dramatic. Of the present net worth of 108c, no less than 50,5c is attributable to these capital profits, of which 22c accrued from the disposal and 28,5c from the repurchase. These additions to the capital base were mainly responsible for reducing gearing from 3,39 in 1989 to 1,16 at the end of the last financial year.

Not all the effects were beneficial, however. In particular, the fact that the packaging interests are once more wholly owned has recreated a problem that has bugged the group since its listing: namely, how to present, meaningfully, financial statements encompassing both financial services and manufacturing operations.

As far as the balance sheet is concerned, the problem boils down to the fact that the respective structures of these different operations are simply not compatible: the financial services divisions are, quite naturally, structured along the lines of a bank and are characterised by high gearing; on the manufacturing side, just as naturally, typically industrial criteria apply. When the two are lumped together in a single balance sheet,



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the result is not comprehensible to most investors. In the end this must have a negative impact on the rating of the share.

As regards the income statement, the situation is less complicated. But in this instance management believes that disclosure of segmental information would be detrimental to the group's interests. (194)

Maybe so — no outsider is really in a position to judge. But this does not change the fact that, as things stand, shareholders (other than the controlling shareholders) have no way of knowing whether they are part-owners of a financial services group that has packaging interests or visa versa.

For what it is worth, the circular dealing with the repurchase of the packaging division provided a clue as to the 1991 profit split with the statement that earnings had not been materially affected by this transaction. If this can be taken to mean that the contribution from packaging (comprising equity-accounted earnings in the first half and consolidated results in the second) were roughly equal to what the group would have brought to account from its holding of 34m Compak shares, then packaging accounted for about R3,6m, or 70%, of 1991's R5,1m total.

Something else that is likely to be affecting the market's rating of the share is the profitability of the group. Though last year's earnings of 15,3c were a record, the return on shareholders' funds was only 14% — far too low while the tax rate is a mere 2,5%. On the other hand, if one excludes the effect of capital profits from net worth, ROE moves up to a more respectable 27%. In this context, it is also possibly relevant to note that the present book value of 108c (including capital profits) is 8c more than the 100c at which the shares were first issued.

However, with the upsets of Compak now behind it, the group may be in a better position to show what it can achieve. It is, of course, also true that both divisions are strongly dependent on the general level of economic activity. For this reason, chairman Jeff Rubenstein is cautious in his comments regarding future prospects, though he nevertheless foresees "satisfactory" results for 1992. That may help to underpin the share which, at 70c, is rated on an 8,6% historical dividend yield.

Brian Thompson

Belt-tightening replaces Iscor's spending spree

Brent von Melville 30/9/91

BRENT VON MELVILLE

AFTER several years of ambitious capital spending, depressed local conditions and low margins on exports, SA's major steel producer Iscor is taking major steps to tighten its belt.

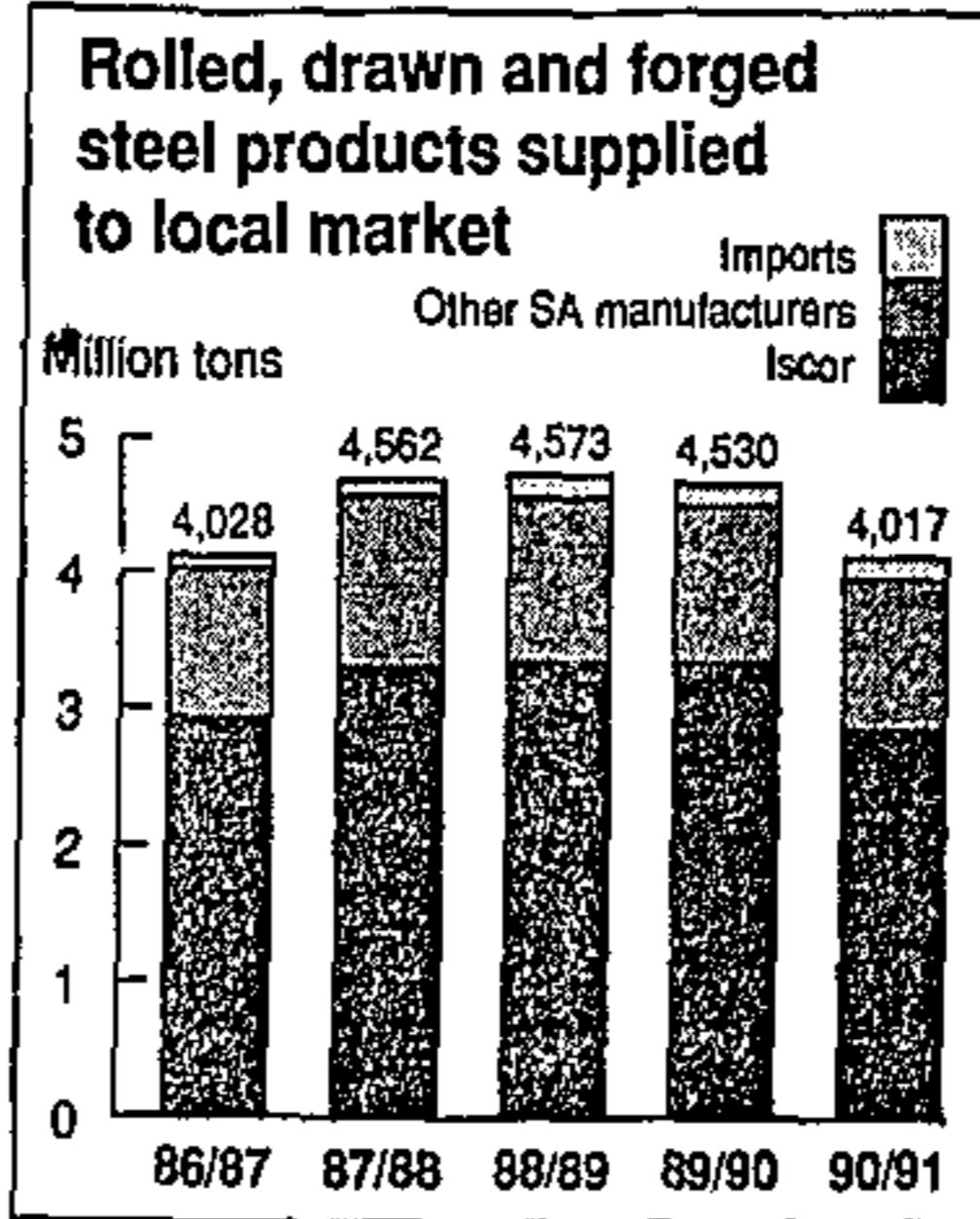
In his annual review MD Willem van Wyk says no new major projects to increase basic steelmaking capacity or to modernise plants will be undertaken during the next four years.

For the current and forthcoming financial years Iscor has allocated about R800m a year and thereafter about R600m a year to finalise projects to which it is committed and for the essential replacement and maintenance of plant and equipment.

This compares with a record R1,4bn spending spree last year and R1,3bn in the previous financial year.

But at the same time the group is also actively promoting the local market for value-added secondary manufactured steel goods and structures for export, and is ready to exploit potential opportunities in the low-cost housing market and related infrastructure.

Van Wyk says these two market segments, together with the beverage



and food-canning industries — which have recorded consistent 8-10% annual growth over the past few years — may be expected to have a favourable effect on Iscor's results over the medium term.

He adds that in the meantime, Iscor has undertaken to reduce stock levels, and capital expenditure is being limited to essential items. Strict cost controls are being enforced to optimise cash flows.

"These initiatives must, however, be seen against the backdrop of declining world steel prices in the wake

of surpluses caused by overproduction," says Van Wyk.

In that respect, he says margins and operating profits will remain under pressure during the current financial year, although in the longer term, Iscor expects to emerge from the worst recessionary period in recent history with improved prospects for growth.

During the 1991 financial year the SA market accounted for total steel sales (including rolled, drawn, and forged) of 4-million tons, compared with 4,5-million tons the previous year. Iscor's market share dropped slightly from 74% to 73%, or about 2,97-million tons, compared with 3,4-million tons in 1990.

Total liquid steel production from Iscor moved up 3,3% to 7,2-million tons and total Iscor steel sales amounted to 5,6-million (5,4-million) tons.

Exports took up the slack in the depressed local market, and accounted for 47% of sales, a level not seen since pre-sanctions levels in 1985.

Van Wyk says the group will continue to optimise its export drive wherever possible into higher-margin value-added profits.

Inter-group mergers at Malbak

IN A MOVE to strengthen its health care product division, Malbak has announced a series of inter-group mergers.

They follow the acquisition of Akromed.

The mergers are aimed at rationalising the group's health care and consumer interests.

From having Protea Pharmaceuticals and Akromed as holding companies within Malbak Health Care, each with separate finance and administration functions, the new single structure provides for five business units with common service functions.

This will make them more efficient and proactive for clients, says consumer division executive director

Melanie Sergeant

MELANIE SERGEANT

David Webster.

Webster says Promardis will continue to operate as the consumer division within the new structure, with trade and supply relationships enhanced by its new positioning.

The five business units now comprise ethical, consumer, nutritional, hair care, and over-the-counter products.

"Greater focus can now be directed at all our critical success areas, because we're consolidating under focused management into two product areas, namely ethical and consumer," says Webster.

He predicts consolidation will lead to a new growth cycle for the group.

Harwill shows static growth

Brent von Melville 30/9/91

BRENT VON MELVILLE

CAPE-based Harwill Investments, manufacturer of packaging products, has posted a static growth performance for the year to end June, with earnings virtually unchanged at 19,5c a share. The dividend was left at 5c.

Directors attributed the mediocre performance to adverse trading conditions, and said the group did not foresee a meaningful improvement in the coming year.

"It is also not known at this stage whether the implementation of VAT will have a positive or negative influence."