MANUFACTURING - PAPER AND PRODUCTS

1993

CARLTON PAPER

FM 15/1/93

(194)

Catching a cold

Activities: *Manufactures and distributes tissues, toilet paper, disposable nappies and health-care clothing.*
Control: *Malbak (via Holdains) 51%.*
Chairman: *I Willis; MD: K J Partridge.*
Capital structure: *15,8m ords. Market capitalisation: R464,8m.*
Share market: *Price: 2 942c. Yields: 2,5% on dividend; 7,0% on earnings; p:e ratio, 14,2; cover, 2,8. 12-month high, 4 400c; low, 2 942c. Trading volume last quarter, 900 shares.*

Year to Aug 31	*'89	*'90	†'91	'92
ST debt (Rm)	9,5	7,6	4,4	31,8
LT debt (Rm)	19,9	7,8	16,4	6,1
Debt:equity ratio	21,4	—	1,3	26,0
Shareholders' interest	0,49	0,52	0,53	0,61
Int & leasing cover .	6,9	13,2	26,6	15,2
Return on cap (%) ..	20,6	24,5	20,6	23,2
Turnover (Rm)	317	394	303	444
Pre-int profit (Rm) ...	37,6	50,2	47,7	55,4
Pre-int margin (%) ..	11,8	12,8	15,8	12,5
Earnings (c)	130,9	184,5	187,2	207
Dividends (c)	75,0	67,0	119,0	75,0
Net worth (c)	563,8	673,3	785,5	917,5

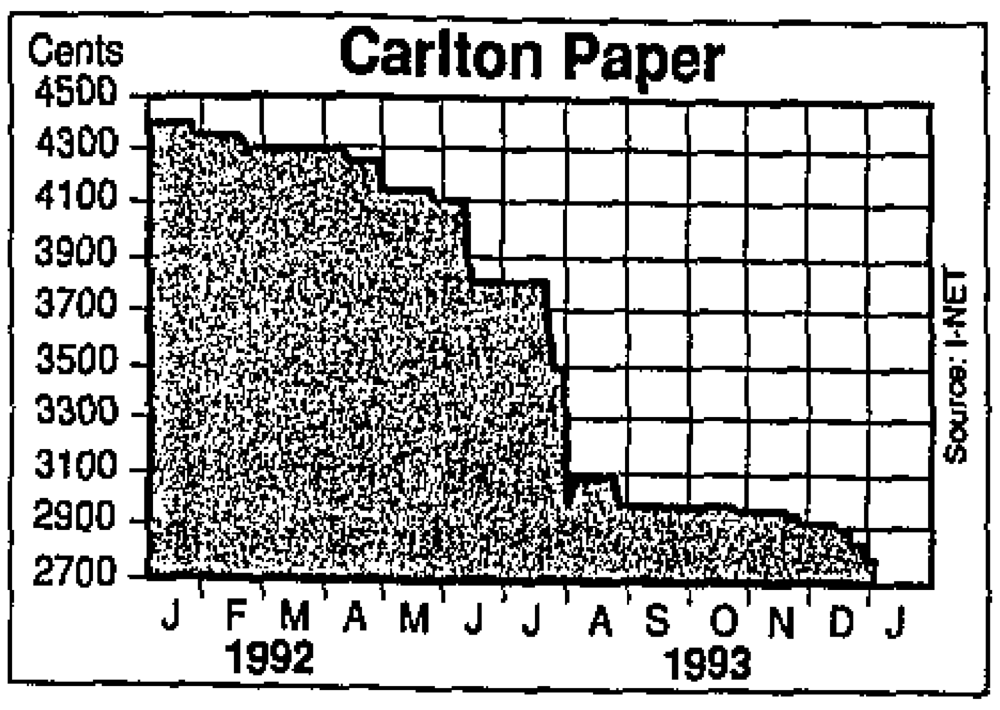
* Year end to December.
† 8 months to August 31.

Carlton Paper (Carlcor) will not look back on 1992 with much affection. In January the share price was at a high of R44 but by late December it had fallen below R30. The decline of more than 30% was considerably steeper than the correction in the JSE Industrial index.

The financial year-end was changed because of the increase in Holdains' stake in Carlton at the end of 1991, from 41,8% to 50,1%.

Turnover suffered from a reduced export market and lower volumes. The tissue sector is Carlton's largest, contributing more than half of turnover, though the margins on tissues are lower than on some of the other products.

Operating margins fell in 1992 from 15,3% to 12,5%, though part of this fall is due to a significant increase in the depreciation charge due to capital projects such as the cost and quality improvements at the Enstra tissue plant. On a comparable basis earnings fell 20,6% in 1992, but this is exaggerated by the exceptional results in 1991,



Carlton's Willis ... *well positioned to compete effectively*

when earnings increased by over 50%.

MD Keith Partridge attributes the decline in consumer spending to people trading down to cheaper products made from low-quality waste paper.

Carlton has recently been regarded as a fundamentally sound blue chip, with good growth prospects, but the share's weakness since last January suggests investor uncertainty. There are several reasons for this.

The first is increasing overcapacity in a market experiencing falling demand for these products. Nampak — Carlton's main competitor with which it shares about 75% of the tissue market — completed its plant at the end of 1991 to expand capacity by over 70%.

The result has been a price war in tissues, adding to the strain on margins. Partridge estimates local market annual demand at about 120 000 t and capacity at 180 000 t. Carlton has 65 000 t capacity and Nampak 50 000 t.

The export market, which accounts for about a 10th of total sales, has also come under pressure. Carlton mainly exports lower-margin raw materials to the UK. This year this market will have the added problem of the fall in the rand:pound exchange rate since the UK's suspension of its ERM membership. Partridge believes there are opportunities to export higher-margin products, both to this market and additional markets in Africa.

Carlton is not vertically integrated and pulp prices are an important determinant of costs. The trend for the past three years or so has been declining prices, reflecting global recessionary pressures. But pulp prices are denominated in US$ and the weakening rand against the dollar has left the effective price for Carlton static.

Carlton's fortunes "rely for growth on urbanisation of the black majority," according to Partridge. He quotes a per capita annual income figure of US$1 500 as the threshold over which growth for Carlton's products becomes "exponential." Current annual per capita income falls far short of this at about $1 000.

Partridge says capex plans will occur "where necessary but there is no need yet to expand capacity." After the imminent completion of R40m improvements to the Enstra tissue plant, started in April, Carlton has deferred other capacity-increasing improvements to 1995/1996.

The shares are tightly held, with the US's Kimberly-Clark holding 38,7% and Holdains just over 50%.

On a historical p:e of 14,2, the share looks expensive, given the erosion of margins and the prospect of economic recovery some way off. With only 11% of the issued shares in public hands, the shortage of supply in the market will probably support the price at a premium. Given the potential demand of an increasingly urbanised black population, Carlton must be considered a growth stock in the longer term, though a turnaround in pulp prices will bring pressure on margins.

Louise Randell

Packaging shares ablaze

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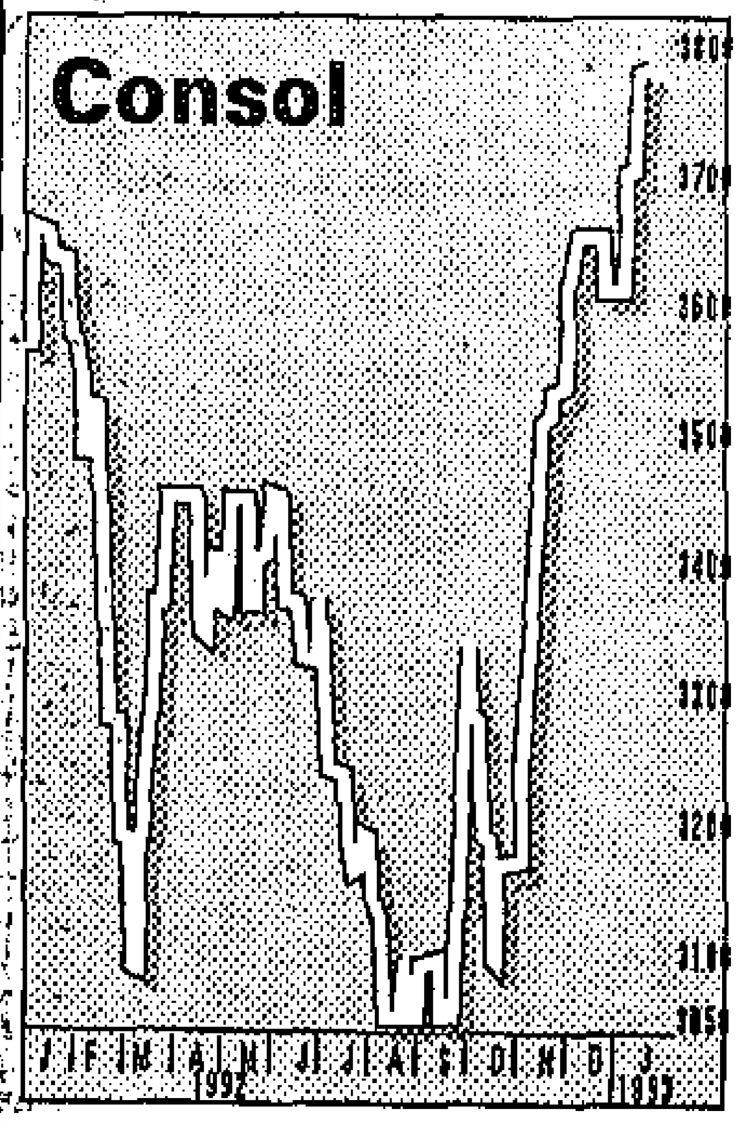

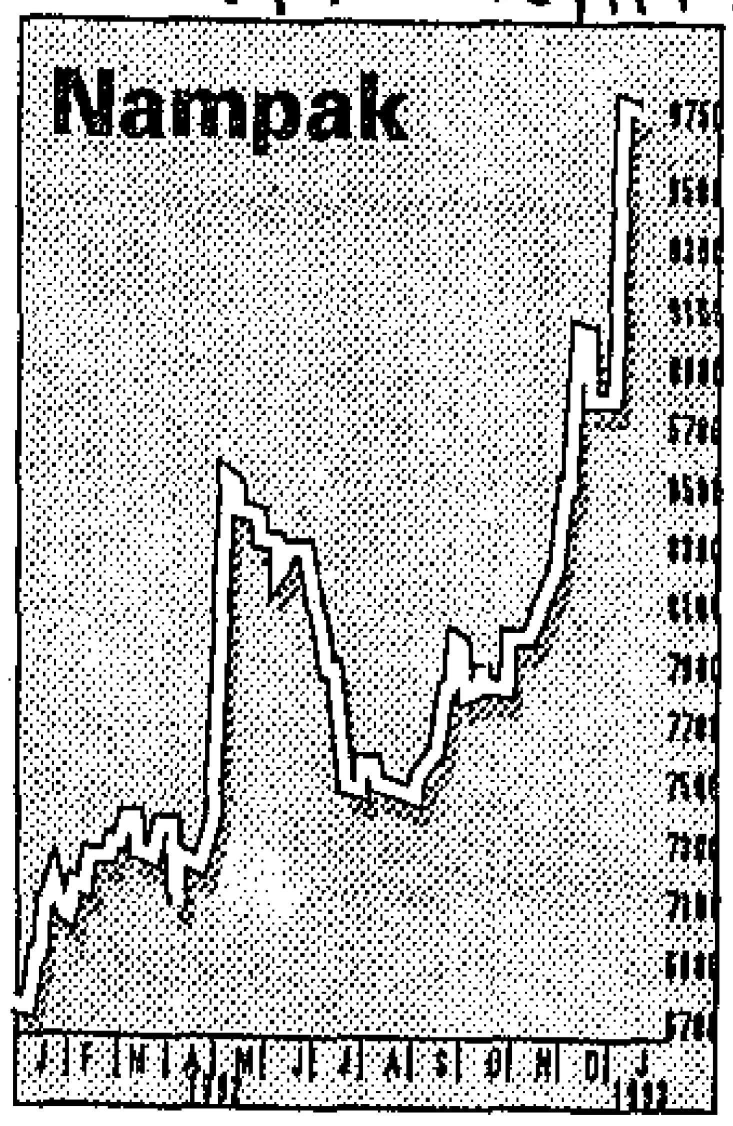

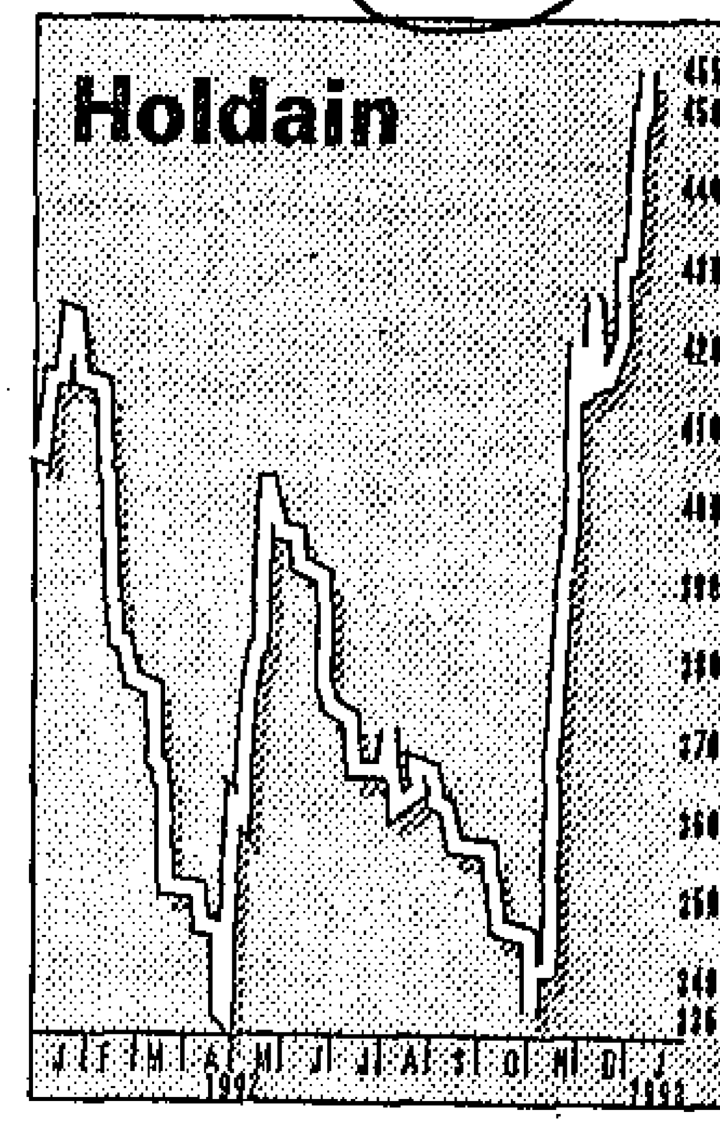

By Stephen Cranston

One of the notable features of the last few weeks has been the steady re-rating of packaging shares.

Since early November, the Consol share price has moved up from R31 to R38, Nampak from R78 to R97,50 and Holdains from R33,65 to R45,50.

There is no fundamental change that might have brought about the re-rating.

Packaging sales increased in nominal terms by 6,7 percent in the year to September and are still depressed in real terms, but both Nampak and Consol report that they performed better than expected in November, the holiday season and the year so far.

But in an overpriced industrial market, packaging shares offered better yields than the leading food and beverage shares, though they are now on comparable ratings.

Consol, which is usually the most highly sought after share in the sector, offers a dividend yield of 1,6 percent, the same as the Premier Group, and not far behind the highly rated beverage group ABI, which is on 1,4 percent.

Teigue Payne, an analyst at brokers Frankel Max Pollak Vinderine, says that packaging is seen as a defensive sector, which offers high growth over the long term and has managed to hold its own in the downturn.

Volumes in the packaging market have increased by 5,3 percent a year since 1960.

Thanks largely to the R302 million it raised in a rights issue early in the year, Consol reported earnings up 12 percent for the year to June.

Nampak's eight percent increase in the year to September would have been higher if it had not provided an extra R10 million against the possible tax on the provision for leave pay.

Holdains actually recorded a small decline of 2,5 percent in its earnings per share for the year to August, but it has been afforded the biggest re-rating because of its acquisition of 50 percent of US-owned Crown Cork, exposing it to the beverage sector for the first time.

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Business Day SURVEY

Poor economic conditions are expected to impact on the packaging and printing industry throughout 1993. But the quality, performance and price of local packaging puts SA in a good position worldwide, demonstrated by Nampak's 59% growth in direct exports in its last financial year. **LYNN CARLISLE** *reports.*

Tin-free steel a solid replacement for tinplate

ADDING value to local raw materials is a top priority for job creation and import replacement, and replacing the tinplate used in foodcan manufacture with tin-free steel (TFS) is the latest example of beneficiation.

The initiative under way stems from Iscor's R150m investment, supported by Nampak's research and development department and its Foodcan division.

Iscor technical adviser (market development) Nick Kock says development on TFS has enhanced its ability to meet SA market needs, and increasing use of it reduces the importation of tinplate, which has become more expensive.

Still, TFS is not the complete answer — yet. It needs to be coated with a thin layer of chrome, which does not impart sufficient corrosion resistance. This means it must be lacquered on both sides.

"The lacquer gives superior protection against corrosion and enhances the aesthetic appeal of cans with its gold finish."

Kock says other benefits include the fact that the cost to food canners of lacquer application is offset by the lower price of locally produced TFS, and the material is easier to recycle than tinplate since de-tinning is not required.

Although lacquered TFS is suitable for applications as diverse as baking pans with non-stick coatings to bottle crowns, about 80% of Iscor's TFS will go to the foodcan industry.

Nampak R & D's Geoff Patrick says TFS is being used for tuna can ends, but experimenting continues with lacquers to make the material suitable for packing partly corrosive fish products.

Foodcan sales director Ian Wrench says most of the division's major customers have switched to the material for can ends.

From a marketing perspective, TFS has many advantages over tinplate, particularly as the ends and seams may occasionally become stained or show signs of rust.

The lacquer on TFS protects and reduces the risk of scuffing during can handling," says Wrench.

Colour coating system for glass recycling

A NEW colour coating system for bottles that claims to provide many advantages in the recycling of glass is to become available in SA.

SA Bullet Resistant Glass MD Hilton Franks, who was awarded sales rights, says his overseas principals are prepared to license the technology to local companies.

"They are keen to enter the SA containers market from a supply and technology aspect only."

When used in the production of glass containers, he says the colour coating removes the need for colour sorting — all coloured containers can be put into the same recycling heating pot. Other advantages include:

- ☐ Increases glass strength so that thinner, lighter containers can be used;
- ☐ Facilitates greater and unlimited selection of colours, thereby broadening marketing opportunities of containers;
- ☐ Offers greater decorative options;
- ☐ Environmentally non-toxic and safe — unlike certain glass colouring which contains arsenic and chrome;
- ☐ No colour change takes place as is necessary in the furnace because bottles are white and the process fills micro-fissures and abrasions in the bottles.

Franks says the process would be ideal for beverages, particularly in the beer industry where colours are at present put into the glass for preservation of the beer against deterioration by ultra violet light.

"It also incorporates a new labelling system which eliminates adverse features of existing paper and styrene labels or ceramic fired labels," he says.

Export drive helps to bridge SA's flat domestic demand

LEADING players foresee little upsurge in domestic demand for packaging and printing in the short-term, but opportunities exist to increase exports.

Poor economic conditions are expected to continue to affect the industry throughout 1993, but Nampak is confident of an upsurge in the long-term, says group MD Trevor Evans.

"Demand for food packaging should increase with population growth urbanisation, better agricultural conditions and increased exports of fresh and canned fruit.

Revival

"And once the economy picks up, we expect a revival of the substantial growth in beverage packaging experienced in the later '80s, while demand for printing and stationery should also increase."

Evans says the export market holds great potential for the packaging industry.

"The general quality, performance and price of local packaging puts us in a good position worldwide and currently at least half of Nampak's divisions are exporting in some form or another."

The coming year should bring further increases in market leader Nampak's direct exports, which grew by 59% to R79m in its last financial year.

"This success can be attributed to a concerted export drive in recent years, which has established the group's products in 45 countries worldwide," says Evans.

Mondi Paper GM (board division) Andrew Thompson says the industry is facing new challenges, particularly with the falling away of sanctions which, in the 1980s, provided most effective protection against imports.

"That era has now passed and we are experiencing a high level of competition associated with participation in an international market."

With the technical and competitive developments in markets for packaging, it is essential that raw material suppliers — in Mondi's case paper and board — understand and meet the quality and service needs of their customers.

This means suppliers have the structure and resources to understand the characteristics and performance necessary in packaging materials and be able to develop cost effective products, he says.

"Suppliers must also produce products with a very consistent quality and service to match."

Quality consistency is critical for higher technology converting equipment as it improves runability and reduces waste, which has become an important element in the cost structure.

Vital

SA packaging board producers have realised that international accreditation of their quality assurance systems in terms of SABS ISO9002 is vital to maintain a position in domestic and export markets.

SA Breweries company Interpak hopes the improvement in local materials suppliers' quality and service levels will continue

R200m boost for Nampak divisi

TO PREPARE for long-term opportunities, giant packaging group Nampak will invest more than R200m in people and plant in the coming financial year.

Nampak MD Trevor Evans says this will include Bevcan's R80m beverage can ends plant at Springs, with a capacity of 2,4-billion can ends a year.

A forerunner to this investment was the R125m beverage can plant at Springs to manufacture beer and soft drink cans.

Another division, Printpak, commissioned a R25m gravure printing plant in the Cape which supplies folding cartons primarily to the tobacco industry.

The group spent another R158m on upgrading facilities and technology in other

coming more popular in southern Africa, a factor which has prompted Bevcan to invest in one of the world's most sophisticated beverage can manufacturing plants at Springs.

Bevcan CE Alastair Lang says the new plant has an annual production capacity of 550-million cans.

Ecology

Using the latest technology, the ends plant will produce 2,4-billion environmentally friendly small diameter ecology tops when it comes on stream in mid-1993.

He says there has been much debate about what material should be used.

"We opted for steel because of Iscor's competitive pricing, allied to its assistance in collection and

is currently running at some 25% of all beverage cans — and because steel is a 100% South African product.

"However, as a can manufacturer we are concerned about satisfying customer needs and will use whatever material ultimately proves to be the most cost effective."

Lang says can sales have improved in the black market, there is an upswing in soft drink can sales and SAB's export sales are booming. "There are also a host of new customers with new products who are finding major successes with cans."

Evans says that in spite of depressed trading conditions recorded a turnover increase of 9%, which was satisfactory under the conditions.

Sasol to up polypropylene range

AS PART of its commitment to provide improved packaging material and encourage convertors to export value-added products, Sasol Polymers plans to introduce new grades of polypropylene.

New lines would be suited to package fresh, frozen and processed foods, pharmaceuticals, cosmetics and industrial products.

Seeing the packaging industry as offering strong growth for such materials due to rising consumer demand, the company believes existing applications for polypropylene should expand because competitive pricing will result in product substitution.

Sasol Polymers MD Koos Brand says this allows operation in broader market sectors.

He says it can be argued that in recent years SA has become somewhat infamous for its tendency to concentrate its exports around raw materials.

"We would like to see our South African convertor customers exporting products with added value."

Pentagraph Design Consultancy MD Joe Kieser says packaging manufacturers should look beyond mere survival and strive for market-share growth through greater investment in the strength of the brand through added value.

Shares

From Sasol's recently commissioned plant, capable of producing 120 000 tons of polypropylene a year, the domestic market consumes 70 000 tons. However, Sasol Polymers shares the domestic market with one other producer.

It thus exports more than two-thirds of its production.

"To help stimulate polypropylene beneficiation in the export field, we offer our local customers attractive commercial incentives in addition to those already offered by the State," says Brand.

Vast opportunities exist in Africa for any party with the right vision, drive, know-how and products.

Sub-Saharan Africa, a market with enormous long-term potential, consumes a modest 180 000 tons a year of world polypropylene.

Shorter term polypropylene beneficiation opportunities include carrier bags, agricultural sacking for fresh products and fertilisers, industrial, agricultural and domestic piping, insulation and many others.

Pifsa training college opens next month

BETTER training of staff in the packaging, printing and newspaper industries looks assured following new developments.

In a major breakthrough the Printing Industries Federation of SA (Pifsa) is to begin training printers at its new college at Honeydew outside Johannesburg next month.

In addition, the new modular Pifsa programme, in conjunction with the Printing, Newspaper and Packaging Industries Training Board, is gettingpositive response.

Pifsa executive director Chris Sykes says the first batch of 250 trainees from all race groups will undergo a one-year intensive training course from February 15.

Although the college has residential accommodation for and resources to train nearly 500 people, the first course has been limited to 250 trainees, of whom about half are black.

Limited numbers are in accordance with fewer industry job opportunities amid the recession.

"However, in 1994 we expect to have more black trainees and in mid-1993 will introduce a bridging course for those youngsters disadvantaged by the country's educational system, which has omitted certain subjects that would have given them a kick start in a printing career."

The Pifsa initiative stems from a decision by its members to break away from the old system that has become entrenched at technical colleges, he says.

Built and equipped at a cost of R24m borne entirely by Pifsa members, the self-contained college is unique in world terms and will be staffed by instructors with an industry background.

While they are technically up to date, they are currently being trained at a university to become professional lecturers.

Although the college is an SA solution to an SA problem, it is outward looking. Sykes says trainees who pass the one-year course (followed by a year's experience in industry) will be awarded a London City and Guild Institute certificate, which is accepted in 71 countries, in additon to gaining certification from the industry's own training board.

Effort

The birth of this college follows more than 10 years of effort by Pifsa members, who could not convince government to address the real needs of the packaging, printing and newspaper industries.

What members needed most was for their young employees to receive more practical, up to date and standardised training, as well as for government to abolish segregated technical colleges countrywide.

Now the industry will not only be able to send its trainee printers to undergo courses that combine practical training with selective theory, but semi-skilled staff can also receive training and upgrading at the college.

Additionally, suitable management training courses are also provided for qualified printers.

"Although we have received no financial or other assistance from government, we managed to build and equip the college in just seven months."

He says that apart from the classrooms and residential facilities, the complex includes a practical training area of 4 000m² of a total area in excees of 14 000m².

More printer training equipment will be imported in due course.

Interpak confident last year's performance can be repeated

SUCCESSES during long recessionary periods are not common, but Interpak — an SA Breweries subsidiary — made good progress last year and has confidence in the year ahead.

Paper, plastics and board convertors Interpak plans to spend R14m on its Transvaal, Cape and Natal factories, says group MD Tony Rudston.

"We are taking an aggressive approach to expanding and introducing new products in our markets. Export drives are also producing good results."

Rudston says Interpak grew in 1992 by focusing on doing things better and taking advantage of new market opportunities.

Seeking

"Better productivity and seeking new market opportunities are key to riding out a recession and coping with the highly competitive pressure within the packaging industry."

Progress was recorded at Interpak Gravure (Transvaal), where MD Rob Legg says the current economic climate has made "just in time" (Jit) production policies more important to manufacturers.

This has brought pressure to bear on its label convertor to ensure make-ready and changeover times are minimised without any loss of quality.

"We have seen a trend this past year to shorter runs and tight production schedules, which fortunately presents us with no problem because of significant investments in the upgrading of our gravure operations for labels."

Confident that the food and beverage label market will soon return to more buoyant conditions, Interpak has focused on new markets and invested millions, commissiong new label convertor equipment.

Progress

"We have been able to make good progress into new markets without neglecting our existing customer base through achieving all-time high productivity levels on a par with leading convertors overseas," he says.

However, productivity is not only an internal concern as the quality of labels produced has a direct impact on the company's customers' productivity, in terms of the raw material's impact on machine performance, handling time and wastage factors.

"We believe manufacturers need to examine these hidden costs when discussing their needs with their label convertor, and not base their calculations on material supplies alone," says Legg.

Demand from the food, beverage and tobacco sectors for Interpak's metallised substrates increased significantly in 1992.

Interpak is SA's only commercial metalliser of paper, board, polyester, polypropylene and PVC substrates. Metallisation adds heat, light and moisture resistant properties to the substrate.

The installation of the latest metallisation plant at its Transvaal factory has increased capacity of these lines.

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Environmental issues remain a major priority

THE environment, recycling used packaging materials, and upgrading packaging materials and standards to comply with overseas ordinances, will continue to be significant factors in 1993, say industry players.

Nampak deputy chairman Peter Campbell says although 1992 brought few environmental breakthroughs for the industry, it was a year of steady progress in recycling.

Progress was also made in communicating to government bodies and decision makers the industry's standpoint on environmental issues and its views on legislation, he says.

PETER CAMPBELL

Devising

"This is essential in devising environmental strategies for all. We would like to think these strategies will not be based on unproven First World legislation, such as mandatory deposits on beverage packaging," says Campbell.

Mondi Paper GM (board division) Andrew Thompson says SA paper and board producers are major recyclers of paper waste, especially cartonboard.

"It is a trend that will continue, but there is an upper limit, beyond which the collection and processing of waste generates its own undesirable environmental consequences," he says.

However, local manufacturers that package and export goods should prepare to conform to unfolding stringent packaging and recycling ordinances in individual European countries — or suffer business losses.

So says Johannesburg-based corporate strategist Jeremy Sampson, who last year worked for the London-based Industry Council of Packaging and the Environment (Incpen).

Similarly, SA companies that buy factories overseas will have to conform to far stricter "green" requirements than SA's.

"Many of the things they do here with impunity, and some of the packaging materials produced locally, are becoming unacceptable now in many European countries.

Sampson says packaging ordinances are increasingly calling for materials that are biodegradable or can be recycled.

Although Germany would appear to be the pacesetter in "green retailing", details on trends and requirements in packaging and overseas manufacturing processes, especially smoke and pollutant emissions, can be obtained from Incpen or its Brussels-based ally Europen.

"The revised European Community Packaging Directive is at an advanced stage and Germany in particular has become very strict, while IBM (UK) is on record as saying 'no company can afford to be without an environmental strategy', meaning a 'green' strategy."

He believes many SA company annual reports show a general absence of "green" strategies with environmental reporting focused purely on the socio-political issues.

Umbrella

What may be needed to ensure SA keeps pace with change among its trading partners is a local umbrella organisation to co-ordinate the entire packaging chain — along lines similar to Incpen and Europen, says Sampson.

This could require raw material producers, packaging manufacturers, fillers and retailers working together to find environmental solutions.

Pyrotec cashes in on-pack

CAPITALISING on the potential in the on-pack promotions market, Pyrotec has developed a range of on-pack possibilities.

Pyrotec marketing manager Greg Knight says surveys in the US, Italy and the UK indicate up to 65% of buying decisions are made in-store — many owing to on-pack promotions.

"It is thus vitally important for companies in retailing to make optimum use of their packaging."

Pyrotec has launched Magic Peel, the latest addition to its range which includes Auto-Collar, Fix-a-Form and Double Decker.

Magic Peel uses a single sheet coupon which, when removed from the article, enables the customer to see the graphics through the clear modium left behind.

As it is a return coupon with a clear base, he says it is suitable for redeemable coupons, discount vouchers, entry forms and a wide variety of promotions.

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Drive to improve litter, recycling solutions in SA

DESPITE recycling successes in world terms, SA's packaging industry is striving for more practical solutions to litter control, recycling and greater re-use of packaging.

It is essential, says Packaging Association of SA executive president Piet Neethling, to improve the already significant recycling rates and make recycling more economically viable in SA.

He says great environmental, economic and employment advantages are derived from optimising recycling efforts, and the association has ideas which could boost the process through encouraging greater consumer involvement.

Mitigate

Unfortunately, local and overseas experience shows many factors mitigate against achieving optimum recycling rates.

These vary from a number of cost constraints to the variable and limited nature of the end-markets for recycled products.

"Some entrepreneurs who have entered the material recovery and recycling business are experiencing difficulty in making such undertakings profitable."

Nonetheless, the potential exists to further conserve resources, reduce pollution, cut energy costs and create jobs, provided these are not hindered by calls on the authorities for environmental quick-fix solutions.

Ill-conceived ideas must not influence draft legislation on a new national policy for pollution control, which some believe could be tabled within two years.

Demands on business are often counter-productive to environmental care, employment and social upliftment, the association maintains.

One example is the recent hint by Minister of Administration and Tourism Org Marais at a levy or user charge on non-returnable containers, which in the cases of malt beer and soft drinks comprise only about 20% of containers.

Another is the call for degradable plastics to replace conventional plastics used in packaging, says Neethling.

"Both would be highly inflationary, while deposit legislation is also discriminatory.

What about deposits on cigarette and detergent packaging, sweets and chip bags and also a returnable levy on the mountains of newspapers sold every day?" he asks.

In essence, the introduction of bio- or photo-degradable plastics would also encourage a more problematic throwaway ethic, thereby increasing the litter problem.

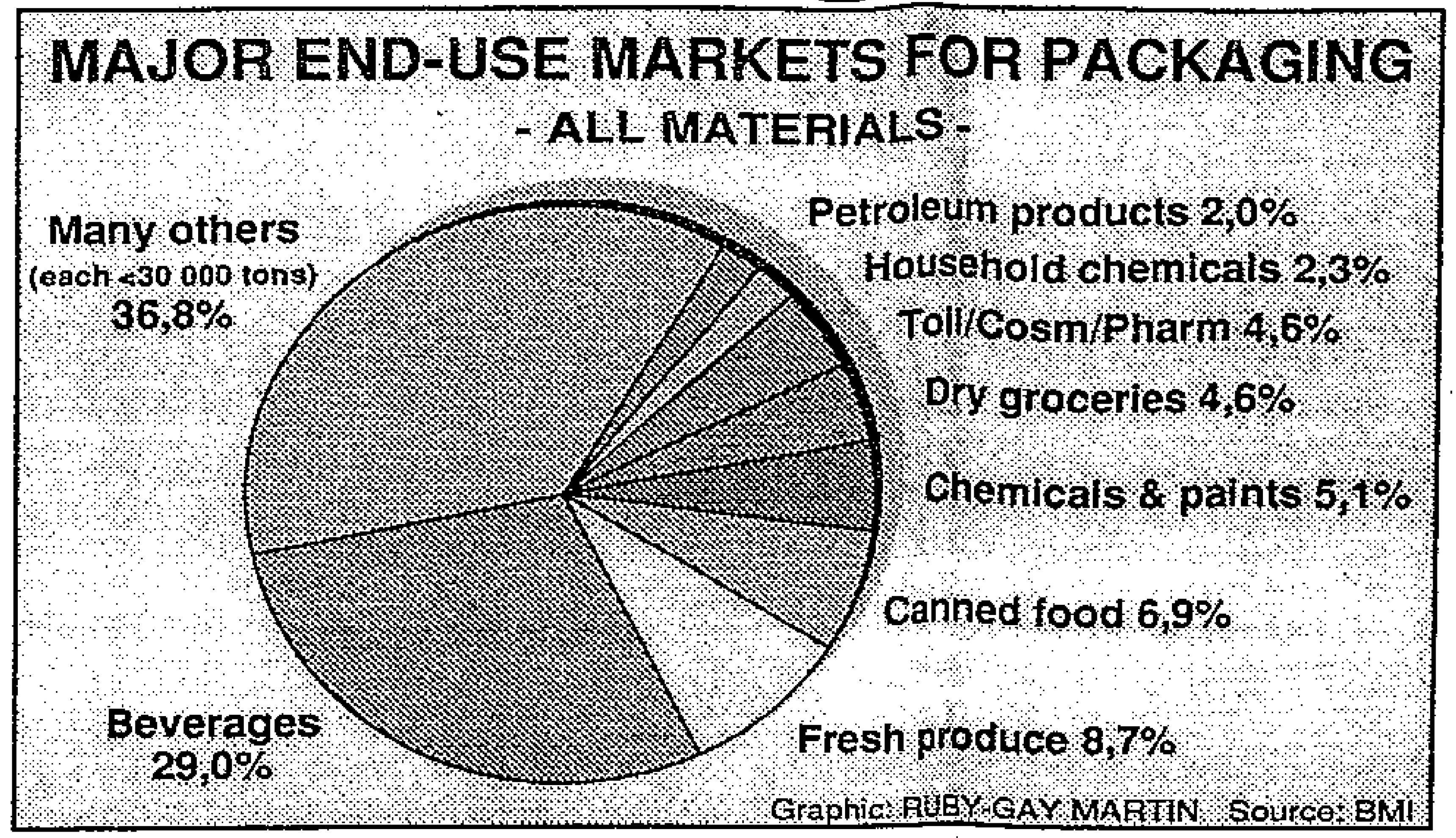
The slow degrading process, because of degradable plastics, would be counter-productive to plastics recycling processes. It is here that better solutions must be found.

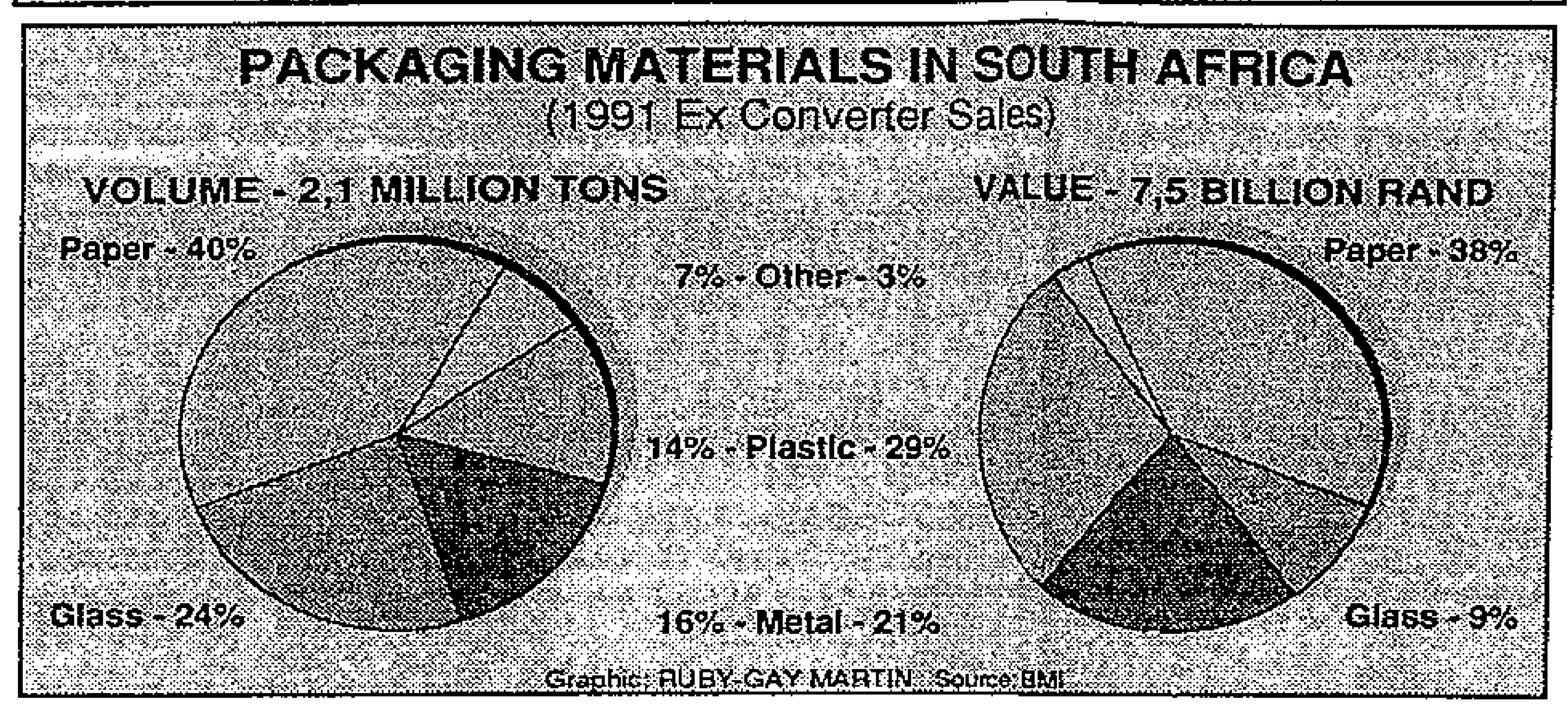
Practise

The association co-operates with government, local authorities and other organisations, such as Keep SA Beautiful, on anti-pollution programmes. In addition, many of its members practise environmental auditing, which the association encourages.

He says this is a means of self-regulation where the emphasis is placed on prevention of adverse environmental impact rather than detection and repair after the event.

"Auditing can benefit an enterprise by identifying areas of environmental risk, responsibilities, identifying cost-saving measures and suggesting better environmental safeguards."





Time to build up inventories again

IMPROVED growth in SA packaging this year could stem from growing consensus that the economy has bottomed and the need for most in the packaging chain to replenish their heavily destocked inventories.

This latest forecast from market researchers MBI Food Pack follows its earlier annual strategic view of the packaging industry.

MBI director Stephen Harrod says improved growth from raw materials to packaging at retail level depends much on rising demand from the growing informal sector.

The informal sector of mainly hawkers and traders in the townships currently represents about 10% of GDP and is growing at some 10% annually.

Packaging has been spurred mainly by SA's sophisticated supermarket and retailing operations over recent decades.

However, the informal sector has accounted for the associated trend in more recent years to greater consumption of particularly smaller packs.

While growth in the packaging industry over the past 10 years has been 2,5 times GDP, this slowed in 1991 in line with GDP. And last year saw destocking reach particularly high levels.

Growth

With the total packaging market having shown real annual growth of 5,3% from 1960 to end-1991, volumes slowed to less than 3% the last decade and remained "virtually static" in 1991.

"However, positive growth of 2%-5% is anticipated over the medium term as inventories are rebuilt and the informal sector continues to show strong growth," says Harrod.

Latest figures on materials converted into packaging show paper remained SA's major component in 1991 with beverages, fresh produce and canned food accounting for almost half of the market.

Computers 'can h[elp] move with the tim[es]'

AS PRESSURE mounts on the printing and pa[ckaging] industry for environmental preservation it [should] look at its main threat — the computer — fo[r ...]

Optimus Computer Systems MD George J[oubert] who consults on computerised marketing an[d man]agement systems to printing companies, s[ays the] industry should make greater use of compu[ters to] rationalise use of raw materials and other res[ources].

He says not enough use is made of the late[st] effective computer technology to identify an[d ...] tor production and productivity in the indust[ry].

Data will be stored digitally or electronicall[y in] future and this will have a major effect on p[rinting] and packaging volumes.

"Those who suffer from technophobia or i[...] ence should move away from traditional meth[ods,] begin storing more data on CD disks, instead of [...] or use environment friendly laser printing, ins[tead of] oil- and solvent-based inks, which become pollu[...]

Reduce

Computers can also reduce the need for pap[er and] print wastage arising from the common hit-an[d-miss] approach to mailshots and millions of phone d[irecto]ries, which are somewhat dated before distri[bution].

Computer programs can specifically identi[fy suit]able target audiences for costly mailshots whil[e simi]larly, assisting the packaging sector to mar[ket] products more at specific age and consumer g[roups].

Joubert says that to save themselves from [...] tion, repro houses and printers had better star[t mea]suring and managing their existing resourc[es, ...] markets and do some smart strategic plannin[g].

"They must not forget they are in the comm[unica]tion business. Johan Gutenberg, the inventor o[f mov]able type, has been dead for 600 years. Is it not t[ime to] bury him?" he says.

New developments in flexographic printing

EARLY indications are that multi-coloured graphics on transit packaging is destined to become a powerful new marketing tool, says Consol's development manager (paper division) Roger Garnham.

This is his impression from reaction to Consol Paper's graphic design and high quality print work for the Simba Niknaks 'moving transit' carton.

Although advertisers have long been aware of the potential of corrugated cartons to carry brand messages, limitations in the use of direct print technology onto corrugated board have restricted its use as a marketing tool.

"Worldwide advancements in flexographic materials and printing equipment are opening up new opportunities for the corrugated industry," he says.

"These developments have enabled Consol Corrugated Packaging to produce its first multi-colour, direct print cartons for the Simba Niknaks range."

During a visit to the US, Garnham realised that to become a successful multi-colour, flexographic printing firm meant having to expand knowledge beyond investing in state-of-the-art equipment.

"I realised that multi-colour graphics on corrugated cartons was possible, using our existing equipment and achieving a correct balance in graphic design combined with the latest technology in printing plates and ink."

Says Consol Natal's regional manager John Malcolm: "It is true that the bulk of corrugated cartons are still 'brown box shipper'. However, there is room in the market for quality graphics where the customer wishes to take full advantage of extending his brand image."

Sasol to up polypropylene range

AS PART of its commitment to provide improved packaging material and encourage convertors to export value-added products, Sasol Polymers plans to introduce new grades of polypropylene.

[...] infamous for its tendency to concentrate its exports around raw materials.

"We would like to see our South African convertor customers exporting products with added value."

It thus exports more than two-thirds of its production.

"To help stimulate polypropylene beneficiation in the export field, we offer our local customers attractive commercial in-

Pifsa training college opens next month

BETTER training of staff in the packaging, printing and newspaper industries looks assured following new developments.

In a major breakthrough the Printing Industries Federation of SA (Pifsa) is

half are black.

Limited numbers are in accordance with fewer industry job opportunities amid the recession.

"However, in 1994 we expect to have more black trainees and in mid-1993

university to become professional lecturers.

Although the college is an SA solution to an SA problem, it is outward looking. Sykes says trainees who pass the one-year cou-

well as for government to abolish segregated technical colleges countrywide.

Now the industry will not only be able to send its trainee printers to undergo courses that combine prac-

B/DAY 26/1/93.

whole page.

(194)

Innovative design is vital for SA products

SHORTCOMINGS in SA packaging must be removed in order to improve efficiencies and be competitive in export markets, say packaging designers.

Areas of improvement include:

□ The need for better understanding of design;

□ Greater use of specialist products; and

□ Packaging which is able to compete internationally.

Pentagraph graphic design manager Alexis Visser says better understanding of design among the major packaging companies will extend the field of knowledge and services to cater for original specialised packaging.

"The serious lack of communication between designers and packaging manufacturers is leaving designers in the dark on the manufacturers' abilities in 'paper engineering'.

"It appears that the minute something original is proposed some manufacturers find costing or technical problems to discourage the designer."

The ability to create much more innovative and specialised packaging is vital in order to compete with international products, says Visser.

For example, many famous international perfumes are packaged in original, beautiful packages which enhance the product and give greater justification to the hefty price tag, thus clearly adding value to the product.

The trouble with the local packaging design business in these recessionary times is that clients have become conditioned to paying minimum fees for maximum quality and service, says Pentagraph creative director Mark Posnett.

Guarantees

At times, they even expect design work to be done on spec. "They want guarantees that designs will work, bring in new customers as well as turn in handsome profits. As a result the 'green' issue is being flogged at every opportunity."

Posnett says too many clients have become wary of innovation and tend to rely on the tried-and-tested, making for diluted, timid, mundane and compromised designs.

"Designers need to be encouraged to be more daring and confident, to produce real design full of energy and ingenuity, insisting that each of their products has a distinctive and characteristic look."

Designers need a thorough knowledge of the client's business to understand the impact and functions of market research and participate in the research.

"This will enable the designer to defend innovation which is frequently dismissed through inaccurate interpretation of research. Designers have the power to reshape the rules and alter the way packaging is assessed."

Internationally, says Pentagraph MD Joe Kieser, the opening of a global market requires the design of global packaging to increase the product power.

"This applies as much to the packaging of an aeroplane as to a bar of soap," he says.

Posnett says the Japanese and the Dutch appear to be the latest innovators.

They are experimenting with complex paper engineering and different closures. For example, glass is enhanced with a tactile embossed quality with a matt or acid etched finish. Form in unusual and registrable.

"If South African designers and manufacturers intend making their presence felt in this highly competitive market, they must recognise the need for innovative packaging and be prepared to take risks," he says.

Growing SA demand for OPP fi

HOECHST Films is ready to release a new biaxially orientated polyproylene (OPP) packaging film products after completing its R60m expansion programme.

With OPP film one of the most popular, high quality packaging materials, the company has doubled capacity to more than 10 000 tons per annum, which will meet SA demand for some years.

It is the only local manufacturer of OPP used extensively in the snack food, confectionery and cigarette industries, says GM Eric Horsten.

Growing demand for OPP is due to its high mechanical strength and low water vapour permeability, thus promoting a longer shelf life for packaged products.

ERIC HORSTEN

The extensions included major inputs from its German-based parent Hoechst AG.

"The state-of- equipment emplo ables us to manu ABC-type co-ex films and the tec greatly enhanc flexibility as well a uct range.

"We have also porated a stenter with technology t ables production quality adhesive grade films.

"In fact we no all the resources disposal to rele steady flow of new uct to the market."

Horsten says a advantage is the su tial improvement i times Hoechst Film be able to offer it tomers.

Earnings (194) maintained

MARCIA KLEIN

PAPER and packaging group Holdains expects to maintain earnings for the year to end-August despite the dilutory effect of additional shares in issue. BDAY

Chairman Grant Thomas said at the group's AGM yesterday earnings a share would be maintained at the February interim stage, as well as at the August year-end on increased shares in issue following its R194,3m rights offer. 4/2/93

The new shares issued in terms of the rights offer would qualify for the interim dividend, which would be paid in May.

Holdains acquired 26% of Crown Cork for about R120m in December and would increase its stake to 50% over the next three years. Holdains' stake in Crown Cork enabled it to make a strategic entry into the beverage can market.

The acquisition would take time to benefit the bottom line, Thomas said.

In the year to end-August, Holdains' attributable earnings rose 3% to R84,8m on a 19% turnover rise to R2,32bn.

Gearing was at 48% at year-end, but gearing after the rights issue and the Crown investment should be down to below 20%, Thomas said.

Star 4/2/93

Holdains hoping for same again

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By Stephen Cranston

Holdains is hoping to maintain earnings per share at its February interim and at the August year-end, despite the higher number of shares in issue resulting from its pending one for five rights offer.

Speaking at the AGM yesterday, chairman Grant Thomas told shareholders that consumer demand was weak and showing little sign of improvement.

All major operations, however, were trading profitably, he said, assisted by the increased efficiency and the tight asset management which has developed over a number of years.

Thomas said the 26 percent stake acquired in Crown Cork in December 1992, which will be raised to 50 percent over the next three years, will take time to benefit the bottom line.

"But Crown is performing in line with our expectations and we are confident of its long-term contribution to the group."

He told shareholders the new shares issued in terms of the rights offer would qualify for the interim dividend payable in May.

Afcom optimistic on future

THE Afcom Group has reported a 2,5% rise in attributable income to R3,8m for the six months ended December 1992 and is optimistic of an improved performance in the second half of the year. BDM 9/2/93

The packaging, fastening, strapping and Sellotape systems manufacturer's earnings a share for the period were up from 10,7c a share to 11c a share in spite of the month-long metal industry strike in August 1991. (194

The Bidvest-controlled company declared an interim dividend of 4,40c a share, compared with 4,25c a share previously. Afcom said it was virtually debt free. It would now enhance its competitive position.

Afcom MD Alan Salomon is confident of an improved performance for the second six months. — Sapa.

STAR 9/2/93

Afcom lifts earnings despite strike

By Stephen Cranston (194)

In spite of a month-long strike in the metal industry, which affected both production and market demand for its products, Afcom managed a 2,8 percent increase in earnings per share from 10,7c to 11,0c in the six months to December.

Afcom manufactures packaging, fastening, strapping and Sellotape. It is the dominant manufacturer of staples and rubber bands.

The interim dividend was increased by 3,5 percent to 4,4c but the cover was maintained at 2,5 times.

Turnover increased by 5,8 percent to R62,5 million, reflecting both a fall in demand for Afcom's products and the effects of the month-long strike.

Operating income increased by 2,8 percent to R7,9 million as pressure on margins increased.

Afcom's tax bill rose 14,1 percent to R2,59 million because of the phasing out of certain allowances, particularly export and decentralisation allowances.

The period saw some tidying up of the balance sheet. Long-term debt fell from R4,54 million to R230 000.

Gearing has been reduced from 11,6 percent to 0,5 percent.

Interest payments were reduced from R1,75 million to R1,56 million in spite of a R110 000 increase in debenture interest to R1,11 million.

Chairman Brian Joffe says the group is well-placed to make acquisitions.

"But we are dominant in most of our markets and we are looking for a business which fits into our profile and not necessarily seeking to buy up a competitor."

MD Alan Salomon says that the group performed satisfactorily in difficult circumstances. He says he is confident of an improved performance in the second half.

Good management does trick for Aries

61044 16/2/93 (194)

ARIES Packaging managed only a 6,7% increase in turnover for the year ended December 1992, but boosted attributable earnings by 16% to R1,4m from R1,2m.

The corrugated-carton manufacturer, which specialises in E-flute board, was adversely affected by the recessionary trading conditions, but good management and strict control improved profitability.

Aries declared a final dividend of 4c a share compared with 3,5c in the previous year, while earnings a share increased from 10,4c a share to 13c.

Aries said it expected to show further improvement this year and its operations were ready to take advantage of an upswing in the economy when it occurred. — Sapa.

Consol lifts earnings 7 percent

Star. 17/2/93

194

By Sven Lünsche

An improved contribution from its rubber products division enabled Consol to offset modest results from packaging and plastics and lift earnings by seven percent in financial 1992.

Attributable income rose from R62,5 million to R67 million, equal to earnings per share of 104,1c (97,3c).

This was achieved on sales which were two percent up at R1,1 billion (R1,08 billion) and operating profits three percent down to R133,4 million from R137,1 million in 1991.

Net financing costs were reversed from a loss of R6,5 million to interest income of R1,7 million as a result of last year's rights offer.

Chairman Clive Menell says operating profits declined by 15 percent in packaging, while sales volumes in plastics were lower during the year.

Profits in the rubber division, however, increased by 19 percent as both operating companies, Tycon and Tredcor, recorded strong sales volumes.

Consol last year acquired full control of Tycon and Tredcor's holding company Contred by buying Trencor's 25,6 percent stake for R210 million.

FM 19/2/93.

BIDVEST/AFCOM/CROWN 194

Meeting expectations

Investors' opinions of Bidvest chairman Brian Joffe run high and the profit record is good. That combination recently produced a rerating of the share, bringing it to R63, more than double last February's R31. Listed subsidiaries Afcom and Crown Food showed similar advances.

Joffe contends the 21% increase in attributable earnings on a 37% rise in turnover was a "sound" result in the difficult six months to December. The decline in operating margins to 9,1% (10,7%) followed the inclusion of newly acquired Crown.

Crown turned profitable and EPS of 6,8c were recorded; at the June year-end, the loss per share was 38,4c. Crown's catering equipment maker and supplier President Trading performed strongly, but a month-long strike hampered fellow equipment maker Vulcan.

The problem of financial irregularities which overshadowed Crown's 1992 results is drawing to a close. Criminal proceedings are in progress and civil action is likely to be brought against former staff members (more are involved than previously thought).

Crown did not declare an interim dividend, but the board is optimistic it will resume payouts this year. Joffe says the forecast EPS of at least 13,2c will be achieved. However, an R11m interest-free loan will be replaced by a long-term interest-bearing facility on February 26, which will increase interest payments for the second half.

Packaging arm Afcom suffered from the metal industries strike and was deprived of a month's trading. Because of the phasing out of certain allowances, its tax rate increased. Nonetheless, EPS were up a satisfactory 3%, dividends increased similarly and debt: equity remained nil.

Bidvest has three unlisted subsidiaries: Steiner, bought from Sable Holdings in 1992; Cater Plus, the original core business; and Justine, a 50%-held skin-care and cosmetics house. All performed well.

Next financial year Crown and Afcom are each expected to contribute 20% of profit; Cater Plus and Steiner should each produce 30%; Justine's contributions will remain negligible. Group financial director George Demetriades says the subsidiaries should meet their targets.

Bidvest's Joffe ... *results were sound*

ATTRACTIVE RECIPE

Six months to	Dec 31 '91	Jun 30 '92	Dec 31 '92
Turnover (Rm)	280	316	383
Operating inc (Rm)	30	30	35
Attributable (Rm)	13	14	16
Earnings (c)	203,1	208,9	245,2
Dividends (c)	80	84	98

FM 19/2/93

Bidvest has a strong balance sheet and good management, a combination which favours core acquisitions. Demetriades says Cater Plus continues to acquire medium-sized businesses. Management is looking for a suitable addition for Afcom. He declines to comment on market talk that Bidvest's other food-related interests will be moved into Crown.

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Management expects a further sound performance in the second half but cautions against unrealistic expectations. The interim figures have helped to justify the firming share price but, with the p:e at 13,9 and the yield at 2,9%, the counter is no longer cheap.

Kate Rushton

SA and the oral fixation

AMONG the JSE sectors which have habitually looked overpriced but have not proved to be so on a longer perspective are the consumer sectors — retail and wholesale, beverages, food, packaging, tobacco and pharmaceuticals. S1 Times (Buss)

That these sectors have outperformed the Industrial Index in recent years must be a reflection of the belief that consumption is one of the few certainties in anything but the most pessimistic scenario for a future SA. 21/2/95

This belief in what is effectively the oral fixation of the masses is reinforced by trends which have occurred in many African states.

For instance, because of the economic policies it has followed, Zimbabwe's economy is now virtually dependent on consumption, with little capital formation.

Within the gamut of consumer sectors, three sub-sectors — beverages, food and packaging — hang together because they are related in their growth levels.

They have all suffered from lower consumer spending and downtrading recently.

But in the long-term, investors know the favoured ethnic group is changing in SA, that redistribution towards the new favoured group is inevitable and that that group will spend their new-found income primarily on the oral fixation.

If SA's economy is better managed than Zimbabwe's, this could turbocharge the growth rates of traditionally "defensive" companies.

Beverages — more specifically, beer and carbonated soft drinks — have had the fastest volume growth of these three sub-sectors.

Until the 1991-1992 crash in consumer spending, beer, as represented by SA Breweries, had annual growth of 9% and above. Soft drinks, as represented by Amalgamated Beverage Industries (ABI), had annual volume growth a few points below that.

Little wonder, therefore, that ABI — which has remained focused on its industry — has one of the highest ratings on the JSE.

Consumption growth of these liquids has recently declined to around zero, but there is plenty of hope for the longer term.

Bottled beverage consumption in Zimbabwe has been extremely resilient. The habit for their consumption, once gained from the colonialists, is not easily or willingly lost.

By contrast with bottled beverages, SA's food manufacturing growth has been modest at about 2% a year in the 80s, well below population growth of about 2,5% a year.

The level of GDP growth every year has been a much more direct coefficient of annual food manufacturing growth than population growth, urbanisation, though the latter has provided an underspin.

Food companies have responded to this slow fundamental growth rate by diversifying into value-added foods, pharmaceutical and wholesale activities.

Packings are linked into the beverage and food sectors because they are its main customers. About 30% of all packaging production by volume goes to the beverages industry and 20% to the food industry.

Packaging manufacturing growth has historically been faster than that of food, averaging perhaps 4% in the 80s but slower than beverages. This relatively high growth rate may have encouraged packing companies like Nampak and Holdains not to diversify as food companies have.

All three sub-sectors look vulnerable at their current high levels. If they fall in price this year that will present a buying opportunity, on a long-term view at least.

☐ *TEIGUE PAYNE analyses consumer industrial companies for Frankel Pollak Vinderine*

Coates beats conditions

(194)

By TRACY SCHNEIDER

PACKAGING group Coates Brothers has increased earnings a share 15% to 317c (276,5c) for the year ended December, despite difficult trading conditions.

Results released today said a final dividend of 62c, 17% up on 1991's 53c, was declared. Total dividend was 83c (72c). 24/2/93

The year was marked by intense competition for market share, but the company had managed to increase turnover 12% to R176,8m (R158,5m).

Net operating income had improved to R20,6m (R17,7m) and net income before tax had increased 18% to R20,8m (R17,6m).

NEWS IN BRIEF

BIDAY 25/2/93.

Mondi acquires Memix

MONDI Paper has bought out Nampak's controlling interest in Memix, the country's only manufacturer of carbonless paper for an undisclosed sum. (194)

Mondi, with a previous holding of 49%, took up 51% to make Memix a wholly owned subsidiary.

Mondi takes over Memix from Nampak (194)

JOHANNESBURG. — Mondi has acquired the remaining 51% shareholding in carbonless paper manufacturer Memix from Nampak, the forestry products group said yesterday.

Memix is now a wholly-owned subsidiary of Mondi (which previously had a 49% stake in Memix) and will be integrated into the paper division.

Mondi commercial director Peter Nelson said the acquisition of Memix would offer opportunities to steamline production, marketing and sales.

"South African annual consumption is in the region of 13 500 tons, of which Memix is capable of supplying around 60%. — Sapa CT 25/2/93

Mondi buys up Memix

STAR 25/2/93. 194

By Stephen Cranston

Mondi has bought the remaining 51 percent of carbonless paper manufacturer Memix from Nampak.

Mondi commercial director Peter Nelson says the partnership with Nampak has been amicable, but that even when it started in 1988 it was felt that Memix would ultimately fit better into Mondi, where it would be in a better position to service customers.

It is expected, for example, that there will be some integration between the national sales force operated by Memix and Mondi's traditional paper businesses.

Carbonless paper will continue to be made by Memix in its West Rand plant.

Overall, the operation will be included in the Mondi paper division.

The paper division has traditionally supplied all the base paper for carbonless-paper production.

Says Nelson: "It is a difficult market with strong competition from major overseas producers.

"South African annual consumption of carbonless paper is in the region of 13 500 tons, of which Memix is capable of supplying around 60 percent."

Sappi swops wood resources

CT 1/3/93

(194)

JOHANNESBURG. — Forest products groups Sappi Limited and the Hans Merensky Foundation have agreed to exchange wood resources in a move designed to be more cost-effective for both groups.

In a statement at the weekend, Sappi said Hans Merensky had acquired its Tzaneen plantations and sawmill, which would give the foundation access to hardwood logs in close proximity to its Politisi Sawmill.

In exchange, Sappi was acquiring the Clan Plantation and sawmill adjacent to Sappi's Shafton Plantation in Natal, as well as Hans Merensky's Zululand sawmill and its timber supply contract.

Sappi said the Clan Sawmill was the largest softwood sawmill in Natal with a "throughput capacity" of around 120 000 metres.

Commenting on the moves, Ian Heron, MD of Sappi's Southern African operations, said: "As a result of this transaction our forestry and saw milling operations are consolidated and the supply of both softwood and hardwood to our mills will be more cost effective.

"We see this swop as a sensible arrangement for both the Hans Merensky Foundation and ourselves, and the better utilisation of the country's wood resources." — Sapa

Alex White's profits dip in weak market

Star 2/3/93
(194)

By Stephen Cranston

Packaging and printing group Alex White Holdings has reported a 20,2 percent fall in annualised earnings per share to 7,5c for the six months to December.

Turnover increased by 11,2 percent to R34,2 million but operating income was down 29,9 percent to R1,9 million.

Group MD Terry Kane says that the reduced profitability is a direct result of the depressed economy and exceptionally poor trading conditions.

"We have not lost any clients during this period. However, clients are also under pressure and this resulted in lower volumes being ordered at any one time. Margins were therefore considerably thinner."

Kane says that strict cash flow and the drop in the interest rate contributed to reduction in interest costs by 44 percent to R861 000.

The group generally performs better in the second half of the year and Kane expects a satisfactory result for the full year if there is no further deterioration of the economy.

As is customary, no interim dividend was declared.

FM 5/3/93 (194)

ARIES PACKAGING
FM 5/3/93 (194)

Profitability improving

As CE Dieter Neckel says in the latest annual report, it's always easier to report on improved results. Only two years ago he had the unfortunate task of announcing poor results for the Cape-based packaging group, so he must have enjoyed reviewing financial 1992. Earnings increased by almost a quarter and the dividend was lifted 14%.

Turnover improved only 6,7% — a reduction in volumes. Neckel says the customer base was increased but established customers reduced frequency and quantities of orders. Credit control became an important aspect of operations and sales were sometimes forgone if risks appeared too great.

Operating profit climbed 22,3%. Neckel puts this down to improvements in productivity and asset control, good labour relations and selective material purchases. Increased costs in raw materials which could not be recovered were partly to blame for 1990's 47% decline in operating income.

It was also during 1990 that the balance sheet became geared. Management decided to embark on an expansion programme and gearing rose to 12%. In 1991 it was 46% and last year it reached 47%. This was because a loan was raised from the IDC to buy a factory in Brackenfell, Cape Town. The cores & tubes division was moved from rented premises to this property last year. Interest and leasing cover remains comfortable at 5,5 times.

Other divisions Aries operates include its core business of manufacturing corrugated containers; a speciality screen printer; and a new fibre drum plant. A year after its inception, the fibre drum division is not yet breaking even, but Neckel says it's fast approaching this point. The other divisions, he adds, are profitable.

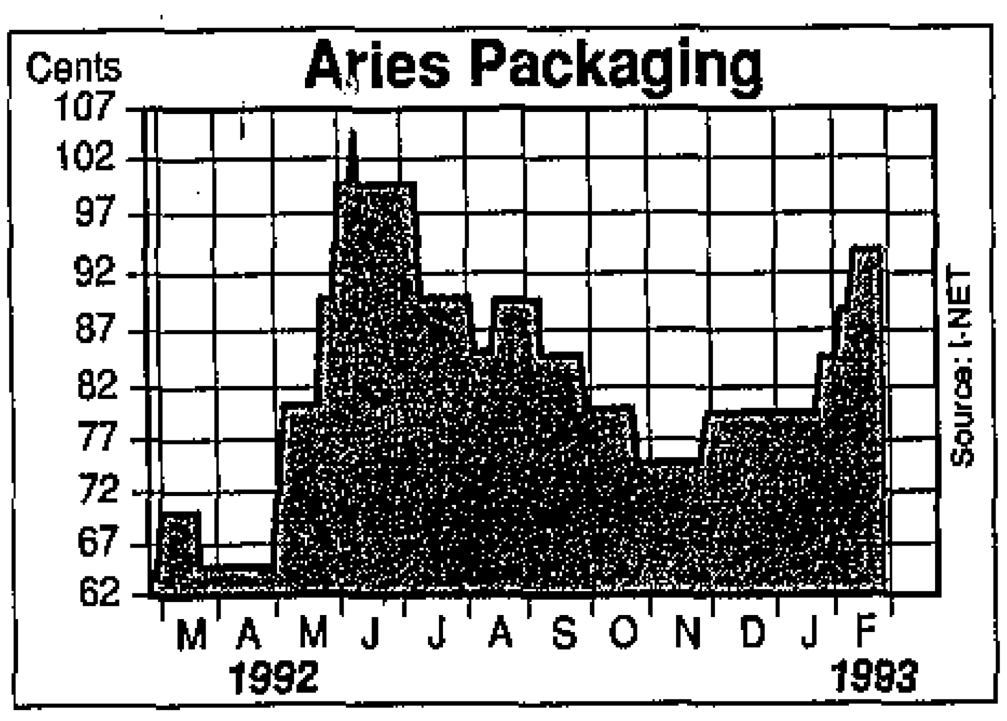
Small-to-medium-sized industrialists are the group's largest customers but these also tend to be the ones who bear the brunt of the recession. Even if an upswing comes a continued increase in liquidations of these industrialists must be expected which will no doubt be felt by Aries. Despite this pressure, Neckel is confident earnings and margins will be maintained, if not improved, by the 1993 year-end. He says profits for the first two months are already up on last year's.

The 7,3 p:e is only half the average for the paper & packagings sector, but earnings need to move closer to 1989's levels to justify serious investor interest.

Kate Rushton

Activities: *Screenprinter and manufacturer of packaging, paper cores and tubes.*
Control: *Directors 71,4%.*
Chairman: *G E Kohler; CE: D Neckel.*
Capital structure: *11m ords. Market capitalisation: R10,5m.*
Share market: *Price: 95c. Yields: 4,2% on dividend; 13,7% on earnings; p:e ratio, 7,3; cover, 3,3. 12-month high, 105c; low, 64c. Trading volume last quarter, 105 000 shares.*

Year to Dec 31	'89	'90	'91	'92
ST debt (Rm)	0,5	0,6	1,5	1,8
LT debt (Rm)	0,3	0,3	1,9	2,1
Debt:equity ratio	0	0,12	0,46	0,47
Shareholders' interest	0,68	0,60	0,54	0,52
Int & leasing cover	—	108,7	5,3	5,5
Return on cap (%)	34,6	15,0	19,1	19,9
Turnover (Rm)	18	22	26	28
Pre-int profit (Rm)	3,1	1,6	2,6	3,1
Pre-int margin (%)	17,2	7,5	9,9	11,3
Earnings (c)	15,4	7,3	10,5	13,0
Dividends (c)	5,0	2,5	3,5	4,0
Net worth (c)	55	60	67	76



COMPANIES
FM 5/3/93. (194)

Dumping of paper probed

BDay (194)

KELVIN BROWN

THE Board on Tariffs and Trade launched an investigation into the alleged dumping of carbonless copy paper from Germany and the UK.

This followed a petition from Memix, the sole local manufacturer of carbonless paper. BDay 9/3/93.

Evidence showed the price at which the product was being exported to SA was significantly lower than the domestic price in Germany and the UK, the BTT said in the Government Gazette on Friday.

Memix is a wholly owned subsidiary of Sappi, which recently increased its stake in the company from 49% to 100%.

The BTT said imports of carbonless copy paper rose to an estimated 11 540 tons in 1992, from 8 113 tons in 1990. Foreign importers' share of the local market increased to approximately 73,8% in 1992, from 60,7% in 1990.

Memix MD Clive Manby said his company was capable of producing 60% of SA's current usage, estimated to be in the region of 13 500 tons. Its current market share was 26,2%, down from 39,3% in 1990.

Memix sales fell by 9,4% between 1991 and 1992 causing capacity utilisation to fall to 69,8%. If dumping continued, capacity utilisation could fall to 53,3% this year. This could jeopardise the local industry.

Bowler packs hefty results

MARCIA KLEIN 194

PLASTIC packaging manufacturer Bowler Metcalf's earnings grew 47,9% to 10,8c (7,3c) a share in the year to end-December, yielding a compound growth rate of 38% a year since listing on the JSE in 1987. BDAY

CE Horst Sass said Bowler's 1992 performance was exceptional. Turnover rose 22% to R21,4m from R17,5m, and a continued increase in efficiency saw net income before tax improve 53,8% to R5,2m (R3,4m). 12/3/93.

The lower interest burden of R46 7000 (R541 700) reflected a healthier cash position. Net income after tax increased 47,3% to R2,7m from R1,8m previously.

Bowler Metcalf's final dividend was raised 50% to 3c (2c) a share, bringing the annual dividend to 5c (3,5c) a share.

Sass said the cost of entry into the rigid packaging market — the firm's target market — precluded new competitors, and Bowler was confident it would continue "to gain market share steadily".

Capex of R3,3m in the next three months would show benefits in the second half of the year. Bowler was negotiating for premises 50% larger than its current premises.

Sass said: "It would be rash to predict another year of similar growth, but I have no reason to believe that we will not remain above the average."

City packaging firm outboxes recession

(194)

ARG 12/3/93

MARC HASENFUSS
Business Staff

CAPE TOWN packaging group Bowler Metcalf bucked the recessionary trend in the year to end December — increasing earnings 47 percent to R2,7 million.

This indicates a strong second half performance as earnings were up 28 percent at the half year mark.

Bowler Metcalf manufactures plastic packaging for toileteries, food, motor oils and pharmaceuticals.

Although turnover only increased 22 percent to R21,4 million, a reduction in the interest bill from R572 000 paid to R10 000 received bolstered bottom line.

Directors said this reflected the continued increase in efficiency.

A final dividend of 3c was declared, increasing the full payout for the period under review to 5c a share.

Directors commented: "Measured against any standard, the performance of this company in 1992 was exceptional."

The group has achieved a compounded growth rate of 38 percent a year since listing on the Johannesburg Stock Exchange in October 1987.

The group was initially listed on the junior board (Development Capital Market) but gained promotion to the main board in August 1989.

Bowler Metcalf lost 5c to stand at 75c on the Johannesburg Stock Exchange yesterday.

The share is still at a considerable premium to its net asset value of around 20c a share — indicating considerable market respect.

■ Gefco maintained earnings as the weakening rand compensated for lower asbestos sales and a loss-making colliery.

Net profit dipped a mere 5 percent to R2,8 million in the year to end December. A final dividend of 3c a share (1991 — 2,5c) was declared.

The decline in turnover was attributable to substantially lower sales of both blue and amosite fibre, due to the phasing-out of amosite by its main users and a shortage of foreign currency in some countries importing blue fibre.

The Penge amosite mine was closed at mid-year, and its surplus assets including the mine village are now being sold, while production of blue fibre has been confined to one complex only. The low sales meant that blue stock levels remained high.

Virtually all remaining amosite stocks have been sold, however, and all trading in this commodity will cease shortly.

Directors said that current demand for blue asbestos seems slightly firmer than in 1992 but will be determined largely by customers' ability to obtain foreign currency allocations. Prices are expected to remain static or tend lower in an oversupplied market.

The lower level of production will continue to have a negative impact on unit costs and margins will remain under pressure, with the only foreseeable relief coming from a further weakening of the rand.

The company's Annandale colliery almost trebled its turnover to R12,4 million but still suffered a loss of R6 million for the year, as a result of a drop in export prices and an oversupply situation in local markets.

Chairman Pat Hart said the group's "extremely disappointing experience with coal" to date is a cause for major concern.

He said the costly opencast operation at Annandale was being phased out and management was evaluating the possibility of switching operations to a nearby underground coal source.

"All things considered, however, we expect that our 1993 results will show a slight improvement over 1992 provided there are no unforeseen setbacks. Given our healthy cash position, we may be able to improve dividend distribution."

Star 23/3/93 (194)

Sappi's earnings prospects look bleak

By Stephen Cranston

The recent precipitous drop in the Sappi share price from R29 to R24 has two main causes — the poor trading environment and the likelihood that it will pass its final dividend.

The results of the other integrated paper products manufacturer, Amic subsidiary Mondi, showed a sharp decline in attributable earnings of more than 50 percent from R110 million to R51 million in the year to December.

Sappi's earnings are not expected to decline so sharply because it has a greater exposure to exports and international operations and so will show some benefits from the falling rand.

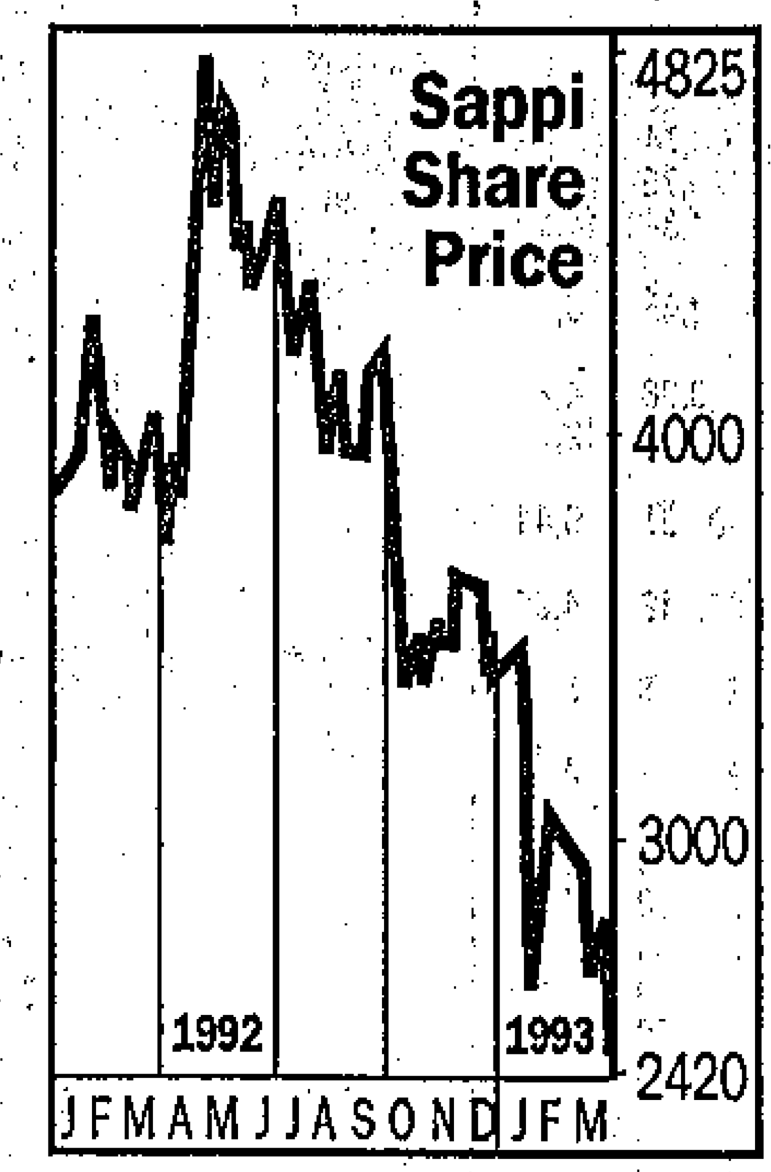
But Sappi's December-to-February quarter is likely to prove its most difficult as pulp prices fell from $520 a ton at the beginning of the quarter to $400 at the end of December and did not recover from those levels.

The price collapse was precipitated by the problems in the Russian economy, as this was a major customer of the key Scandinavian paper producers.

The Scandinavians have been able to undercut Sappi more easily since September because of significant declines in the Finnish markka and Swedish krona.

Sappi is currently selling its products for an average of $100 a ton less than twelve months ago, so the present first half's earnings and cash flow will be well down on the six months to August 1992.

The most optimistic forecast is that Sappi will earn 100c in



the second half, down from 190c in the second half of 1992, and 130c in the first half of financial 1993.

Pessimists predict that second-half earnings will be 70c a share, to give a total of 200c, down a third from the previous year.

Until the Budget, it was expected that Sappi would cut the final dividend, perhaps from 120c to 80c.

This forecast has been changed by all major brokers because the new 15 percent dividend tax would mean a R45 million tax liability if the dividend was unchanged. In the whole of last year, Sappi paid just R3,2 million in tax.

Although Sappi's earnings aren't likely to recover much in the year to February 1994, perhaps to around 250c a share, they could double in the following year.

At R24, Sappi looks oversold on a two-year view.

Clegg feeling the pressure

(194) BDAY 26/3/93

MARCIA KLEIN

STIFF competition in the packaging and printing industries caused a drop of 70% in Clegg Holdings's earnings to 0,36c (1,19c) a share in the six months to end-December.

Chairman Arnold Sharp said the marginal rise in turnover to R11,9m from R11,8m reflected the continued effect of the recession as well as the result of the sale of the H R Clegg Silkscreens business operations in September for no profit or loss to Clegg.

In the previous year pressures had been evident in the silkscreening and packaging activities.

Operating income fell by 39,5% to R566 000 from R935 000, as severe competition caused continued pressure on margins.

But Sharp said the company had maintained profitability regained at the June 1992 year-end from a loss in the previous year.

After a 23% reduction in finance costs to R430 000 and an extraordinary item of R17 000, relating to goodwill written off, net pre-tax income came in 68,4% lower at R119 000 (R376 000).

Net income after tax was reduced by 65,4% to R130 000 from R376 000.

No dividend was declared, and shareholders have not seen a dividend in years. Market sources believe that until there is a reasonable return on assets, it is unlikely dividends will be considered.

Sharp said Clegg's policy of strict asset management continued to be applied. He did not make any forecasts on the full financial year.

UK giant buys in to SA package

(194)

Arg 27/3/93

BRUCE CAMERON
Business Staff

A R12 million packaging factory is to be established in the western Cape in a joint venture between a South African company and British-owned multinational Linpac Plastics.

The factory will manufacture polystyrene food packaging trays in the initial stages, but ranges will expand with a PVC cling film plant scheuled to be opened later in the year.

The joint venture company has been named Atlantic Forming (Pty), with Cape Town businessman Mr Kobus du Plessis as managing director.

Mr Du Plesis, who was on the board of listed packaging company Sun Packaging until it was taken over by Malbak subsidiary Holdains, said the new venture would put more competition back into the South African packaging industry.

The venture would create 120 new jobs initially, and production was scheduled to begin by June.

Substantial investment in new technology and equipment would be injected into South Africa over the next two to three years as the company developed.

Production of other products made by Linpak internationally would be introduced. The products included clear trays; steam-moulded foam cups; foam egg boxes; fast food containers; disposable bags; and, folding cartons.

Mr Michael Anderson, managing director of Linpak Plastics International, said in a statment the company was viewing its investment as long term.

"South Africa is a market offering great potential and will soon be recognised as a pace setter for sub-Saharan Africa."

Mr Du Plessis said a feature of Atlantic Forming's operation would be a commitment to Linpak's environmental standards.

He claimed Linpak was a leader in the environmental field, and that the company had recently opened Europe's first recycling plant for consumer polystyrene packaging.

Holdains unbowed in the face of adverse conditions

BDAY 29/3/93. (194)

MARCIA KLEIN

HOLDAINS lifted its earnings by 6% to 178,5c (168,1c) a share in the half year to end-February, despite the tough competitive conditions and reduced consumer spending which affected all its products.

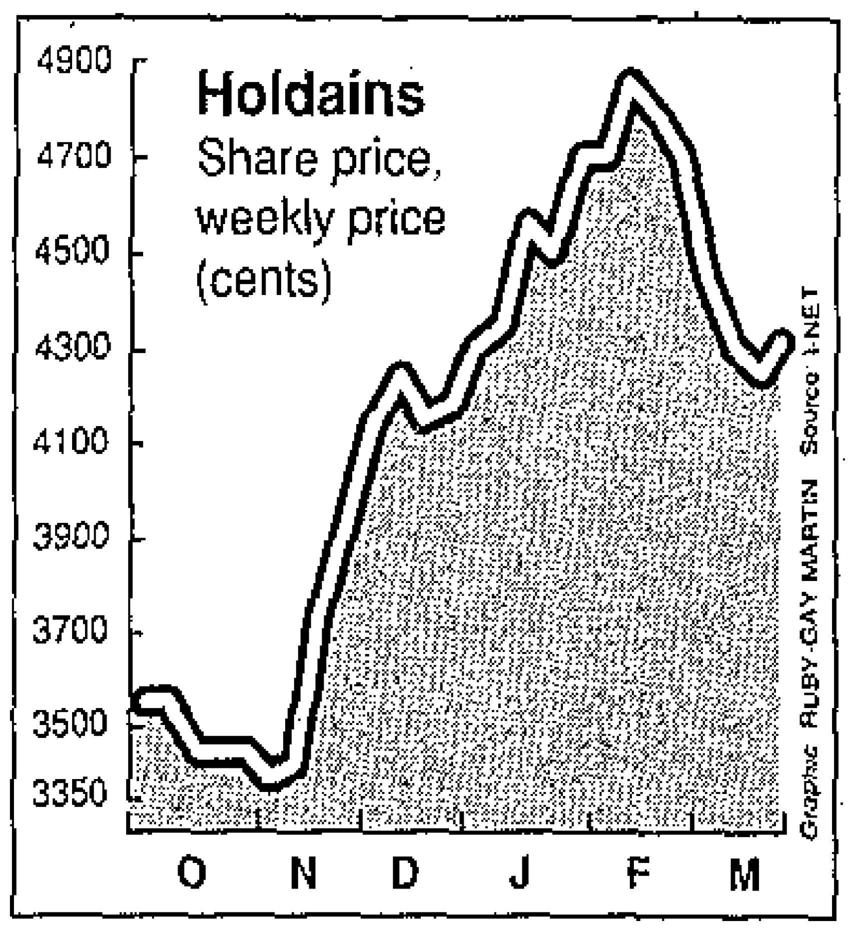
During the period, the paper and packaging group acquired 50% of beverage can manufacturer Crown Cork Company SA and raised R191m in a rights issue. This provided the initial R60m payment for Crown Cork and reduced gearing to 17,9% from 36,9%.

The group, in the Malbak stable, increased turnover by 12% to R1,28bn from R1,15bn. But operating profit was up by only 2% to R103,1m (R100,9m), reflecting the pressure on margins.

Chairman Ian Willis said the group did well to maintain volumes in real terms, "albeit at the expense of a decline in operating margin".

Finance charges, which rose by 9% to R21,1m (R19,2m), reflected the higher level of debt following the R60m investment in Crown Cork.

Pre-tax income was static at R82m, and income after tax was 1% lower at R52,7m from R53,2m.



A decline in outside shareholders' interest saw bottom-line earnings rise by 6% to R43,3m from R40,8m.

Willis said recent changes in company tax had contributed favourably to the results.

The interim dividend was maintained at 51c a share.

Willis said Crown Cork's results had been included from December 1, and only 26% of Crown's earnings would accrue to Holdains this calendar year in terms of the acquisition agreement. Crown Cork had improved profitability since the acquisition, and had made a positive contribution to group earnings.

Recently acquired Holdains Plastics and the rationalised Sunvest group had improved profitability. These performances had offset the start-up costs of Polyfoam Inc in the US and reduction in margins in the Kohler flexible packaging division.

Kohler paper division marginally increased its contribution to earnings by reducing working capital and improving cost controls.

Graphtec paper merchanting maintained earnings, and was expected to improve profitability in the second half. Carlton Paper Corporation reduced its earnings on the back of strong competition and reduced consumer demand.

Willis said Holdains was targeting maintained earnings for the full year on the increased share capital following the rights issue, but warned that trading was unlikely to improve, particularly in the light of the Budget, which would affect consumer spending.

The Holdains share, which rose strongly off an April 1992 low of R33,65 to a high of R48,50 following the Crown Cork acquisition, closed on Friday at R43.

Low spending hurts Carlcor

BIDAY 29/3/93.

MARCIA KLEIN (194)

DECLINING markets for Carlton Paper Corporation's (Carlcor) products and tough competition caused the group to drop its earnings 16,8% to 96c (115,4c) a share in the six months to end-February.

Carlcor, which makes tissue and fibre-based products, had dropped earnings 20,6% at the August year-end. Current results are in line with chairman Ian Willis's statements at that time that there would be no further deterioration in the group's profitability in the current year.

Sales grew by only 1,7% to R227,9m in the six months as depressed consumer spending resulted in declining markets. This, and a tough competitive environment and low export prices, reduced operating margins. Operating income declined 17,5% to R24,3m.

After a 10% decline in the interest bill to R887 000 and an increase in dividends received, pre-tax income was 16,4% lower at R23,9m. Net income after tax fell 16,8% to R15,2m.

A 21,4% lower interim dividend of 33c (42c) a share was declared, with cover increased to 2,91 (2,75) times.

Directors said earnings were in line with the second half of financial 1992. They said working capital remained well controlled, and productivity improvements contributed to the current results. Cash flow remained strong.

Economic predictions for the next six months were "not encouraging". Consumer and government spending would remain under pressure. These factors meant that growth in the local markets was unlikely. On the brighter side, exports to Africa, although small, were encouraging.

Directors expected the second half to show some improvement over the first half, but warned that any significant improvement in earnings for the year as a whole was unlikely.

Star 29/3/93

Holdains lifts earnings in teeth of stagnant market

(194)

By Stephen Cranston

The recent changes in company tax have helped paper and packaging group Holdains to increase earnings per share by six percent to 178,5c in the six months to February — better than market expectations.

A further R2,1 million was added to the attributable earnings, which ended up at R43,3 million.

Chairman Ian Willis says the results were fair, but not spectacular, particularly as there was no growth in the overall market.

The Holdains companies have experienced hard times before and have learnt to manage the business tightly and maximise cash flow.

Cash from operations rose from R61,7 million to R77,9 million.

Working capital increased by R60,8 million, but R54 million of this was accounted for by the anticipated future cost of Crown Cork, and a negligible R6 million in increased stocks and debtors.

Crown Cork's results have been consolidated since December, and contributed to a 12 percent increase in turnover to R1,284 billion.

Willis says Crown has improved profitability from an unsatisfactory position. He expects it to make a meaningful contribution to profits in future years as it provides access to the high growth beverage industry.

Crown Cork USA has bought the world's largest manufacturer of PET plastic bottles, and Holdains is likely to move into this market in the medium term.

Kohler Paper increased its contribution to group earnings through further reductions of working capital and cost control, despite intense competition for largely unchanged volumes.

The best improvements were shown by the plastics businesses, including Holdains Plastics (formerly Murray & Roberts Plastics) and Sunvest, which was delisted and rationalised.

Kohler Flexibles' volumes and margins were under pressure because of competitive reaction in a depressed market. To make up for volumes, Flexibles had to take on a greater volume of lower-margin business from the confectionery market.

Polyfoam, based in Cincinnati, US, was commissioned on schedule, but incurred a loss to February, Willis says. It has made a reasonable start in the most com petitive market in the world.

Carlton Paper was the most disappointing performer, reporting a 16,5 percent reduction in earnings.

But Carlton has taken corrective action, including the launch of new products and cost reduction, which should allow profitability to improve in the second half.

Paper merchanter Graphtec maintained earnings and there should be an improvement after rationalisation which has turned Star Paper into a division of Haddons.

Finance costs increased by nine percent to R21,1 million, but are expected to fall sharply in the second half because of the proceeds of the R191 million rights issue.

Taxed income fell by one percent to R52,7 million, but there was a 24 percent reduction in payments to minorities, because of the reduced earnings from Carlton Paper and Kohler Sacks and taking out minorities in Sunvest.

Management hopes to maintain earnings per share for the year on the 20 percent higher share capital arising from the rights issue.

However, it warns that trading is unlikely to improve, especially after the recent Budget, which is expected to impact adversely on consumer spending.

Tax break a shot in arm for Holdains

Business Staff (194) ARG 29/3/93

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COMPANIES

Paper dumping adds to 'catastrophic' Mondi year

B/DAY 31/3/93 (194)

B/DAY 31/3/93

MATTHEW CURTIN

A JUMP in the amount of paper dumped in SA, in spite of existing tariff protection, during a year of already poor domestic market conditions has added to the woes facing Mondi Paper, the paper and pulp producer 53% held by the Anglo American Industrial Corporation.

Executive chairman Tony Trahar says the year was "a catastrophe" for the paper and pulp markets.

The plight of Mondi's business was exacerbated by a relaxation of import controls, without corresponding increases in tariffs on imports. Market sources suggest Mondi and Sappi may have made anti-dumping applications to the Board of Trade.

Mondi reported a 54% fall in earnings to R51m (R110m) in the year ended December 31 1992, compared with earnings of R172m in 1989.

The fall in profitability follows a R454m capital injection by Anglo and De Beers in 1990, and the completion of a R1,4bn modernisation and expansion programme in the same year. Mondi has a 5% share of Mondi Europe which acquired significant Austrian paper interests in 1990 and 1992, and the group has benefited from significant adjustments to its deferred tax provisions with cuts in the company tax rate.

Mondi contributed more than 16% of Amic's earnings in 1989, but Mondi and NTE, the forestry company which became a wholly owned subsidiary on January 1, contributed only 7,6% in 1992.

Analysts agree 1992 was bad for the sector abroad, to which Mondi is exposed through its investment in Mondi Europe, its supply of pulp to its Austrian associates, and exports, responsible for a third of turnover.

The European market, experiencing steady growth for paper products, was blighted by overcapacity among the main producers and the willingness of governments to support loss-making operations to preserve jobs. Currency devaluations in Finland and Sweden improved the competitiveness of their forestry output. Trahar notes the Austrian schilling was not devalued, affecting the competitiveness of the Frantschach businesses controlled by Mondi Europe.

The domestic recession took its toll on Mondi's business, with the group temporarily closing between 10% and 20% of its overall 1,5-million ton a year capacity.

Talk of tariff protection in the teeth of the recession and trough in commodity markets might smack of whingeing, but Trahar says Mondi has a good case. One analyst says it is difficult to quantify the impact paper imports have had but they may have taken up to 20% of the local market.

Trahar says these imports affect Mondi's core business: packaging, A4 copying paper and linerboard.

He notes rival overseas paper producers receive much "subtle" protection in the form of loans and subsidies, in addition to favourable tariffs.

Trahar says these range on average from 9% to 25% against uncoated fine paper imports, compared with zero to 10% in SA. On top of the weak tariff structure, the authorities are slow to react to claims of dumping.

Mondi has benefited from the General Export Incentive Scheme (GEIS), "crucial" for enabling the group to sustain its newsprint exports in the late '80s and early '90s.

Whether paper processors, who have had little alternative but to buy paper from the Mondi/Sappi oligopoly, will see new tariffs on imports in the same light is another matter.

In the meantime, Trahar says there are signs paper and pulp markets are recovering. Newsprint and timber prices in North America have firmed this year, pulp prices may have bottomed, and with so many overseas mills unprofitable and facing closure, the industry's problem of overcapacity may improve.

Mondi's exports to Africa and the Middle East are rising, with more potential in India and Australia, because of SA's geographical advantage.

Trahar adds, without divulging figures, that Mondi is "in good shape" as it waits for the upturn.

CARLTON PAPER FM 2/4/93 (194)

Pricing pressures

All good things must come to an end. Blue chip Carlton Paper Corp (Carlcor) discovered this during the year to end-August and its difficulties persisted during the first six months of financial 1993. The share is trading just off its R28 January low and well below the R43 it fetched a year ago.

Carlcor, long known for its strong balance sheet and consistent profit growth, posted a 16,8% decline in interim EPS. However, earnings were maintained in line with those of the second half of the 1992 year. Weak consumer demand curbed sales volumes and turnover increased only 1,7%.

FM 2/4/93 (194)

MD Keith Partridge notes that consumers' disposable incomes have been shrinking and the introduction of the 4% increase in Vat will force customers to cut back on certain Carlcor semi-luxury items such as disposable baby diapers. Price wars are also driving prices down. Partridge gives the example of toilet tissue, which is now being sold at 10% less than a year ago.

Partridge says management is applying three main strategic principles to combat diminishing sales volumes: new product launches; recycling of old products; and matching of competitor prices.

Carlcor's balance sheet took a slight knock at the beginning of the year, when funds were needed to rebuild a tissue machine. Gearing increased from 9,9% to 24,1%, though this remains conservative. Partridge says this figure is already starting to decrease and over the next year should drop back to 1992 levels.

Economic predictions for the remainder of the financial year are not encouraging for this business. Consumer as well as government spending is going to be under pressure, leaving little prospect of any real growth in the local markets.

Though still accounting for a small proportion of total turnover, there is encouraging growth in Carlcor's exports into Africa. Demand from African countries for its products is rising, but Partridge says the real problem for these developing countries is money.

He says results for the second half of the year will be better than those of the first half. But a significant improvement in full-year earnings is unlikely. Retrenchments are not on the cards and the 2,75 times dividend cover should be maintained at year-end.

The share is tightly held, with Holdains' stake at just over 50% and US-based Kimberly-Clark's 38,7%. On a p:e of 14,5, given the weakening margins, the counter appears expensive.

Kate Rushton

HOLDAINS FM 2/4/93

Consumer squeeze (194)

A 6% increase in interim earnings (to February) has not papered over the cracks in consumer demand. Holdains makes various paper and packaging products, whose sales are sensitive to consumer spending. CEO Richard Bruyns says: "We are in the 55th month of recession — consumer spending has suffered."

Evidence of tough market conditions is seen at the operating level. Profit rose 2% on a 12% increase in turnover. Holdains is SA's second-largest packaging firm, with about a third of the market. "It's a volume-sensitive business and prices have had to take the strain to maintain market share," says chairman Ian Willis. Volumes fell by about a sixth over the past three years as prices

FM 2/4/93 (194)

lagged inflation, adds Willis.

The paper division kept volumes steady in a tough market, managing a marginal gain in its contribution to group earnings. Of Crown Cork's results, included from December 1992, only a quarter will accrue to Holdains this calendar year as the financing of the acquisition was staggered. Crown broke even, an improvement on the previous loss.

Food packaging margins were under pressure because the business is targeted at luxury products such as crisps, soups and biscuits — less recession-proof than mealie meal or bread. Carlton Paper suffered a near-17% fall in EPS (see separate article). The merchanting division was steady.

"The 4% rise in Vat isn't going to boost consumer spending", says Bruyns. Instead, the group will have to continue efforts to cut costs in a highly capital-intensive business.

CHASING VOLUMES

Six months to	Feb 29 '92	Aug 31 '92	Feb 28 '93
Turnover (Rm)	1 151	1 165	1 284
Operating income (Rm)	101	92	103
Attributable (Rm)	40,8	44	43,3
Earnings (c)	168,1	181,2	178,5
Dividends (c)	51	70	51

Paper & packaging, the largest division, is being sized down.

Holdains is operating at about two-thirds of capacity, though this can only be an estimate given the spread of products. Exports account for about a tenth of sales but are unlikely to grow much: "Freight costs on an empty can are too much," says Willis.

The effective tax rate should stay at its current 35,7%, despite the lower corporate rate. The recent rights issue, which helped to chop gearing from 36,9% to 17,9%, was intended to meet payments for Crown Cork and should also cut interest charges.

Earnings will remain under pressure until consumer spending recovers. Cost-cutting and sizing down will streamline operations, priming them for the next upturn. Earlier this year, the share price fell by about 10% to R43. On a p:e rating of about 12, below the sector average, and a dividend yield of 2,8%, it is tempting.

Louise Randell

CAPE BUSINESS

A Cape business rises from the ashes to industry leader

St Times CC (Metro) 11/4/93

194

By JEREMY WOODS

OUT of the ashes of a hard-fought takeover battle in the UK for its parent company, MCG Industries, the Cape-based manufacturer of a wide range of brightly-coloured bottle tops and closures has survived to become a strong independent leader in its field.

And that's official.

"Our parent company, the UK Metal Closures group was recently taken over in a hostile bid by a UK conglomerate called Wassall," said Ian Lawson, the recently-appointed managing director of MCG Industries.

"This prompted many of our customers to think Wassall would not be interested in the South African end of Metal Closures, and caused a flurry of interest from people who wanted to take over the local business," he said.

But the longer Wassall, run by Chris Miller, former personal assistant to British takeover king James Hanson, looked at the figures of their newly-aquired UK company, the more they realised that a substantial part of the profits emanated from the South African side of the business.

"There was a period of uncertainty, but the Wassall management have had a good look at the business over here, and we have their full backing and financial committment to stay independent and expand our business," says Mr Lawson.

Vast range

MCG Industries produces many of the bottle tops currently in use, a range of lids and tubes for the pharmaceutical industry, and a range of plastic trays and crates for use in the food and agricultural industries.

In fact, it is hard to buy beer, or have a bath without being surrounded by a colourful galaxy of lids, labels and screw-tops that represent the vast range of MSG Industries' products.

But, perhaps, the "piece de resistance" is its high-tech baby — the new white plastic top for cola bottles.

MCG pumps them out at the rate of millions a day from its Montague Gardens state-of-the art plastics closures plant.

To most people, the cola bottle-top is no more than a plastic top to a cola bottle.

But if you say that plastic top must never leak, must not pollute the product, must never fly off under pressure, and has to be "tamper evident" if the top is opened, then you are asking a lot.

"Our new top has to have all these qualities," says Ian Lawson.

"Can you imagine a truck load of cola travelling somewhere north of Upington, and bottles suddenly start leaking or tops fly off? Mishaps like that are just not allowed to happen," he says.

To this end, the new bottle top, or closure as it is called in the trade, is made under license from America and has strict quality control at various stages of manufacture.

With a turnover of some R200-million, the new top represents about 25 per cent of MCG Industries' profits, with another 25 per cent coming from a wide variety of tops and lids for the food and drink industries.

Profits

In addition, the company produces more than 50 percent of the aluminium and plastic tubes used by the pharmaceutical industry, which with a range of industrial crates and trays used by the food industry, make up the rest of the group's profits.

With a dominant position in the South African closure market, where will MCG go from here?

"We have made several internal changes to slim down the company's top-heavy management structure and we continue to look at ways of making the plants more efficient," said Mr Lawson.

"But we are looking at several ways to expand with various products, and are constantly looking at potential acquisitions," he said.

"There are many companies to be bought out there at the moment because of the general state of the economy, and one has to guard against buying obsolete technology."

"But we have a good business to build on with no borrowings, and the heavy cash clout of a strong overseas parent company. Expansion is the name of the game."

Not a bad position to be in at the bottom of the worst economic downswing this country has ever known, when many companies are only just surviving.

OUT OF THE ASHES . . . MD Ian Lawson with his "high-tech baby"

FM 16/4/93 (194)

BOWLER METCALF (194)

Going like a train

Activities: *Makes plastic and plastic mouldings.*
Control: *Directors 75,7%.* FM 16/4/93.
CE: *H W Sass.*
Capital structure: *25m ords. Market capitalisation: R30m.*
Share market: *Price: 120c. Yields: 4,2% on dividend; 9,0% on earnings; p:e ratio, 11,1; cover, 2,2. 12-month high, 120c; low, 49c. Trading volume last quarter, 76 000 shares.*

Year to Dec 31	**'89**	**'90**	**'91**	**'92**
ST debt (Rm)	0,5	0,9	0,6	0,1
LT debt (Rm)	1,6	1,5	0,5	0,3
Debt:equity ratio	0,35	0,1	0,18	0,08
Shareholders' interest	0,52	0,49	0,38	0,41
Int & leasing cover .	3,5	4,9	7,4	n/a
Return on cap (%) ..	21	26	33	38
Turnover (Rm)	12,3	14,5	17,5	21,4
Pre-int profit (Rm) ...	1,85	2,86	3,87	5,2
Pre-int margin (%) ..	15,0	19,7	22,1	24,1
Earnings (c)	5,6	6,8	7,3	10,8
Dividends (c)	2,25	2,75	3,5	5,0
Net worth (c)	18,1	21,7	17,9	22,5

Entry into rigid plastic packaging must have been as daunting in 1987 when Bowler Metcalf (Bowler) was listed on the DCM as it is now. But during the four-and-a-half year recession it has gained market share from bigger competitors, while increasing profits much faster than most listed companies.

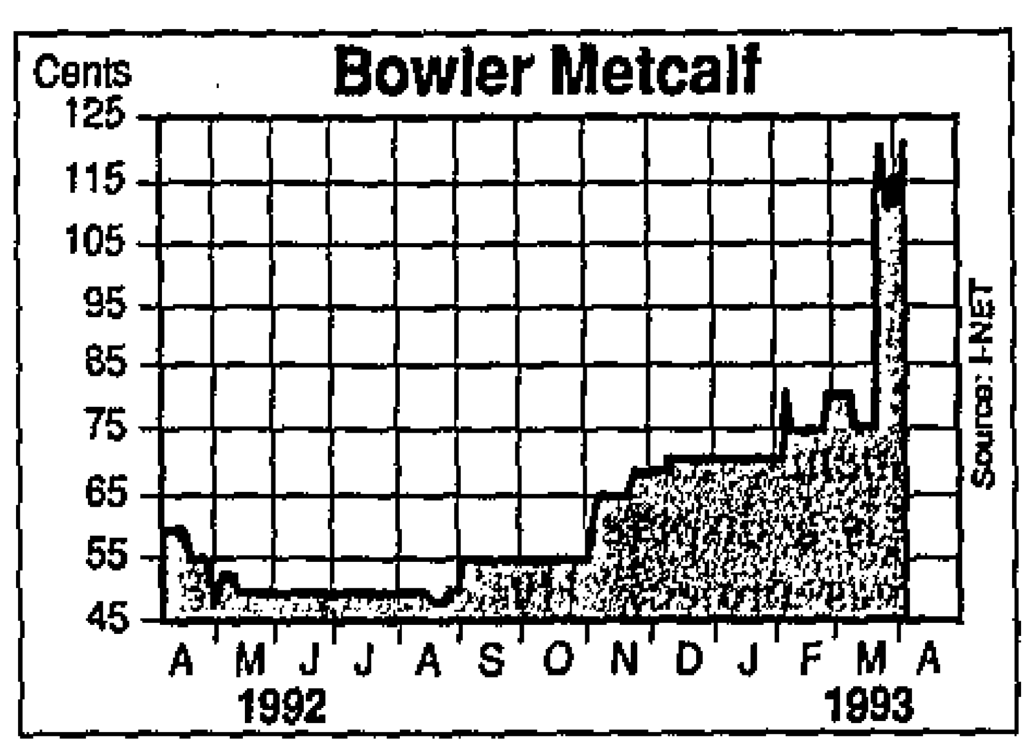
Bowler moved from the DCM to the pulp and paper sector in 1990. It has continued to expand profits and assets by financing long-term growth with short-term borrowings.

Yet, imprudent as this practice may have appeared — especially in a tough economy — Bowler paid cash for all its purchases and cut long-term liabilities by 31%.

Turnover grew by a commendable 22%. However, the real plaudits apply to the productivity increase reflected in the one-third rise in pre-interest profit and the 48% jump in EPS, despite a tax rate of 48%.

CE Horst Sass points out that the industry average tax rate is about 35%. He also says R3,3m capital expenditure is planned for the next three months, of which R1,3m will be funded from cash and the balance by bankers acceptances and on instalment sale. So the practice of financing long-term investments with short-term instruments persists.

The share has climbed from 60c a year ago



to a new high of 120c. With its earnings growth of the past four years, it was only a matter of time before the market rerated the counter. Sass is reluctant to predict a 1993 EPS increase similar to that of 1992, but says growth will "remain above average." Favourable rerating is fully deserved.

Gerald Hirshon

Holdains rejig: W Cape move for Kohler director

(94)

CT 19/4/93

JOHANNESBURG. — The Holdains group is restructuring its Sun Packaging and Bakke subsidiaries and establishing a new coordinated trading arm for the two companies, Holdains said in a statement this morning.

It said the trading arm would maximise their strengths in the food and beverage tray market.

The new trading arm is to be known as Bakke Distribution and Marketing. Ernest Snoek has been appointed MD.

"In view of the strategic importance of these businesses, senior Kohler director Stan Burton is relocating to the western Cape," Holdains CEO Richard Bruyns said.

He said the new structure was a sequel to a careful review by Holdains of its position in the market which followed last year's delisting of the Sun Packaging group of companies.

Distribution

"One of the great strengths of Sun Packaging and Bakke is their comprehensive distribution system throughout South Africa.

"Each will continue to operate as a separate manufacturing unit with its own environmentally responsible technologies, but with the joint marketing arm we will eventually have one set of distinctive products instead of the current duplications.

"This, together with the rationalisation already completed at Sun, will enable this Holdains division to combat the inflation spiral," Bruyns said. — Sapa

Sappi slashes div as share earnings slide

(194) CT 19/4/93

From MATTHEW CURTIN

JOHANNESBURG. — Sappi has cut its final dividend by 20% after reporting a 16% fall in earnings a share in the year ended February 28, a period marked by volatile prices and depressed conditions in the group's SA and European markets.

The pulp and paper producer declared a total dividend of 160c (200c), made up of an unchanged 80c interim dividend and an 80c final, slashed from 120c the previous year.

Earnings, diluted by the larger number of shares in issue after Sappi's DM440m purchase of German paper producer Hannover Papier in June 1992, fell to 262c a share, compared with 312c.

Although a lower dividend was declared, the total cash payout rose nearly 6% to R238m from R225m because of the larger number of shares.

The group provided R17,9m in terms of the new secondary tax on companies (STC), the 15% levy on distributable profit proposed in this year's Budget.

Chairman Eugene van As said at the weekend: "The board has considered it imprudent to continue with the low dividend cover which the group had last year (1,4 times) because of the introduction of STC and because the improved earnings then expected have not materialised."

Van As said in his statement there was no immediate prospect earnings would improve in the current year.

Sappi was likely to match 1993 earnings in 1994 after a deterioration in the current six months, but market conditions were still depressed with good growth in paper demand in Europe outweighed by overcapacity. Currency devaluations were affecting Hannover's competitiveness in Europe and Sappi's competitiveness locally.

However, the results are considerably better than expected, with analysts underestimating the extent to which Sappi's sales would hold up and its successful containment of working and finance costs.

Turnover rose 29% to R4,68bn (R3,64bn), largely reflecting the acquisition of Hannover. Sappi results are now consolidated rather than equity-accounted, so 1991/92 figures have been restated.

Van As said on an annualised basis, Hannover's contribution would have boosted sales to R5,5bn, of which 63% would have come from offshore, compared with 37% five years ago. In addition, nearly 40% of sales in terms of product origin came from overseas, compared with none in 1989.

Sappi's SA fine paper, kraft, timber and pulp businesses contributed 52% of turnover, its five UK mills 8%, its international trading arm 19%, and Hannover 21%.

Operating profit declined to R444m (R501m) largely because of "very low and uneconomic" selling prices.

Costs were contained throughout the group, rising only 2% year-on-year, but the adverse market conditions "more than negated the benefits." While Hannover could break even by year-end, Sappi Europe's UK businesses were running at a loss.

Net financing costs rose to R60,5m from R36,6m in the first half, but Sappi reaped the full year's reward of its November 1991 rights issue because finance charges fell 60% overall to R65m (R163m).

Pre-tax profit rose to R380m (R339m), and with a fall in Sappi's already negligible effective tax rate, after-tax profit improved more than 15% to R378m (R328m).

April 21 1993 11

IDC pledges R500m for Sappi project

(194)
CT 21/4/93

Own Correspondent

JOHANNESBURG. — The Industrial Development Corporation would provide R500m in equity finance for the R1bn expansion programme at Sappi's Saiccor pulp mill, Sappi chairman Eugene van As said yesterday.

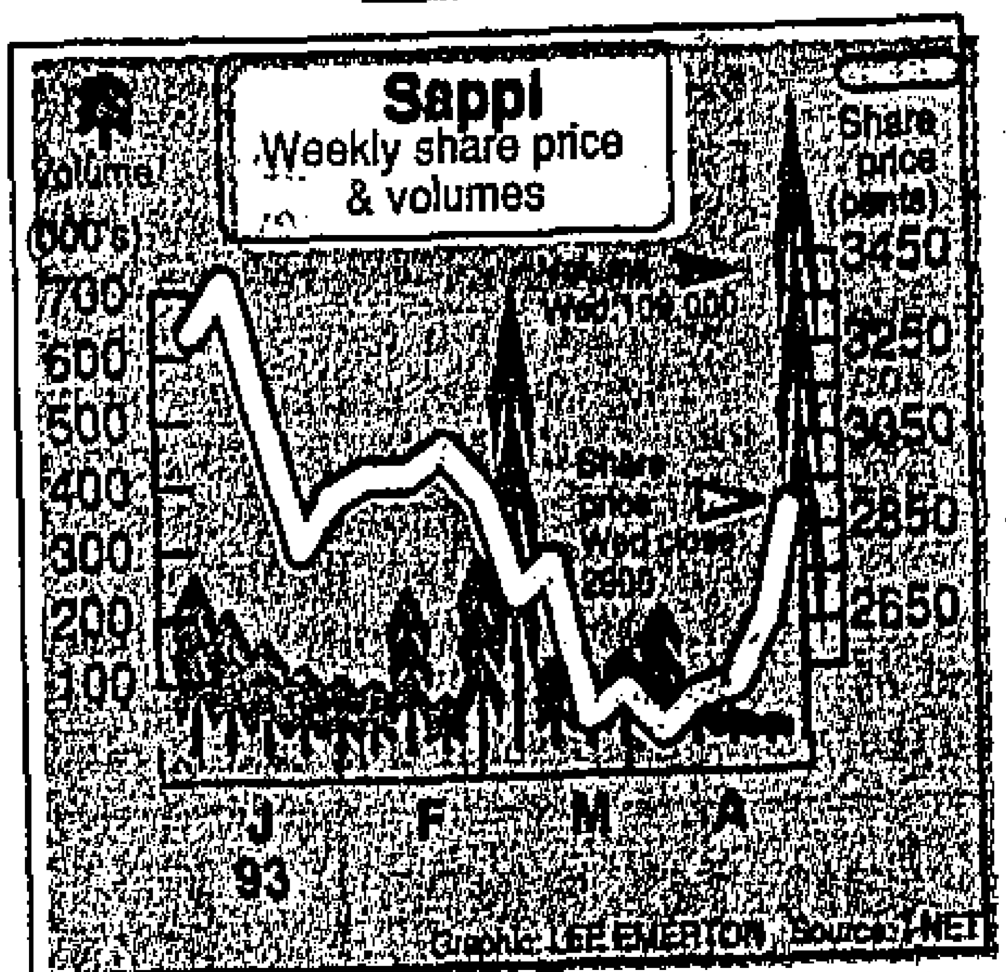
He said the IDC's decision to take a large equity interest in the project eliminated its funding risk. Sappi, SA's leading pulp and paper producer, retained the right to buy back the stake after 1996, either in shares or in cash.

IDC senior GM Malcolm Macdonald said the corporation decided to provide equity rather than loan funding because Sappi's balance sheet could not take a sharp increase in borrowings, given the group's recent and rapid capital expansion programme and the strain it was feeling from depressed world pulp and paper markets.

The Saiccor expansion was "a major new investment for SA" and confirmed the company's position as a major foreign exchange earner, he said.

The Saiccor project would lift the mill's capacity by a third, entrenching its position as the world's largest, lowest-cost producer of dissolving pulp.

Van As said the group expected market prices for dissolving pulp would have improved sharply by the time the project was commissioned in early 1995.



Hefty gains for Sappi's shares

(194)

BDAY 22/4/93

MATTHEW CURTIN

SHARES in pulp and paper producer Sappi showed one of the largest gains on the JSE yesterday, as the market gave the thumbs-up to multimillion-rand IDC backing for its Saiccor mill expansion project.

The stock rose nearly 10% or 225c to R29 from R26,85 on Tuesday.

Sappi shares had fallen from R48 in mid-1992 to R24 last month, their lowest level since 1988. They were driven down by a number of factors: depressed pulp and paper markets and prices in Europe and SA, the unfavourable impact on the group of the new secondary tax on companies, and the likely financing burden stemming from Sappi's commitment to the R1bn Saiccor expansion.

Market sources said the IDC decision to inject R500m in equity significantly relieved pressure on Sappi's balance and cash flow in the run-up to commissioning the new dissolving pulp plant in 1995.

The group reported attributable earnings of R370m (R320m) in the year ended March, bolstered by reduced finance charges following its 1991 rights issue. However, its recent capital expansion programme and purchase of German fine paper maker Hannover Papier last year at a time of poor market conditions has strained the balance sheet.

The rights issue boosted cash flow — net cash generated from operations rose to R553m (R177m) in the year — but Sappi's

□ To Page 2

Sappi

BDAY 22/4/93. (194)

□ From Page 1

cash reserves have sunk to R89m (R804m). Total interest-bearing debt rose to R2,37bn (R2,17bn) against total shareholder funds of R5,48bn (R4,69bn).

Restored market interest in the shares contrasts with bleak first half-year trading results expected by Sappi and analysts.

Chairman Eugene van As said yesterday the current six months would be tough, especially as Hannover was buffeted by the German recession, in turn exacerbated by the Deutschmark's strength against other European currencies. That affected the competitiveness of Hannover's paper exports and its ability to compete with imports into Germany.

He said Sappi would launch a major European marketing drive for a new range of paper products next week, coinciding with the consolidation of its overseas paper businesses into two divisions: Hannover and Sappi Europe.

Sappi shares post impressive gains

JOHANNESBURG. — Shares in pulp and paper producer Sappi showed one of the largest gains on the JSE yesterday, as the market gave the thumbs-up to multi-million-rand IDC backing for its Saiccor mill expansion project.

The stock rose nearly 10% or 225c to R29 from R26,85 on Tuesday.

Other share prices ended mixed with "most of the action in gold counters linked to the lower gold price," dealers said.

The Overall Index was 10 points off at 3 572 and the Industrial Index added 15 points to 4 369. The Gold ~~Index~~ fell 28 points to 1 216. (F94)

Bellwether ~~counter~~ De Beers shaved R1,25 (1,7%) to R73,50 while associate Anglos was unchanged from Tuesday's R114,50.

On the gold board, Vaal Reefs slumped R4,50 to R219,50 and Kloof shed 85c to R37,15.

In industrials, SAB added 50c to R57,75, Sasol climbed 25c to R19, Remgro added 25c to R24,25, Minorco rose 35c to R70,35 and Engen collected 50c to R40,50.

Sunbop was 50c lower at R23.

● Meanwhile, palladium closed higher in New York after surging late on concerns over tight supplies, analysts said.

Palladium's rise gave a boost to platinum, which weakened in the wake of easing tensions in SA. CT 22/4/93

Most-active June **palladium** closed $3,55 higher at $117,55 an ounce after trading between $118 and $112,50. July **platinum** settled off $3 at $368,20. — Own Correspondent, Reuter and Sapa-I-Net

SAPPI (194) FM 23/4/93.

Certainly no shortage of paper

This is a year-end result which took the market by surprise. Analysts were expecting misery and a passed dividend; instead, they got a strong balance sheet bolstered by evidence of good cash generation and a dividend to boot, albeit down.

That's not bad for a company operating in an international market conspicuous for the savagery of competition and price reductions in recent years. Commenting recently on Mondi's results — themselves considered pretty appalling — Amic chairman Leslie Boyd said he was grateful his company was at least making profits. That couldn't be said of North American and Scandinavian producers, whose accounts are awash with red ink.

Sappi has come through a year of difficult trading conditions with some success, aided by the acquisition of Hannover Papier, which has distorted the figures to some degree. Interestingly, turnover at R4,7bn is shown as 28,5% better than for 1992. However, that takes into account the contribution made by Hannover in the second half: if this is excluded then, by deduction, it is clear that year-on-year growth is virtually nil.

Net income at R370m improved by nearly 16% and translated into EPS of 262c (1992: 312c) — despite a vastly increased pool (up 39m shares) of issued equity. That enabled Sappi to declare a dividend of 160c (200c) — not bad, in the circumstances.

Sappi has published an abridged operating cash flow, along with a revised income statement which, this time around, consolidates Sappi Europe and Usuthu. That has the effect of responding neatly to strongly expressed criticism that previous accounts haven't fairly reported on the broader position. Cash flow of R553m translates into cash generation of 391c a share, from which the dividend of 160c looks very conservative.

Analysts were expecting earnings of 220c-250c a share. They weren't far wrong, if allowance is made for the new secondary tax on companies: after that's deducted, EPS are 249c.

CE Eugene van As has cause to bemoan managers who finally get their technical production ducks in a row. Never before, says one analyst, has Sappi managed its physical production assets to such perfection: "They're all performing magnificently." That coincides, ironically, with an international downturn in pulp and paper markets of almost unprecedented severity.

There are a couple of matters of more than passing interest. The first is the Saiccor development on which Sappi plans to spend about R1bn. That's a lot for a project intended to be commissioned in 1995, which Van As says has been funded in a manner that won't worsen the debt:equity ratio. That can mean anything, of course: when the *FM* called for an explanation, Van As was unavailable.

Second, unbundling should be exercising the minds of portfolio managers. If it happens, Gencor will distribute a huge chunk of Sappi to its shareholders. IDC companies will do similarly. Fund managers, already sitting on large blocks of Sappi, will become the proud owners of even larger holdings.

The question must be: do they want that? There is a real possibility that a large overhang of Sappi shares seeking safe homes may interfere with the market's pricing mechanism. Be warned.

But it's worth taking account of the spread of earnings. These now originate in D-marks (Hannover), sterling (Sappi Europe), US$ from exports and rand from local sales. An investor assuming a declining rand coupled with a burgeoning international economy and resurgent world trade would be hard put to find a better counter.

David Gleason

MASONITE (194) FM 23/4/93

It turned into a pumpkin

Activities: *Manufactures and markets hardboard and related products.*
Control: *International Paper Company 67%.*
CEO: *A H Wilson.*
Capital structure: *6,8m ords. Market capitalisation: R54,4m.*
Share market: *Price: 800c. Yields: 1,3% on dividend; 6,6% on earnings; p:e ratio, 15,1; cover, 5,3. 12-month high, 1 325c; low, 775c. Trading volume last quarter, 33 600 shares.*

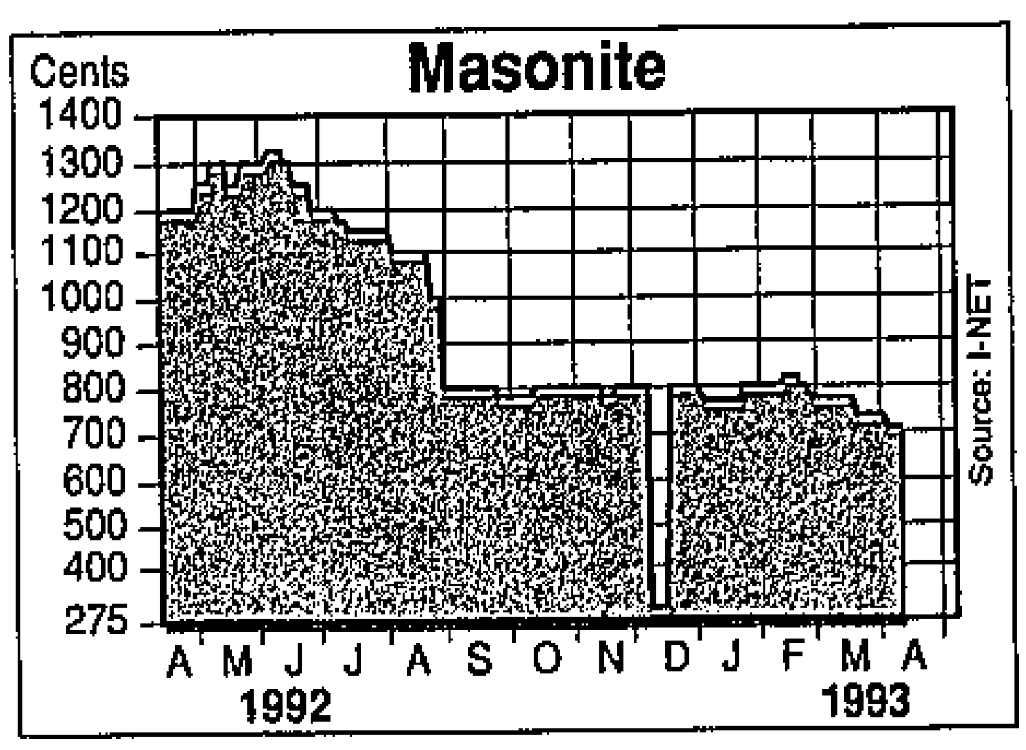
Year to Dec 31	'89	'90	'91	'92
ST debt (Rm)	2,5	2,3	4,2	2,7
LT debt (Rm)	5,4	13,6	4,7	11,5
Debt:equity ratio	0,15	0,33	0,15	0,24
Shareholders' interest	0,58	0,54	0,58	0,59
Int & leasing cover .	71,8	5,9	8,9	4,6
Return on cap (%) ..	20,9	13,5	19,1	6,7
Turnover (Rm)	108,0	113,1	126,5	120,5
Pre-int profit (Rm) ...	15,4	12,1	19,6	6,8
Pre-int margin (%) ..	15,1	10,7	15,5	5,7
Earnings (c)	140	109	167	53
Dividends (c)	56	43	60	10
Net worth (c)	644	708	875	882

Last year, Masonite reported with obvious pride that it had become the first winner outside the US of parent Masonite's annual award for improved profit performance.

Its period in the limelight proved short-lived: 1992 saw a Cinderella-like turnaround, EPS plunging by more than two-thirds to 53c — the worst since 1985's annualised 51c. To complete a dismal picture, a decision to write off 80% of the investment in wholly owned Ezebilt (which manufactures prefab huts, site offices and accommodation units) pending its disposal led to the passing of the final dividend, so that total payout was slashed from 60c to 10c.

CEO Alan Wilson says the group was hit from all sides. Locally, weak demand was compounded through destocking by distributors. On the export front higher volumes were negated by low prices, reflecting both the oversupplied state of these markets and currency considerations. As a result, Masonite had to cut production in the second half, which further depressed performance.

The fact that the balance sheet was maintained in reasonable trim probably rates as the one success. Though reduced cash-flow necessitated an increase in borrowings from



R8,9m to R14,2m, the debt:equity ratio is still a relatively modest 0,24 with scope for improvement if the uptrend in working capital requirements can be reversed.

Despite the production cutback which, Wilson notes, reduced the value of work-in-progress and stocks of finished goods from R10,4m in June to R1,05m by year-end, there was still a rise of about R900 000 in net working capital (stock plus debtors, less creditors) over the year which, relative to the reduction in gross sales, pushed the ratio of working capital to turnover up to 28,9%.

This brought the total increase over two years to five percentage points and, in rand terms, represents an additional R6m investment in working capital — equivalent to 42% of present borrowings.

Another aspect relating to borrowings, which will be relevant if they are maintained at the present level, is that the 1992 increase seems to have come fairly late in the year. This is suggested, first, by the fact that net interest payments fell from R2,2m to R1,5m and, second, that this R1,5m gives a low effective interest rate of only 10,5% based on year-end debt. The implication is that there could be a fairly substantial increase in the 1993 interest charge, diluting any improvement in trading conditions.

To some extent, this year's results depend on how quickly Ezebilt can be sold. Last year, the trading loss of this subsidiary was R777 000 (1991: R417 000). With group earnings now only R3,6m, eliminating this drain would obviously be a significant plus offsetting to some extent an otherwise sombre short-term outlook.

The market, at least, seems to be looking for a turnaround. Though the share, at 800c, is close to its 12-month low, with a dividend yield of only 1,3% and 15,1 times p:e it would still be overpriced if investors were of the opinion that the past year's results were all that Masonite is capable of achieving. As it is, the price probably discounts a restoration of the dividend to at least 40c which, on the group's normal 2,5 times cover, suggests that a virtual doubling of earnings is anticipated.

Brian Thompson

FM 23/4/93 (194)

Storm helps product prove itself

(194) (1009) ST Times Metro 25/4/93.

By LEW ELIAS

THE recent storms which lashed Cape Town proved to be a valuable test of endurance for a product developed by a local company.

Polywood, a division of Nampak which produces a wood substitute that outperforms the natural product in a host of applications, was replacing planks on the harbour's inside jetty before the storm hit.

The storm a fornight ago sank three fishing boats, damaged sections of the concrete breakwater and destroyed most of the inner jetty, but the section that had been replaced remained relatively unscathed.

Polywood is produced from waste plastic like supermarket packets, polystyrene packaging and old two-litre soft-drink containers.

The product was used to replace rotten beams on the inside jetty at Kalk Bay earlier this year.

Polywood division head Mr Peter Pratten said it was a "positive" sign that the section under the recycled synthetic material withstood the fury of the elements. However, he modestly pointed out that as the construction of that section was new it was able to withstand far more than worn sections.

It was also in a slightly more sheltered part of the harbour, he added.

While the new product seems to be the way to go as far as marine walkways are concerned, it has met with limited resistance, mainly because it is perceived to be untested.

SA recycling industry gets into a higher gear

(194)

B/DAY 27/4/93.

MARIANNE MERTEN

THE number of recycling facilities in SA is increasing as the country's top companies begin seeing the commercial potential of recycled resources.

Although SA lacked some of the technology available overseas, recycling facilities compared well with European countries and the US, industry sources said.

Last month, Mondi extended its free paper collection service to Johannesburg. Mondi Paperwaste marketing manager for Transvaal Graham Dunlop said his company had a 7% to 8% response in its first month. After two years, the scheme had a 20% response rate in Pretoria.

Householders received no payment, but money was given to the city councils to donate funds to charities. The amount paid to the councils was confidential, he said.

Mondi Paperwaste manager Peter Killick said his company accounted for 250 000 tons of the 600 000-ton recycled paper market.

The organisation aimed at a 25% recycled fibre content in its recycled newsprint, which meant four trees a ton of paper were saved; it usually took 15 trees to produce one ton.

Through Mondi's subsidiary, Mondi Boards, the company also recycled cardboard, collected mainly from supermarkets and larger offices.

SA's cardboard was 70% recycled, while the recycled fibre content of corrugated cardboard was almost 100%, he said.

Rheem MD Keith Norman said a recycling network which involved Alusaf and Hulett Aluminium, among others, would become operational when aluminium cans became available in SA later this year.

The Aluminium Can Recycling Association promote and co-ordinate can recycling, although the scheme would initially not run nationwide, he said.

"Our interests are undisputedly commercial," Norman said. The can would have a commercial value but the company was also concerned about the environmental impact of discarded cans.

Nampak, which would continue steel can production, had recently merged its Collect a Can operation with Iscor, which held a 60% share.

Nampak environmental affairs manager Hal Rosholt said it was important that the steel producers were involved in the recycling process.

Collect a Can was responsible for recycling about 10% — or 250 000-million cans — of the local 2,5-billion beverage can market. Steel merchants were responsible for recycling another 10% to 15%, he said.

Collect a Can wanted to increase its collection quota to 50% over the next two years. This was comparable to the world's highest collection rate of 63% in Singapore.

Glass could be fully reused, Glass Recycling Association manager Ken Ensor-Smith said.

The association recycled about 90 000 tons every year which constituted 20% of total glass production.

There were 1 200 bottle banks in 103 towns across SA, each of which collected about 1,5 tons of glass. The scheme had been "very successful and public support exceptional", he said.

industry

(194)

STAR 30/4/93.

DEVELOPMENT of human and market resources

Extra 'oomph' for SA

AS AN industry, the printing, newspaper and packaging industry represents over five percent of the total value of sales in the national manufacturing sector.

This is why the opening of Southern African Printing College is regarded as the realisation of a dream.

Brian Connellan, chairman of Nampak and guest speaker at a banquet recently held to mark the official opening of the college, says: "The printing, newspaper and packaging industry employs over 100 000 people, the majority of whom work in companies employing less than 50 people. Sales totalled nearly R10 billion in 1992. The market capitalisation of those member companies listed on the JSE is over R11 billion in an industry where the majority of companies are privately owned. There are 1 600 commercial printing, newspaper and packaging members of the Printing Industries Federation to whom the college is a relevant reality.

"The completion of the Southern African Printing College has many positive lessons for us all, irrespective of where we are positioned in the rapidly changing fabric of South African society. Firstly, the lesson that any vision can only be changed into a reality through dedication, application, careful planning, financial prudence, firm management and strong leadership.

"Both the printing, newspaper and packaging industries training board and the Printing Federation have clearly exhibited all those qualities in husbanding their resources and turning words into deeds to ensure the completion of these outstanding facilities — and outstanding they are."

He said the second lesson to be learned is the opportunity of offering equal education to all.

"The legacy of past education policies is well known, but the impacts are perhaps less transparent. In a country where 44 percent of the total population is under the age of 19 and where urbanisation is following and exceeding world trends, it is frightening to look at some of the statistics: 14 percent of all children of school-going age attend no school at all; 24 percent of all people of school-going age and over have an educational level below standard one; only 37 percent of the total population have a school qualification of Std 6 and higher; and only three percent of our population have any form of post matric qualification. In 1992 only 7 900 black pupils were admitted to previously white schools which had vacancies for 129 000.

In charge . . . Pifsa executive director Chris Sykes (left) and Nampak chairman Brian Connellan.

"Against this sad background, it is encouraging to see this College offering a completely equal chance to young people of all colours and creeds and a chance of learning and living together and enjoying all the facilities, sport and social activities.

"The third less has to do with people than economic development. So often both individuals and industry are highly critical of the national system of education and with good cause, but seldom is anything practical done about the problems. A broad 'we have paid our tax, so its the government's problem' attitude prevails which does nothing to resolve the issues.

"If our education does not match that of our trading competitors, South Africa as an economy will wither and die.

"If all we do as a country is create jobs that give no more than a subsistence type existence, then our dream of a bold free market will degenerate to a typical African flea market. Education needs to be at a level that allows for both people and business growth on world parity.

"An education policy which does not focus on the pragmatics will ultimately breed a nation of people of esoteric fancies, rather than a nation of people who make, add value and sell things."

Mr Connellan adds that the policy of the college, which brings specific focus to the issues confronting the printing, newspaper and packaging industries is absolutely appropriate at this time in the development not only of the industry but the country as well.

"So we have an industry that has faced up to the pragmatics and through its own efforts and funding will be producing young people from all backgrounds with the focused skills to be world competitive in their field and who through the application of those skills will assist in creating value added processes for the nation, with the concomitant economic growth and job creation that flows naturally from that process.

"Without taking away anything that is being done in many of our well run trade schools and technikons in South Africa, I can't help wondering whether the totally industry-focused training that this college will offer will not be more appropriate and give a quicker return on human capital in a country that cannot dally too long in finding solutions to both economic growth and education

Star 4/5/93

Lion Match raises earnings 22 percent

Finance Staff

Good results from its packaging division and a substantial reduction in finance charges lifted Lion Match's attributable earnings by 22 percent to R15,4 million (R12,6 million) in the year to end-March.

The SAB subsidiary says that although consumer spending remained depressed, an improved contribution from the packaging division lifted trading profit by six percent to R41,8 million (R39,3 million).

Turnover was also up by six percent to R294,7 million (R276,9 million)

The bottom line was strengthened by a sharp fall in financing costs from R12,6 million to R6,9 million.

The company says the cash flow from operations of R22,4 million helped reduce its borrowings as well as fund investment activities.

The one setback experienced by the group was losses at the former appliances division, now Amalgamated Appliances, which is now a joint venture.

Based on earnings per share of 33,87c, 22 percent up on last year's 27,68c, a total dividend of 14c (11,5c) has been declared.

Despite the depressed trading conditions, the directors say the group is financially sound and expects to achieve a satisfactory increase in earnings for the current financial year.

194

Paper giants in row over prices

S Times [Buss] 9/5/93

(194)

By CIARAN RYAN

THE *printing industry* is at loggerheads with Sappi and Mondi, saying that the paper giants are subsidising an export drive by squeezing local customers.

One printer says paper produced by Sappi and Mondi can be purchased in the US, re-exported to SA and sold for less than the local price after duties of 10% have been paid.

"This story has been making the rounds for 10 years or so," says Bert Ibertson, managing director of Sappi Fine Papers. "In countries we export to we have to meet the local prices and that often means selling overseas at below SA prices."

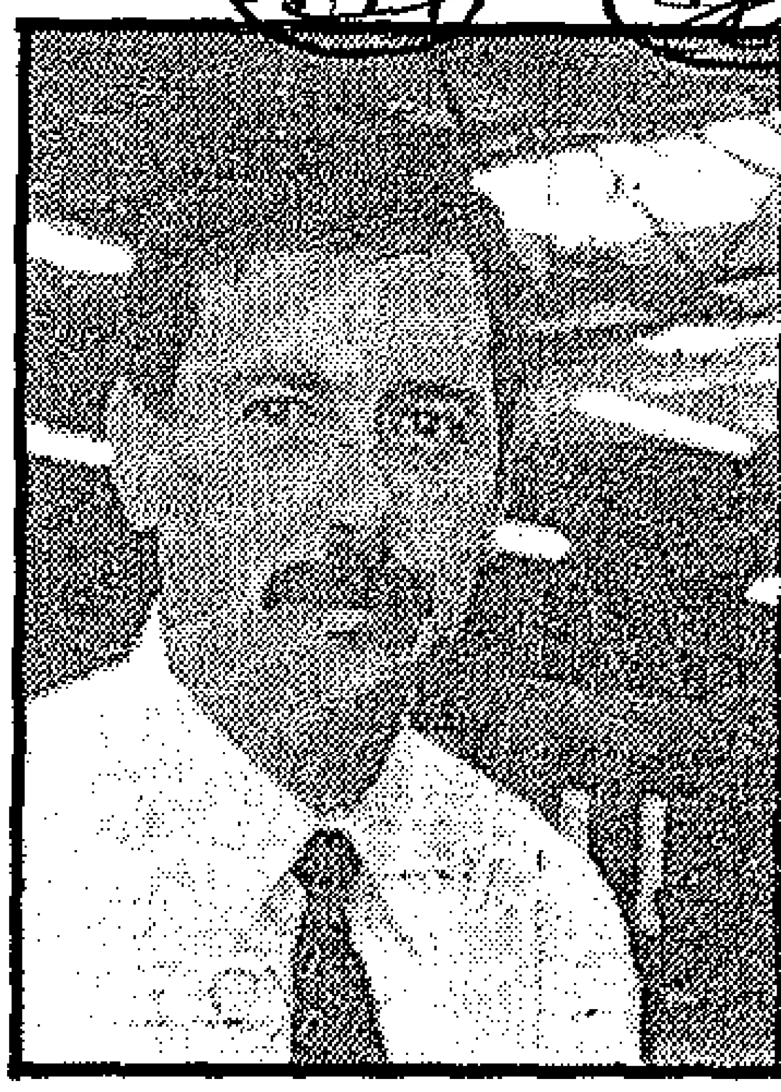
Printers say the high cost of paper is a major reason for the 15% decline in employment in the paper and packaging industry over the last year.

Sappi and Mondi say they enjoy "abysmally low" returns on capital of around 2% although they operate internationally competitive plants.

Both companies have had to endure high inflation and interest rates in a competitive world market.

Accusations of price collusion have also been made against the paper producers.

The paper giants, along with other large exporters, have been warned that their overseas competitors are scrutinising SA companies for dumping violations now that SA trade has opened up.



CHRIS SYKES

Sappi and Mondi have been hit by Brazilian and Canadian paper producers who are being investigated for alleged dumping by the Board on Tariffs and Trade (BoTT). Brazilian papers are being sold in SA at 30% to 40% below the price of locally produced papers.

Imports

Mondi spokesman David Hathorne says the group sometimes exports at a loss, but export sales are necessary to keep plants running at capacity.

The high cost of locally produced paper is blamed for the sharp increase in imports, estimated to be worth 25% of the SA market compared to just 5% in the late '80s.

BoTT is also criticised for levying import tariffs on papers which are not manufactured locally.

"Computer paper can be imported from Korea and Singapore at 10% below local raw material costs," says Chris Sykes, executive director of the Printing Industries Federation. "If local printers had easier access to imported papers they could compete with overseas firms."

Pulp exports qualify for an average 2% benefit and paper 7% under the General Export Incentive Scheme (Geis). But printers say the price difference between local and overseas prices is often as much as 20%.

Some claims by the printing industry are backed by the Cosatu-sponsored Industrial Strategy Project, which refutes Finance Minister Derek Keys' assertion that Sappi and Mondi "compete the hell out of each other".

"Our research findings do not, in general, support this assertion. On *the contrary they confirm* the rather more orthodox view that suggests that in SA manufacturing a highly concentrated market is conducive to collusive rather than competitive conduct.

"Sappi and Mondi — in common with oligopolies in other markets — do produce some competing products, but, equally, major pulp and paper products are the exclusive preserve of one or other of these companies."

Sappi and Mondi deny charges of price collusion despite identical pricing in a wide variety of products.

Mr Ibertson says such pricing similarities are not uncommon where there are only two producers.

"If there were more producers I am sure the price differences would be greater."

Mr Hathorne says prices paid by customers rarely conform to the price lists because discounts and terms of payment differ.

The government's Normative Economic Model says the paper and pulp industry enjoys "effective protection" of 22%, after protection on inputs and outputs have been factored in. The average ad valorem duty on paper is 10%, 15% for carbonless paper and 25% for labels. Protection on uncoated paper was recently increased from zero to 10% and lowered from 15% to 10% for coated paper.

Mr Hathorne says this protection is lower than in many competing countries.

"The rising level of imports as a result of low tariffs is having a detrimental effect on the economy, not only in the paper and pulp industry, due to domestic production having to be curtailed and, as a result, employees being laid off."

New firm breaks polystyrene monopoly

BIDAY 18/5/93

TRACY SCHNEIDER (194)

NEW British-backed polystyrene packaging company Atlantic Forming was challenging the local polystyrene monopoly successfully, a spokesman said yesterday.

Atlantic Forming MD Kobus du Plessis said polystyrene packaging prices had shown a real reduction for the first time in eight years. The company had achieved nearly 12% market share in the first month, exceeding its sales budget by 160%.

"The new competition created by an independent competitor has received such favourable reaction in the market place that factory expansion plans have been brought forward to cater for greater than expected demand."

Leading British multinational Linpac Plastics had invested substantially in the R12m plant which produces polystyrene food trays for meat and fresh produce packers, with imported raw material.

"A number of new patented products will be announced shortly and further investments will be made as the company's growth requires," said Linpac MD Michael Anderson.

Du Plessis said the local polystyrene industry had been dominated by Malbak subsidiary Holdains, which had taken over the Sun Packaging group and then merged with another polystyrene manfacturer in the Holdains stable, Bakke Industries.

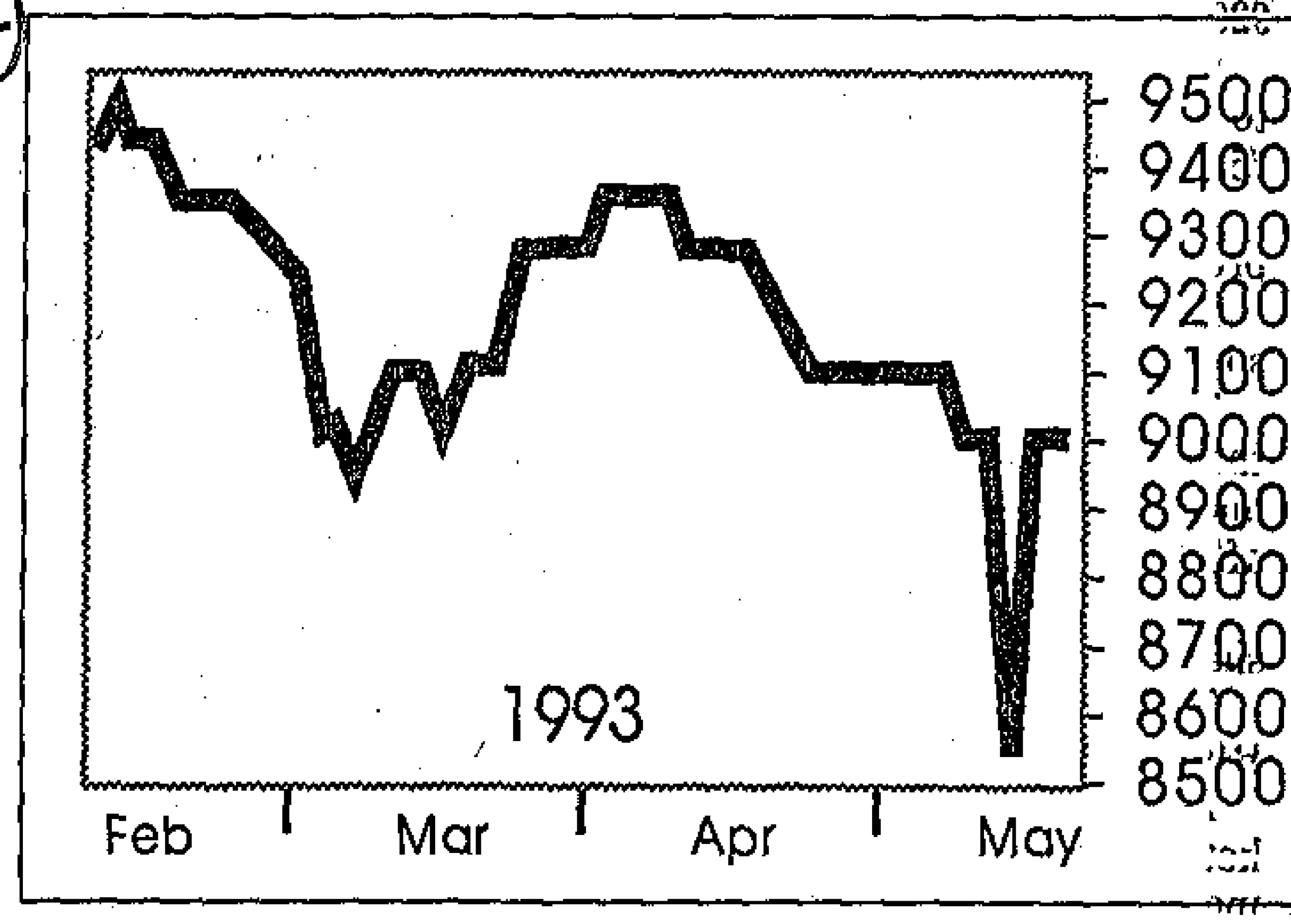
Atlantic Forming was investigating export opportunities using Linpac's international contacts, said Du Plessis.

Nampak beats expectations with 21 percent earnings rise

Star 19/5/93

(194)

By Stephen Cranston



Nampak closing price

Despite a decline in volumes, packaging group Nampak increased earnings per share by 21 percent to 313c in the six months to March.

The figure is well ahead of analysts' expectations of a five to seven percent increase.

The dividend is up 10 percent at 87c.

Turnover was up only five percent to R2,325 billion, because despite volume increases in the first quarter, there was a fall-off in the three months to March.

This was particularly true of demand for bottles and cans for carbonated soft drinks.

Control of costs, however, enabled the operating margin to increase from 11,3 percent to 11,5 percent and a decline in borrowings brought interest costs down 47 percent to R17,8 million.

Nampak was a beneficiary of the changes in company tax, which brought the effective rate down from 44,4 percent to 41,1 percent.

Attributable earnings increased by 23 percent to R151,2 million.

MD Trevor Evans says most of the improvement was achieved internally. Notably, the glass division turned from profit to loss in the worst glass market for 20 years.

He says that since the second plant was commissioned in Durban two years ago the expected growth in glass demand has not taken place, but that the investment will bear its full fruit when the upturn arrives.

Profits were maintained by Bevcan, Cartons and Sacks.

Despite reduced demand from export fruit canners Langeberg and Sapco, which had an overhang of stock from the year before, Foodcan's profits were steady.

The most troubled of the packaging divisions was corrugated, in which fierce competition pushed down margins and a major customer was lost with the switch by SA Breweries to plastic beer crates.

The plastics division was affected by a drop in demand for the two litre PET bottle, of which sales were well below the expected 1 million units a month.

The 1,5 litre returnable bottle had some success in the Western Cape, but only a lukewarm response in the Eastern Cape.

Liquid packaging benefited from the revival of sorghum sales, polyfoil was boosted by an increase in the number of supermarket bags, while divpac and flexible packaging improved market share.

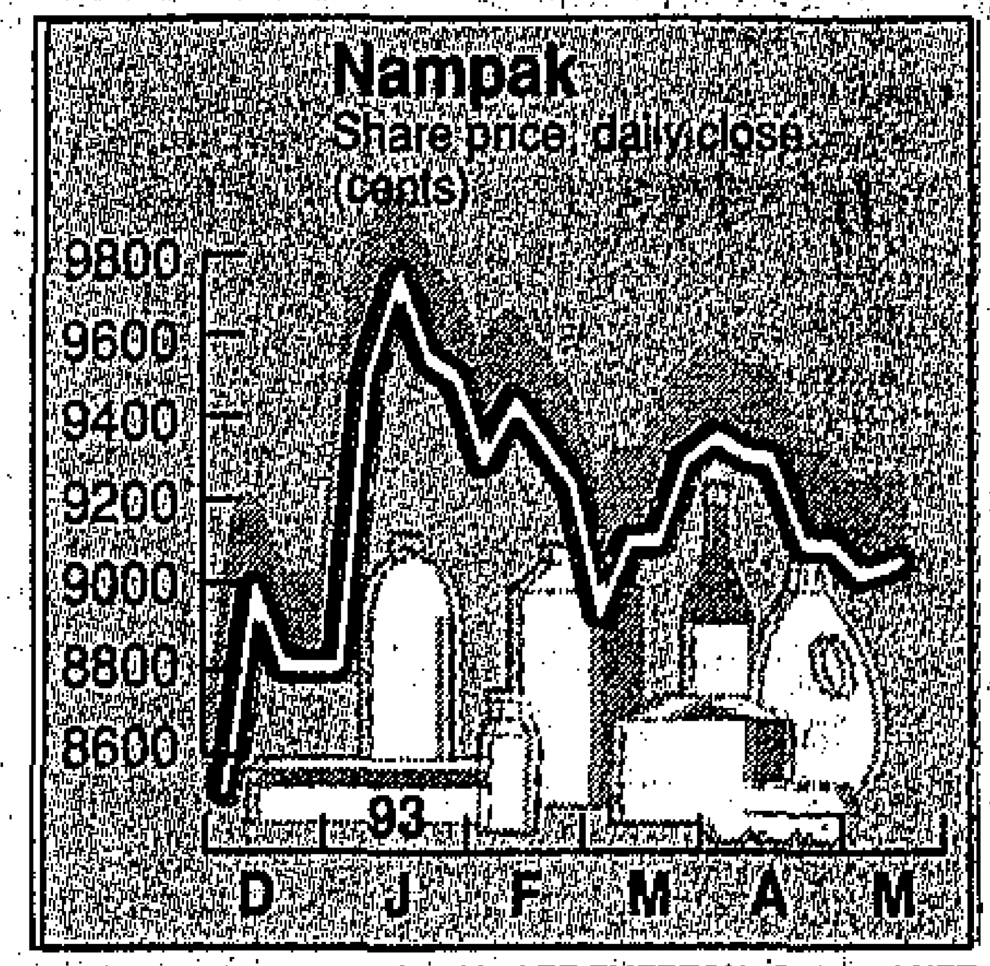
The paper and printing division suffered from the lower prices prevailing in the paper and pulp industry.

Sales were up one percent to R571,7 million, but operating profit fell eight percent to R36,5 million.

Profits from paper merchanting were also down, though not as sharply.

There were improved profits, however, from the tissue division, which makes the Twinsaver range.

The printing division improved profits through greater internal efficiency.



Graphic: LEE EMERTON Source: I-NET

Nampak shows 23% earnings rise

MARCIA KLEIN (194)

PACKAGING group Nampak overcame lower volumes and recessionary conditions to post a 23% rise in attributable earnings to R151,2m (R123,4m) in the six months to end-March. BDM

Chairman Brian Connellan said despite a volume decline of 1,8% and "not much help from price increases", turnover rose by 5% to R2,3bn from R2,2bn. Sales in the first quarter showed modest real growth. But a reversal of this trend in the second quarter, particularly in the beverage industry, saw volumes decline despite a 28% growth in exports. 19/5/93.

Connellan said that the group was able to lift operating profit by 7% to R268,6m (R250,3m) and reduce the interest bill by 47% to R17,8m from R33,3m through "aggressive attention to production and financial efficiencies".

Pre-tax profit was 16% higher at R258,4m (R223,2m). But a 7% increase in the tax charge to R103m, reflecting changes to tax legislation which benefited the group, resulted in a 23% rise in profit after tax to R155,4m from R126,8m.

Earnings rose by 21% to 313c (258c) a share on more shares in issue.

Connellan said Nampak was conservative in declaring a 10% higher interim dividend of 87c (79c) a share as about 8% of earnings reflected changes in the tax structure, and the group expected a difficult second half.

He said results were achieved internally as there was "no action in the market place". The group improved its operating margin to 11,5% from 11,3%. Good asset management and lower interest rates resulted in a R15,5m saving in borrowing

☐ To Page 2

Nampak BDM 19/5/93

(194) ☐ From Page 1

costs. Interest cover increased to 15,5 (7,7) times, and gearing was contained at 27%.

He said the packaging divisions, which are the major contributors to group profits, reported a 6% rise in sales and a 10% increase in operating profit.

In the packaging sector, Bevcan, Foodcan, and the carton and sack divisions maintained their profits, while the glass division returned to profitability.

Liquid packaging, Divpac, flexible packaging and Polyfoil increased profits, but the plastics division's profits were lower because of reduced demand in the soft drink industry.

The paper and printing divisions marginally increased sales, but dropped operating profit by 8%. The paper manufacturing division's tonnage sales increased, but at lower prices than the previous year. The paper distribution division's profits were reduced, while the tissue and printing divisions improved profits.

Connellan said the sharp fall in consumer demand was a cause for concern. If this continued, earnings in the second half would not maintain the rate of growth of the first half.

Representations to the fiscus regarding the potential tax liability for the accrual of leave pay had been successful, and the provision made in the past financial year would be written back. This would improve earnings by 19c a share. Earnings would benefit from the reduced tax rate.

In this light, earnings for the full year would show a satisfactory improvement over 1992.

Nampak posts buoyant 23% rise in earnings

(194)

CT 19/5/93.

From MARCIA KLEIN

JOHANNESBURG. — Packaging group Nampak overcame lower volumes and recessionary conditions to post a 23% rise in attributable earnings to R151,2m (R123,4m) in the six months to end-March.

Chairman Brian Connellan said despite a volume decline of 1,8% and "not much help from price increases", turnover rose by 5% to R2,3bn from R2,2bn. Sales in the first quarter showed modest real growth. But a reversal of this trend in the second quarter, particularly in the beverage industry, saw volumes decline despite a 28% growth in exports.

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He said results were achieved internally as there was "no action in the market place". The group managed to improve its operating margin to 11,5% from 11,3%. Good asset management and lower interest rates resulted in a R15,5m saving in borrowing costs. Interest cover increased to 15,5 (7,7) times, and gearing was contained at 27%.

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Analysts expect Barlows to maintain dividend

BDM 24/5/93

BARLOW Rand was likely to maintain its first-half dividend at 54c a share on expected lower earnings to be announced this afternoon, analysts said.

"Unfortunately Barlows is involved in markets that just haven't turned yet and are not going to in a hurry," said Syd Vianello of Ed Hern, Rudolph.

Poor recent results from its UK-based J Bibby and Sons would hit Barlows' earnings hard, analysts said. "It turns out that Bibby overpaid drastically for Spain's Finanzauto in the takeover last year," Vianello said.

Analysts' forecasts were in the region of a 10% fall in earnings to 186c a share from a previous 207c but some analysts said the decline could ~~be~~ slightly bigger. 194

Full-year results ~~were~~ not ~~expected~~ to be any better than those in the first half despite predictions by the group late last year that it hoped to maintain earnings in the current year.

However, the expected dent in profits in the period to March 31 would have been worse had it not been for surprisingly good recent results from some of its interests, analysts said.

Packaging subsidiary Nampak was the best example, they said. Operating in stiff market conditions, the group reported a 21% rise in earnings to 313c for the first-half to end-March, well ahead of expectations.

Analysts said Barlows ~~would~~ have been aided by tax adjustments after the recent drop in the corporate tax rate to 40% from 48%, although the new 15% tax on cash dividends had been introduced as well. — Reuter.

FM 28/5/93 (194)

FM 28/5/93 FOX

NAMPAK (194)

Packaging the good news

Nampak, SA's largest paper and packaging company, made relatively light work of a difficult six months. The interim shows continued growth in turnover and, surprisingly, an improvement in trading margins. The two combined to produce after-tax profit of R155,4m — an improvement of 23% on last year. EPS gained 21% on an increased equity and the dividend was increased 10% to 87c, covered 3,6 times.

Chairman Brian Connellan says it's intended to set the final dividend to match last year's 2,6 times cover: that implies a substantial increase if second-half performance replicates the first six months. But management is at pains to say that's unlikely, so shareholders shouldn't hold their breath in expectation of a big hike in the final.

Last year Nampak revealed it was arguing with the Receiver about his wish to impose tax on accruals for leave pay. It seems wiser heads have prevailed: the provision of R9,4m made in 1992 will be written back in the second half, adding 19c to earnings. If that isn't enough good news, the change to the corporate tax rate is expected to add 44c to the out-turn for the year — provided profits for the second half equate those for the first.

But, as with any curate's egg, there is bad news: Connellan says the outlook is sombre. March quarter results were abysmal, and April's sales were "really quite dreadful."

This contradicts national statistics that the economy showed its first signs of growth in the March quarter, at 0,8% annualised. One explanation is that most of the growth reflects a surge in agriculture off a low base; that would be unlikely to help Nampak's core businesses.

MD Trevor Evans says real volume grew 4% in the December quarter, and that extended into January. After that, things fell out of bed. February and March reflected a general collapse and real volumes fell 6% — a complete turnaround, which leaves Nampak with an overall decline in real volumes in the half-year of about 1,8%.

The balance sheet continues to display its customary strength. Interest-bearing debt

Connellan ... *presenting a curate's egg*

has been cut sharply (reflected in a significantly lower interest bill), debtors and stocks were held close to last year's levels and non-interest bearing debt showed a small decline. All this is evidence of tight control over cash resources and asset management.

Connellan and Evans believe Nampak has positioned itself well to fend off the challenge they expect from Highveld's Rheem division, which will soon market an aluminium can, but Connellan confirms he "takes competition from a source like Amic very seriously."

Connellan and Evans are gloomy about prospects for the second half. They admit, perhaps a trifle reluctantly, that annual EPS will show a satisfactory improvement, but say no-one should expect a repeat of the first half's superlative performance.

Of course, that is Barlow corporate-speak to ensure investors don't expect too much.

David Gleason

FM 28|5|93.

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RUHOLD FM 28|5|93.

Now you know

(194)

Are Ruhold shareholders part-owners of a financial services group with packaging interests or is it the other way around? For a long time, they haven't known. Now, however, there is a sudden, marked and welcome improvement in disclosure.

For a company which consistently produces good earnings growth — latest EPS are up 18% to 19,8c — and has much to brag about, more open reporting makes good sense. Acquisition of a significant minority interest by Fedlife Capital Fund may have something to do with it.

Ruhold's disparate activities sit uneasily together. But short of unbundling, the situation is unlikely to change. Some clue is given by chairman Jeff Rubenstein, who says approximately 65% of total assets are employed in packaging.

Turnover, shown for the first time, rose 11% to R79,1m. This includes gross interest received and net sales. Improved efficiencies, reduced costs and tighter working capital management saw operating income rise 23% to R7,7m. After the share of associate Plastech's losses of R815 000, net ordinary income was R6,5m. The cut in company tax to 40% led to a downward adjustment in the deferred tax liability of R1,2m, which has been treated as an extraordinary item.

Gearing jumped to 162% (82%), but director Thierry Dalais says increased borrowings of R45,6m should not be misread. The finance debtors book rose 26% to roughly R37m and this automatically affects borrowings. Industrial operations acquired the remaining interests in Plastech. It's questionable why further investment is being made in a company still making losses. And obviously payment of a special dividend of 40c at the interim stage reduced cash resources and indirectly affected gearing.

BONUS TIME

Year to Feb 28	1992	1993
Turnover (Rm)	71,3	79,1
Operating income (Rm)	6,3	7,8
Attributable (Rm)	6,3	7,7
Earnings (c)	16,8	19,8
Dividends (c)	7,0	8,0
Special dividend (c)	—	40,0

Rubenstein says the special dividend was paid because resources were greater than optimal short- and long-term needs. But he is confident that gearing will remain prudent, given the nature of operations.

Partial information of divisional performances — another first — gives some hint as to how individual operations are doing, though much more could be disclosed without undermining competitive advantages.

The niche-oriented financial services division maintained its excellent bad debt record, with strict credit controls, though on the downside this may have curtailed turnover. It still makes a significant contribution, though Rubenstein won't reveal how much.

A new venture exporting plastics appears to be paying off and markets have grown in line with expectations. Management continues to look for synergistic acquisitions which will enhance earnings and cash flow. Rubenstein says it's important these shouldn't deviate from the core plastics business.

Dalais believes the group has done well to pay a special dividend and sustain good earnings growth. The unusual mix, he says, presents several possibilities. Concentration on productivity and manufacturing efficiencies should boost earnings and offset expected narrower margins.

Better disclosure and the good earnings record should underpin the share which, at 90c, is rated on an 8,9% dividend yield and p:e of 4,5. *Marylou Greig*

POLYSTYRENE PACKAGING (194)
FM 28/5/93

A dose of competition

The entry of a new manufacturer has sparked a price war in the R100m-a-year polystyrene food-packaging industry. For the past two years the market has been dominated by two suppliers, Bakke and Sun Packaging, both owned by Malbak subsidiary Holdains.

But Cape-based Atlantic Forming, with the backing of international packaging manufacturer Linpac Plastics International, claims to have captured 12% of the market in its first month of production. MD Kobus du Plessis says prices are 15% lower on average than before the company started production last month and in some cases prices are down to levels last seen eight years ago.

Stan Burton, a director of Holdains packaging subsidiary Kohler, says he welcomes the competition, which will help fight spiralling prices. But he warns that as a major supplier, his company will defend its business "in every possible way."

Annual production of polystyrene food packaging is now about 6 000 t. Its use is split almost evenly between red-meat packers (mainly supermarket butcheries), white-meat (chicken) producers and food-packaging distributors.

Du Plessis says the food-packaging distribution sector in particular is extremely price volatile and in some cases prices have dropped to mid-Eighties levels. Burton says there are now cost benefits arising from the surplus of styrene monomer, the base raw material of polystyrene, but the situation

cont

FM 28/5/93. (194)

could change depending on exchange-rate fluctuations and the international economic recovery.

He concedes that Atlantic Forming's enhanced technology will compel Holdains to reassess its position as a cost-effective producer "with due consideration being given to current productivity standards."

Du Plessis, a former director of Sun Packaging, which was taken over by Holdains in February 1991, says that since the takeover prices have crept up and discount structures have been progressively reduced.

Britain-based Linpak, one of the world's biggest packaging producers, has injected a substantial portion of the R12m start-up capital into Atlantic Forming. Du Plessis says response from customers to an alternative supplier has been "overwhelmingly enthusiastic" and he is confident of rapidly increasing market share. He says a price war should mean lower costs to consumers if savings are passed on by retailers and distributors.

Atlantic Forming plans to export about 20 t of packaging a month to neighbouring states. Du Plessis says that later this year when a new plant comes on stream, the company will also tackle the near-monopoly in PVC clingfilm. It also plans to compete in high-volume markets such as fast-food packaging and egg trays. ■

Recycling low in SA

Business Day 2/6/93

MARIANNE MERTEN

ABOUT 12 out of every 100 households in Johannesburg — and 20% of residents in other SA cities — helped towards recycling paper, compared with 65% to 70% of households in Europe.

Mondi Wastepaper divisional manager John Lay said last week Mondi hoped to raise the paper collection rate to about 30%.

The slow response from domestic households had contributed to the need to import 50 000 tons of paper for newspapers and magazines last year. (1992)

The SA waste paper industry was nevertheless economically viable, with a turnover of R220m from processing about 600 000 tons of paper every year.

Mondi supported enabling legislation which would provide incentives for domestic households to recycle their waste paper, Lay said. A Sappi spokesman said all reusable paper was recycled in SA.

...Pupils at Mangeti Primary, a rural school in Zululand...

Local firms face stiff competition

Star 2/6/93.

Finland, a huge manufacturer of paper, which relied heavily on the Soviet Union for its exports, had to find new markets.

"This changed environment meant that suddenly SA, particularly after President de Klerk's February 2 1990 speech, became an increasingly attractive market for manufacturers."

Up until recently local companies had the SA market to themselves, now they have to cope with international competition. Operators geared for Third World needs suddenly found themselves faced with hungry European competitors using techniques and operational methods and size geared to First World markets with all the atttendant cost savings.

"What is more, the local manufacturers are large companies that have produced a wide range of products, whereas they are faced with competition from overseas counterparts who specialise.

"The industry is in its worst situation in 60 years," he said, adding that fine papers have declined in volume this year by about 15 to 20 percent.

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Balancing act

He said when the local mills hurt, so too do the paper merchants, including the three merchant companies of Graphtec, which have typically relied on local manufacturers for their supplies.

This had resulted in the merchants being drawn into importing papers because of the demand from their buyers, who are looking with growing interest to the products made by international suppliers.

Merchants are faced with an additional pressure — from what Smith calls the "brass plate merchants", independent agents who have no affinity with the local mills and who will import products from overseas.

"The paper merchants have been partners with the local mills for years, they can't ditch local manufacturers, but they must stay relevant to the industry, they must consider the future as well."

Therefore, the paper merchants are playing a balancing act — with pressure from their customers and from paper mills.

He said there had been a flood of new and competitive products from overseas, although normally, paper merchants relied on the local market for 80 percent of their business.

Smith, who has 36 years of experience in the paper industry, became Chief Executive of Graphtec in August 1991.

Graphtec is nearing the end of the painful but necessary process of rebuilding in order to make the company more cost-effective and bring executives to focus on key areas.

The restructuring process has involved centralising staff functions and has therefore meant retrenchments, but it has drawn together under one umbrella five different companies: three merchant companies Haddons, First Paper House and Star Paper (which recently became a division of Haddons); and two other houses, Graphtron, which specialise in printing machinery, and Photra-Allgraphics.

FIND OUT MORE

Investment performance lets down assurer Metpol

Buss. day 3/6/93

LINDA ENSOR

CAPE TOWN — Life assurer Metropolitan Life (Metpol) achieved sound premium income growth in the six months to end-March, but a sluggish investment performance constrained the earnings growth to a still respectable 21%.

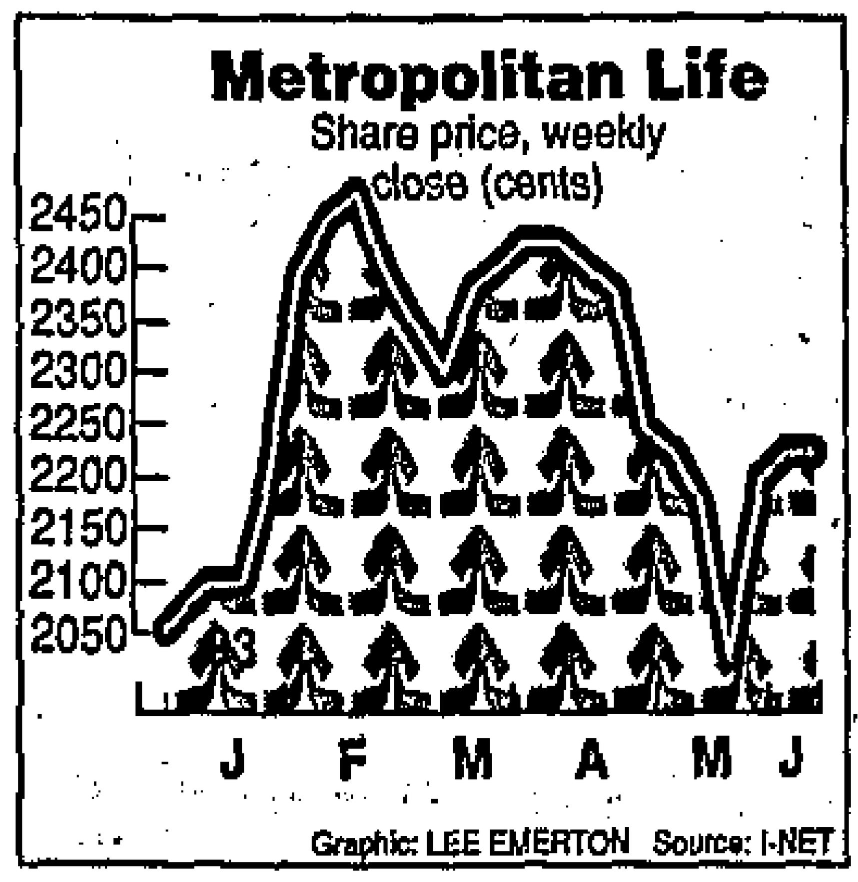
A 20% higher dividend of 24c (20c) was declared on earnings of 37c (30,5c) a share. In its previous financial year Metpol posted a 23% rise in earnings a share.

Total income in the six months increased by 18% to R668m (R567m), while the disclosed surplus attributable to shareholders grew 22% to R24,2m (R19,9m).

Recurring premium income, which represented 94% of total premium income, rose 20% to R450,5m (R375m) and single premium income (mainly from individuals) by 103% to R30m (R14,9m).

This gave a 23% hike in total premium income to R480,6m (R390m).

"In a period characterised by unrest and poor economic circumstances that affected our focus markets to a substantial degree, the increase of 23% in our premium income is considered to be good," MD Marius Smith said. He added that the unrest had affected the mobility of field staff.



Senior GM, finance, Peter Doyle noted that the difficult economic climate was reflected in the sharp increase in policy surrenders and the resort by policyholders to the bridging finance facility provided by Metpol's Dynamic Life product. This provided for the financing of premiums out of investment funds.

Investment income inched up 6% (13% last year) to R187,5m (R177m), reflecting lower interest rates and slower dividend growth. However, Smith said total returns, including capital appreciation, compared favourably with industry averages. The market value of investment assets rose to R4,8bn (R4,2bn).

Total assets at end-March stood at R5,2bn (R4,5bn), and life insurance funds grew 16% to R4,7bn (R4bn).

Smith expected the satisfactory interim results to be maintained for the full year.

Metpol's major shareholder Sankorp announced recently that it was to sell 10% of its 40% stake to a black-owned company, Metlife Investment Holdings, for R135m.

Metlife would in turn sell the shares to institutions and to the life assurer's predominantly black policyholders who constitute about 80% of all its policyholders.

Doyle said the announcement of Metlife's acquisition had had a motivating effect on sales staff and he expected premium income to pick up in the second half of the year because of a more receptive market.

Cargo Carriers lowers costs

Buss. day 3/6/93

EDWARD WEST

ROAD transport group Cargo Carriers expected improved results this year after restructuring which had lowered costs, chairman Gerald Stein said in the group's 1992 annual report.

An extensive planning operation had been undertaken to focus the group. The resulting restructuring had enabled operations to be managed from a lower cost base and the group was poised to expand market share, Stein said.

Sophisticated techniques were being used to monitor the group's operating efficiencies.

The restructuring had led to a reduction in the work force at all levels, he said.

The reported pre-tax profit for the year to end-February 1993 had been improved by R10,43m.

This was because of an adjustment made following a decision to depreciate vehicles over their useful lives based on the actual number of kilometres travelled or time.

Previously vehicles were depreciated on a straight-line basis over a period of five years.

Without this adjustment, a loss of R6,98m would have been reflected.

Stein said industry deregulation, which virtually had been completed, had resulted in an oversupply of available transport capacity because of the economic decline.

This was forcing operators to charge subeconomic rates.

While this was beneficial to customers in the short term, there was a long-term danger national transport infrastructure would be impaired.

This was being exacerbated by the inequitable situation under which foreign operators were permitted to transport goods within SA and their own countries free from the restrictions experienced by SA operators.

Selective enforcement of the Road Transport Quality System would lead to an increase in the already high number of accidents and unfair competition, said Stein.

Tetra Laval back after disinvesting

Buss. day 3/6/93

WORLD packaging group Tetra Laval has re-acquired its South African arm Tetra Pak after disinvesting in 1987 as a result of political reasons.

Tetra Pak South Africa MD Richard Tonkin said yesterday his firm had operated for the past 14 years under a licensee arrangement. 194

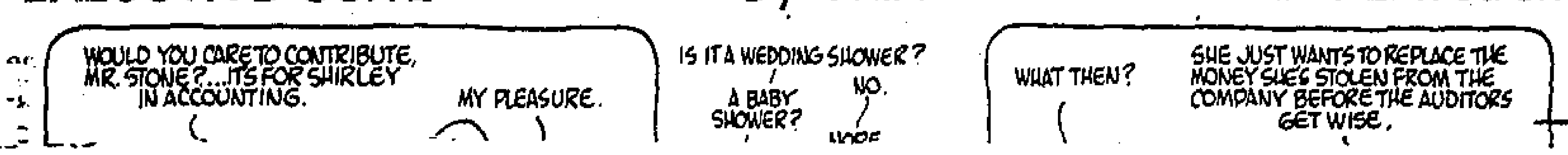
"We have continued to flourish but the arms length relationship has meant compromises in a number of areas. We really are looking forward to reconnecting with the strength of the international group," he said.

Following the re-acquisition, Tetra Pak and Alfa Laval South Africa would be merged under a new holding company to be known as Tetra Laval Southern Africa.

This is a result of the Tetra Laval Group in mid-1991 acquiring international group Alfa-Laval AB, which supplies production equipment for the food and agriculture industries.

The two SA companies would continue to operate separately. — Sapa.

EXECUTIVE SUITE By William Wells and Jack Lindstrom



Lenco earnings climb 24,8%

194

CT 14/6/93

Own Correspondent

LENCO Holdings' diverse interests helped it overcome difficult trading conditions and earnings a share climbed 24,8% to 59,8c in the year to end-February 1993 from 47,9c the previous year.

The dividend for the clothing, footwear and plastics packaging group was lifted to 14c (1992: 11,5c). Directors forecast further real earnings growth in the 1994 financial year.

The 1992 figures were restated to reflect changes in accounting policies relating to fixed asset depreciation and the method of dealing with registered designs. This reduced earnings to 47,9c from 49,3c a share.

Turnover climbed 30,5% to R594,06m. Operating margins fell to 9,98% (12,57%) and operating profit improved marginally to R59,29m (R57,22m). Finance charges were virtually unchanged at R14,08m (R14,83m) but tax was reflected as income of R203 000 compared with the R5,55m paid out the year before.

In earlier years, a subsidiary company invested in film schemes, resulting in tax savings. Provision was made by adjusting the 1992 retained income to bring in the additional taxation payable in terms of the compromise offer announced by the Receiver of Revenue. The effect on group reserves was R1,8m.

Taxed profit climbed 26% to R45,41m. Interest-bearing debt climbed to R66,2m (R36,84m). An extraordinary item of R3,56m related to investment write-downs.

Directors said the group traded well although conditions in the clothing and footwear sectors were difficult.

The performance of the group's listed footwear subsidiary was the most disappointing feature, largely because of operating losses and high stock write-downs and debtors' provisions.

The results of Hendler & Hart were expected to improve after having a negative impact on 1993 results. Likely increases from the clothing and footwear divisions and a continued strong performance from packaging should result in further real earnings growth, the directors said.

The earnings of Lenco Investment Holdings (Lenvest), which holds a 50% (1992: 52,18%) stake in Lenco Holdings, climbed to 39,7c (34,7c) a share. Its dividend rose to 8,85c (7,6c).

Pictures: BRENTON GEACH, The Argus.

WORKER HEALTH: Sister Annie Tattersall takes maintenance worker Gerald Gabriel's blood pressure at the Mondi Timber Products clinic in Stellenbosch.

Sawmill counts cost of workers' illnesses

ARG 16/6/93 (194)

□ Clinic opens to boost staff health — and profits

ANDREA WEISS
Health Reporter

WHEN a prefabricated timber showhouse appeared to be outliving its usefulness, a Stellenbosch sawmill company decided to put it to good use by converting it into a clinic for its 326 workers.

The health and safety centre is the brainchild of Sister Annie Tattersall, risk control manager for Mondi Timber Products. She believes the company's commitment to occupational health will pay for itself several times over in productivity returns.

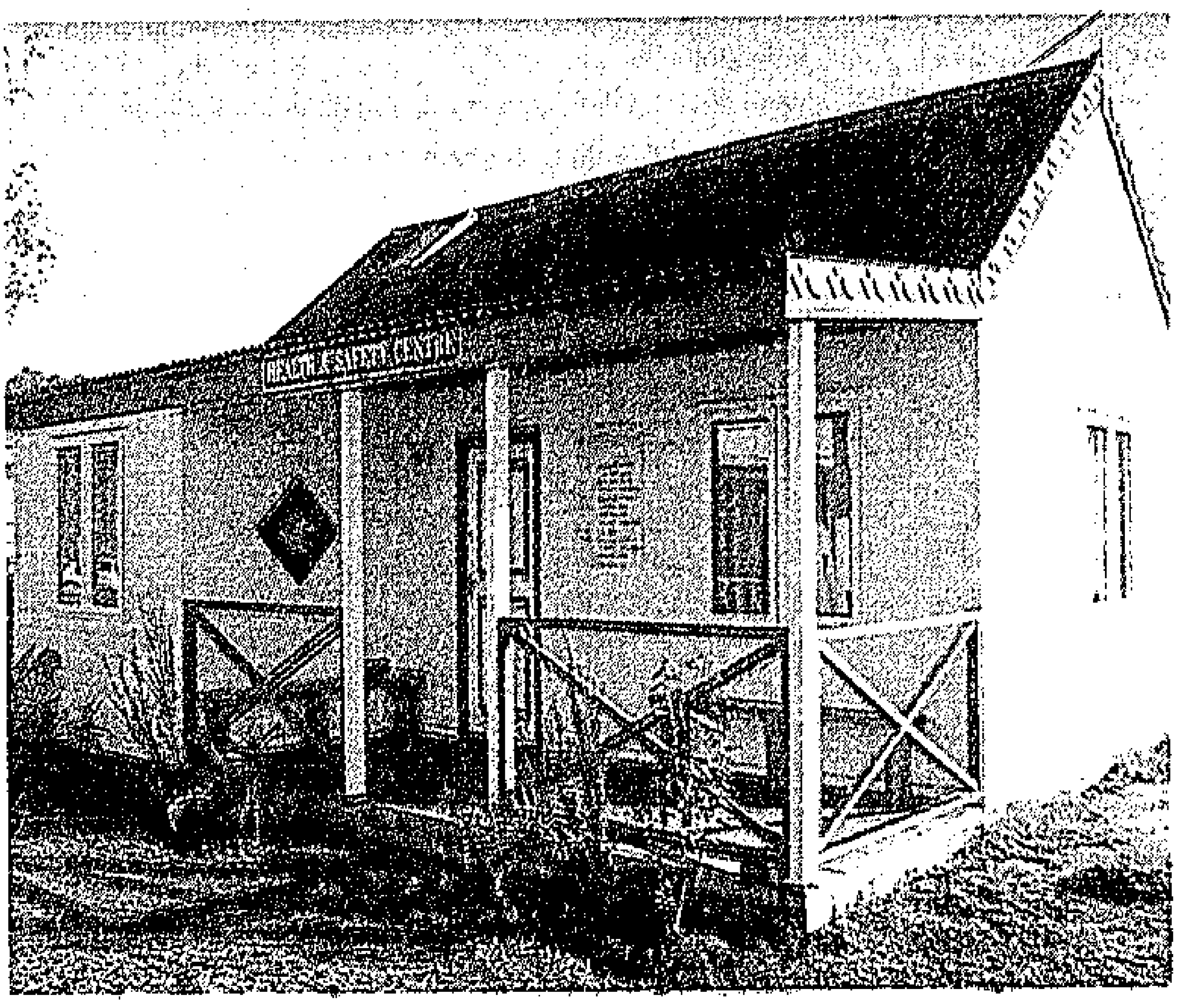
Sister Tattersall saw the cottage's potential for conversion into a fully fledged clinic and was given the go-ahead by management to set up the project.

Examples of how the clinic will save the company money include the time workers might otherwise take to seek medical help for minor ailments and the identification of chronic conditions that can be managed with medication.

The centre has already established that many employees have high blood pressure.

Family planning, TB treatment and occupational health checks, such as regular hearing tests for people who work with noisy machinery, will be offered there.

During her two years with Mondi, Sister Tattersall has introduced a variety of innovations and incentives which bring home to workers the importance of occupational health. She says she loves her work, and it shows.



ON SHOW: The new clinic, a former prefabricated timber showhouse.

She has started a weight club, which includes a weekly weigh-in. Those who have put on weight pay a forfeit of 50c, which goes to the person who has lost the most for that week.

Departments get a R5-a-person prize if they come out tops in a monthly hygiene inspection. If they win twice in a row, each gets a T-shirt. For a third consecutive victory, the company organises a braai for the department.

Every month, the company also stops work for a 30-minute health lecture.

During non-smoking week, the company's canteens did not sell cigarettes and workers were encouraged not to smoke.

Similar programmes are planned for every month of the year covering topics from Aids to dental health. Sister Tattersall believes education on Aids is an important way of preparing the company for the onset of the disease. If workers and management are educated they are less likely to reject a co-worker with the disease.

Among the tasks the new clinic has taken on is issuing the daily pills many TB patients need.

Union and Carlton Paper in row over funds

B/Day 17/6/93

ERICA JANKOWITZ

CARLTON Paper had not transferred an estimated R20m in a pension fund actuarial reserve to a negotiated provident fund, the Paper, Printing, Wood and Allied Workers' Union alleged yesterday.

Union spokesman Rob Rees said these monies had been owed to the provident fund since it was established in 1989. He said there was no reason for the company to withhold these monies.

He said four years ago, the union had received an assurance from the company that a proportion of the pension fund surplus would be transferred to the provident fund.

"This surplus should not only benefit those who remain on the pension fund," Rees said.

A company spokesman said the allegations were "untrue and mischievous". He said actuarial reserves plus a negotiated share of the reserve had been transferred to the provident fund when it was implemented.

Subsequent legal opinion obtained by both provident and pension fund trustees confirmed that Carlton had more than met its legal obligations.

Members of the union are on the board of provident fund trustees.

The union is planning a march on Carlton Paper headquarters on Friday, June 25 and is expecting more than 1 350 workers to participate.

Gloom over Sunpak buyout

(194)

ARG 19/6/93

■ Fears of monopoly between packaging giant Holdains and Sunpak were voiced in court during hearing of a dispute over industrial espionage and sabotage.

MARC HASENFUSS
Business Staff

SUN Packaging (Sunpak), which is at the centre of an industrial espionage and sabotage court dispute being heard in Cape Town, was delisted from the Johannesburg Stock Exchange in July 1992.

This followed a R56 million buyout of Sunpak's minority shareholders by controlling company Holdains. There were also minority buyouts and delistings in Sunpak's investment holding company Sun Packaging Investments (Sunvest) and venture capital listed subsidiary Biopolymers (Biopoly).

Holdains chief executive Mr Ian Willis, said then that in the light of poor short-term prospects for Sunpak it was only correct to offer to take out minority shareholders and give them the opportunity of achieving a better return elsewhere.

The packaging giant effectively took a controlling stake in Sunpak in February 1991.

Holdains, listed on the JSE's Paper & Packaging board, is one of the biggest packaging groups in the country with turnover in excess of R2 billion.

At the time of the takeover there were rumblings about the creation of a monopoly in the R120 million-a-year polystyrene food packaging industry. Previously Sunpak and

Court hits at business 'spying'

From page 1

from the private investigators and Sunpak, and filed in court in support of the Atlantic Forming application, showed that the private investigators were reporting directly Sunpak MD Mr Johan Fick and to someone entitled J F.

No one was being suspended as a results of the claims placed before court.

Already Linpak, which had invested R12 million in Atlantic Forming and was about to put another R15 million into the company, was asking questions about the security of the investment "when tactics like this are used".

Until the entry of Atlantic Forming earlier this year, Malbak had established a virtual monopoly in the polystyrene packaging industry. Within weeks Atlantic Forming had grabbed 12 percent of the market. Mr Justice Foxcroft granted an interdict against the following:

Sunpak; Mr Johan Fick, managing director of Sun Packaging; Mr John Hunter Eddington Kennedy and Mr Mark Thatcher, directors of Sun Packaging; and Security Action Management restraining them from:

■ Sabotaging Atlantic Forming "to protect and secure a monopoly" in the polystyrene industry in South Africa;

■ Committing acts of industrial espionage by breaking into and entering into the Atlantic Forming factory to remove or record confidential records and documentation; tapping or bugging their telephone system and facsimile machines or those of Atlantic employees; obtaining any Atlantic documents or trade secrets;

- Threatening any grievious bodily harm to Atlantic employees or damage to property;
- Bribing or coercing Atlantic's employees to reveal confidential information or trade secrets;
- Contravening the Maintenance and Promotion of Competitions Act by preventing the entry of Atlantic into the polystyrene market; and,
- Ordering the return of all documents and trade secrets, including video recordings, micro cassette recordings, computer disks, relating to Altlantic Forming.

Affidavits supporting the court application included:

- A statement from Detective Sergeant Peter Viljoen that he had taken possession of surveillance reports, photographs and details of Atlantic's operations from Sunpak and Security Action Management; and that the police had investigated and confirmed Altlantic Forming and Mr du Plessis had been bugged.
- An affidavit from a former employee of Atlantic Forming, Mr Keith André Holloway, admitting he had spied on the company; and,
- A security guard at the Atlantic factory, Mr Colin Johan Bailey of Armour Guard Security, who was paid to collect information by someone who he took to be a policeman.

Holdain's polystyrene operations were in direct competition.

In court documents presented yesterday , managing director of Atlantic Forming Kobus du Plessis (who at the time was a director at Sunpak) said assurances were given by Mr Willis that the two groups would be operated as separate entities.

However, he alleged that since the takeover, the prices of Sunpak and Holdain's products had increased and the discount structures given to customers had been progressively reduced.

"I then realised that, despite the assurances given to me, a situation had indeed arisen where Bakke (Holdain's polystyrene operation) and Sunpak had effectively merged their business operations into one.

Mr Du Plessis said customers were effectively placed at the mercy of the pricing structures and discounts offered by the two companies.

Courts 'to stop war in business'

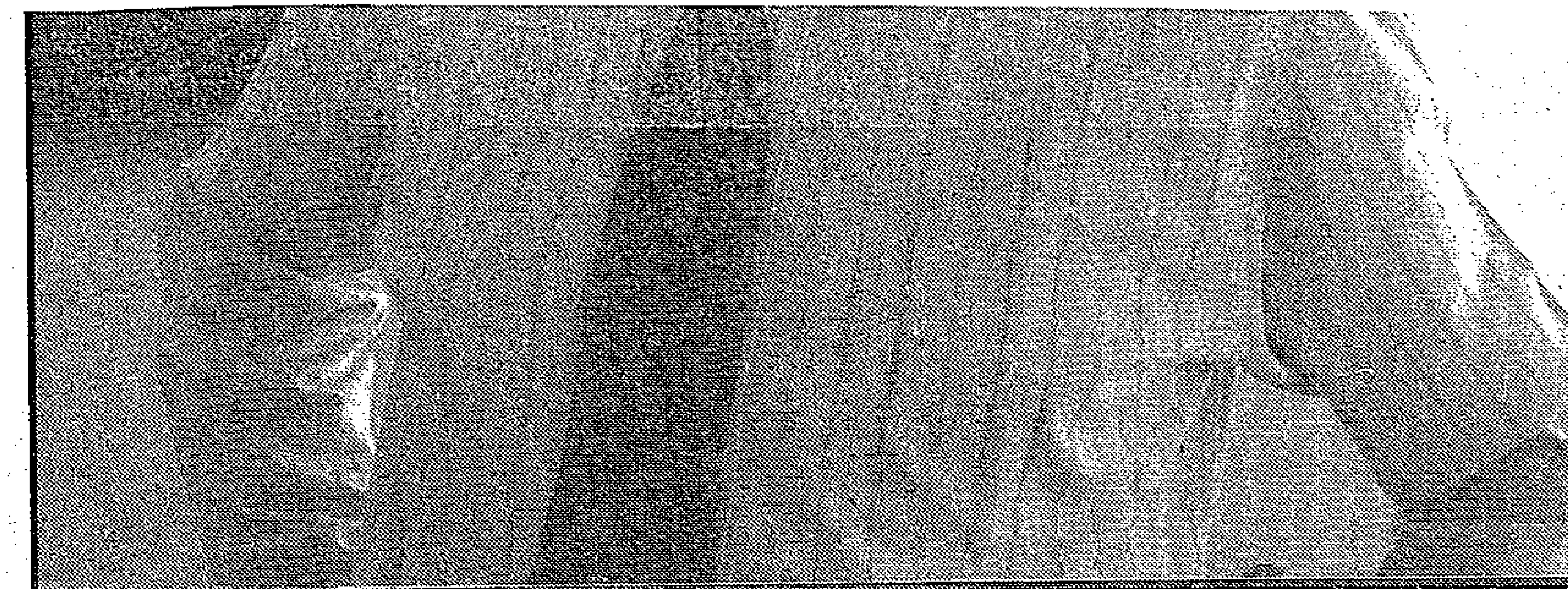
Weekend Argus Reporter

THE courts will intervene to halt the state of war that exists in business, a Cape Town judge has warned.

The warning was given during an interdict application by a Cape Town polystyrene company, Atlantic Forming, which sought court protection against alleged commercial espionage by competitors.

Mr Justice Foxcroft said people who did this sort of thing thought of themselves as above the law.

"The time has come for people to expect the courts to protect them from these practices."



NOT SUNNY: Ex-Sunpak director Kobus du Plessis complains that customers are getting a rough deal from an operational merger.

194

19/6/93

Rival accuses Sunpak of dirty tricks

S1Times [Buss.] 20/6/93

By JEREMY WOODS

THE Cape Supreme Court this week heard of alleged attempts at industrial espionage, death threats and impersonation of police and Reserve Bank officials by a company trying to maintain monopolistic practices in the polystyrene industry.

Sun Packaging (Sunpak), a subsidiary of JSE-listed Holdains, the Malbak-controlled packaging giant, was accused by Atlantic Forming of using "dirty tricks" to stifle competition.

Atlantic Forming is a company trying to break into polystyrene food packaging. It claims its premises were broken into repeatedly and confidential documents taken away.

It claimed that its phones and fax machines were bugged, an employee was bribed for information and another received death threats against him and his wife.

The allegations were made on Friday in an urgent action in the Supreme Court, Cape Town.

Private detectives were said to have posed as police officers allegedly investigating a variety of offences such as cocaine trafficking so they could interview staff members and obtain company secrets.

Mr Justice Foxcroft granted Atlantic Forming a provisional interdict restraining Sun Packaging and directors Johan Fick, John Hunter Kennedy and Mark Thatcher, as well as Security Action Management cc, from acting in concert to sabotage Atlantic Forming's business and committing acts of industrial espionage against it.

Atlantic Forming said Sunpak was guilty of a restrictive practice within "the meaning of the Maintenance and Promotion of Competition Act by preventing or restricting its entry as a new manufacturer and distributor of polystyrene products in the polystyrene industry".

It alleged Sunpak "generally conducted themselves in an unlawful manner in order to bring about the closure of its business by unlawful means in the furtherance of a monopolistic condition in the polystyrene market".

An affidavit by Atlantic Forming managing director Jacobus du Plessis said he was a director of Sunpak when it was taken over by the Holdains-Kohler-Bakke group.

Sunpak and Bakke had been competitors in polystyrene food packaging.

He was assured by Ian Willis, then managing director of Holdains, that the two would be run as separate entities.

After the takeover, the prices charged by the two companies increased and discount structures "were progressively reduced".

"The customers at large were effectively placed at the mercy of the pricing structures and discounts offered by the two companies."

Mr du Plessis left Sunpak to found Atlantic Forming.

Since then, said Mr du Plessis, the defendants "have on numerous occasions gained unlawful entry to" his factory and removed confidential documents.

(194)

Photographs and video recordings of machinery were made on the premises. Employees were bribed to disclose information, Mr du Plessis alleged.

One employee, Gerhard Lamprecht, and his wife were threatened with death.

The application was opposed by counsel for the respondents. They have 14 days to respond.

Holdains' Ian Willis says: "We are shocked and disturbed to have an interdict served against us as we are a law-abiding company. The matter is complicated and will be vigorously defended."

Star 22/6/98

Bidvest acquisition likely

By Stephen Cranston

Bidvest chairman Brian Joffe says an announcement which will have a material effect on the share price will be made today. This follows a cautionary statement published yesterday.

It is expected that Bidvest will make a further acquisition in one of its core fields of catering, services or packaging materials.

Joffe has denied speculation that he is interested in buying Karos Hotels, but possible acquisitions include Foodcorp's catering subsidiary Catercraft or the purchase of a master franchise of an international fast food operation such as McDonald's.

An alternative move might be the disposal of the 50 percent interest in Justine, which does not have an obvious fit with the rest of the group. (194)

Although several pyramids such as Gencor Beherend, Malhold and M&R Investments will be eliminated soon, it is unlikely that Joffe is considering removing the Bidcorp pyramid because it would jeopardise his control.

Prices up 200% with packaging

(94)

PRETORIA. — Repackaged fresh produce in supermarkets can cost consumers up to 200% more than the market price, the Consumer Council's latest price survey in six urban areas showed.

A statement by the council said after monitoring prices at several branches of Pick 'n Pay, Checkers Shoprite and OK Bazaars, it was found that 55% of repackaged vegetables and fruit also did not indicate the unit price or the mass. This meant consumers could not determine whether the price was fair. — Sapa

CT 24/6/93

Fm 25|6|93 (194)

POLYSTYRENE PACKAGING (194)
Fm 25|6|93

Blue chip dirty tricks?

When a company says it will defend its business from competitors "in every possible way," does that mean it will resort to industrial espionage and sabotage? That's what the Cape Town Supreme Court will decide as Atlantic Forming, an upstart in the R100m polystyrene food-packaging industry, presses its claim against Holdains subsidiary Sun Packaging (Sunpak), an industry leader.

In an application by Atlantic, the court heard that Sunpak, in conjunction with a Cape Town private investigation company, Security Action Management, bugged Atlantic's premises and placed it under electronic surveillance, video-taped and photographed machinery, sent a bogus policeman to investigate, removed confidential documents later recovered by police and asked employees for business information.

Judge John Foxcroft granted an urgent interdict restraining Sunpak and Security Action Management from continuing their actions. An interdict was also granted against Sunpak MD Johan Fick and Sunpak directors John Kennedy and Mark Thatcher.

A criminal investigation is proceeding and the next court hearing will be in August.

Atlantic, with the R12m backing of British-based multinational packaging giant Linpac Plastics International, started manufacturing in April and says it captured 12% of the local market in its first month (*Business & Technology* May 28).

For the past two years the market has been dominated by two suppliers, Bakke and Sunpak. Both are owned by Kohler, which in turn is owned by Holdains. The JSE-listed Holdains has a turnover in excess of R2bn and is part of the Malbak conglomerate. Holdains took control of Sunpak, which was delisted last August, in February 1991.

Says Holdains chairman Ian Willis: "The court action has given us no problems because we never instructed anyone to act illegally on our behalf."

He says that not all the facts are before the court and that this case should not be seen as a David vs Goliath tussle because Linpac, Atlantic's partner, is a huge multinational company. "While we treat this matter as serious, Sunpak represents only 4% of Holdains' turnover and the outcome won't have any material effect on Holdains earnings."

Kohler director Stan Burton told the *FM* last month that he welcomed the competition from Atlantic, which would help fight spiralling prices. But he warned that, as a major supplier, his company would defend its business "in every possible way." He also conceded that Atlantic's enhanced technology would compel Sunpak to re-address its position as a cost-effective producer "with due consideration being given to current productivity standards."

Atlantic MD Kobus du Plessis, who was a founding director of Sunpak in 1984 and left the company in 1988, says: "In some cases, polystyrene packaging prices have dropped by 25% since we started operating in April. Some prices are down to levels last seen eight years ago. However, it's illegal to stop entrepreneurs by sabotaging factories, stealing business plans and computer software, and using other Mafia-style tactics. We would not mind if they fought us out in the marketplace."

Willis argues that Sunpak's sole aim was to garner information for litigation against Du Plessis, the directors and other employees of Atlantic regarding a breach of restraint of trade. ■

DIAGONAL STREET

Aluminium squares up to steel in beer-can ring

ST Times [Buss] 27/6/93

NAMPAK management faces a question: is there a life for the humble steel can when the aluminium competitor starts its charge? (194)

Nampak has invested R115-million in a steel beverage-can plant at Springs, commissioned a little ahead of Highveld Steel's Rheem aluminium-can factory.

A strong environmental lobby in America has given aluminium cans virtually the entire market. Aluminium is more expensive than steel. But there is a payback in gathering spent aluminium and recycling it.

That is only half the green picture. Left to nature, a steel can decomposes years ahead of an aluminium one. Energy costs to produce aluminium far exceed those for steel.

Steel cans still have most of the market in Europe.

Nampak managing director Trevor Evans presented some statistics to a meeting of the Investment Analysts Society in Sandton.

Mr Evans says 16% of the 3-billion litres of beer brewed in a year in SA is sold in cans compared with 79% in Britain and 67% in America. The other large market for cans is carbonated soft drinks, of which 20% is sold in cans.

The national beverage-can capacity is 2,95-billion a year. It is expected to rise to 3,75-billion by 1994. The market has grown by 5% or more a year for a decade.

Mr Evans says there are fine growth prospects for canned beer, indeed for the beer market. South Africans drink less beer than people in similarly developed nations. There is also the prospect of more brewers with an appetite for cans entering the SA market.

Markets are also growing for cider, fruit juice and housebrand colas.

In short, says Mr Evans, the beverage market grows at a faster rate than does gross domestic product.

If the economy picks up from next year, spare capacity will come into use. Even now supply can be tight at seasonal peaks. But until then, the market is probably oversupplied.

Competitor Crown — recently bought by Holdains — is believed to have shut one production line in the Transvaal and Nampak will consider closing an older one.

Mr Evans hears Rheem is a little off its programme, which might ease the position.

In Nampak's favour, steel for cans is reliably supplied by Iscor. Although Alusaf will be running in five years' time, it might not produce the correct grade of aluminium. It is impossible to run a high-speed plant with off-spec material.

The cost of aluminium will be based on world prices of raw material.

Steel has room for technological improvement. It is more robust than aluminium — "deliveries can be tough on cans", says Mr Evans.

The Collect-a-Can project to recycle steel cans should improve recovery from 20% of those sold to above 50% in three years.

The drinks can comprises only 16% of Nampak's business.

Mr Evans says the returnable glass-bottle market is at a low. One reason is that manufacturers wanted to see how well the 1,5-litre Pet (advanced polyethylene) returnable bottle shaped in the market — not well.

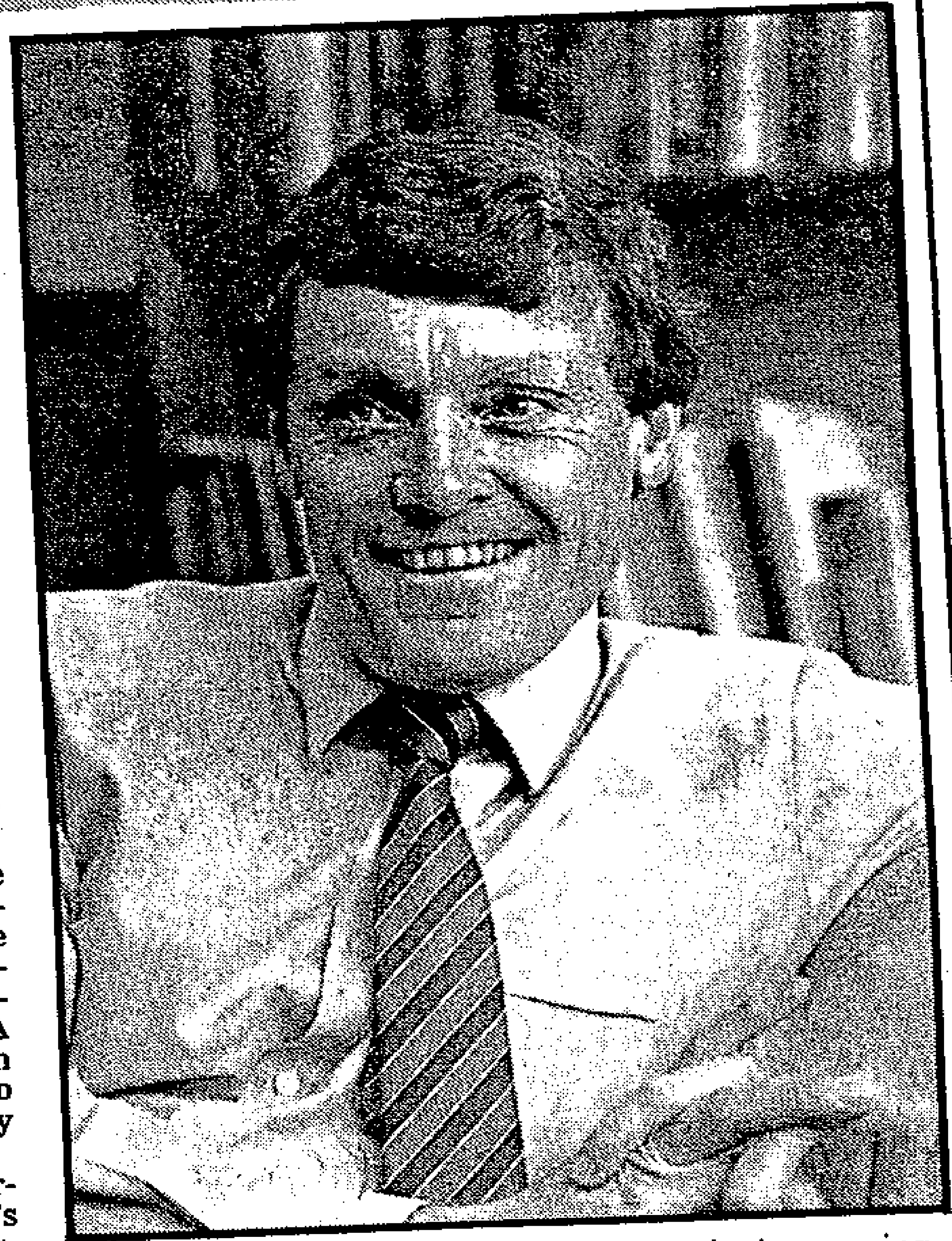
He expects a recovery in glass bottles because suppliers have been squeezing 11 to 12 trips out of every bottle and there is bound to be a rush to top up.

He describes the paper market as a bloodbath. Although there are early signs of a recovery, Nampak has not been unscathed by persistently falling paper prices.

New management at the corrugated cardboard division after the unfortunate Adrian Barker fraud incidents is competent. Mr Evans says the impact of SA Breweries' switch from cardboard beer boxes to plastic crates has largely been absorbed.

Perhaps the most encouraging feature of Nampak's presentation is its importance in global terms and its focus on being a world-class player. Estimated to be the 12th largest packager in the world, it is certainly the most diversified.

Its 15 divisions employ 21 000 at 122 sites and goods are exported to 47 countries. Nampak has spent well over R1-billion in the past five years on technological improvements without tapping shareholders for money and has still reduced gearing and lifted dividends annually.



TREVOR EVANS: Demand for our products growing

The shares are priced at R97, 17 times historic earnings. Mr Evans says that although trading conditions remain tough, there should be a satisfactory improvement in earnings for the year to September.

A favourable tax ruling will add 19c a share to earnings because of the write-back of a provision made last year.

In the medium term, Mr Evans aims to improve the underperformers in time for the upturn in the economy.

Demand for Nampak products is destined to grow — demand for the tightly held shares will do the same.

COMPANIES

Lower tax rate helps Transpaco

DUMA GQUBULE

A SHARPLY lower tax rate helped packaging company Transpaco report a 34% increase in earnings to 7,25c (5,42c) a share for the year ended March. B/Day

The directors did not declare a dividend but promised a review in September.

Losses from discontinued operations — the group's former Natal operations which were sold in February — affected overall performance. (1994)

Turnover was up 8,5% to R54,8m (R50,5m) as the contribution from continuing operations increased 9,6% to R53m and that from discontinued operations declined to R1,8m (R2,2m).

Operating profit came to an unchanged R1,9m, despite a 13,9% increase in the contribution from continuing operations. The reason was an operating loss of R185 000 from discontinued operations.

Joint MD Mike Abelheim said the improved operating margin was a result of improved margins and contained expenditure. Finance charges increased to R971 000 (R718 000) and pre-tax profit was down 19% to R946 000 (R1,2m). 30/6/93

Interest bearing debt had increased because of the takeover of East Rand Packaging and a slowdown in payment from debtors, Abelheim said.

The tax bill fell sharply to R148 000 (R573 000) and attributable earnings came to R798 000 (R596 000).

Abelheim said steps had been taken to reduce the increased expenditure which came with the takeover of East Rand Packaging and to eliminate unprofitable turnover.

The group had budgeted for increased profits in the year ahead, Abelheim said.

Waltons budgets for 'improved earnings'

BIBay 6/7/93

(194)

MARCIA KLEIN

WALTONS Stationery Company, whose earnings slid 9% to 43,3c a share in the year to end-February, had budgeted for improved earnings in the current financial year in a difficult economy.

Chairman Frank Robarts said in his annual review the 1993 year-end results had been significantly better than anticipated *at the interim stage.*

The results had improved in the second half, but the economy was expected to remain difficult. Waltons had budgeted for improved earnings in the coming year, but the volatile political situation "can have a dramatic and lasting effect on the results of the company".

Results to end-February included a R27,8m below-the-line extraordinary item, which reflected film investment deductions disallowed by tax authorities.

Robarts said the board still believed the deductions should be allowed. But the uncertainty, future delays and additonal costs which could be incurred by contesting the decision had resulted in the board accepting the settlement.

He said all group companies had performed in line with expectations. The core stationery manufacturing and distribution companies performed well and benefited towards the end of the year from increased scholastic sales.

Aggressive marketing and competitive pricing from cash and carry operations had put pressure on operating margins. Waltons had also entered this market by expanding the activities of some of its branches to include cash and carry operations. This had been successful and the concept would probably be expanded to other branches.

The number of stationery outlets was reduced to 75 from 81, but the distribution network was expanded with two new branches being established.

Photocopier, fax and office machines supplier Helios-Minolta continued to perform well, increasing turnover and earnings off an already high base.

Despite the effect of increased borrowings, resulting from the establishment of its in-house finance division, the division made a positive contribution to the group.

But drawing office supplier Ozalid "again produced disappointing results which necessitated further changes in the management structure of the company".

Although trading in the division's main markets — the mining and building industries — remained difficult, better results were expected in the coming year.

The computer supplies industry was affected by aggressive marketing and substitute products at reduced prices.

Margins were depressed and management found that stand-alone operations were not viable. Operations had been streamlined and incorporated into other divisions that had a broader market base.

Office furniture manufacturer Atomic Holdings and its retail arm Waltons Office Furniture experienced tough conditions in a price conscious market.

Reasonable operating results were diluted by increased finance charges and establishment costs from the expansion of its retail network.

Packaging division King-Pac achieved a major turnaround. It consolidated its position and then expanded its operations by acquiring manufacturing operations in Johannesburg and Cape Town.

Listed toy and babyware chain Redgwoods Holdings had traded profitably.

Listed 29%-held Lithosaver Systems produced excellent results and strengthened its market position.

Dirt flies in Sunpak war

S/Times [Buss] 11/7/93

(194)

By JEREMY WOODS

SUN PACKAGING, accused of running a dirty tricks campaign against a rival polystyrene manufacturer, has hit back with claims of blackmail, theft of trade secrets and subterfuge.

It alleges in papers filed in the Supreme Court, Cape Town, that Atlantic Forming stole millions of rands worth of technological secrets about the manufacture of polystyrene.

Former Sunpak director Kobus du Plessis allegedly built his own polystyrene factory — secretly — before leaving to set up Atlantic Forming.

Raid

Sunpak is a subsidiary of JSE-listed Holdains, the Malbak-controlled packaging giant.

Sunpak officers say in affidavits that far from using dirty tricks to stifle competition, it acted to stop Mr du Plessis from using stolen manufacturing secrets. It alleges he did so while subject to a restraint-of-trade agreement.

Sunpak this week laid a complaint about theft. A police raid on Atlantic Forming's premises was said to have recovered documents containing trade secrets.

Sunpak director John Kennedy says in an affidavit he was asked by Detective-Sergeant Viljoen to identify a box of documents taken from Atlantic Forming's premises.

"All the documents contained in the box were indeed documents belonging to the first respondent (Sunpak). Furthermore, the documents all appeared to be originals. They largely consisted of technical data and there were many documents which I would regard as being of a confidential or secret nature."

Mr Kennedy says the documents contained information received by Sunpak under a licensing agreement for which it pays a Japanese corporation R500 000 annually.

Sunpak managing director Johan Fick says in an affidavit that in March this year he received calls from Mr du Plessis, who alleged he was being "tailed".

Mr Fick took another call saying that because everything had "come out into the open", he was welcome to visit Mr du Plessis' factory.

"He gave me directions as to how to get to the premises and I immediately got into my car and proceeded to Montague Gardens.

"The building in question was in the course of erection. Du Plessis then showed me round the construction site and told me that he and Linpac (a UK company) had become partners in a cling-film processing venture, which he hoped to have on line by August 1993."

A few days later, Mr Fick discussed the matter with Mr Kennedy.

A year earlier, Mr Kennedy had been taken to a different site in Montague Gardens which Mr du Plessis thought suitable for a factory.

The affidavit says Mr Kennedy visited it again and found a completed factory with polystyrene production facilities.

Mr Fick says that at that stage it was clear Mr du Plessis "had been putting into operation" a plant to compete with Sunpak.

"It was also perfectly apparent he had lied to us about his intentions and that he had resorted to subterfuge to disguise the nature of his activities."

Furious

Mr Kennedy alleges that Mr du Plessis phoned him at work.

"He was patently furious I had discovered what he was up to. He told me that my coming to his factory was just like my sleeping with his wife."

Ian Willis, chairman of Holdains, says in his affidavit he believes Mr du Plessis was out to blackmail Holdains group through some of his "sensationalistic allegations".

He quotes a letter from Mr du Plessis to Malbak chairman Grant Thomas: "This will lead to a lot of dirty washing in public which will certainly tarnish the blue chip image of Holdains and Malbak."

PROCEDURES FOR 1993 YEAR-END EXAMINATION RESULTS

INSTRUCTIONS FOR STANDARDISING DATA CAPTURE PROCEDURES

1. Every course must have a separate disc, clearly marked on the disc with the course name and course code and containing only one file of results.

2. Every student who wrote the final examination must be included, in alphabetical order. If a student name was not present on the list, it must be added together with the student number. When handing the hard copies and disc, please attach a note indicating the names of any student names which were added to the list.

3. The marks must be recorded together with the classification in two separate fields. The following is an example:

Star. 16/7/93

Sappi facing new challenge

By Stephen Cranston

The R450 million a year business forms industry is under threat from the computer industry, according to Sappi Fine Papers, the main raw material supplier.

But Sappi says that with the help of its suppliers the forms manufacturer is able to counter the threat of electronic communications to their traditional product lines. (193)

Sappi argues that it has kept its prices to a realistic level over the past year to support industry and benefit paper consumption.

Sappi Fine Papers was launching the tenth annual form of the year competition in Pretoria yesterday.

In the last nine years local designers have won the forms category of the International Design Awards three times. (194)

Over the last five years the forms industry has increased efficiency, cut costs and operated at a lower rate of return than most industries would be prepared to accept, said Sappi.

COMPANIES

BiDay 16/7/93

Paper raises R200m for M&R

TIM MARSLAND

MURRAY & ROBERTS has raised R200m through the commercial paper market — making it one of the first listed companies to borrow funds in this way.

M & R's paper has maturities of seven and 10 years.

Under new regulations issued by the Reserve Bank this year, any company with net assets of more than R100m can issue commercial paper. The advantage is that banks do not have to endorse it, which brings down companies' cost of financing. It also does not have to be secured.

M & R commercial director Jeremy Ratcliffe said the cash raised would form part of the company's "piggy bank". He did not expect further significant issues in the near future because M & R's cash position was healthy. M & R had not gone the route of a corporate bond because the issue was too small, he said.

UAL GM, treasury, Peter Lane, whose merchant bank put the deal together, said the paper had been placed with five major institutions and issued at a fixed interest rate linked to government's RSA paper, to which a slight premium was added.

He expected the commercial paper market to take off, because it was attractive to corporates. More issues were under consideration, he said, but he would not elaborate. He said a commercial paper issue need not necessarily be for a large amount and could be structured to meet the needs of most corporates. (194)

□ SA Breweries launched a R1bn corporate bond in December 1992, but commercial paper differs in that it is not a listed instrument.

Diversity proves the strength of Consol

B/Day 19/7/93

ANGLOVAAL packaging and rubber subsidiary Consol was formed in 1944 with glass packaging as its only business.

The company has diversified over the years. It is involved in packaging and rubber, with the packaging sector manufacturing and marketing glass packaging products, glass tableware, plastics and paper packaging, and processing industrial silica sand. (1914)

Glass packaging supplies general trade bottles and customer specials, providing packaging for beer, wine, jams and preservatives, vegetables, milk products and liquid refreshments. (1983)

Printed ware bottles, used for milk and yoghurt packaging, are also manufactured. The pre-printed bottles allow for extensive re-use without affecting labelling.

Glass is 100% recyclable and remelting does not affect the quality. Consol is actively involved in promoting awareness, and bottle banks are now a common sight in public parking areas and supermarkets.

Speciality

Another important division is speciality glass, which manufactures and markets glass tableware and glass spunware, such as bowls.

In 1962, the group diversified into plastics and the division has become a major packaging convertor in southern Africa.

In 1980, the group acquired the Consol Paper division when the acquisition of an existing plant provided it with its first venture into corrugated cartons.

The 1989 acquisition of Goodyear Tyre and Rubber Company provided it with its most recent major diversification into the rubber sector, and it entered the tyre retreading and distribution business in 1990.

Rubber proved to be the cushioning factor for Consol in the six months to end-December, as packaging interests felt the effect of low consumer demand. Nevertheless, some divisions, particularly the plastics and corrugated packaging, managed to maintain or improve profits.

Consol said although the market was not expected to show any significant improvement, sales volumes were not expected to decline compared with the second half of the previous year.

Business Day SURVEY

The paper, glass, metal and plastics packaging market has experienced significant pressure on volumes and margins over the past year. But the major players in the industry have improved by focusing on asset management, tight cost controls and increasing export drives. **MARCIA KLEIN** *reports.*

Nampak celebrates its premier position on 25th anniversary

B/Day 19/7/93

NAMPAK, SA largest packaging group, celebrates its 25th anniversary today.

On July 19 1978, Reed Nampak was taken over by Barlow Rand and renamed Nampak, but its history goes back to the 1920s.

It was then that Cape Town box manufacturer Herzberg Limited and Transvaal-based Premier Paper Mills were formed. Various mergers and acquisitions led to the establishment in 1968 of National Amalgamated Packaging.

When the Reed Group acquired majority control, the name was re-registered as Reed Namapk Limited in 1976. In 1983, packaging company Metal Box became a subsidiary of Nampak.

Nampak MD Trevor Evans says its proud and successful history has resulted in the group "being the premier packaging manufacturer in the country".

But, "we do not rest on our laurels", he says. Nampak operates in a tough market, "and we plan to improve our professional image by providing the superior quality products and service demanded by our customers". (194)

The group's results for the six months to end-March are impressive: despite the fact that volumes fell by 1,8%, turnover rose by 5% to R2,3bn and attributable earnings by 23% to R151,2m.

No action

Chairman Brian Connellan said at the time that results were achieved internally, as there was "no action in the market place".

Various analysts said the results reflected how it was possible to produce excellent results in a market where fortunes relied on consumer demand. The group, which is held by CG Smith and ultimately by Barlows, restructured after earnings declined in 1990,

TREVOR EVANS

and is now reaping the benefits.

In the past five years, Nampak has spent R1,1bn on expansion and replacement projects. A further R1,2bn has been earmarked for expansion over the next four years, positioning it for future growth.

The group recently said it expected difficult trading conditions in the second half. Analysts say it is nevertheless well poised to continue its strong performance in the longer term and build on the rating achieved up until its 25th anniversary.

into paper collection and

Diversity proves the strength of Consol

B/Day

ANGLOVAAL packaging and rubber subsidiary Consol was formed in 1944 with glass packaging as its only business. 19/7/93

The company has diversified over the years. It is involved in packaging and rubber, with the packaging sector manufacturing and marketing glass packaging products, glass tableware, plastics and paper packaging, and processing industrial silica sand. (194)

Glass packaging supplies general trade bottles and customer specials, providing packaging for beer, wine, jams and preservatives, vegetables, milk products and liquid refreshments.

Printed ware bottles, used for milk and yoghurt packaging, are also manufactured. The pre-printed bottles allow for extensive re-use without affecting labelling.

Glass is 100% recyclable and remelting does not affect the quality. Consol is actively involved in promoting awareness, and bottle banks are now a common sight in public parking areas and supermarkets.

Speciality

Another important division is speciality glass, which manufactures and markets glass tableware and glass spunware, such as bowls.

In 1962, the group diversified into plastics and the division has become a major packaging convertor in southern Africa.

In 1980, the group acquired the Consol Paper division when the acquisition of an existing plant provided it with its first venture into corrugated cartons.

The 1989 acquisition of Goodyear Tyre and Rubber Company provided it with its most recent major diversification into the rubber sector, and it entered the tyre retreading and distribution business in 1990.

Rubber proved to be the cushioning factor for Consol in the six months to end-December, as packaging interests felt the effect of low consumer demand. Nevertheless, some divisions, particularly the plastics and corrugated packaging, managed to maintain or improve profits.

Consol said although the market was not expected to show any significant improvement, sales volumes were not expected to decline compared with the second half of the previous year.

Major players weather recessionary conditions

B/Day 19/7/93

SA's multibillion-rand paper, plastics and packaging industries have not been immune to the recession, but most companies in these industries, which operate in markets that are linked to consumer spending, have managed to increase their profits and export volumes.

Local demand remains subdued, yet the industries have continued to prosper by improving quality, tightening costs and increasing export drives.

The paper, glass, metal and plastics packaging market has experienced significant pressure on volumes and margins over the past year. But the major players, which include Nampak, Holdains and Consol, have improved by turning their focus towards asset management and tight cost controls. Significant investment in expansion and upgrading plant has also placed them in a position to weather the weak trading conditions.

Packaging, which has traditionally grown at a rate faster than the growth in GDP, has not been able to sustain its growth in the past year. This was largely because of the decline in consumption of beer, soft drinks and other consumer products.

Packaging groups are, to a large extent, reliant on sales of consumer products, as a significant proportion of packaging sales relates to food and beverages. Beer and soft drink volumes, which showed buoyant increases in the past decade, are currently showing no growth. Retail sales have declined in real terms for most of the past year.

Declining

Many companies operating in the packaging sector were also affected by price cutting as firms tried to increase share in a declining market.

Most have forecast that trading will remain difficult for the remainder of the year as consumer spending and consumption remains at a low ebb. But various measures taken in anticipation of the downturn should enable them to maintain earnings off little or no volume growth.

Share prices have also held up well, and many of the major packaging groups sit with significant cash piles. The problem is how to spend the money.

Major paper manufacturers Sappi and Mondi have made significant acquisitions overseas, but it is not that easy for the packaging firms. Exports of unfilled products are difficult, although filled containers are obviously exported by their clients. Some have previously hinted at offshore acquisitions, but recent Reserve Bank actions with regard to finrand deals could put a damper on these plans.

Despite these factors, Barlow Rand's packaging group Nampak overcame lower volumes and recessionary conditions to post a 23% rise in attributable earnings in the six months to end-March. Nampak said this was achieved largely through aggressive attention to production and financial efficiencies, and help from the new company tax rate. Bevcan, Foodcan, the carton and sack divisions, liquid packaging and flexible packaging improved profits.

Reduced demand in the soft drink industry saw the plastics division report a lower profit. The paper and printing divisions also dropped operating profit.

In the half year to end-February, Malbak subsidiary Holdains lifted its earnings 6% despite tough competitive conditions and reduced consumer spending. Beverage can operation Crown Cork, in which Holdains recently acquired a significant stake, improved profitability, as did Holdains Plastics. The Kohler paper division marginally increased its contribution, while Graphtec paper merchanting maintained earnings.

Increased

Anglovaal subsidiary Consol increased earnings 7% in the six months to end-December, largely because of good results from its rubber interests.

Industry sources said the coming year would be characterised by pressure on volumes and increased competition between the major players for market share. It is believed that Nampak, Holdains and Consol have about 60% of the market between them.

(194)

Blind workers to march (194)

BLIND and disabled members of the Paper Workers' Union are planning to stage marches in Cape Town, Durban and Johannesburg on Saturday to demand living wages. CT 28/7/93

SA Bias bounces back with earnings up 16,2%

CT 30/7/93

CT 30/7/93 (100) (94)

By MAGGIE ROWLEY
Deputy Business Editor

AFTER reporting a hefty drop in earnings last year, SA Bias Holdings Ltd lifted interim earnings by 16,2% to R7,4m equal to 36,8c a share for the six months to end June.

Cape-based SA Bias, is the holding company for SA Bias Industries (SAbind), the country's largest manufaturer of trimmings and accessories to the clothing and related industries, and banking, financial and commercial group Merhold.

The dividend has been raised by 11,9% to 9,5c a share in line with forecasts for 1993.

In spite of continued recessionary conditions in the group's major markets in South Africa, Sabind put in a strong recovery lifting earnings by 17,7% to R3,2m, equal to 11,3c a share on a 6% increase in turnover.

Restructuring of certain of its operations were complete and improved results were anticipated, say the directors who are forecasting earnings of 33c (27,3c) per share and a dividend of 11c (10c) for the full year.

According to the directors, earnings for the full year are expected to rise to 88c (75,6c) a share with the total payout increasing by 3c a share to 25c.

Merhold's earnings increased by 14,8% to 31,7c with all divisions performing on budget. An interim dividend of 10c a share, up 11,1% on last year, will be paid.

The group disposed of its trade finance division to the new Republic Bank Ltd on July 1 in exchange for shares in the bank some of which had been disposed of to reduce its holding to below 49% as required by the Registrar of Banks.

Krugerrands

Cape Gold Coin Exchange

	Buyers	Sellers
1 oz	1365	1385
1/2 oz	690	710
1/4 oz	350	370
1/10 oz ..	140	150

Gold averages

Average London PM fix for year to Jul 28: $352,25 (R1180,24).

Aries bumps up earnings by 47%

(99)

By MAGGIE ROWLEY

ATLANTIS-based Aries Packaging increased earnings by 47% to R608 000 for the six months to end June on an improved performance by the Transvaal operations.

Turnover was up 19% at R15,6m with profit before tax showing an increase of 56,6% at R1,2m.

A heftier tax bill of R639 000, up 67% on the corresponding period last year reduced the increase in earnings to 5,5c a share from 3,8c previously.

The interim dividend has been raised 50% to 1,5c a share with the dividend covered 3,7 times against 3,8 times for the first six months last year.

CE Dieter Neckel pointed out that the improvement in earnings had to be seen in relation to the unsatisfactory performance during the first half of 1992 when substantial costs were incurred in the establishment and improvement of the Transvaal operations.

These operations which were opened in 1990 took longer than expected to get established.

Neckel forecast earnings for the full year would show an increase of about 20% over last year.

"Very strict control of materials and other expenses has ensured a healthy bottom line."

No retrenchments had been implemented during the recession and in fact more people had been employed at the Atlantis plant bringing total employment in the group to about 275.

Fm

Fm 30/7/93

WALTONS STATIONERY

Needs to adapt

(194)

Activities: *Makes and distributes stationery and allied products, toys and baby wear.*
Control: *Waltons Consolidated Investment 50,1%.*
Chairman and MD: *F E A Robarts.*
Capital structure: *68,3m ords. Market capitalisation: R232m.*
Share market: *Price: 340c. Yields: 4,4% on dividend; 12,7% on earnings; p:e ratio, 7,8; cover, 2,9. 12-month high, 450c; low, 230c. Trading volume last quarter, 1,5m shares.*

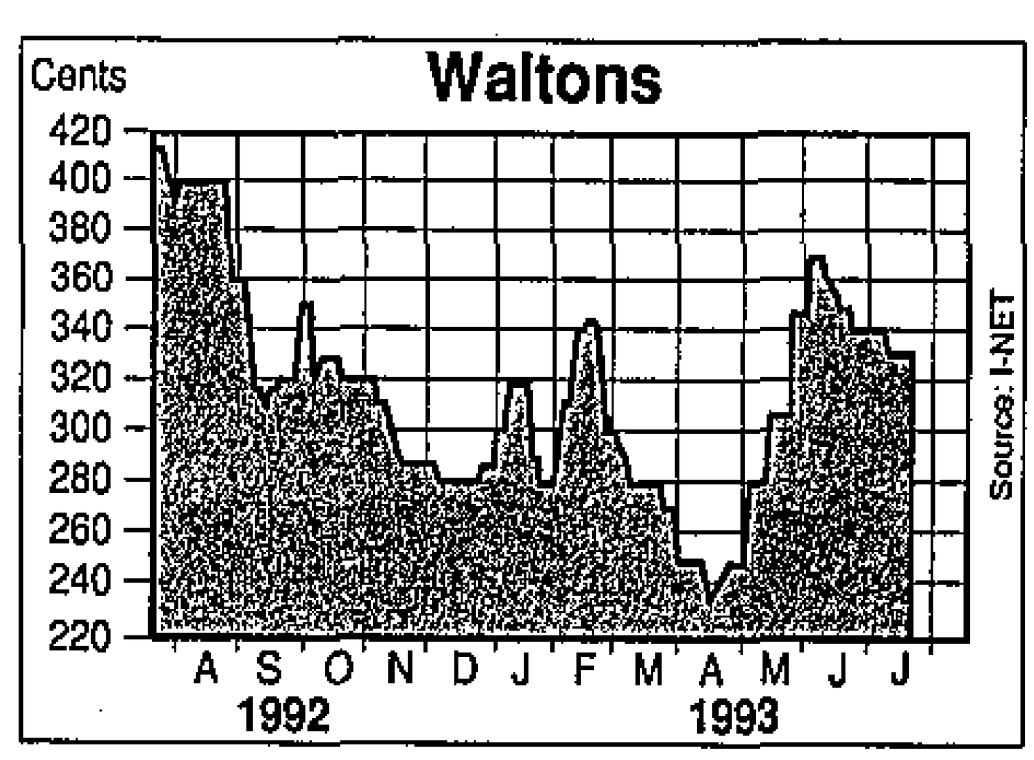
Year to February 28	'90	'91	'92	'93
ST debt (Rm)	40,0	56,5	28,4	53,4
LT debt (Rm)	92,1	41,1	65,2	74,1
Debt:equity ratio	0,95	0,56	0,50	0,66
Shareholders' interest	0,36	0,43	0,44	0,39
Int & leasing cover .	3,9	5,4	5,6	4,4
Return on cap (%) ..	30,5	29,3	25,4	18,2
Turnover (Rm)	648	685	748	788
Pre-int profit (Rm) ...	109,0	106,0	99,3	83,8
Pre-int margin (%) ..	16,8	15,5	13,3	10,6
Earnings (c)	63,6	52,6	47,6	43,3
Dividends (c)	21,0	19,0	19,0	15,0
Tangible NAV (c)	149	184	198	201

CE Frank Robarts says though the group has budgeted to improve earnings this year, he fears the constant threat of stayaways, boycotts and general business disruption may have a dramatic and lasting effect on results. But it seems Waltons will have to learn to live with these events, or its profitability will continue to decline. (194)

In the late Eighties, many in the investment community thought this group was recession-proof, yet fiscal 1993 saw another year of falling profit. Pre-interest profit, usually the best indicator of success of the underlying business, fell by 15,5%. It's now just below the figure of five years ago, when turnover was 30% less than in the 1993 financial year.

Margin narrowing

Granted, EPS declined only 9% in what was clearly a difficult year, the margin narrowing for the fourth consecutive year. Return on equity emphasises the significance of this. It has fallen steadily from a 1989 high of 60,1% — 42,7% in 1990; 28,6% in 1991; 22,5% in 1992 and 21,5% in 1993.



These ratios are calculated on NAV which, in 1993, took into account a R27,8m extraordinary write-off of tax due on film investments. Were it not for a R7m surplus arising from the revaluation of fixed assets, NAV would have been even lower (though ROE would have been higher at 22,7%).

Robarts reports that the stationery manufacturing and distribution companies — the main businesses — performed well. But aggressive marketing by cash and carry competitors tempered results in this area. Rationalisation reduced the number of outlets to 75 from 81.

Subsidiary Helios-Minolta — a supplier of photocopiers, facsimile machines and office machines — also performed satisfactorily; but drawing office supplier Ozalid again disappointed. Atomic Holdings, maker of office furniture and allied products, fared badly, while packaging division King-Pac was turned around.

Listed toy and babywear chain Redgwoods (Reggies) traded profitably but no better than the previous year.

Fixed assets rose 37% to R113,6m and stock and accounts receivable increased 11% and 14% respectively. These increases were funded mainly from new short-term loans and overdraft and a R9m long-term loan. Cash generated by operating activities was almost half that of the previous year and at year-end there was a R24m deficit in cash flow (1992: R9m positive).

The share price tumbled from 700c in April 1991 to 240c in April this year. It has since recovered and has broken the steep downtrend line on the chart. Is it signalling the worst is over?

The share was regarded as a growth stock with a blueish tinge before it fell from grace. As SA emerges from its transition phase, businesses and education organisations should be big consumers of stationery and allied products.

Waltons could be in the forefront of supplying these markets. If management successfully adapts to changing cicumstances and curtails costly borrowings, the share will again justify a higher rating.

Gerald Hirshon

Waltons '5% behind budget'

(194)

CT 31/7/93

Deputy Business Editor

CAPE-based Waltons Stationery Company was running about 5% behind budgeted growth of 12% this year, according to chairman Frank Robarts.

However, he said the group, whose earnings slid 9% in the year to end February, was looking to improved earnings this year but much would depend on group performance.

Within the group's subsidiaries there were both "bright sparks and dull ones".

Stationery had continued to perform well and new avenues were being sought in Model C schools by delivering directly to each class. This had been started in Durban where 32 000 individual orders had been undertaken last year and the service was now moving to the Cape.

Export opportunities, both to Africa and Europe had been secured and further orders were being pursued. The group had passed the budget of R20m for exports this year.

However other sectors such as toys and drawing equipment, and office furniture equipment had moved backwards.

Disposal

Negotiations were currently underway to dispose of one of the underperforming companies, he said. He said it would not be one of the major divisions.

Margins had come under more pressure and no price increases had been pushed through.

"We used to get two or three price increases a year but this year we have not had one price increase from Sappi or Mondi."

Intensified security in buildings in the Johannesburg CBD had made servicing clients on a personal basis very difficult. As a result they had launched a telesales department which was proving highly successful.

Gearing had been reduced substantially from 140% to a current level of 60% in spite of a R27,8m below the line extraordinary item which reflected film investment deductions disallowed by tax authorities. "Topping up" payment in the year to end February had a cash effect of about R14m, he said.

Provision for bad debt, while still relatively low for the industry, had been increased by 18%.

While the group had not resorted to retrenchments, staff numbers had been reduced through natural attrition, he said.

Motor workers threaten nationwide protests

South 31/7-4/8/93

By Waghied Misbach

NATIONWIDE protests and pickets are planned by the 178 000-strong National Union of Metal Workers (Numsa) on August 2 as talks with employer bodies in the motor industry remain deadlocked.

Numsa regional organiser Mr Fred Petersen blamed the employer body, the South African Motor Industry Employers Association (Samiea) for trying to topple the National Industrial Council for the Motor Industry which provided for centralised bargaining.

Petersen said that if the Industrial Council collapsed, Numsa would have to negotiate with many small employers instead of dealing with them as a group.

It also meant workers would lose social security benefits, including pension and medical aid, he said.

The Western Cape region will decide this week what form their protests take.

Talks around wages have remained in deadlock since 1992 when Samiea could not agree with Numsa, and two other largely-white unions, on the increase.

Samiea were not available for comment.

● The Paper, Printing, Wood and Allied Workers Union (Ppwawu) will hold a protest march on Saturday, July 31. They will march from District Six to the Old Mutual Head Office, the Cape Provincial Administration offices, Parliament and the Department of Manpower. (94)

Ppwawu spokesperson Mr Shaheed Mohamed said the protest was in support of disabled workers, including workers of the National Council for the Blind over wages and other demands.

Waltons Stationery below budget target

(194) ARG 1/8/93

MARC HASENFUSS
Business Staff

WALTONS Stationery traded about five percent below budget in the five months since the financial year ending February, chairman Frank Robarts told shareholders at an AGM in Cape Town.

He forecast a very tight financial year ahead and stressed that trade in the months to end December would be critical to the group's full-year fortunes.

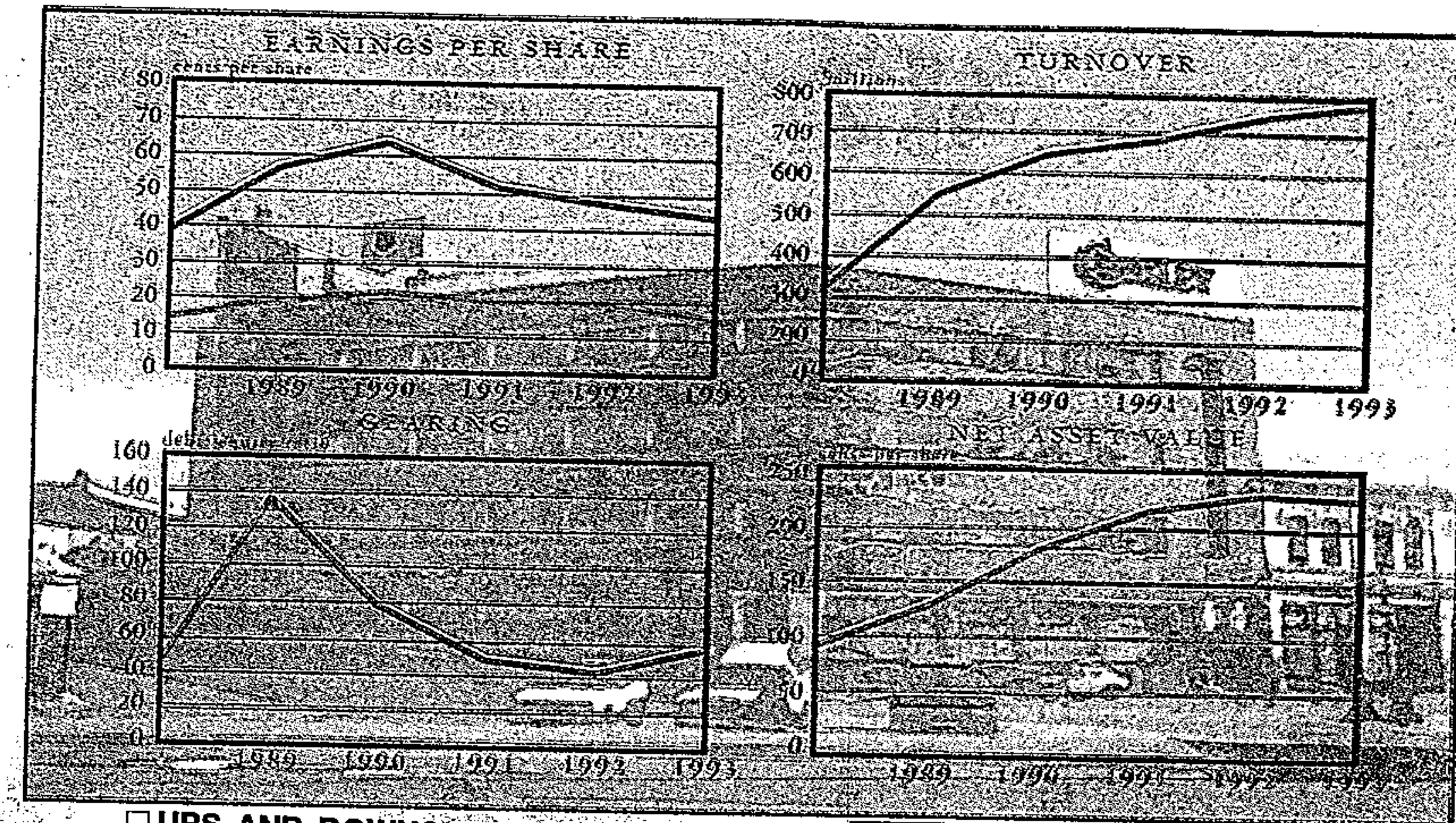
He pointed out that the group's customer base — consisting of some 60 000 active accounts — were suffering under the recessionary conditions. "We can't always get the extra margins because companies are becoming more competitive."

Mr Robarts confirmed that the group was looking at disposing of one of its underperforming companies — but he would not disclose which one or at what cost.

He said the group would like to increase its stake in strong performing associate Lithosaver Systems (in which the group already has a 29 percent stake).

Walton's has an option of buying a further 30 percent interest in the Reef-based computer business form manufacturer.

Walton's has also snapped up some lucrative export deals in the five months since year-end and overseas orders worth R10 million should bolster bottom line.



☐ **UPS AND DOWNS:** The graphs show Waltons overall performance in the five months trading since the end of the financial year.

TETRA PAK

Long-life food alters the lives of millions

ST Times (Buss) 8/8/93

(194)

THE average South African drinks 30 litres of milk a year, well below the figure for most developed countries.

Low milk consumption in SA is partially blamed on its short shelf life and the lack of refrigeration in poor areas.

But the development of aseptic packaging by Tetra Pak — nominated in 1989 as the most significant food science innovation in 50 years by the American Institute for Food Technologists — is changing that.

Liquid foods with a normal shelf life of a few days can now be stored for six months or more, thanks to this revolution in food packaging.

Aseptic packaging has changed the lives of millions of South Africans, bringing a new range of perishable foods to those without refrigeration or access to fresh food.

Coat

Long-life, or ultra-pasteurised, milk is now one of the fastest-growing food items in South Africa.

The milk is flash-heated to 140 degrees Celsius for up to four seconds, sufficient to kill most bacteria, and then packaged in Tetra Brik Aseptic cartons comprising several layers of material.

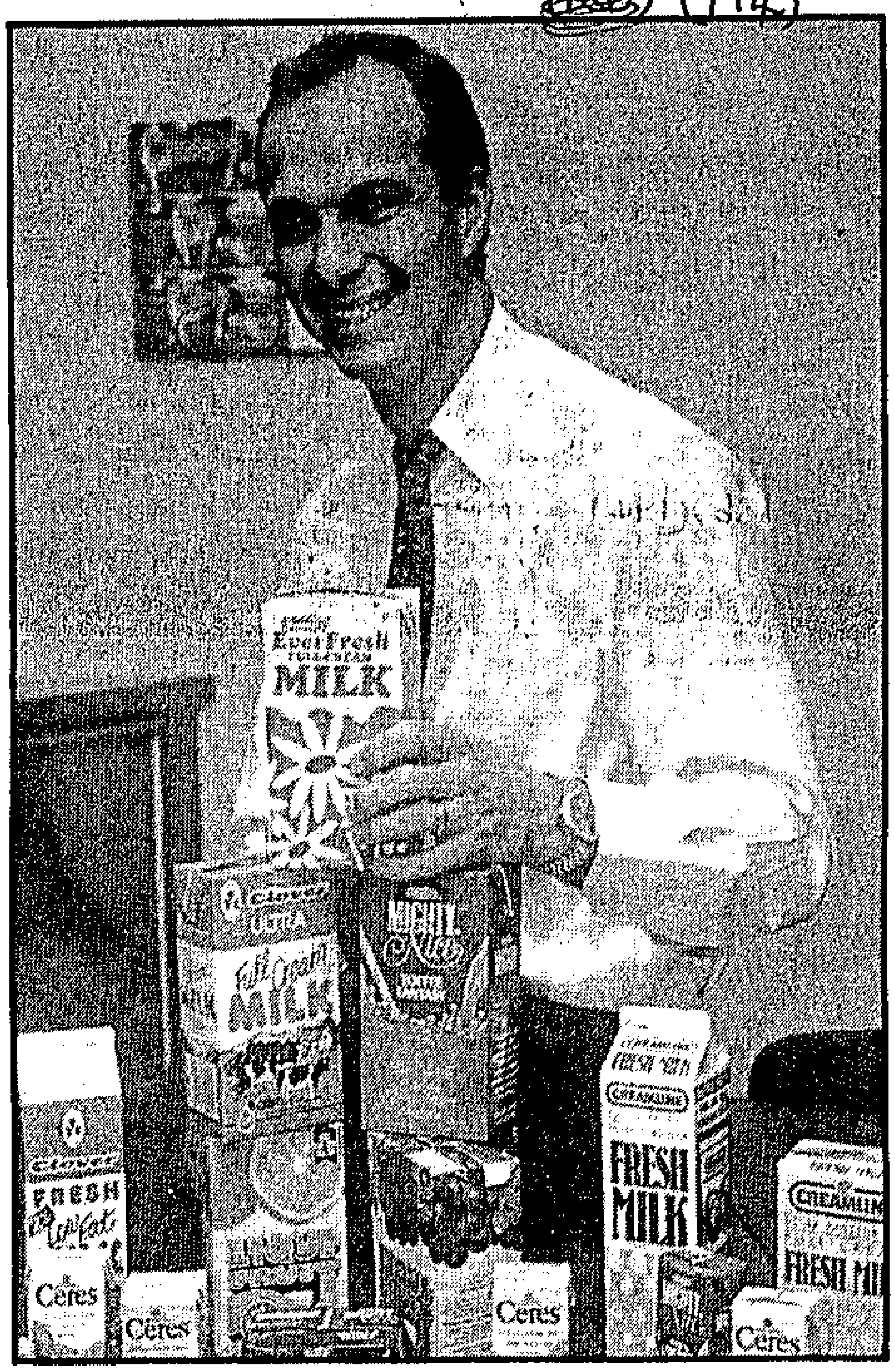
Two inner layers of polyethylene protect the product's flavour and prevent seepage to the packaging material.

A thin layer of aluminium foil protects the product from light and air.

The design is then printed on duplex paper which is coated with an outer layer of polyethylene which protects the carton from water damage.

The carton is designed to protect the product from taste or quality deterioration.

Filling takes place in sterilised conditions. The packaging is sealed to prevent micro-organisms from entering during transport or storage.



PAUL BLACKBEARD: Pioneer has nearly all of SA's ultra-pasteurised milk market

Tetra Pak marketing manager Paul Blackbeard, a former Springbok swimmer, says the company has nearly all of the ultra-pasteurised milk market, which it pioneered.

Sales have doubled in four years to 80-million litres, compared with short-life pasteurised milk sales of 600-million litres a year.

Ultra-pasteurised sales are expected to exceed 500-million litres by 2000, nearly 50% of the total milk market. But this is still well below ultra-pasteurised milk's penetration in Europe. In some countries it accounts for 90% of milk sales.

The introduction of ultra-pasteurised milk in aseptic containers in Spain resulted in consumption a head rising from 30l to 120l a year. Pasteurised milk lost some of its share, but the total market grew.

Part of this success came about by repositioning ultra-pasteurised as an alternative to pasteurised milk.

Mr Blackbeard says: "Initially, ultra-pasteurised milk was considered a product for the rural market. There was a view that it was not as tasty or nutritious as fresh milk.

"We have repositioned ultra-pasteurised milk as a product for urban as well as rural markets."

Research showed that most consumers believed pasteurised milk was more nutritious and better tasting than the ultra-pasteurised version — until they were asked to sample ultra-pasteurised milk without being told what it was.

After using the product for one week, 600 households were asked to rate the taste of the product.

A total of 90% said it was "good" or "very good indeed". After being told that the product was ultra-pasteurised milk and that it could be bought in bulk and stored, 96% said it was "good" or "very good indeed".

Flash

Until then, ultra-pasteurised milk had been sold in a distinctive gable-top carton. Tetra Pak persuaded customers to use pasteurised designs for ultra-pasteurised milk — eliminating the visual distinction between the two cartons — and market the two together.

The result was a sharp increase in ultra-pasteurised milk sales.

Tetra Pak's aseptic technology department, headed by Mike Bolstridge, assists customers in reformulating products to remove preservatives from food.

"We do not want the word preservatives appearing on our packages," says Mr Bolstridge.

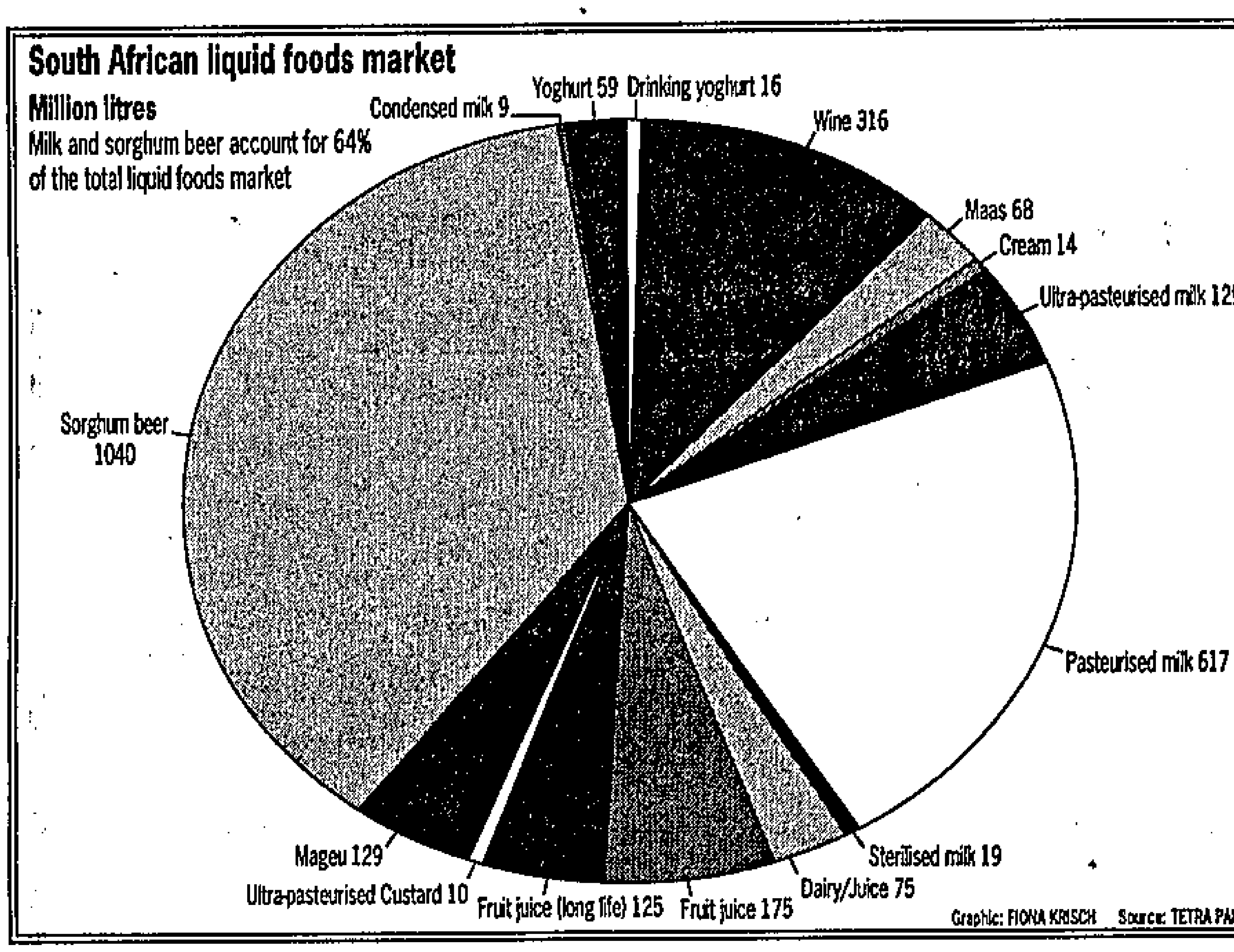
"Preservatives detract from the taste. In any event, you do not need preservatives with aseptic packaging."

Aseptic packaging is being applied to a range of new liquid foods, from fruit juices to custards and yogurts. Aseptic cartons account for nearly 35% of the 266-million litres of fruit juice sold annually.

In total, this packaging format accounts for 60% of all cartons sold by Tetra Pak in SA.

Aseptic packaging also overcomes the problem of seasonal fluctuations in the availability of perishable foods, opening new markets for suppliers.

"It opens up a whole new avenue of growth for the food industry," says Mr Blackbeard. "Ultra-pasteurised milk can compete against powders, blends and coffee creamers — not only pasteurised milk."



Many benefits flow from Alfa merger

ST Times (Buss)

8/8/93

Business Times corporate survey

TETRA PAK, South Africa's leading packaging company, rejoined its Swedish parent as a wholly owned subsidiary in June.

CIARAN RYAN reports on the move and on Tetra Pak's takeover of Alfa Laval.

IN 1991 Tetra Pak acquired the international interests of Alfa-Laval AB, the Swedish manufacturer of processing equipment for food.

Alfa-Laval, formed early in the century, developed the first milking machines and separators for dairies.

The acquisition came as no surprise. Tetra Pak and Alfa Laval, both Swedish companies in the food business, had co-operated for more than 40 years with common installations in 100 markets. Alfa-Laval supplied the food-processing equipment and Tetra Pak the filling and distribution machinery.

In 1993, the two companies formed a new group, Tetra Laval, with four operating companies: Tetra Laval Food, Tetra Pak, Alfa Laval and Alfa Laval Agri, employing 16 000 worldwide.

Tetra Laval Food will focus on processing and packaging systems for viscous and solid-food products.

Important

Tetra Pak assumes responsibility for liquid-food processing and packaging. Alfa Laval will continue to focus on specialised areas, such as separators, flow equipment, heat exchangers and computer-based control and monitoring systems for the food business.

Alfa Laval Agri supplies equipment and services to dairies.

The three most important markets for the enlarged SA group are dairy products, fruit juices and sorghum beer.

"The merger has benefits for both companies," says Johann Schoeman, process services manager for Tetra Pak (SA).

"It gives the new processing division much wider access to Tetra Pak's customer base, particularly in the high-temperature processing market.

(136)(194)

"The benefits for Tetra Pak are that it can now offer complete processing and packaging solutions to the food industry."

The merger sets up a formidable force in food service and equipment and several staff members from Alfa Laval have joined Tetra Pak.

The two companies are renowned for the high quality of their machinery and service excellence.

Like Tetra Pak, Alfa Laval in SA was cut off from the parent company by sanctions. The SA operation changed its name to ALSA Engineering after an employee buy-out and was forced to manufacture here.

To continue operating it also had to obtain equipment from sister companies outside Scandinavia and to import second-hand and refurbished Alfa Laval machines.

Ban

The flow of technology and information from the parent company was suspended when the Swedish trade ban was imposed in 1987.

Mr Schoeman says: "With sanctions out of the way, we have access to the latest technology and equipment and we are well positioned for growth."

Tetra Laval

Tetra Pak	Tetra Laval Food	Alfa Laval	Alfa Laval Agri
Develops, manufactures and markets liquid food processing and packaging systems.	Focuses on processing and packaging systems for viscous and solid food products.	Specialised key products such as separators, flow equipment, heat exchangers and computer based control and monitoring systems	Focuses primarily on equipment and full range services for dairy farmers
Fields of Operation . Packaging and Distribution Systems . Liquid Food Processing Equipment - Dairy - Beverage - Juices - Drinks - Aseptic	Fields of Operation . Ice cream . Convenience Food . Prepared Food . Packaging systems for particulates, e.g. Pet Food . Tetra Box . Fats and Oils	Fields of Operation . Automation . Dosing and Analysing . Flow equipment . Separation . Thermal equipment	Fields of Operation . Products and systems for milk production . Stalling equipment including herd management and automatic feeding systems . Accessories and service for dairy farmers
No. of employees (worldwide): 16 000	No. of employees: 2 000	No. of employees: 13 000	No. of employees: 3 000

Graphic: FIONA KRISCH Source: TETRA PAK

S Times (Buss) 8/8/93

Careful eye on environment

(194)

IT is widely believed that beverage cartons make up a large part of household waste, but studies show the figure to be less than 1% in Europe and 0,5% in SA.

Ever sensitive to its environmental responsibilities, Tetra Pak's policy is to make minimal claims on natural resources and energy while selecting clean, advanced printing and converting technologies for the production of packaging materials.

Every aspect of the product life cycle is assessed for its environmental impact, from raw materials processing to energy use in manufacture and distribution, emissions to air and water, recyclability and waste handling.

Tetra Brik cartons are about 75% paper, 20% polyethylene and 5% aluminium foil.

Tetra Pak imports most of its paper from Finland where forest growth exceeds the rate of tree felling. The weight of aluminium foil used in some Tetra Pak products is considerably less than that in most disposable bottle caps. Its aluminium layer saves more energy than is used in its manufacture because it permits non-refrigerated storage.

There are other environmental advantages in using paper cartons as opposed to other containers.

Although it takes only one truck to carry a million unfilled Tetra Pak cartons to a customer, 26 lorries transport the same number of glass bottles or cans.

Tetra Pak cartons are recycled into weather-proof synthetic lumber known as Tectan. It is a durable material used in the manufacture of picnic tables, pallets, park benches and curb stops.

TETRA PAK

SA company's back in fold as Sweden relents

S|Times(Buss)

SOUTH Africa's leading consumer packaging group, Tetra Pak, rejoined its Swedish parent as a wholly owned subsidiary in June after 15 years operating as a licensee.

The Pinetown-based consumer packaging group cut ties with its parent when Sweden, one of apartheid's most voluble critics, imposed an investment ban on SA in 1978.

In 1986, the sanctions noose tightened when Sweden imposed a trade ban, forcing Tetra Pak (SA) to seek raw materials elsewhere.

The SA operation changed its status from subsidiary to licence holder. The flow of technology and information from Sweden ended.

Simple

Tetra Pak is a low-profile company, yet millions of South Africans handle its products daily. It is best known for its food and drink cartons — from milk to fruit juices, custards and sorghum beer.

Long-life milk (ultra-pasteurised) is one of its better-known innovations.

SA's food packaging industry is worth R3-billion a year. With annual sales of R200-million, Tetra Pak, which operates in the narrower liquid-food packaging market, claims 6,6% of the total.

Volume sales have increased by 11,5% compounded for 16 years.

Tetra Pak's major competitors are canning plants, glass and plastic bottlers and other carton manufacturers.

Behind that simple cardboard carton is a huge international support infrastructure, comprising research and development, market research and equipment supply and maintenance.

Only two years ago, Tetra Pak (SA) faced a crisis when, as a result of sanctions, it was unable to obtain raw materials of consistent quality. Attempts to obtain the high-quality paper board used to make food and drink cartons from SA and non-European suppliers proved fruitless.

A supply contract with Mondi collapsed when the paper company was unable to meet Tetra Pak's quality standards.

Imports of base board resumed in 1991 when Finland lifted its trade ban.

Tetra Pak's refusal to compromise on quality earned it a loyal customer base.

8/8/93

In 1991, Tetra Pak International bought out Alfa Laval International and in June this year Tetra Pak (SA) returned to the international fold as a member of the new Tetra Laval Group.

(194)

Alfa Laval, a manufacturer of processing equipment, is another Swedish company with a long-standing presence in SA.

Tetra Laval was formed this year to provide processing and packaging services for the dairy, fruit-juice and sorghum-beer businesses, adding another dimension to the group's operations.

"The link with Alfa Laval means we are now able to provide turnkey deals to food-processing companies. Before we could handle only packaging," says Tetra Pak managing director Richard Tonkin, who is moving to a new post in Europe.

A total of 80 Tetra Pak packaging systems have been installed in SA. Tetra Pak supplies and maintains the machinery on the customer's premises. It also supplies the printed base board used to make cartons.

Its major customers are milk suppliers Bonnita and NCD-Clover, Ceres Fruit Juices and National Sorghum Breweries.

Tetra Pak (SA) employs 234 people and enjoys an outstanding labour relations record.

RICHARD TONKIN: Commitment to high quality earns praise from the customers

The restoration of ties between Tetra Pak and the parent company is a sign of a warming in relations between Sweden and SA.

Mr Tonkin's time of guardianship over the company has ended. He has been promoted to vice-president of processing and packaging systems for Europe, the Middle East and Africa regions, headquartered in Switzerland, a position he will take up later this year.

His replacement is Staffan Fritzsche.

HORTORS FM 20/8/93

Playing hard to get (194)

Activities: *Printing, packaging and photolithography.*

Control: *CTP 88%.*

Chairman: *E Jankelowitz; MD: S Cormack.*

Capital structure: *51,6m ords. Market capitalisation: R92,9m.*

Share market: *Price: 180c. Yields: 3,3% on dividend; 8,9% on earnings; p:e ratio, 11,3; cover, 2,7. 12-month high, 180c; low, 75c. Trading volume last quarter, 4 600 shares.*

Year to March 31	'90	'91	'92	'93
ST debt (Rm)	0,4	0,2	0,3	0,35
LT debt (Rm)	0,05	0,04	1,05	3,4
Debt:equity ratio	—	—	—	10,7
Shareholders' interest	0,85	0,76	0,65	0,61
Return on cap (%)	7,1	9,1	15,5	15,4
Turnover (Rm)	40,9	48,8	81,8	94,0
Pre-int profit (Rm)	3,4	5,3	10,3	12,2
Pre-int margin (%)	8,4	10,9	12,6	12,9
Earnings (c)	5,4	8,3	14,2	16,0
Dividends (c)	1,5	3,0	5,0	6,0
Tangible NAV (c)	80,2	85,6	84,0	91,7

July was an eventful month for this printing and packaging group. Early in the month the share price rose more than two-thirds, from

cont →

 Fm 20/8/93 (194)

Hortors' Jankelowitz ... *a good management team*

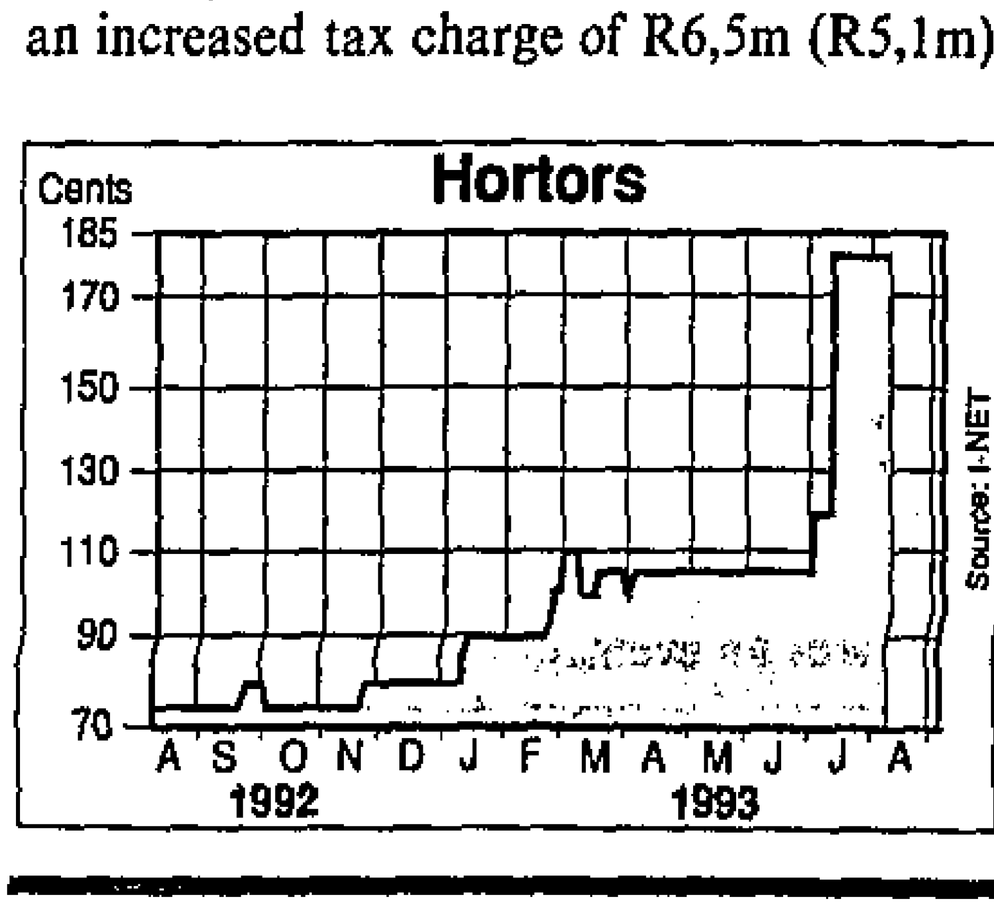
about 105c to 180c. Then came a cautionary announcement, alerting investors to negotiations taking place with Clegg, another printing and packaging company.

Chairman Edwin Jankelowitz can't comment, but it's tempting to speculate Hortors is planning an offer for control of Clegg. Firstly, there is an obvious fit with Hortors' existing businesses. Secondly, Hortors has low net gearing of 10,7% and R20m cash, which is lent to other group companies. Thirdly, Hortors already owns 29,1% of Clegg. With Clegg's market capitalisation about R13m, Hortors is well placed to bid.

August was less eventful — but just as festive — with the release of the annual report: a pageant of the development of printing since 105 AD. Results were almost as impressive. Turnover was up 14,9%, though this was because of the acquisition of filing and archive operation Sherman Versafile, on April 1 1992.

But operating performance was good; profit was up 17,4% to R12,1m and margins strengthened slightly to 12,9%, largely thanks to continuing cost efficiencies and working capital management. Says Jankelowitz: "We have a good management team; I don't have to do too much."

Hortors earns significant interest from its R20m cash. This increased by 44% to R3,9m. Pre-tax profit improved by 17,5% to R15,3m, but these advances were eroded by an increased tax charge of R6,5m (R5,1m):



the effective rate increased to 42,6% from 39,6%, including a charge for STC. Net attributable income rose 12,3%. The dividend, up a fifth to 6c, is covered 2,7 times.

Despite the recent share price rise, Hortors is on a p:e of 11,3, lower than the average of 15,6 in the paper & packaging sector. The fundamentals are good. The problem is restricted liquidity; only 4 600 shares traded last quarter. CTP has an 88% stake and is unlikely to free up the share structure. Says Jankelowitz: "CTP doesn't need the money at the moment". *Louise Randell*

CONCORDE TRAVEL

In a troubled industry

Activities: *Travel services.*
Control: *Directors 85% — holding company is Marvol 51%.*
Chairman: *M Voloshin; MD: A D Lunz.*
Capital structure: *172m ords. Market capitalisation: R6,7m.*
Share market: *Price: 39c. Yields: 5,3% on dividend; 12,6% on earnings; p:e ratio, 7,9; cover, 2,4. 12-month high, 40c; low, 27c. Trading volume last quarter, 750 000 shares.*

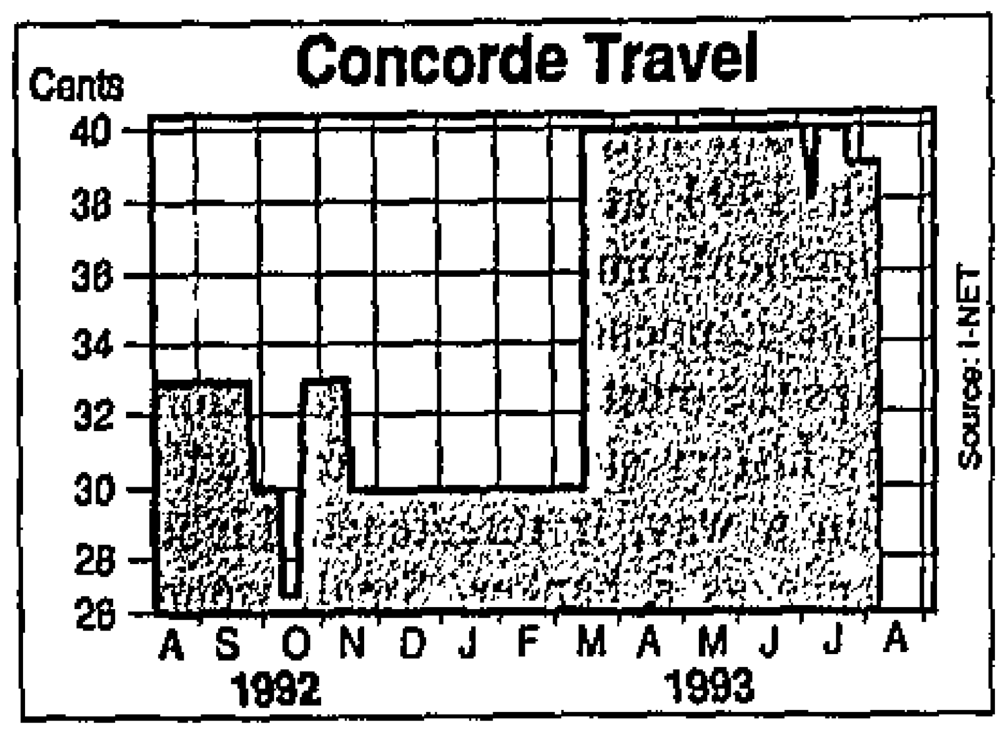
Year to March 31	'90	'91	'92	'93
ST debt (Rm)	0,6	—	—	0,6
LT debt (Rm)	—	—	—	0,2
Shareholders' interest	0,23	0,21	0,31	0,21
Int & leasing cover	9,9	10,6	—	—
Return on cap (%)	17,5	14,2	10,8	7,8
Turnover (% change)	97,5	6,4	(4,3)	17,8
Pre-int profit (Rm)	2,2	1,7	1,1	1,2
Earnings (c)	10,3	7,0	5,6	4,8
Dividends (c)	3,75	2,75	2,5	2,0
Tangible NAV (c)	18	16	19	18

Would it have seemed possible a few years ago for an international group run by a former Russian dentist, with strong Russian business connections, to control a listed company making travel arrangements for executive capitalists?

Nyet! But that's what has happened to Concorde Travel since we last reviewed its annual report. Moscow-born entrepreneur Mark Voloshin (*FM* July 30) has the controlling interest in the SA travel business through his Luxembourg-registered Marvol Group. Voloshin is plainly keen on developing business and cultural links between the reforming Russia and reforming SA, and apart from his other interests has been instrumental in organising two-way flights between the countries.

In his first year as chairman of Concorde, Voloshin remains optimistic about the future of the travel industry, saying that with a general election date set and a political settlement possible, tourism to SA could increase dramatically. But for now, the travel business is in trouble, reflected in Concorde's declining earnings trend. After peaking at 10,4c in 1990, EPS are marginally below the 5,1c when Concorde listed in 1987.

Financial director Norman Steingold points out that, apart from being closely tied to the economic cycle, Concorde is particularly sensitive to local political events and the



related violence.

"Corporate business has continued coming in, but for tourists SA has become a no-no destination," Steingold says. "Between February and May we had five large international inbound groups planned. Four were cancelled and only half the remaining tour arrived," he says.

Concorde did well to lift turnover by 17,8% (Steingold argues figures are not given for competitive reasons, as the other two big travel groups' accounts are consolidated into larger holding companies). With international carriers fighting a price war, knocking down air fares as much as 40% over the year, Concorde had to sell a lot more seats.

Earnings were slashed by a tax bill which more than doubled to R5,1m, partly because the company, having a March year-end, was still liable for the 48% corporate tax rate while picking up the new 15% tax on dividends. STC took more than 6% off EPS.

Despite the difficult market, Concorde took advantage of the recession to expand, adding three new outlets, including Protea Travel in Durban, to its travel offices and acquiring control of Freight Forwarding & Consulting Services. Freight offers more attractive margins and Steingold says the move into the allied business will be of growing importance to Concorde.

Should the happy day arrive when more South Africans can afford overseas travel again, and international tourists start flooding in, parent Marvol offers Concorde an international network of associates.

That's when the share, which has appreciated by 18% over the year, could be interesting. On a p:e of 7,9 it's not expensive and as the only pure listed investment in travel, it

Concorde's Voloshin ... *optimistic about the travel industry*

Buoyant Bidvest is now cash flush and debt free

B/Day 23/8/93

MARCIA KLEIN

THE Bidvest Group has produced a 34% earnings rise to 552c (412c) a share in the year to end-June off an already high base established in the previous year.

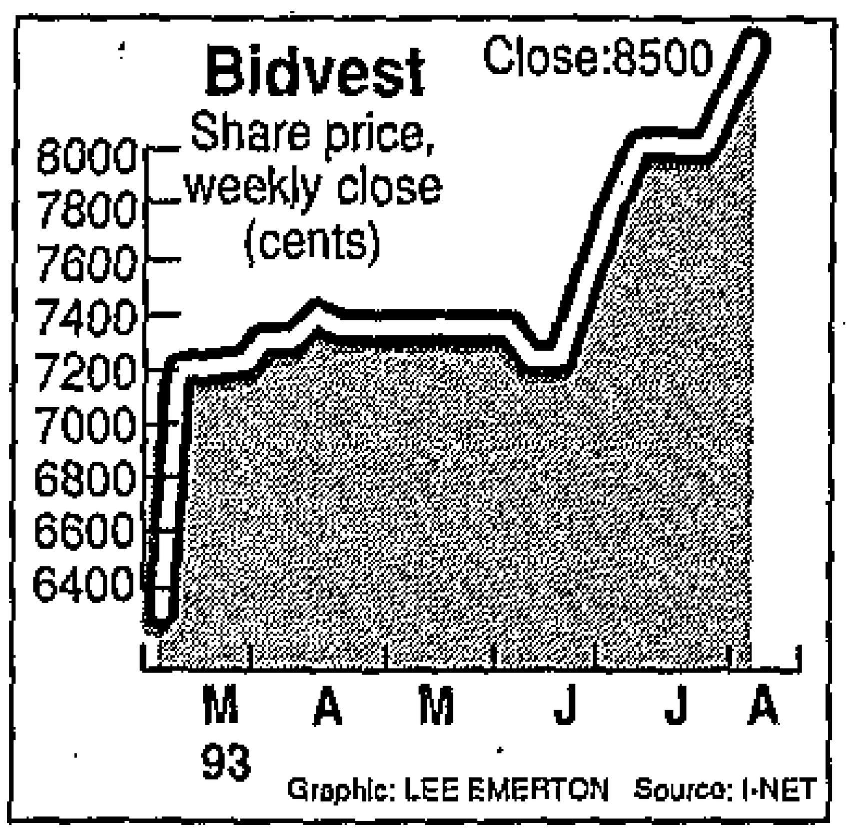
The services, packaging, catering supplies and food group recently acquired freight-clearing, forwarding distribution and warehousing group SA Freight Corporation (Safcor) in a R263m deal which almost doubled its size.

It also acquired the minority interests in subsidiaries Crown Food Holdings and Afcom, which were both delisted, and effectively raised R139m cash through the issue of shares and debentures.

Director George Demetriades said *earnings were achieved off a high base and despite flagging demand and intense competition in most of the markets which Bidvest served. The market place had remained tough, and the increase was achieved through effective asset management and tight cost controls, and through motivating people in the group.*

The income statement does not include any of the transactions other than the acquisition of minority interests in Crown and Afcom.

Results, assuming all the transactions took place on July 1 1992 and that surplus funds were invested, show group turnover would have more than doubled to almost R2bn, while attributable income would have risen 150% to R68,5m.



Audited results show turnover rose 30,1% to R775,2m. But pressure on margins saw operating income grow 17,3% to R70,5m.

Net finance charges rose marginally to R21m (R20,3m), and pre-tax income was 24,4% up at R49,5m. Finance charges would be drastically reduced in the coming year thanks to Bidvest's strong liquidity position, chairman Brian Joffe said.

(194)

Lower taxation saw attributable income rise 38% to R37,3m. A final dividend of 112c a share was declared, bringing the full-year dividend to 210c (164c) a share.

Joffe said despite substantial growth in the past year, long-term liabilities were reduced to nil from nearly R97m a year ago, and the group had about R190m cash on hand.

Demetriades said despite the effect of a month-long strike, paper and packaging group Afcom had done well and was cash positive. Towel, clothing and linen rental company Steiner's results were well up on the previous year's, and it had generated a significant amount of cash.

Crown Foods had met its budgets, while food distributor Cater Plus also had a good year. Margins across the group were under pressure, particularly in the food businesses.

Demetriades said Bidvest was now divided into distinct areas of focus: the services division; Afcom (including Steiner and Safcor); and the catering and foods division.

The Safcor acquisition would see the group's turnover and attributable income double, and its market capitalisation take "a quantum leap". Demetriades said Safcor generated cash and had an outstanding management team, and Bidvest was satisfied with the acquisition. Bidvest expected "a meaningful increase in profits *this year in Safcor". He added that trademarks had been independently valued in excess of what the group paid for them.*

Bidvest was now debt free with significant cash resources, and it had the capacity to make other major acquisitions.

Joffe said the group was expected to perform strongly in the coming year, "given the collective contributions of Safcor and the group's other operating divisions, which are expected to maintain their sound performance".

Union's plan helps rescue 1 300 jobs

SI Times (Buss)

29/8/93

By CHARLENE SMITH

OBED ZIMANE

PAPER workers faced with devastating job losses have embarked on an initiative that in one plant alone resulted in proposed retrenchments being cut from 1 400 to 100. (194)

Obed Zimane, 31, who was elected Paper Print and Allied Workers Union general secretary last weekend, says the industry has suffered serious job losses, particularly in the forestry sector.

In the past two years the union lost 7 000 members because of unemployment. Its membership is now 42 000.

"We want to pioneer a process in Cosatu that gets away from unilateral opposition to restructuring and retrenchment," says Mr Zimane.

Instead of opposing retrenchments as a matter of policy, his union devised the approach that saved 1 300 jobs.

The employer said it had found that the jobs were redundant.

"We asked to conduct our own research, paid for by the board manufacturer," says Mr Zimande.

The union found the company had no job descriptions for those to be retrenched.

The company and union began defining jobs. They established that in the long run it would cost the company more to remove the tasks it had identified as redundant.

The company changed an increasingly common approach whereby businesses remove cleaning and security jobs from their responsibility and hire contractors. The union persuaded the company to retain those tasks and saved 70 jobs.

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Lower tax rate aids Consol earnings

B/Day 31/8/93

MARCIA KLEIN

PACKAGING and rubber group Consol reported a 12% earnings rise to 243,3c (216,7c) a share in the year to end-June as a lower tax rate helped offset the effect of lower demand for its products.

MD Piet Neethling said the recession, which had lingered for more than four years, and continued political uncertainty and violence had severely affected Consol's performance during the financial year.

Neethling said turnover rose only 3% to R2,2bn (R2,1bn). The 4% decline in operating profit to R280,5m (R290,9m) represented a 13% decline in the packaging sector, partially offset by a 7% improvement in the rubber sector. (194)

Higher net financing costs, reflecting the R210m acquisition of the remaining minority shareholding in Contred from Trencor and the redemption of preference shares, saw pre-tax profit decline 6% to R272,1m (R290,4m).

Neethling said the reduction in company tax was partially offset by the introduction of secondary tax on companies and "the cessation of exporters' tax allowances".

Nevertheless, the lower effective tax rate and lower minority interest and preference dividends saw bottom-line earnings grow 13% to R156,6m (R139,2m).

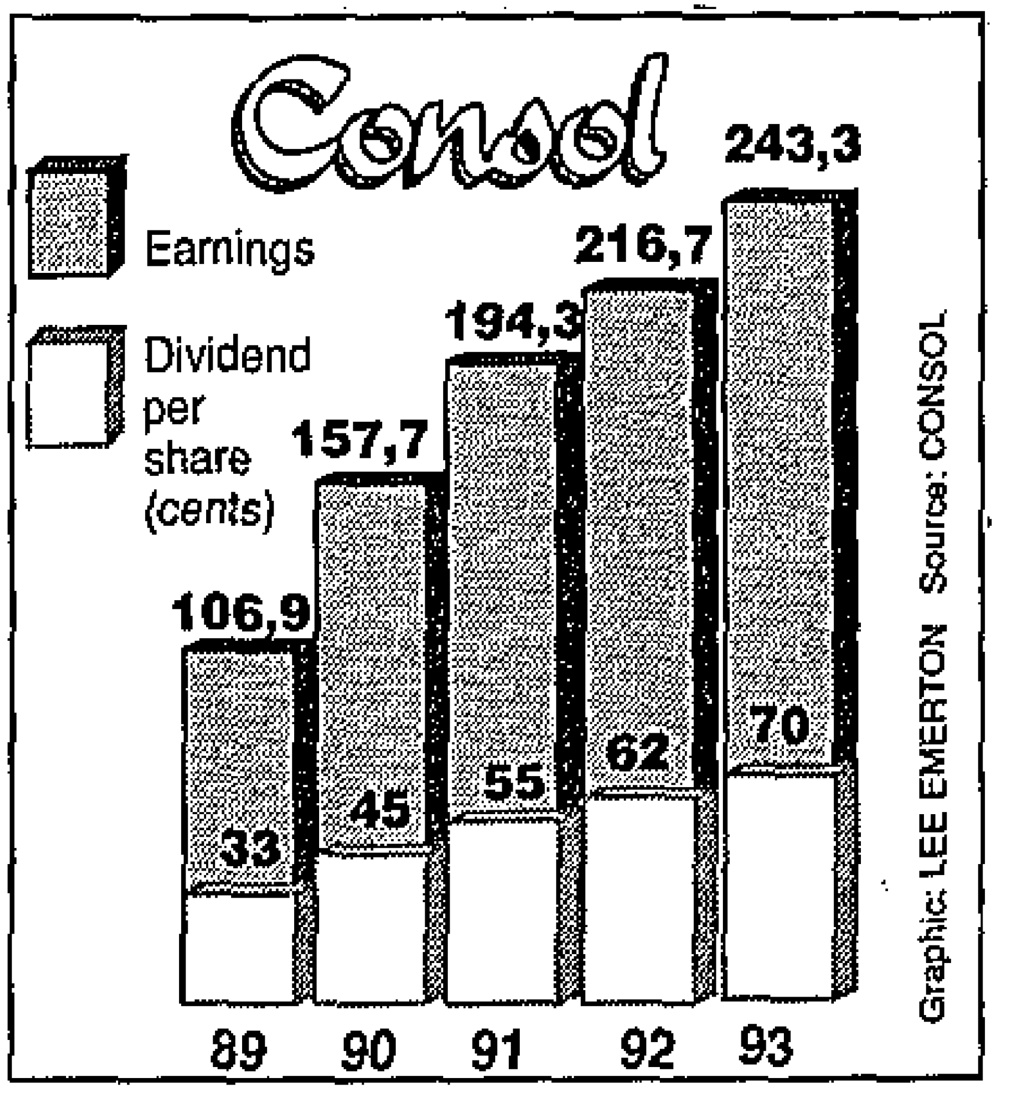
The full year dividend was 13% higher at 70c (62c) a share, with an unchanged cover of 3,5 times.

Neethling said all divisions in the packaging sector reported lower sales volumes, and conditions had worsened in the second half.

The plastics division's profit declined due to lower volumes and margins.

This was exacerbated by "the disappointing market performance of the 1,5l refillable PET carbonated soft drink bottle".

Neethling said about 85% of this division's profit was made in the first half.



The paper division improved its profit off a low base, largely due to rationalisation of the Transvaal operations.

Neethling said the rubber sector's 4% turnover growth "masked a net sales volume decrease as improvements in certain sectors of the consumer and farm tyre markets were more than offset by reductions in the commercial, construction and mining tyre sectors". Turnover was also affected by lower margins in a competitive market.

The 7% rise in operating profit reflected the effects of the sluggish economy and competition from imported products, Neethling said.

The acquisition of the remaining interest in Contred had resulted in a new structure of the rubber division. Wholly owned Contred's subsidiaries are Goodyear and Kelly tyre manufacturer Tycon and distributor and retreader Tredcor.

With effect from July 1, the group acquired Safe-T-Tyre, with a retreading facility and 11 outlets in the PWV area. Neethling said the acquisition was strategic, but relatively small, and would not have a material effect on earnings in the short-term.

Star 3/8/93

Depressed demand impacts on Consol

194

■ BY STEPHEN CRANSTON

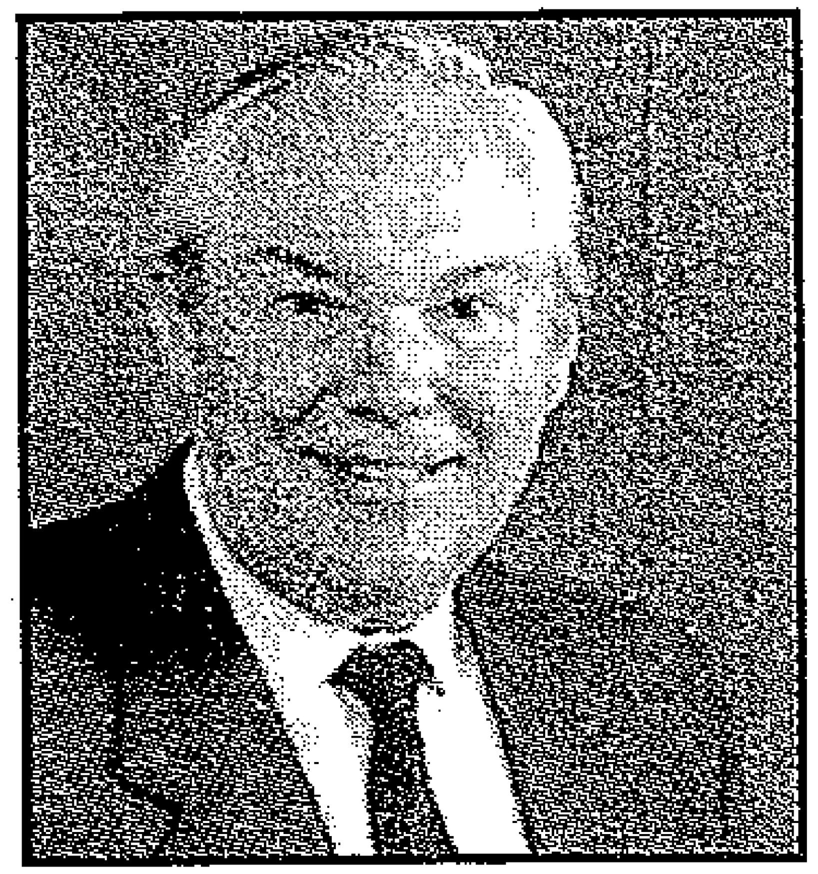
Depressed demand, particularly for glass and plastic packaging, led to a four percent decline in Consol's operating profit in the year to June.

But reduced tax, a lower payment to minorities and the redemption of preference shares enabled it to report a 12 percent increase in earnings per share to 243,3c.

The dividend has been lifted 13 percent to 70c.

MD Piet Neethling says operating profit from packaging fell 13 percent to R138,7 million.

Hardest-hit sector was plastics, which saw substantial declines in both turnover and profit, exacerbated by the disappointing performance of the 1,5-litre returnable PET carbonated soft-drink bottle.



Piet Neethling . . . plastics hardest-hit sector

There was a significant fall in demand for returnable bottles, but demand has risen somewhat since year-end.

There was, however, some increase in demand for non-returnable beer bottles and for fruit-juice bottles.

There was a small volume decline in the paper division, but a substantial profit improvement because of the rationalisation of Transvaal operations.

The rubber sector increased operating profit by seven percent. There was an improvement in consumer and farm tyre sectors, helped by the launch of the high performance Eagle GTA car tyre range.

The interest bill rose from R558 000 to R8,42 million as a result of the R210 million paid in November for Trencor's 25,6 percent holding in Contred.

Because of the buy-out, however, profit attributable to minorities fell from R19,9 million to R6,8 million.

Changes in the company tax rate, however, brought the effective rate down from 42,9 percent to 39,4 percent.

Consol's P/E of 15 is below Nampak's 16,4 but ahead of Holdain's 11,7.

Company: Consol
Sector: Packaging

SHARE PRICE: R36,50 **MARKET VALUE: R2,35bn**
YEAR HIGH: R42 **PE RATIO: 15,0**
YEAR LOW: R40,50
Net asset value: 917c **Dividend yield: 1,9%**

Year to	Turnover Rm	Operating Profit Rm	Attributable earnings per share (c)	Dividend per share (c)
1991	2071	31,9	194,3	55
1992	2098	290	216,7	62
1993	2166	280	243,3	70
% Change	3	4	12	13

CONSOL FM 3/9/93

Smoother ride

Consol, Anglovaal's packaging and rubber subsidiary, must be delighted with its decision in November to buy out Trencor's minority stake of 25,6% in tyre maker and distributor Contred, which became a wholly owned subsidiary. (194) (185)

The R210m cost of this increased exposure in the tyre market was seen at the time

FM 3/9/93

as a favourable deal. It has also given Consol some breathing space — its impact on the bottom line is shown in the 12% increase in EPS to 243c.

In the six months to January, minorities received no less than 9% or R6,4m of Consol's R75m after-tax profit. In the second half of the financial year — with the Contred deal in place — this was reduced to 0,5%. The obverse of the coin, however, was the higher net financing cost, principally attributable to the acquisition and redemption of the preference shares.

This was offset by the substantial reduction in preference dividends to R1,6m — a sixth of that paid out in the previous year — and the lower effective tax rate. This more than neutralised lower demand, which saw turnover in the year to June increase a mere 3% with operating profit down 4% to R280m.

These globular figures hide the diverse performances of Consol's operations, particularly the pain felt by the packaging sector. MD Piet Neethling says all divisions saw declining sales volumes; margins were cut from 17,4% to 14,8%. Management ascribes the 13% slide in operating profit essentially to low sales of returnable glass bottles. Volumes, down 12%, are at levels last seen in 1985. Four furnaces are not operating.

But there have been some positive developments. Consol's competitor in green glass production, Nampak, has withdrawn. That has given Consol's glass operations increased market share. And though the paper market was soft in financial 1993, Neethling says the decline in volumes at Consol's operations was the lowest in the industry; that too suggests gains in market share.

Though the rubber operations weren't immune to weaker demand in the commercial, construction and mining sectors, improvements in consumer and farm tyre markets masked the net sales volume decrease. Turnover was up 4% and operating profit grew a modest 7% because of a sluggish economy and competition from imported products.

Though conditions aren't expected to improve soon — "the first two months of the current year have not been great" — Neethling is confident EPS will again be increased.

The consolidation of Contred and its wholly owned subsidiaries Tycon and Tredcor is expected to produce important cost reductions. Net financing costs are expected to decline but the extent will be limited by higher capex, which is forecast at R150m, about double last year's level. Capital spending has been delayed for some years. Commitment of funds to upgrade Consol's glass operations has become unavoidable.

Neethling says acquisitions are always possible, though the capex bill suggests any

(194) (185)

new purchases could strain cash reserves. Safe-T-Tyre was acquired in July. He admits another deal is planned.

The share price, at R36,75, trades at almost seven times tangible NAV. A pe of 15 might be generous given the poor market outlook, though the rating is in line with the industry. Investors will have to look hard to find an alternative in the packaging sector.

Marylou Greig

Hopkins gets Sappi award for self-help housing development

CT 16/9/93

SELF-HELP housing schemes will help to counter violence in SA, John Hopkins, the House of Representatives Deputy Director of Housing, said last night.

Hopkins received the coveted Sappi Western Cape Housing Person of the Year award, at a function at Cape Town Civic Centre, for his "personal dedication and leadership in the development of self-help housing".

He guides the management of 200 self-help schemes throughout the country. More than 18 000 families have been helped to erect their own homes in the past 10 years.

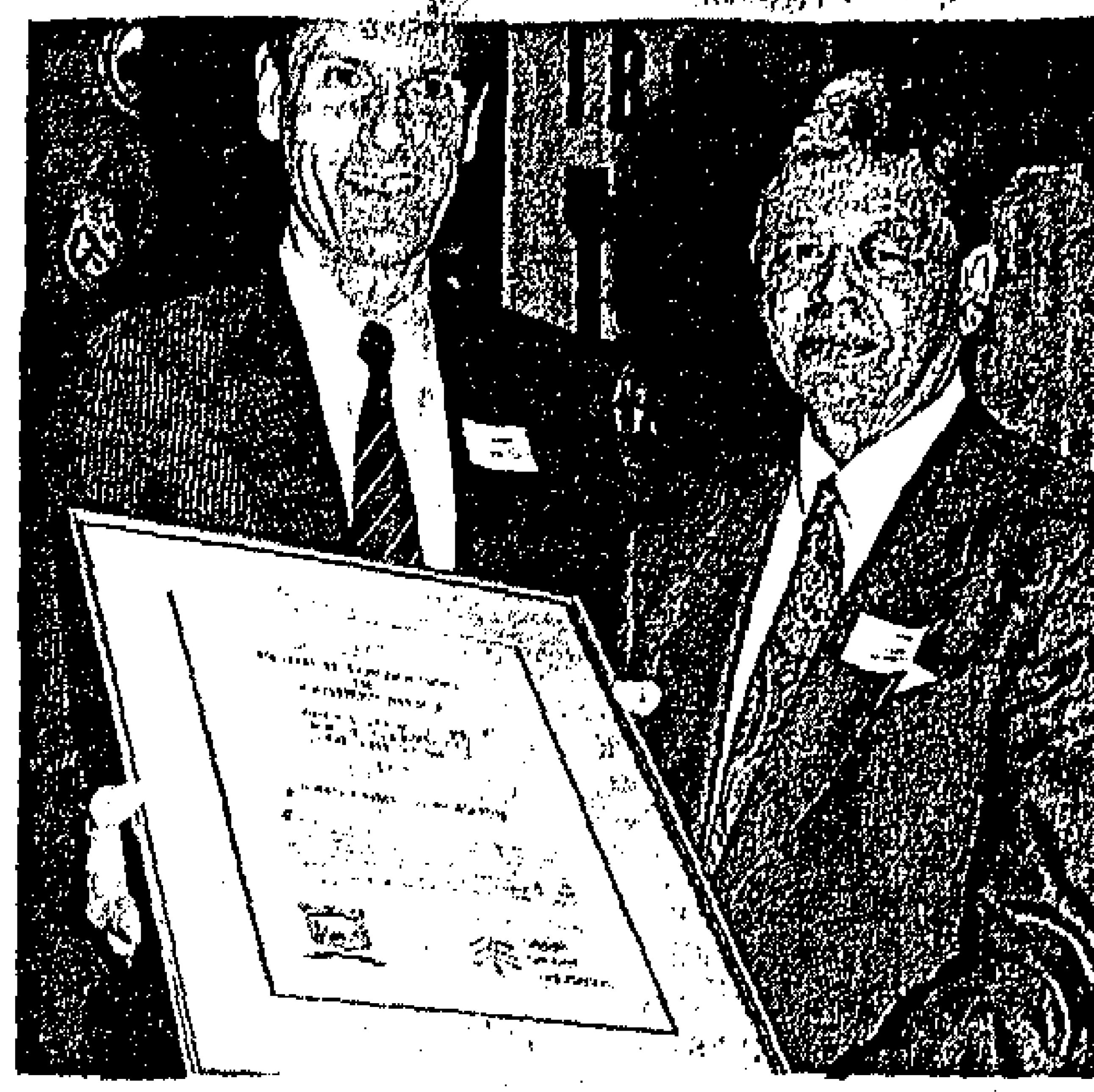
The award citation said Hopkins' "bold and innovative approach to self-help housing has resulted in many people who had not recognised their abilities realising their dream of acquiring quality and affordable housing.

"In developing skills and encouraging self confidence he has contributed to the development of communities with an improved quality of life."

Hopkins said experience had shown that violence was vitually non-existent in self-help projects, because owners took a pride in the homes they had created.

The philosophy behind the scheme was to provide an affordable, upgradeable shelter.

The projects provided a participants with building skills and they received tuition in home economics, management and budgeting.



HOUSING PERSON OF THE YEAR ... John Hopkins, the House of Representatives Deputy Director of Housing (left), last night received the coveted Sappi Western Cape Housing Person of the Year award from Gerald Morkel, the Minister of Budget and Housing.

Fm 17/9/93

RUHOLD Fm 17/9/93

More useful disclosure

Activities: *Financial services and the manufacture of flexible packaging products.*
Control: *Directors 49,3%.*
Chairman: *J Rubenstein; MD: A C Alves.*
Capital structure: *33,2m ords. Market capitalisation: R26,6m.*
Share market: *Price: 80c. Yields: 10,0% on dividend; 24,8% on earnings; p:e ratio, 4,0; cover, 2,4. 12-month high, 130c; low, 50c. Trading volume last quarter, 93 000 shares.*

Year to February 28	'90	'91	'92	'93
ST debt (Rm)	28,6	36,8	24,5	37,4
LT debt (Rm)	—	8,6	7,3	8,1
Debt:equity ratio	1,23	1,03	0,82	1,6
Shareholders' interest	0,70	0,65	0,69	0,62
Return on cap (%)	29,6*	20,7	25,4	31,4
Turnover (Rm)	42,7	40,8	71,3	79,1
Pre-tax profit (Rm)	3,1	4,6	6,3	7,8
Pre-int margin (%)	24,0	26,8	19,9	18,0
Earnings (c)	7,4*	15,3	16,8	19,8
Dividends (c)	6*	6	7	8†
Tangible NAV (c)	70	108	117	84

* Annualised. † Excluding special dividend of 40c.

(194)

A glance at the annual report reveals much about what's been happening at Ruhold. This company has consistently produced good earnings growth — EPS increased 18% to 19,8c in the year to February 1993 — but its performance was for too long clouded by lack of information on the diverse activities.

But this has changed and the markedly improved disclosure gives better insight into the group as an investment opportunity.

The five-year review — a first — allows for interesting analysis, helped by adjustment of certain key ratios to compensate for the disparate interests of financial services and packaging. (194)

Gearing, for example, jumped to 162% (1992: 82%) because borrowings increased to R45,6m. Some of this reflects the 26% growth in the finance debtors book, to roughly R37m. After stripping out the 80% of the finance assets which are bank financed, remaining debt is R17,4m. With equity adjusted accordingly, this gives what director Thierry Dalais describes as a more appropriate 83% gearing for the packaging operations.

Still, even the adjusted gearing is high for industrial activities. The payment of a special dividend of 40c at the interim stage reduced cash resources, indirectly affecting gearing.

Chairman Jeff Rubenstein says the special dividend was paid because resources exceeded optimal short- and long-term needs. He is confident gearing will remain prudent given the nature of operations.

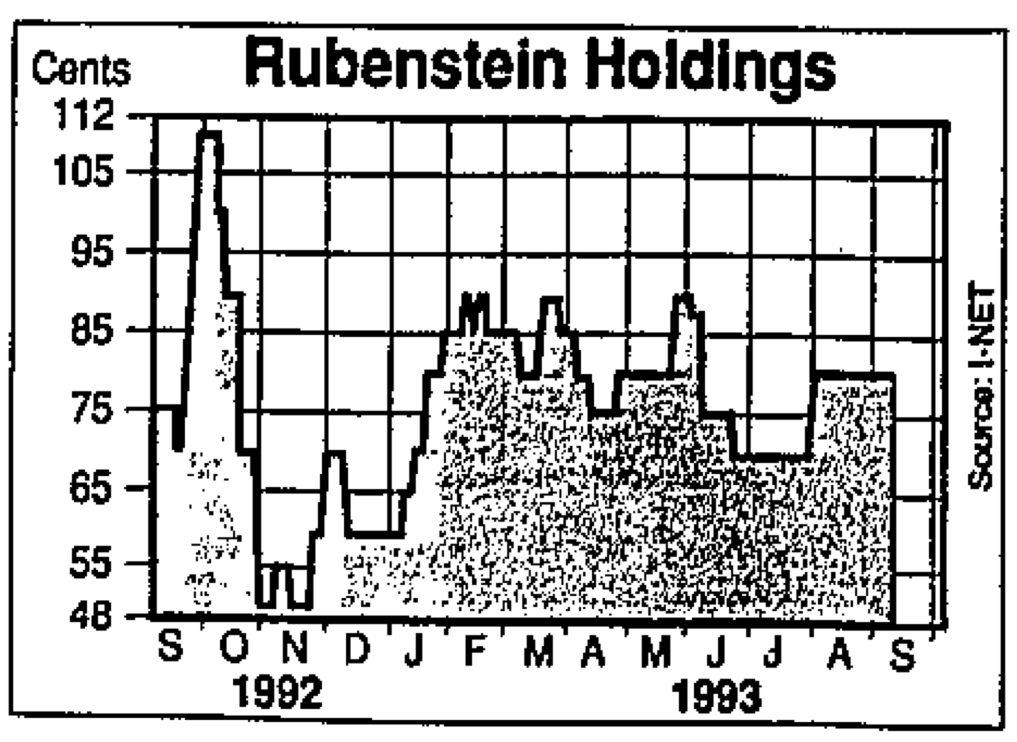
Turnover, disclosed for the first time, rose 11% to R79,1m. This includes gross interest received and net sales. Improved efficiencies, reduced costs and tighter working capital management saw operating income rise 23% to R7,7m.

After the share of associate Plastech's losses of R815 000, net ordinary income was R6,5m. The lower company tax rate resulted in a downward adjustment in the deferred tax liability of R1,2m, treated as an extraordinary item.

Partial divisional information gives insights into the performance of the individual operations, though more could be disclosed without undermining competitive advantages.

The niche-orientated financial services division, which makes a significant contribution to earnings (figure not disclosed), maintained its good bad debt record though, on the downside, strict controls may have curtailed turnover.

Ruhold's packaging operation employs two-thirds of total assets, suggesting this is the group's core business. The recent drive by management to "rigorously pursue" export markets in Europe appears to be paying off and Rubenstein says markets have grown in line with expectations. Synergistic acquisitions which will enhance earnings and cash flow are being sought.



Dalais says early indications for 1994 reflect tough trading conditions, particularly in the packaging division. Lower volumes are putting margins under pressure, though concentration on productivity and manufacturing efficiencies should help. The unusual mix, he says, presents several possibilities and he believes Ruhold could sustain earnings growth. (194)

The share, at 80c, is off its annual high of 130c, though its performance is much in line with that of the Financial and Industrial index. With Ruhold's activities strongly dependent on economic activity, investors may prefer to wait for interims before committing new funds.

Marylou Greig

DATES TO REMEMBER

Last day to register for dividends:
Friday Sep 24: Alexander 22c; Ass Mang 600c; AVI 195c; Distil 31c; Fralex 12,5c; Grinaker 13c; ICH 15c; Johnnies 90c; KWV Bel 39c; Safren 190c.
Meetings:
Monday Sep 20: Af Cable (S) (Vereeniging).
Tuesday Sep 21: Oakfields (S).
Wednesday Sep 22: Lindum Reefs (Randfontein); Ohio (Sandton); Revere Resources (Roodepoort); Sho-Craft (Roodepoort).
Thursday Sep 23: ABS (S) (Sandton); Dabi (Durban); Hyprop (S) (Sandton); Keeley Group (Sandton); Kelgran (Sandton); Longrail (Alrode).
All meetings are in Johannesburg unless otherwise stated.
S = Special meeting.

ALEX WHITE
FM 24/9/93

Recovery overlooked

Activities: *Packaging and printing.*
Control: *Directors (56,6%).*
Chairman and MD: *T P Kane.*
Capital structure: *16,2m ords. Market capitalisation: R11,3m.*
Share market: *Price: 70c. Yields: 9,2% on dividend; 25,3% on earnings; p:e ratio, 4,0; cover, 2,7. 12-month high, 80c; low, 55c. Trading volume last quarter, 40 400 shares.*

(194)

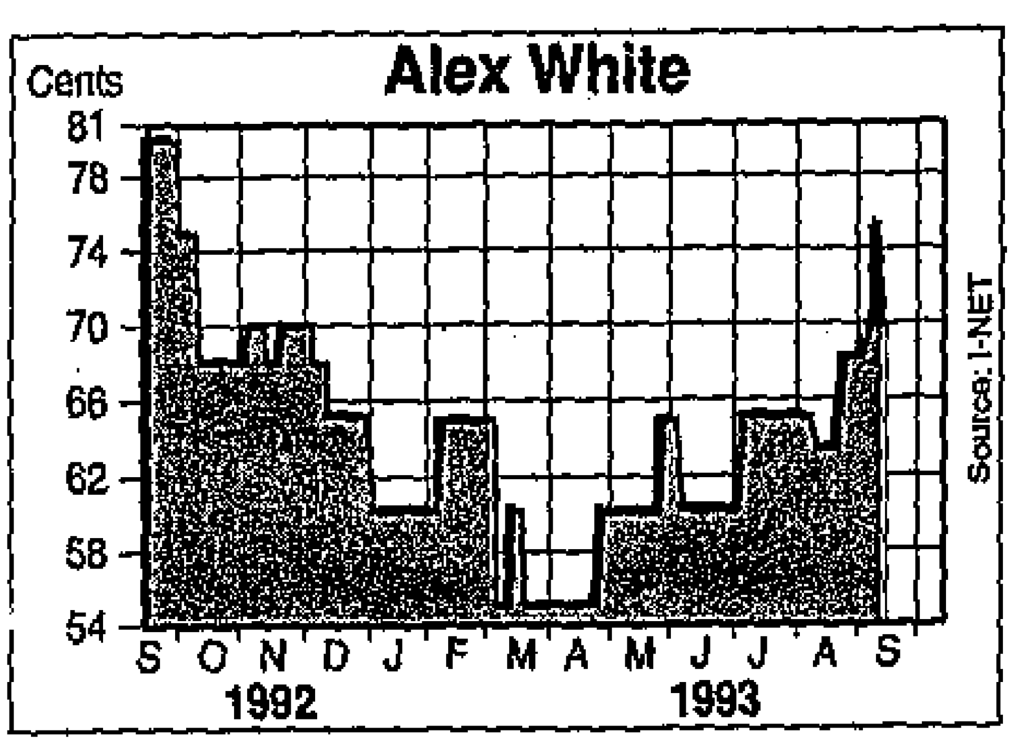
Year to June 30	'90	'91	'92	'93
ST debt (Rm)	11,7	9,8	7,6	5,1
LT debt (Rm)	7,4	5,6	4,4	3,6
Debt:equity ratio	1,11	0,88	0,56	0,28
Shareholders' interest	0,35	0,42	0,43	0,44
Int & leasing cover	0,9	1,6	2,7	3,4
Return on cap (%)	5,6	11,3	13,6	11,3
Turnover (Rm)	46,3	57,2	67,3	73,4
Pre-int profit (Rm)	2,4	4,7	6,5	5,8
Pre-int margin (%)	5,2	8,2	9,6	7,9
Earnings (c)	(1,6)	5,6	14,3	17,7
Dividends (c)	—	2,5	6	6,5
Tangible NAV (c)	105	108	127	138

The 1993 year was a period of mixed fortunes for Alex White but, on balance, results were in line with expectations at the start of the year. Trading conditions were worse than expected. Turnover declined in real terms and, after two years of strong recovery, margins crumbled from 9,6% to 7,9%, leaving operating profit down almost 10%.

The score was evened at pre-tax level owing to lower finance costs, while the bottom line benefited from the lower corporate tax rate (including the effects of deferred tax write-backs) and improved a satisfactory 25%.

Working from the same turnover base of R73,4m, but assuming unchanged operating margins and tax, EPS would have been 18,5c (up 29% on 1992) instead of the 17,7c (up 24%) achieved.

A breakdown of operating results between the packaging and printing interests shows the main problems were in packaging, which accounts for almost two-thirds of sales.



FM 24/9/93

While market share was maintained in the face of increased competition, according to CE Terry Kane, this was obviously at the expense of margins. Results here also appear to have been affected by plant modifications undertaken with a view to improving operating efficiencies, expanding capacity and improving the range of products that can be manufactured.

Future results could, however, benefit from this expenditure as well as an agreement with DRG Medical Packaging of the UK, whereby Alex White has obtained the sole southern African rights to supply speciality medical packaging products manufactured by DRG.

A better relative performance was achieved by the printing sector which maintained margins on a 24% improvement in turnover.

Cash flow remained strongly positive, enabling further retirement of debt. Net borrowings dropped by R5,4m, from R11,6m to R6,2m and gearing halved from 0,56 to 0,28; this contrasts with the peak gearing of 1,11 in 1990 and underscores the extent of the recovery.

As noted earlier, the resultant drop in interest charges from R2,4m to R1,7m was a major factor in stabilising the 1993 income statement. Provided funding requirements are controlled, further benefits can be expected this year, as the full impact of last year's debt repayments filters through.

The major disappointment was that Alex White has received no recognition from the market for what was, in the circumstances, a satisfactory performance. The 1993 results and the general financial position of the group confirm what the *FM* said a year ago: that the lessons of 1990 (when overgearing and inattention to profitability resulted in a 1,6c a share loss) have been well learnt and that recovery is well in hand. Even without help from the taxman, last year's steady

Alex White's Kane ... *market share maintained*

(194)

profits would have been acceptable with the general run of current corporate result

Despite this, the 70c share price is 1(down on its year-ago level. With a 7% declin in the JSE's Paper & Packaging index sinc last September, this sector has not bee attractive for investors. Even so, the shar has under-performed the sector, as shown b the widened yield-relative discount of 61° (1992: 49%) at which the share is now trad ing. The down-rating is difficult to justif and there is room for substantial improve ment under more favourable market condi tions.

Brian Thompso

Sale of a business lifts Clegg

MARCIA KLEIN

PACKAGING and printing company Clegg Holdings fell into the red in the year ending June, reporting a loss of 0,17c (earnings of 1,35c) a share. B/Day

But an extraordinary item from the sale of a business enabled it to convert the loss into a final income position for the period.

The company announced that proposed negotiations between Clegg and Caxton company Hortors, announced previously in two cautionary notices, had now reached an advanced stage. Details of the deal would follow in due course. 1/10/93

Directors said that turnover was limited to R24,5m (R24,7m) due to the prevailing economic climate and intense competition.

Conscious efforts had been made to reduce expenditure, but directors said margins continued to be eroded. Operating income halved to R836 000 from R1,6m.

Although interest and finance charges were reduced from continued emphasis on asset management, Clegg showed a loss before extraordinary profits and tax of R76 000. This compared with income of R471 000 in financial 1992 (1994)

But extraordinary items of R112 000 — mainly including income from the sale and subsequent termination of the business operations of H R Clegg Silkscreen, enabled it to show a small income of R47 000 (R437 000) for the year.

No dividend was declared "in view of prevailing economic conditions".

Holdains ups earnings as volumes fall

(94)

CT 18/10/93

Own Correspondent

JOHANNESBURG. — Paper and packaging group Holdains increased its attributable earnings 14% to R96,3m (R84,8m) in the year to end-August, despite tough competition and declining market volumes.

But the Malbak subsidiary reported an earnings increase of just 3% to 360,5c (349,3c) a share on additional shares in issue following its rights offer in March. Turnover for the group increased 12% to R2,6bn (R2,3bn), of which acquisitions added 6%.

CE Richard Bruyns said the group did well to show this growth, as there was an overall decline in volumes in the markets which it serviced. Operating profit was just 2% higher at R194,6m (R190,7m).

The 53,5% drop in net financing costs in the second half — which reflected the R191m net infusion from the rights issue — saw interest for the year decline 25% to R31,8m (R42,2m) and enabled the group to show a 10% improvement in pre-tax income to R162,8m (R148,5m). A final dividend of 74c a share brought the full year dividend up 3% to 125c (121c) a share, in line with the increase in earnings.

Star performer

Bruyns said the balance sheet remained sound. Gearing of 17% and cash of R90m resulted in net gearing of only 5%, and interest cover was increased to 6,1 (4,5) times.

Commenting on the major divisions' performance, he said the packaging division, contributing 68% of operating profit and 57% of turnover, was the star performer. The paper and board interests experienced intense competition in a market where there was no growth. Earnings were nevertheless improved because of strong control of working capital and costs.

Holdains Plastics and the foam division reported excellent results, while Kohler Flexible reported satisfactory results given low volumes and margins.

Metal Packaging, housed in recently acquired Crown Cork, performed in line with expectations and did not make a contribution to profit during the year. However, Bruyns said some "exciting future projects" were being explored.

Carlton Paper, the group's tissue and consumer products division, turned in an excellent performance in a competitive market. This division accounted for 28% of operating profit and 19% of turnover. (see below).

The paper merchanting interests, held in Graphtec Holdings, accounted for just 4% of the group's operating income and 24% of turnover.

Carlcor gains market share to boost earnings

B/Day 18/10/93

MARCIA KLEIN

MALBAK company Carlton Paper Corporation (Carlcor), boosted by a significant improvement in its second-half performance, reported a 10,2% rise in earnings to 228,1c (207c) a share in the year to end-August, in a highly competitive market.

The group, which makes tissue and fibre-based products, increased its turnover by 9,2% to R485,1m (R444,4m).

Directors said the higher turnover, which compared with a growth of only 1,7% in the first half, represented real volume growth.

"This is a most encouraging trend as it resulted from market-share gains rather than natural growth in the market," directors said.

They said the growth confirmed the strength of Carlcor's product innovations and brands, which include Carlton, Babysoft, Kleenex, Huggies and New Freedom.

However, margins remained under pressure and operating income dropped by 3,3% to R53,5m (R55,4m). This was nevertheless a significant improvement on the 17,5% drop in operating income at the interim stage.

A 34,1% drop in the interest bill to R2,4m (R3,6m), aided by a significant drop in interest-bearing debt, saw pre-tax income decline marginally to R51,1m (R51,7m). (194)

The directors said that at the interim stage pre-tax income had declined by 16,4%, but in the second half it had improved 17,8% over the previous year.

This was "an outstanding pre-tax performance" given the state of the economy and the low prices in the tissue market.

Results were buoyed further by a lower effective tax rate. The 20,6% lower taxation of R15,1m (R19m), largely due to the lower company tax rate and to export timing differences, saw net income rise by 10,2% to R36m (R32,7m).

A final dividend of 49c a share was declared, bringing the full-year dividend up by 9,3% to 82c (75c) a share, with dividend cover maintained at nearly 2,8 times.

The directors said working capital was well controlled and the balance sheet and cash flow remained strong. Gearing was reduced to 11,9% from 26,2% the previous year.

There was no sign of an improvement in the economy and 1994 was likely to be a period of slow growth, depressed consumer spending and political disruption.

Carlcor hoped to maintain earnings in the coming year.

Holdains performs better than forecast

B/Day 18/10/93

MARCIA KLEIN

PAPER and packaging group Holdains increased its attributable earnings 14% to R96,3m (R84,8m) in the year to end-August, despite tough competition and a volume decline in the markets it serviced.

But the Malbak subsidiary reported an earnings increase of just 3% to 360,5c (349,3c) a share on additional shares in issue following its rights offer in March. The results were better than directors' forecasts that the group would maintain earnings on additional shares in issue.

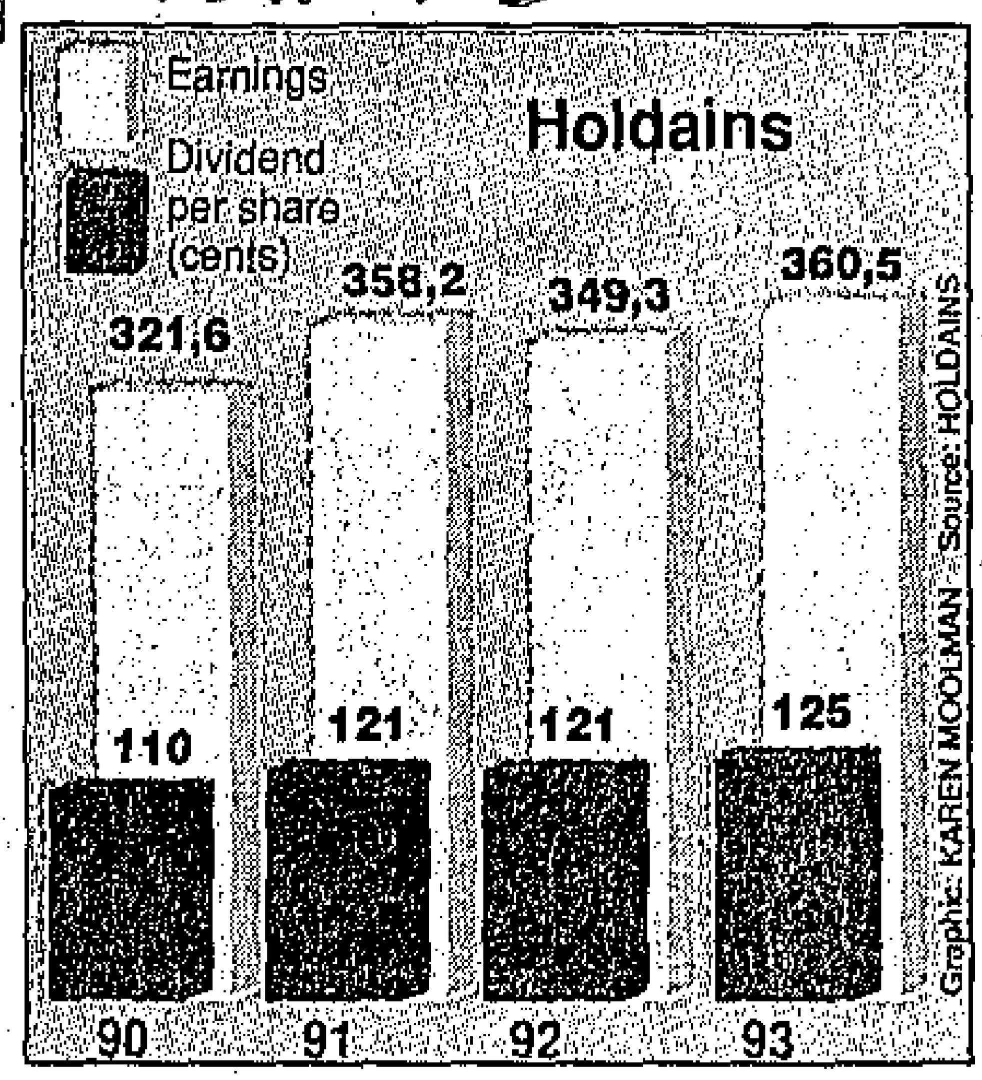
Turnover for the group increased 12% to R2,6bn (R2,3bn), of which acquisitions contributed 6%.

(194)

CE Richard Bruyns said the group did well to show this growth, as there was an overall decline in volumes in the markets which it serviced. The resulting intense competition saw operating margins drop, and operating profit was just 2% higher at R194,6m (R190,7m).

The 53,5% drop in net financing costs in the second half — which reflected the R191m net infusion from the rights issue — saw interest for the year decline 25% to R31,8m (R42,2m) and enabled the group to show a 10% improvement in pre-tax income to R162,8m (R148,5m). A final dividend of 74c a share brought the full year dividend up 3% to 125c (121c) a share, in line with the increase in earnings.

Bruyns said the balance sheet remained sound. Gearing of 17% and cash of R90m resulted in net gearing of only 5%, and interest cover was increased to 6,1 (4,5) times. Working capital control remained good.



Commenting on the major divisions' performance, he said the packaging division, contributing 68% of operating profit and 57% of turnover, was the star performer. The paper and board interests experienced intense competition in a market where there was no growth. Earnings were nevertheless improved because of strong control of working capital and costs.

In the plastics division, Holdains Plastics and the foam division reported excel-

□ To Page 2

Holdains

B/Day 18/10/93

lent results, while Kohler Flexible reported satisfactory results in a market of low volumes and margins.

Metal Packaging, housed in recently acquired Crown Cork, performed in line with expectations and did not make a contribution to profit during the year. However, the group was optimistic about its future contribution, and Bruyns said some "exciting future projects" were being explored.

(194)

Carlton Paper, the group's tissue and consumer products division, turned in an excellent performance in a competitive market which had affected volumes and margins. This division accounted for 28% of operating profit and 19% of turnover.

The paper merchanting interests, held in Graphtec Holdings, accounted for just 4% of the group's operating income and 24% of turnover. Graphtec, which includes First Paper House and Haddons, was restructured during the year.

Bruyns said the results, which were "less than satisfactory", had not yet benefited from these changes. He expected earnings and dividends to show a marginal improvement in financial 1994.

Star 18/10/93

Holdains holds on

BY DEREK TOMMEY

In a tough year to August, Holdains increased attributable profit by 14 percent to R96,3 million (R84,8 million previously).

The company says this was achieved in the face of recession, unemployment and the lack of consumer confidence arising from political uncertainty and escalating violence.

The 20 percent increase in the share capital limited the rise in earnings a share to 3 percent at 340,5c.

A final dividend of 74c (70c) has been declared, making a total payout for the year of 125c — 3 percent more than last year's 121c.

The tough conditions are reflected in the 12 percent increase in turnover to R2,6 billion.

Half the rise came from acquisitions. (194)

A further indication of the hard times is that operating income grew only 2 percent — from R190,7 million to R194,6 million.

Chief executive Richard Bruyns says the group did well in the circumstances.

Star performer of the group was the packaging division.

It contributed 68 percent of operating profit from 57 percent of turnover.

Paper and board felt intense competition in a market showing little or no growth.

Bruyns warns that the economic climate makes it difficult to forecast with any certainty.

But he says the group is structured to take advantage of any upturn in the economy.

Carlcor reports market share gains

Own Correspondent

JOHANNESBURG. — Malbak company Carlton Paper Corporation (Carlcor), boosted by a significant improvement in its second-half performance, reported a 10,2% rise in earnings to 228,1c (207c) a share in the year to end-August, in a highly competitive market.

The group, which makes tissue and fibre-based products, increased its turnover by 9,2% to R485,1m (R444,4m).

Directors said the higher turnover, which compared with a growth of only 1,7% in the first half, represented real volume growth.

"This is a most encouraging trend as it resulted from market-share gains rather than natural growth in the market," directors said.

They said the growth confirmed the strength of Carlcor's product innovations and brands, which include Carlton, Babysoft, Kleenex, Huggies and New Freedom.

However, margins remained under pressure and operating income dropped by 3,3% to R53,5m (R55,4m). This was nevertheless a significant improvement on the 17,5% drop in operating income at the interim stage.

A 34,1% drop in the interest bill to R2,4m (R3,6m), aided by a significant drop in interest-bearing debt, saw pre-tax income decline marginally to R51,1m (R51,7m).

(194) CT 18/10/93

The directors said that at the interim stage pre-tax income had declined by 16,4%, but in the second half it had improved 7,8% over the previous year.

This was "an outstanding pre-tax performance" given the state of the economy and the low prices in the tissue market.

Results were buoyed further by a lower effective tax rate. The 20,6% lower taxation of R15,1m (R19m), largely due to the lower company tax rate and to export timing differences, saw net income rise by 10,2% to R36m (R32,7m).

A final dividend of 49c a share was declared, bringing the full-year dividend up by 9,3% to 82c (75c) a share, with dividend cover maintained at nearly 2,8 times.

Malbak surpasses market expectations

B/Day 22/10/93

MARCIA KLEIN

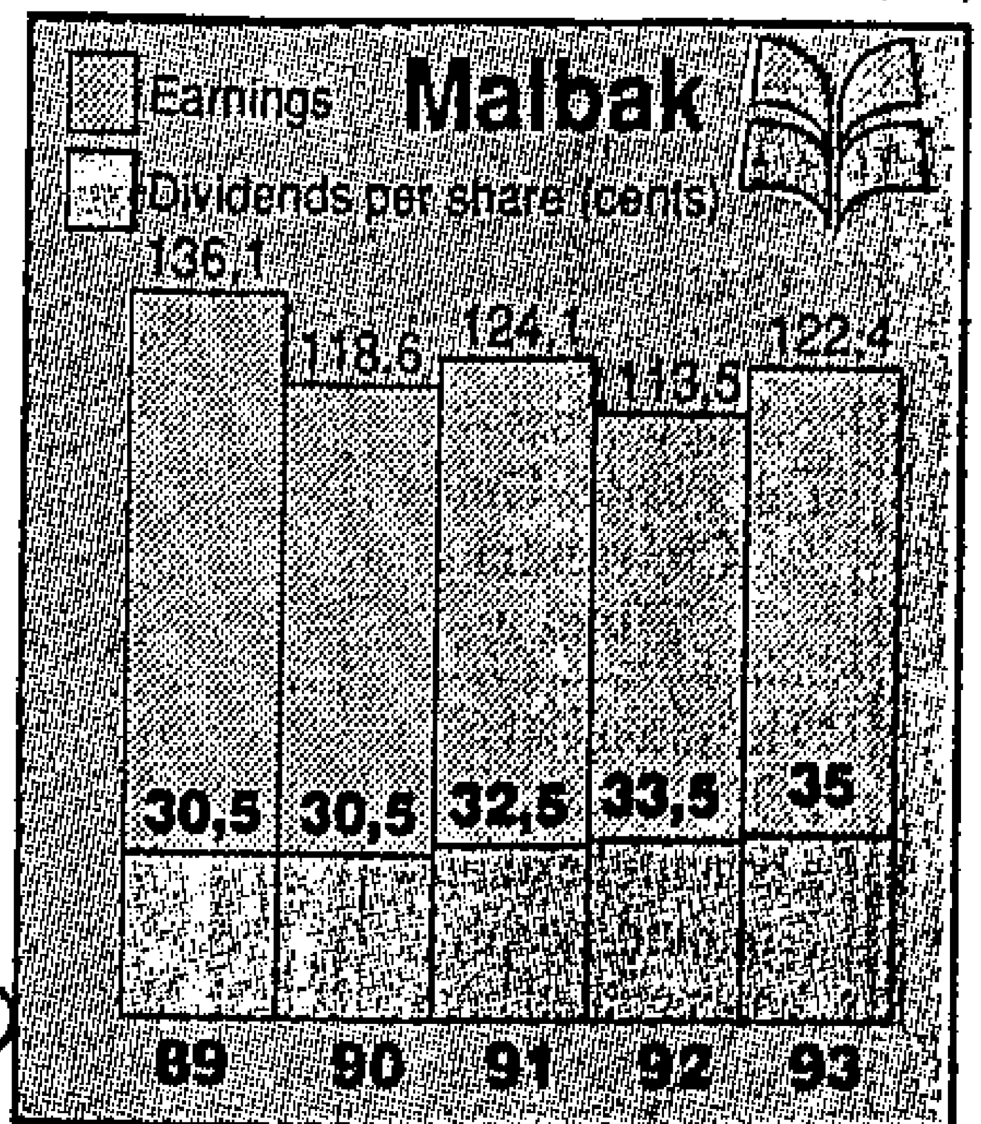
FOOD, packaging, health care and branded consumer products group Malbak increased attributable earnings 14% to R374m (R329m) in the year to end-August, ahead of market expectations.

Malbak's share price edged up 25c a day in the past three days to close at R14 yesterday, as results from major subsidiaries Foodcorp, Holdains, SA Druggists and Ellerine indicated that it would do better than merely maintain earnings a share, as suggested by executive chairman Grant Thomas at the interim stage.

Earnings a share increased 8% to 122,4c (113,5c) on additional shares in issue. They were down 1% at the interim stage.

Thomas said trading conditions remained difficult and consumer spending continued to decline. But a concerted export drive helped lift sales 10% to R11bn (R10bn). Fierce competition and pressure on gross margins resulted in a 7% rise in operating income to R820m (R766m).

Reduced borrowings (from rights issues in Holdains and SA Druggists and control of working capital) and lower interest rates resulted in a 27% drop in finance charges to R132m (R182m), with interest (194)



Graphic: LEE EMERTON Source: MALBAK

cover increased to 6,2 (4,2) times. Pre-tax income rose 18% to R688m (R584m).

A lower taxation rate and the benefit of adjustment in the deferred tax provision (R11m or 3,6c a share) saw after-tax income increase 20% to R479m (R398m).

Income from associates was lower, largely due to the sale of Standard Engineering. A net extraordinary profit of

□ To Page 2

Malbak

B/Day 22/10/93

□ From Page 1

R34m reflected a R105m profit on sales and closures of major business units, offset by goodwill on acquisitions.

A final dividend of 22,5c a share brought the full-year dividend to 35c (33,5c). (194)

Thomas said the balance sheet reflected the good cash flow performance of operations and the rights issues. Gearing dropped to 16,2% (29%). More than R1bn in cash was generated, and cash available from operations increased 35% to R361m.

Malbak had always had an opportunistic flair, and any future acquisitions would be "within the consumer focus of Malbak".

The results vindicated its decision to focus on consumer-related businesses. They had been achieved largely through cost reductions and productivity improvements, Thomas said.

Earnings of the core businesses grew 29% to make up 75% of group earnings.

Food interests, held in Foodcorp, had a good year despite competitive conditions, and contributed 20% of earnings. Paper and packaging operation Holdains improved its results and maintained its relative contribution at 17%. SA Druggists' earnings rose 30%.

In the branded consumer products division, furniture retailer Ellerine and Malbak Motor Holdings did well, substantially increasing their contribution to group earnings. Tedelex was the only company not to show profit, but it reduced losses.

The international division's contribution fell to 8% (10%), largely due to the sterling's devaluation. UK-based packaging business MY Holdings reported its third year of good earnings growth, and Eagle Freight did well. But Protea International was affected by low demand for steel and a higher tax rate.

The contribution from investments dropped, largely because of the sale of Standard Engineering. ICL did well, but Haggie's results were disappointing.

Thomas said a return to sustained economic growth was unlikely this year. Growth in earnings would depend on its own efforts, including export promotion, productivity improvements and optimisation of new projects. Malbak expected "a modest increase in earnings".

FM 22/10/93 (194)

PRICING PRESSURES

Carlton Paper

Year to August 31	**1992**	**1993**
Turnover (Rm)	444	485
Operating income (Rm)	55,4	53,5
Attributable (Rm)	32,7	36,0
Earnings (c)	207,0	228,1
Dividends (c)	75	82

Holdains holds roughly a third of the packaging market and chairman Ian Willis points out it's a volume-sensitive business. To maintain market share product prices have had to be squeezed. Margin declined from 8,3% to 7,6%. Holdains' customers are diverse and include highly seasonal businesses such as fruit packaging. Nevertheless, Willis believes production could be increased by as much as a third.

Packaging, the core business, turned in a good performance, contributing 68% of total operating profit from 57% of turnover. But results from the division's various operations were mixed. Paper and board producers under the Kohler umbrella experienced intense competition in a static market, though control of working capital and costs saw earnings improve significantly.

A further boost to packaging's figures came from Holdains Plastics and the foam division, which benefited from rationalisation. The foray into metal packaging following the acquisition of Crown Cork is still to make a useful contribution; this is not expected until next year. Willis says the move into food canning remains small, though the recent joint venture between fellow Malbak subsidiary Foodcorp and Pillsbury of the US offers potential growth.

Results from paper merchanting arm Graphtec Holdings were less satisfactory, accounting for 24% of turnover but only 4% of Holdains' operating profit. This largely reflects costs of substantial restructuring.

Listed **Carlton Paper** (Carlcor) accounted for 28% of Holdains' operating profit from 19% (R485m) of turnover. Results were boosted by a better second half; the 16,8% decline in interim EPS was transformed into an annual increase of 10,2% to 228,1c.

But this improvement in volumes and market share was largely at the expense of margins; operating income dropped 3%. In the first six months a toilet paper war developed when a new supplier entered the market. Willis says management at first adopted a stand-off policy, but loss of market share reversed the decision. An "excellent" performance came in the second six months. Carlcor's working capital was well controlled and the balance sheet and cash flow remain strong. Gearing was reduced to 12% (26%).

Like so many local companies, Holdains is channelling energies into exports. Though this now accounts for only 4% of turnover, the target is 10%.

Constrained by the consumer demand, management is forecasting marginally improved earnings. Margins will continue to suffer in 1994, though some relief will come from improved contributions from Crown Cork and Graphtec.

Despite the recent rerating of the share to R44, it is still below its annual high of 4 850c. On a p:e of 12 and a yield of 2,8%, the counter is tempting, even though the industry remains unattractive. *Marylou Greig*

HOLDAINS
FM 22/10/93

Holding on to volumes

Full-year earnings improved 14% for Holdains — SA's second-largest paper & packaging group, whose fortunes are closely linked to consumer spending — but the decline in operating margins is evidence of exceptionally competitive trading conditions.

EPS are 3% better than last year's, though the comparison is distorted by dilution from the R191m rights offer in March. Overall, the result for the year to September is in line with market expectations. (194)

Operating results offer evidence of the tough market in which Holdains operates. Profit rose 2% on a 12% turnover increase (of which acquisitions contributed 6%) to R2,6bn. Industry volumes for the year declined about 4%, though analysts say they believe Holdains stemmed its own volume decline to about half this. If so, it's a good achievement.

Bowcalf on the expansion trail

PK 194

MARC HASENFUSS
Business Staff ARG 26/10/93

CAPE Town's specialist packagers Bowler Metcalf (Bowcalf) has acquired a Boksburg plastic packaging company Plus Plastik for R1,54 million, the company announced today.

Financial director Michael Brain said the acquisition would double the size of Bowcalf's Transvaal operation and allow the group to expand into other areas of packaging.

He said Plus Plastik had similar equipment and philosophy to Bowcalf — "which should result in a very smooth transition".

"They have a high calibre of staff and once we bring our systems to bear on them, we are confident that the acquisition will have a meaningful impact on future results."

Mr Brain said the profit history of Plus Plastik had been indifferent — hampered mainly by a shortage of working capital. Bowcalf would inject R800 000 into the company to ease this problem.

He said Plus Plastik would contribute around R3,5 million to Bowcalf's turnover — but would not impact significantly on bottom line this year.

"The full effect of the turnaround will be seen in the 12 months to December 1994 when it is hoped that the results of Plus Plastik will be in line with those of Bowler Metcalf."

Payment will be made by way of R380 000 cash, a further R800 000 in equal instalments over 18 months and the issue of 200 000 Bowcalf shares.

Mr Brain said the funding was primarily cash so as not to dilute present shareholder's interest.

Although the purchase price contains a substantial goodwill portion, Mr Brain pointed out that an off-balance sheet revaluation of assets had been done — taking into account the replacement cost and useful life of the assets.

■ Diamond miners **Benguela Concessions** have taken a significant step in surveying their middle water concessions on the West Coast by acquiring a massive drill — the Bauer Tool.

According to Benco chairman Dr John Gurney, this sampling device would "not leave any stone unturned" as it cut trenches — 2,8 metres long, 1,2 metres wide and up to 6 metres under the overburden — into the bedrock on the ocean floor.

He said the Bauer Tool would give the group the 100 percent recoveries necessary in the sampling phase. "This machine is not going to leave anything down there."

A joint venture agreement with Australian industrial giant Broken Hill requires Benco to present sufficiently encouraging survey results within two years.

Failure to deliver the goods would probably see Broken Hill "walk away" from the joint venture agreement, Dr Gurney said. Funding for the feasibility study is being undertaken by the joint venture.

■ An extraordinary item relating to tax and losses of a discontinued operating division pushed **Unidev** into the red in the half year to end August.

Profit before extraordinary items was virtually unchanged at R725 000 — but the R4,9 million extraordinary item resulted in a R4,2 million loss.

Cheap imports send paper prices tumbling

BI Day 27/10/93.

MATTHEW CURTIN

CHEAP imports of packaging and fine paper, matched in price by local producers Mondi and Sappi, had sent prices for several paper grades tumbling to their lowest levels in more than three years, industry sources said yesterday.

While packaging producers and fine paper customers were enjoying the benefit of lower input prices, the price battle was putting pressure on already thin margins in the sector brought on by the recession.

Mondi and Sappi are understood to have made new representations to the Board on Tariffs and Trade in a bid to tighten SA's anti-dumping measures.

Although tariff protection exists, Mondi has complained that it is inferior to measures enjoyed by rival overseas producers. The board's revised tariff structure for the industry was implemented in September.

Sluggish growth in paper demand during the worldwide recession, added to currency devaluations among key pulp and paper producing countries, have encouraged companies to compensate for poor domestic trading conditions by pushing exports to countries such as SA.

The sources said the impact of the fierce competition, as increasing supplies of cheap and often inferior-quality paper were being imported from Brazil, Canada, Indonesia, Italy and Scandanavia, could be seen in the financial results of Mondi and Sappi.

"If nominal prices are at their lowest level since 1990, and you take inflation into account, you can see what's been happening to paper producers' margins," one source said.

Sappi reported a two-thirds decline in earnings to R64m (R175m) in the year to end-August.

Nearly 60% of the group's R2,75bn sales was derived from its UK, German and export operations whereas unlisted Mondi, 53%-owned by Anglo American Industrial Corporation, was more dependent on domestic markets. Exports made up 30% of the company's 1992 sales of R2,6bn.

In addition, Sappi produced a greater range of value-added products such as coated papers than Mondi.

One analyst said Mondi's operating margin had fallen from 8,6% in 1989 to 4,6% in 1992, with Sappi's shrinking from 27% to 9,5%.

In the 1993 annual report Sappi chairman Eugene van As said the past year had been one of the most difficult experienced by the pulp and paper industry.

While pulp prices had risen in 1992 from their 1991 lows and paper prices had started to show upward trends, the currency crises in Europe forced prices to below 1991 levels.

Star 29/10/93

Nampak on target

(194)

BY STEPHEN CRANSTON

SA's largest packaging group Nampak has reported a 17 percent increase in earnings to 620c a share in the year to September — in line with market expectations and management forecasts.

It was some achievement that the result was obtained despite a paltry 4,5 percent increase in turnover to R4,54 billion.

MD Trevor Evans says volumes declined during the year in glass and particularly in corrugated as SA Breweries completed its conversion from corrugated to plastic beer crates.

Demand for plastic PET two-litre soft-drink bottles was well down and demand for the 1,5-litre returnable came nowhere near expectations. It found difficulty winning acceptance, particularly among blacks.

There were, however, increased beverage can sales, though not at the rate to which the industry has become accustomed.

Sales and profits improved in liquid packaging. The food canning business benefited from higher pelagic fish quotas in Namibia, which more than offset the somewhat depressed fruit and vegetable canning markets.

There were also higher sales and profits from the tissue divsion, which benefited from the current low selling price of its raw materials.

The toilet tissue market is still showing some real growth, thanks to increased urbanisation.

Despite depressed volumes and selling price increases well below the rate of inflation, group operating margin increased slightly as operating profit rose 4,9 percent to R517,9 million.

Chairman Brian Connellan attributes this to better productivity and raw-material buying and a focus on achieving world-class manufacturing and service levels.

A tighter control of working capital, particularly stocks, enabled the interest bill to fall 42 percent to R32,1 million.

Unfortunately, Nampak has not published a balance sheet with its preliminary results, making analysis of asset management difficult.

Connellan does, however, disclose that gearing fell from 27 percent to 16 percent.

Evans does not believe the industry has much to fear from the prospect of second-hand plant being imported by overseas operations, an idea recently floated by Holdains chairman Ian Willis.

"We have to meet international standards for our major clients, particularly as there is a growing quality consciousness.

"If there is a threat from such surplus plant, it will be at the lower end — for example, sheet plants for corrugated paper."

Nampak earnings defy hard times

B/Day 29/10/93

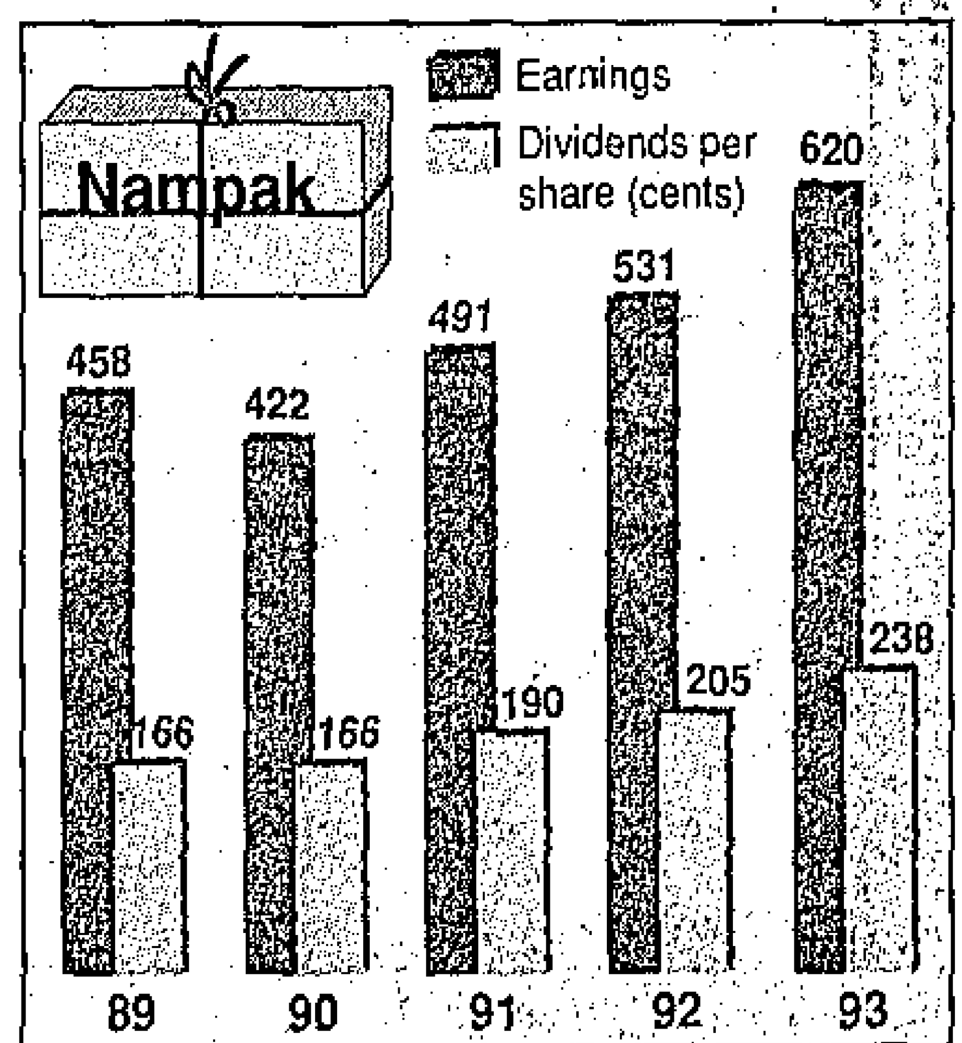
MARCIA KLEIN

SA's largest packaging group Nampak shrugged off a highly competitive market and a fall in consumer spending, increasing its earnings 17% to 620c (531c) a share in the year to September.

Chairman Brian Connellan said trading conditions were difficult, particularly in the second half. Volumes were down in real terms, and inflationary price increases were no longer a factor, so any improvement in results had to be achieved through increased efficiency. (194)

Volumes were 2% lower than the previous year, but turnover rose 4,5% to R4,5bn (R4,3bn). Export turnover was up 24% at R98m (R79m). A final dividend of 151c a share was declared, bringing the full year dividend up by 16% to 238c (205c) a share. Cost containment and improved efficiency resulted in a 4,9% rise in operating profit to R517,9m from R493,5m.

Connellan said that notwithstanding capex of R237m, cash inflow was R157m, which "brought considerable saving in interest". The reduction in net interest to R32,1m (R54,9m), and higher income from investments, saw pre-tax profit rise by 11% to R505,8m (R455,1m).



Graphic: KAREN MOOLMAN, Source: NAMPAK

He said the 2% higher taxation of R197,9m (R193,5m) took account of lower tax rates, an additional provision for deferred tax and a R9,4m favourable prior year adjustment. Attributable profit was 18% up at R299,8m (R254,5m), but the growth in earnings a share was diluted

□ To Page 2

Nampak

B1Day 29/10/93

□ From Page 1

marginally by additional shares in issue.

Packaging subsidiary Bevcan increased its can sales, but closure sales dropped and profits were marginally lower. Liquid packaging increased sales and profits, but plastics' profits were lower because of reduced demand. Glass returned to profitability. Foodcan benefited from improved fishcan sales, and Polyfoil from higher local market share and exports. Corrugated containers continued to feel the effects of the substitution of plastic crates for corrugated boxes in the beer industry. Paper manufacturing and tissue's profits were higher, but those of paper distribution and printing were down.

On the group's liquidity, Connellan said the Reserve Bank had stopped any intentions of investing or listing offshore, but it continued to explore all options.

(194) The share closed yesterday at R93, off a yearly high of R103 and a low of R78. Connellan said that if the share traded at over R100 for a prolonged period, Nampak would look at a share split.

He expected a modest improvement in earnings in the coming financial year.

SAPPI FM 29/10/93

Prices still falling

The first two highlights in the Sappi interims tell it all: "Selling prices decline further," and "Earnings down 63%."

The brightest spot is that the company can at least claim it isn't returning losses similar to those of its international competitors. The tale of the interims is indeed mixed: turnover up 36% to R2,7bn, operating income down 54% to R101m, bottom line EPS down 67% at 43c.

(194)

An interesting feature is the treatment applied to portions of the interest account. Sappi has capitalised interest of R67,4m on a total bill of R98,8m. Had this not been done, attributable earnings would have plunged into the red, so an explanation is necessary.

The view appears to be that since the company is deeply involved in the business of growing trees — and because it takes around 15 years before they reach maturity, it is reasonable to capitalise the interest related to these activities. That's not the case in the northern hemisphere, however, where many paper producers tend to avoid growing and buy in mature plantations. Sappi's accounting treatment is in accordance with accepted standards.

The area of real concern is in international pulp and paper prices. Last year at this time, the benchmark Southern bleach softwood kraft price was about US$560/t. Alarmingly, that is now down to about $340/t (as last reported) and trading takes place now at about 10% below these list prices. The question for Sappi is whether it's prepared to do business at these levels. Since this latest fall in price has occurred after the end of the six months, it must be presumed the third quarter will be somewhat more difficult for the company.

Meanwhile, the market is re-examining last year's Hannover Papier deal. A huge currency devaluation (up to 40%) in Nordic countries has challenged Hannover's ability to compete in certain areas — the result is significant interim losses.

In fact, conditions in Europe have clearly deteriorated to such an extent that it seems possible Sappi would be able to acquire Hannover — were it now to be in the market — for as much as 25% less than it paid last year. Considering that losses this year may be as much as R90m, this makes the acquisition doubly disappointing.

However, it is also true that hindsight confers unusually clear vision and, in any event, it's unlikely the Reserve Bank would now allow such a transaction.

Another matter of more than passing interest is that an amount of R20m — a prior year claim against a third party — may be subject to litigation. Since it's already been brought to account, it may now have to be written back.

All these factors mean the market is expecting the share to underperform in the short term. This is compounded by the quantity of shares overhanging the market following the Gencor unbundling. One result is that holders looking to lighten their portfolios will sell into strength when the price begins to move — and that will slow any recovery.

(194)

David Gleason

FM 29/10/93

PROFITS PULPED

Six months to	*Aug 31 '92	Feb 28 '93	Aug 31 '93
Turnover (Rm)	2,02	2,65	2,75
Pre-tax income (Rm)	183,5	196,9	64,3
Net income (Rm)	175,1	195,2	64,3
Earnings (c)	130	132	43
Dividends (c)	80	80	0

* Restated according to current disclosure.

Nampak wraps up 17% growth

JOHANNESBURG. — SA's largest packaging group Nampak shrugged off a highly competitive market and a fall in consumer spending, increasing its earnings 17% to 620c (531c) a share in the year ending September.

Chairman Brian Connellan said trading conditions were difficult, particularly in the second half. Volumes were down in real terms, and inflationary price increases were no longer a factor, so any improvement in results had to be achieved through increased efficiency.

Volumes were 2% lower than the previous year, but turnover rose 4,5% to R4,5bn (R4,3bn). Export turnover was up 24% at R98m (R79m). A final dividend of 151c a share was declared, bringing the full year dividend up by 16% to 238c (205c) a share. Cost containment and improved efficiency resulted in a 4,9% rise in operating profit to R517,9m from R493,5m.

Connellan said that notwithstanding capex of R237m, cash inflow was R157m, which "brought considerable saving in interest". The reduction in net interest to R32,1m (R54,9m), and higher income from investments, saw pre-tax profit rise by 11% to R505,8m (R455,1m).

He said the 2% higher taxation of R197,9m (R193,5m) took account of lower tax rates, an additional provision for deferred tax and a R9,4m favourable prior year adjustment. Attributable profit was 18% up at R299,8m (R254,5m), but the growth in earnings a share was diluted marginally by additional shares in issue.

Packaging subsidiary Bevcan increased its can sales, but closure sales dropped and profits were marginally lower. (194)

Liquid packaging increased sales and profits, but plastics' profits were lower because of reduced demand. Glass returned to profitability. CT 29/10/93

Foodcan benefited from improved fishcan sales, and Polyfoil from higher local market share and exports.

Corrugated containers continued to feel the effects of the substitution of corrugated boxes with plastic crates in the beer industry.

Paper manufacturing and tissue's profits were higher, but those of paper distribution and printing were down.

On the group's liquidity, Connellan said the Reserve Bank had stopped any intentions of investing or listing offshore, but it continued to explore all options.

The share closed yesterday at R93, off a yearly high of R103 and a low of R78. Connellan said that if the share traded at over R100 for a prolonged period, Nampak would look at a share split.

He expected a modest improvement in earnings in the coming financial year.

Packaging group buys Interpak from Lion Match

Consol in R205-m deal

Star 2/11/93

THE transaction gives Consol entry into the R630 million a year folding carton market

■ BY STEPHEN CRANSTON

Packaging and rubber group Consol has acquired Interpak from Lion Match for R205 million.

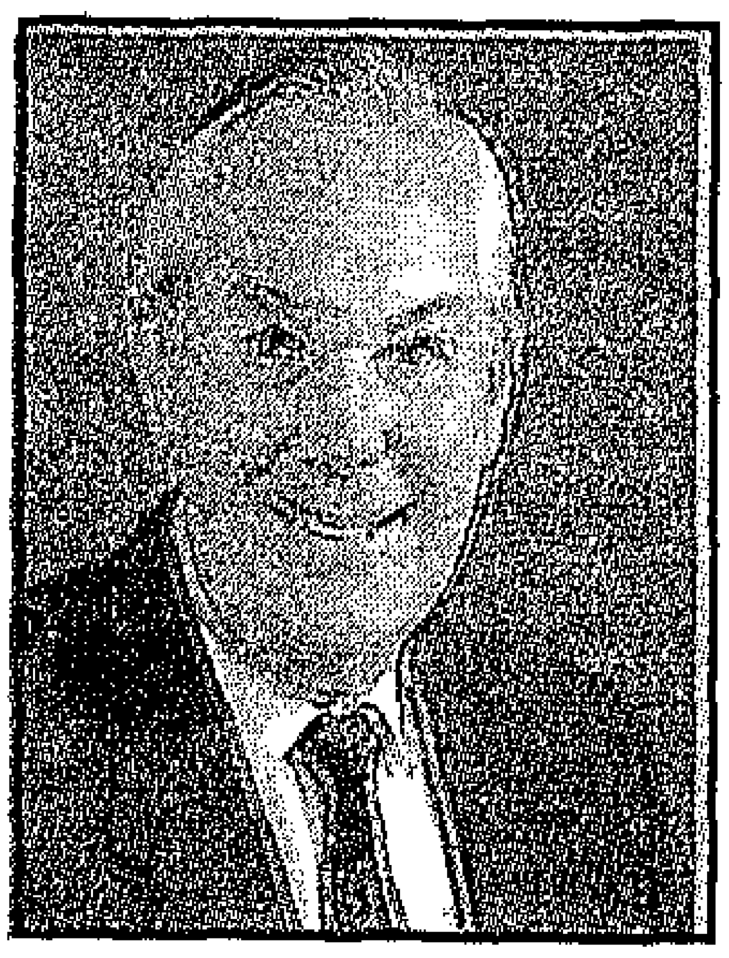
The business has been acquired debt-free, and adds folding carton, label and printing operations to Consol Paper.

Interpak also operates processes in the thermforming of plastics and metalises and laminates substrates for a variety of applications.

In a slightly odder fit with Consol's existing operations, Interpak produces books, and conducts a merchanting operation for a variety of printing inks and related materials.

Interpak has four plants — at Elandsfontein, Maritzburg, Cape Town and Durban.

Consol Paper's corrugated plants are also located in these main centres and share many customers.



Piet Neethling ... negative impact on earnings.

Interpak will fall under the control of Consol's paper division headed by MD Gert du Toit.

Consol MD Piet Neethling says that in the current year to June 1994 there will be a small negative impact on earnings, but that the sizeable acquisition provides Consol with strong presence in fields in which it is not involved.

The transaction gives Consol entry into the R630 million a year folding carton market and a label market exceeding R150 million a year. (194)

Interpak is making an investment in upmarket metalised labels.

Since buying Interpak in 1988, SAB has substantially upgraded plant and equipment which Consol now acquires.

Interpak has had a good profit record since its takeover by SAB. Further opportunities for expansion and profit growth exist.

The transaction requires the approval of the shareholders of Consol and Lion Match.

This should be a formality as the controlling shareholders, Anglovaal Industries and SAB, have undertaken to vote in favour of the necessary resolutions at the respective general meetings.

Consol is well-placed to absorb Interpak without a rights issue. At June year-end it was in a net cash position of R49 million.

Gearing will be less than 20 percent.

In a further transaction, Consol has swopped assets with Nampak, whose custom mouldings business has been exchanged for Consol's PET container business.

Nampak MD Trevor Evans says the PET market is extremely competitive and both companies are sitting with underused plant.

"In the present climate there is no room for two players in PET.

"By merging the two PET operations we can create one structure which can save costs and so price more aggressively."

Evans says that while sales of PET two-litre and 1,5-litre bottles are currently depressed, demand for the material has grown strongly worldwide.

Nampak's custom mouldings operations at Spartan in the Transvaal is old and has not been profitable for some time.

Consol will now focus on the blow moulding/injection moulding business, thereby providing the opportunity to improve its position in this market.

Consol nets 100% of Interpak for R205m

From MARCIA KLEIN (194) CT 2/11/93

JOHANNESBURG. — Packaging and rubber group Consol Limited has acquired 100% of Interpak from SA Breweries (SAB) subsidiary Lion Match for R205m cash.

The acquisition, funded largely from cash resources, follows a cautionary announcement on October 25 that the groups were involved in negotiations.

Consol also announced it had acquired Nampak's custom mouldings business located in Transvaal and Natal, and it had sold its carbonated soft drink PET bottles business to Nampak.

Consol MD Piet Neethling said yesterday Interpak would be acquired debt free, and the name Interpak would be maintained. Lion would receive R205m cash, equivalent to 452c a share. The deal was effective from yesterday.

Lion, which today reported a 17% interim earnings rise to 15,49c a share, said Interpak operated as an independent business with its own management. There were only minor opportunities for synergies with the broader Lion group. Lion was approached by Consol at a price which took into account potential benefits of integrating Interpak with a larger group.

Shareholders

Lion said shareholders' value would be enhanced by the offer. Lion's reported earnings of 15,5c a share at end-September would increase to 21,7c after the disposal.

Neethling said Interpak would fall under control of Consol's paper division. In the year to end-June 1994, the acquisition would have a small adverse effect on Consol's earnings. But "this sizeable acquisition provides Consol with strong market presence in fields in which Consol is not presently involved".

Interpak converts and prints board and paper in its folding carton, label and printing operations. It also makes plastics, metallises and laminates, produces books, and has a merchanting operation for printing inks and related materials. It has four plants in SA. Two are included in the deal, and suitable rentals are in place with Lion for the other two.

Neethling said the transcation gave Consol entry into the R630m-a-year folding carton market and an annual label market of more than R150m. Interpak was making a new investment in metallised labels, which were already appearing on SAB products. Since SAB bought Interpak in 1988, it had upgraded plants and equipment and Interpak had shown a good profit.

The deal requires the approval of both Consol and Lion shareholders. Controlling shareholders — Anglovaal Industries and SAB respectively — said they would vote in favour of the deal.

Commenting on the acquisition and disposal deals with Nampak, Neethling said: "There is no significant difference between the amounts involved for the purchase and the sale of these businesses regarding fixed assets and working capital."

Consol would continue looking for investment opportunities to expand its position in packaging and rubber.

LION Match increased its earnings 17% to 15,49c (13,25c) a share in the six months to end-September.

Lion also announced the R205m sale of its packaging division Interpak and Interpak Properties to Consol. In the year to end-March, packaging contributed 54% of the group's turnover and 40% of trading profit.

Lion's turnover rose 7% to R148m (R138,5m). Trading profit increased 13% to R19,2m (R17,1m).

Lower finance costs of R3,2m (R3,7m) and a lower corporate tax rate saw profit after tax rise 33% to R9,2m (R6,4m).

But equity accounted joint venture company Amalgamated Appliances showed a loss. Lion's R2,2m share of the losses saw attributable earnings rise 17% to R7m (R6m). A 17% higher interim dividend of 6,15c (5,25c) a share was declared, in line with the board's policy of distributing 40% of earnings as dividends.

Cash flow from operations increased to R18,9m (R10,2m). Lion invested R22,6m in a significant capex programme in the packaging division. As a result, net financing requirements rose R7,7m, but gearing was reduced marginally.

Consol acquires Interpak for R205m

B/Day 2/11/93

MARCIA KLEIN

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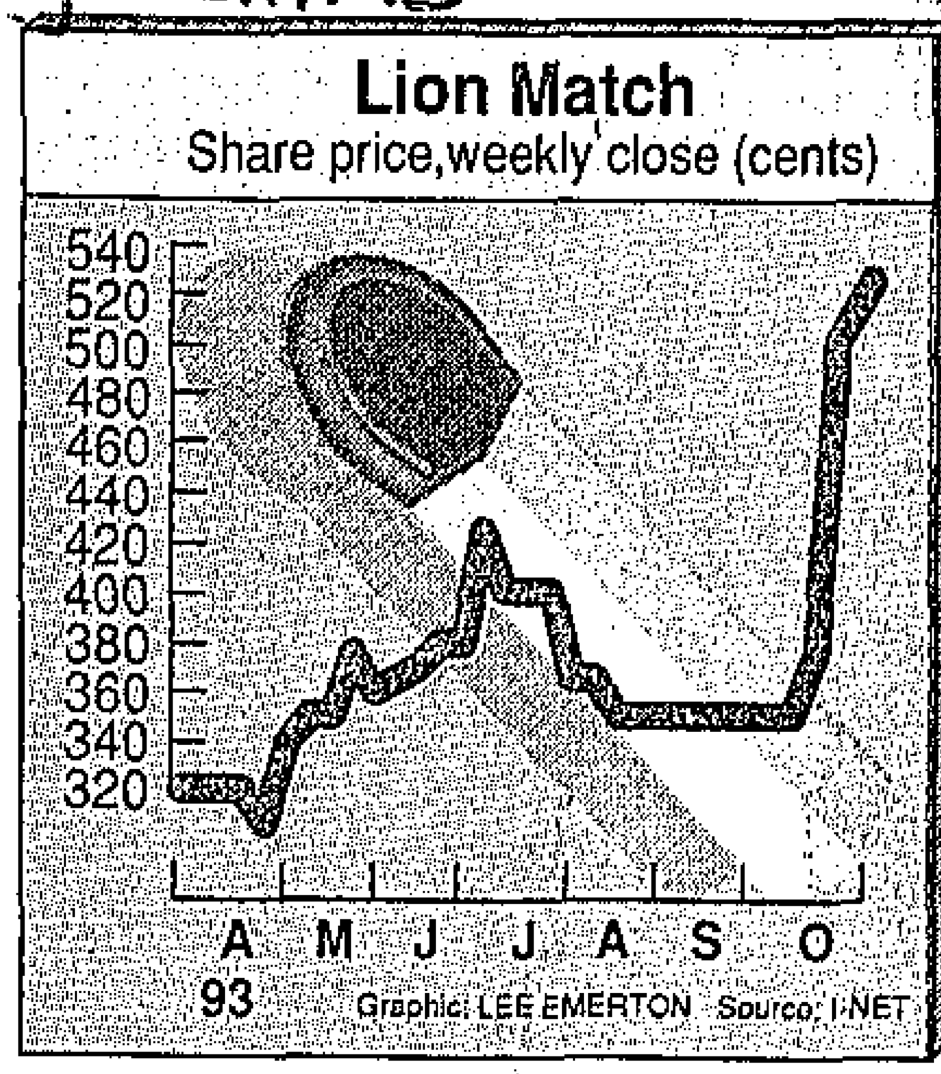

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Consol

B/Day 2/11/93

From Page 1

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See Page 17

NAMPAK Fm 5/11/93

Housekeeping shows

These results demonstrate it actually is possible to buck the trend. Nampak's 1993 preliminaries show growth in earnings and dividends substantially better than inflation. (194)

The board is proposing a dividend distribution 16% better than last year at 238c; EPS rose 17% to 620c and cover has been held at an appropriate 2,6 times. This good result owes less to increases in turnover than it does to good housekeeping and tight financial control. The trading margin held firm at around 11,4%, an indication that management declined to be drawn into chasing market share at any price. Also lending weight to an above-line performance is the sharp re-

Cont → p91

Fm 5/11/93

duction in interest charges, which declined 42% to R32,1m.

The lack of a balance sheet hampers analysis; however, reductions in long-term liabilities, down to R72m (1992: R151,4m), with a decline of R34m in short-term borrowings, has plainly had a material impact on financing costs. This illustrates an inherent strength: gearing has reduced to 16% (27%) and cash holdings at year-end were R89m, says chairman Brian Connellan.

All these factors indicate it is possible to manage companies a good deal meaner than in the past, despite acutely difficult market conditions. Both Connellan and CE Trevor Evans concede the company contains problem areas. "The blood bath in paper goes on," says Connellan, and Nampak continues to experience difficulties in the corrugated packaging area where the move to plastic crates has hurt. (194)

Capital expenditure over the past five years has totalled about R1,2bn — an average of R240m a year. Last year, Nampak

WRAPPING IT UP

Year to	Sep '92	Sep '93
Turnover (Rm)	4 346	4 544
Operating income (Rm)	494	518
Attributable (Rm)	255	300
Earnings (c)	531	620
Dividends (c)	205	238

spent R237m, the largest single portion of which (R50m) was devoted to completion of the new ends plant at Bevcan. Evans says he expects capex this year to be about R250m, much of it on replacement items to ensure continuing competitiveness.

Nampak's business is in a sector noted for the aggressiveness of its players. Principal competitors are Holdains and Consol and, emerging now with its aluminium can, Highveld Steel's Rheem division. The scramble for market share is unlikely to diminish; however, in Nampak's favour is its considerable unutilised capacity — probably about 20%. This makes it well placed to take up increased demand when the economy turns.

At R94, the counter is below its 12-month high of R103, and is on a p:e of 15 compared with the sector's 14,4. Indications are that Nampak will achieve real earnings growth of about 3% this year, placing the forward p:e at 13,5 — indicative of continuing value in the share.

David Gleason

TRANSPACO

FM 12/11/93

Heavily borrowed

Though losses from discontinued operations — the Natal operations were sold in February — affected 1993 performance, EPS increased by 38% on an 8% rise in turnover. The Durban branch, which lost R240 000, was disposed of as a going concern for R297 000 in February. The Transvaal Paper & Packaging Industries division made a small loss. (194)

The acquisition during the year of East Rand Paper & Packaging was in accordance with Transpaco's philosophy of maintaining market leadership. Chairman Sam Abelheim believes tangible benefits will arise.

The financial structure worsened because of the acquisition as well as the general slowdown in debtors' payments. Debtors increased from R11,7m to R13m, short-term debt jumped from R3,7m to R6,2m and gearing reached 99%. Interest charges ballooned, rising 38% to R1m. Not surprisingly, the final dividend was passed.

FM 12/11/93

Activities: *Wholesales paper, plastics and other packaging-related products.*

Control: *Directors 74%.*

Chairman: *S Abelheim; joint MDs: M B Abelheim, P N Abelheim.*

Capital structure: *11m ords. Market capitalisation: R2,4m.*

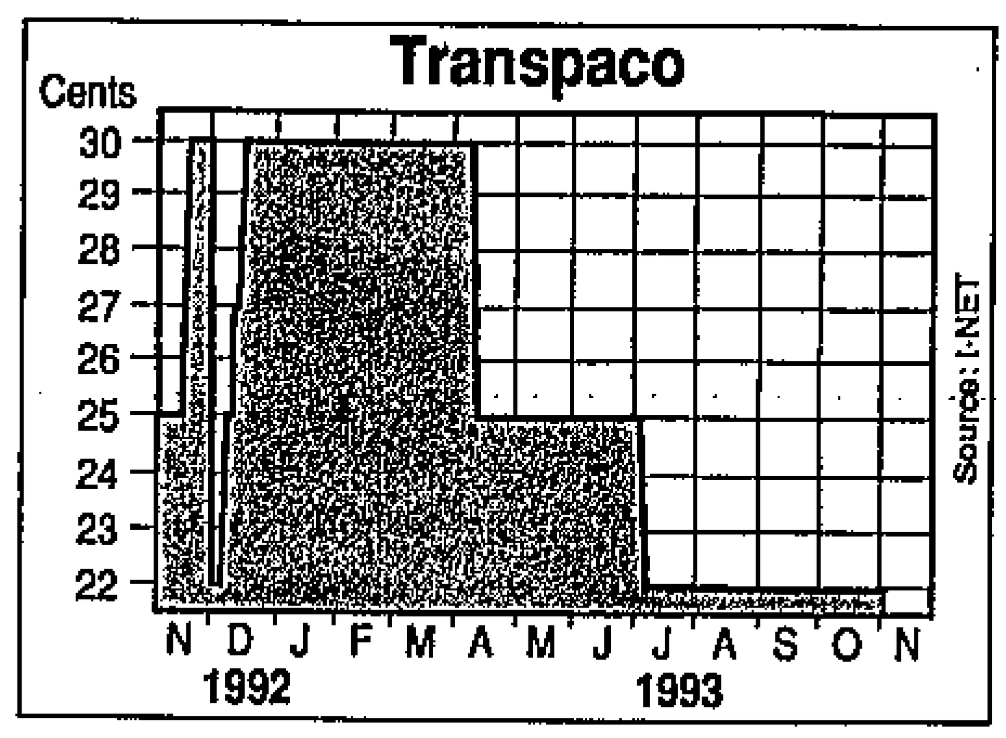
Share market: *Price: 22c. Yields: 2,3% on dividend; 33% on earnings; p:e ratio, 3,0; cover, 14,6. 12-month high, 30c; low, 20c. Trading volume last quarter, 65 000 shares.*

Year to March 31	***'90**	**'91**	**'92**	**'93**
ST debt (Rm)	4,7	3,6	3,7	6,2
LT debt (Rm)	3,2	2,1	1,5	1,6
Debt:equity ratio	1,63	0,82	0,62	0,99
Shareholders' interest	0,21	0,31	0,30	0,31
Int & leasing cover .	2,4	3,2	3,2	1,5
Return on cap (%) ..	9,3	15,4	8,1	7,9
Turnover (Rm)	56,3	51,4	50,4	54,8
Pre-int profit (Rm) ...	2,2	3,3	1,9	1,9
Pre-int margin (%) ..	3,8	6,3	3,7	3,5
Earnings (c)	1,8	9,5	5,3	7,3
Dividends (c)	1,8	4,0	2,5	0,5
Tangible NAV (c)	43	59	63	70

* 15-month trading period.

(194)

Abelheim says steps have been taken to eliminate unprofitable turnover. They include reassessment of stock, closure of branches and further retrenchment. On a happier note, Abelheim says Plastafrica, the flexible plastics factory, and Framen Paper Products, the core and tube maker, met forecasts and returned excellent results.



Improved profits were budgeted for this year but Transpaco relies heavily on the depressed retail trade. The share has fallen from a 12-month high of 30c to 22c and is unattractive, particularly with gearing at this level.

Kate Rushton

Business Report

Share split mooted by C G Smith

CT 15/11/93

(194)

JOHANNESBURG. — Food, packaging and textile group C G Smith, recently unbundled from former parent Barlow Rand, announced at the weekend it had increased attributable earnings by 6,8% to R443,3m (R415,1m) in the year to end-September.

It also intended splitting its shares on a 10 for one basis.

Newly-appointed chairman Derek Cooper — formerly Barlow's MD — said the results were achieved despite a 5% fall in earnings from significant contributor C G Smith Foods on the back of sharply lower profits from C G Smith Sugar.

Cooper said C G Smith Sugar was affected by the drought. The performance of most other group companies, which include Tiger Oats, Nampak, Romatex, ICS Holdings and Adcock Ingram, was strong.

He said C G Smith's 5,8% rise in turnover to R19,2bn (R18,1bn), a decline in real terms, reflected pressure on sales volumes and prices. Net income before interest and tax was marginally up at R1,4bn. But sharply lower financing costs — due to strong cash flow from operations and lower interest rates — and a reduction in the tax rate enabled it to lift bottom line earnings 6,8%.

Earnings were up 6,7% to 941,6c (882,3c) a share. A final dividend of 210c a share (or 21c based on the subdivided number of shares) was declared, bringing the full year dividend up by 6,2% to 327c (308c).

Cooper said the balance sheet was strong despite R700m in fixed assets.

Commenting on the share split, Cooper said C G Smith had been thinking about splitting its shares for some time as the share price was getting high. But the final decision was triggered by the unbundling.

C G Smith was looking forward to the number of shareholders increasing dramatically, Cooper said. The share closed on Friday at R124, off a yearly high of R142,50 and a low of R115.

He believed that the group's strategic direction, which he said would become apparent over the next few years, would indicate that it would increase shareholder's wealth.

Commenting on the dual pyramid structure — of C G Smith and C G Smith Foods — Cooper said this was a strategic decision to be addressed. The structure as it stood did not impede the group's strategy or funding.

Court order in industrial espionage case

(194) ARG 17/11/93

Sunpak must desist from breaking into rival's premises

PATRICK FARRELL
Supreme Court Reporter

RECENTLY formed packaging company Atlantic Forming has won a Supreme Court battle with rivals Sun Packaging (Sunpak) over allegations of industrial espionage.

Mr Justice Foxcroft ordered today that Sunpak and two of its directors, Johan Fick and Stanley Burton, be interdicted permanently from breaking into Atlantic's premises and removing documentation; unlawfully obtaining Atlantic business information and unlawfully interfering with Atlantic employees.

He also ordered them to return documents taken from Atlantic.

Atlantic, granted a temporary interdict on June 18, claimed that Sunpak hired private investigators Security Action Management to break into their factory and steal documents, video film the premises and bug the telephones.

Sunpak admitted doing this but claimed it was protecting its own interests. It said it had restraint of trade agreements with former employees working for Atlantic and was checking to see if those agreements had been broken.

Sunpak brought its own application against Atlantic, claiming it was using technology it paid a Japanese company R500 000 a year to use and asking for an order compelling Atlantic to return documents Sunpak claimed were taken illegally by a former employee.

Mr Justice Foxcroft said that strictly speaking Atlantic had only to prove its premises had been broken into and documents stolen to get the relief it was asking the court to grant.

He said precedents made it clear there was no reason in law why a person should be free to use information from stolen documents, information he would never have got but for the fact that the documents had been stolen.

"Sunpak claim they only briefed the private investigators to lawfully gather information about the breaking of the restraint of trade agreements. However, the private investigators went far beyond this and Sunpak knew that material taken from Atlantic had been removed unlawfully."

The judge said Atlantic had "amply demonstrated their entitlement to final interdicts against Sunpak."

Atlantic's application for final interdicts against another two Sunpak directors, Mark Thatcher and John Kennedy, was dismissed with costs.

The judge ruled that Sunpak was free to lead oral evidence if it wished in its interlocutory application against Atlantic.

Cedric Puckrin SC and Andre Oosthuizen appeared for Atlantic and Deon Irish SC and Patsy Weyers for Sunpak.

Nampak back in Zimbabwe

B/DAY 19/11/93

Business Day Reporter

PACKAGING group Nampak has returned to Zimbabwe after an absence of 10 years.

The group has entered into an alliance and taken a stake in Hunyani Holdings — the largest packaging company in Zimbabwe. It also entered into an agreement to supply technology. Nampak once owned 60% of Hunyani, but sold its stake in the early '80s. 194

Nampak also increased its holding in International Cartons and Packaging in Zambia from 25% to 50%.

Retail boom time was slack, Holdains warns

B/Day 23/11/93

MARCIA KLEIN

PAPER and packaging group Holdains has warned that retail trading — on which sales of its products rely — has been weak in the traditionally buoyant three months to November.

In the group's annual review, CE Richard Bruyns said he expected next year to be tough, but Holdains was positioning itself for the longer term. (194)

In the year to August, the group increased attributable earnings 14% to R96,3m on a 12% turnover rise to R2,6bn. But earnings a share increased by just 3% to 360,5c on additional shares in issue.

Holdains was targeting a modest improvement in earnings a share this year, Bruyns said.

But the increase in issued shares would dilute interim earnings. Recently acquired Crown Cork would continue to slow the growth in earnings next year, but was expected to make a meaningful contribution after that.

Chairman Ian Willis said demand for the group's products would remain depressed as long as there was violence and uncertainty. But Holdains had taken action to gain market share in certain areas, and this should underpin earnings growth.

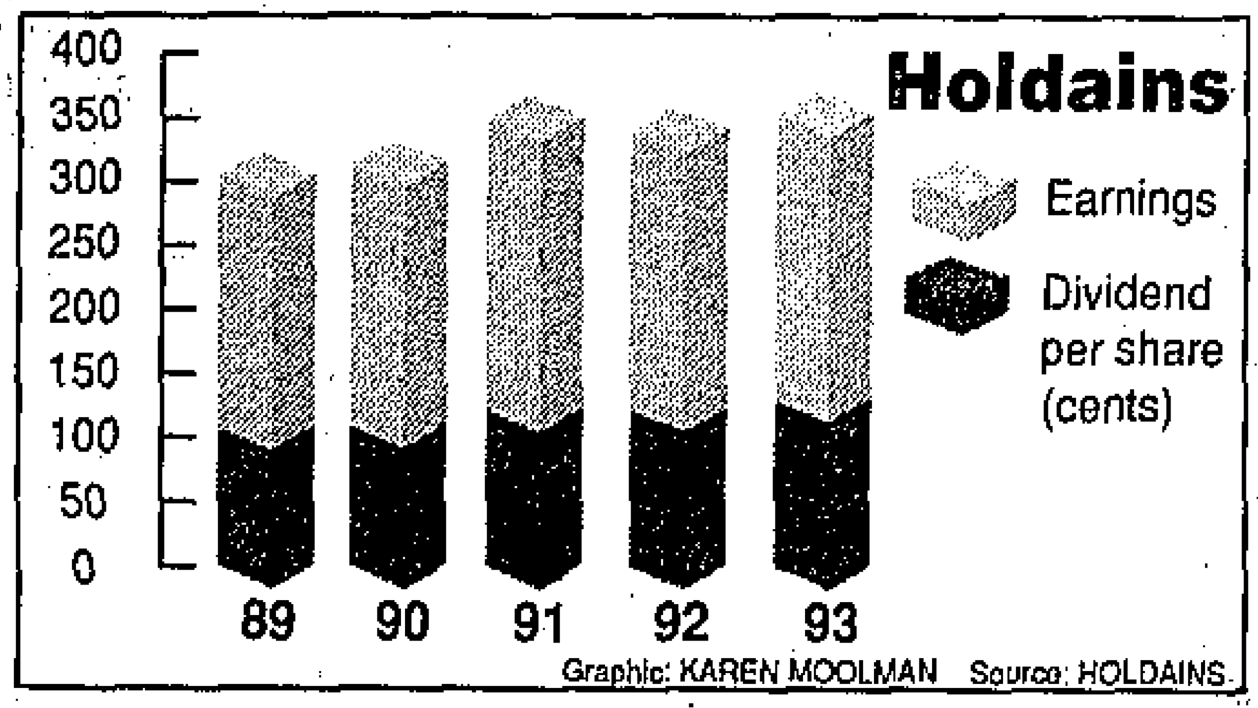
Bruyns said Holdains would spend maximum free cash flow on new capital equipment in clearly identified, focused areas.

It wanted to lift operating margins to about 10% from the current level of about 8%.

This could not be achieved by price increases alone, but through improved efficiencies and greater volumes from niche products, he said.

Six divisional offices were closed or merged, in line with the philosophy of keeping corporate overheads small and focused on their prime responsibilities, Bruyns added.

Paper merchanting business Graphtec "is not achieving a level of results acceptable to shareholders". It had been rationalised to meet lower demand and plans were in place to improve its performance.



Graphic: KAREN MOOLMAN Source: HOLDAINS

Nampak keeps its costs down

Star 2/12/93

BY STEPHEN CRANSTON

In a market in which volumes fell by two percent, Nampak was able to contain costs effectively, says managing director Trevor Evans.

He says in the annual report for the year to September that while sales rose 4,5 percent to R4,54 billion, the cost of materials and services increased by just 4,1 percent to R2,94 billion and employment costs by 4,6 percent to R936 million.

Sales volume per employee, on the other hand, increased by six percent.

Evans says that the past few years have been typified by a concentrated focus on costs and efficiency.

The group is now leaner, has considerable spare capacity and its balance sheet is strong, with gearing down from 28 percent to 16 percent.

Emphasis

194

Far greater emphasis will be placed on the opportunities provided by a changing climate and increased acceptance in Africa and the world at large.

Since year-end Nampak has taken a stake in Zimbabwe's largest packaging company, Hunyani Holdings, and increased its stake in International Cartons and Packaging in Zambia from 25 percent to 50 percent.

Nampak's Bevcan division saw sales of beer cans fall.

But sales of cans for fruit juice, wines and cider were well ahead of last year and soft-drink can sales were up.

Bevcan's profits will be hit this year by the entry of Rheem into the market, but expected recoveries in other divisions should compensate.

Custom Plastics had a difficult year, with very low demand from soft-drink manufacturers for its PET bottles, particularly the 1,5 litre returnable bottle.

Leaner Nampak forecasts modest rise in earnings

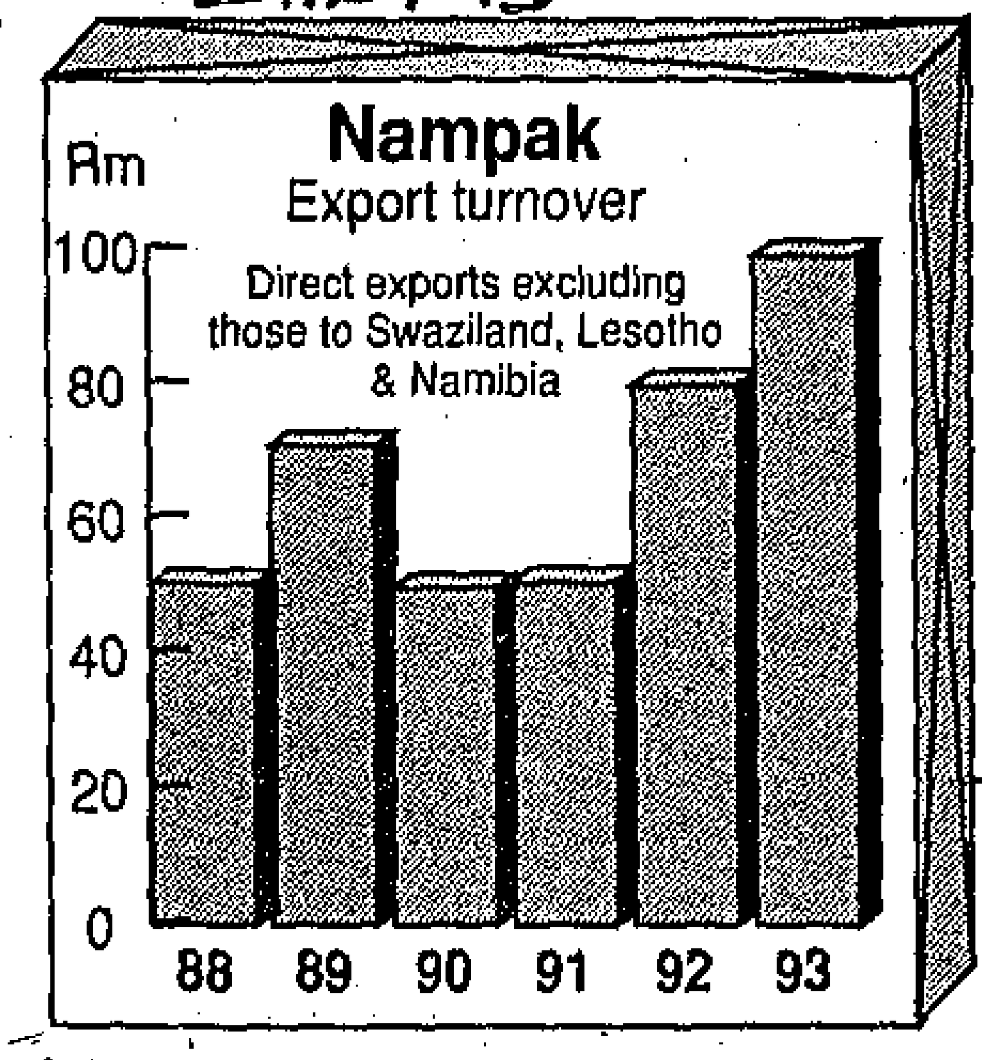
BDay 2/12/93

MARCIA KLEIN

PACKAGING group Nampak expected a modest earnings rise this year with the effect of new competition in the beverage can market offset by improved performances in other divisions, chairman Brian Connellan said in his annual review.

Nampak increased earnings 17% to 620c a share on a 5% turnover growth to R4,5bn in the year to September, despite a 2% decline in volume growth, competition and price increases below inflation. (194)

Connellan said political developments brought new export opportunities. In 1993, Nampak's aggressive export thrust lifted direct export turnover 24% to R98m.



Nampak had spent R237m on new capital projects to keep efficiencies at world-class standards. Planned capex for the coming year would be higher, he said.

MD Trevor Evans said the past few years had been typified by a focus on cost and efficiencies.

"The group is now far leaner, has considerable spare capacity on modern equipment and its balance sheet is strong." This left it well-placed to meet increased competition and the expected upturn in consumer demand toward the end of 1994.

Evans said Nampak would focus on developing growth opportunities provided by a changing SA and its new international acceptance.

Some technology partners were showing interest in developing relationships further, and these could have exciting commercial benefits.

Evans said Nampak had always disclosed its interests in Botswana and Swaziland. With the removal of sanctions and the reacceptance of SA internationally, Nampak had provided information on other investments. These included companies incorporated in Mozambique, Malawi and Zambia.

Connellan said 1994 could be a watershed year for the SA economy. Local and international business would adopt a wait-and-see attitude toward investment. Together with a slow improvement in the world economy, this would result in little real growth in the local economy.

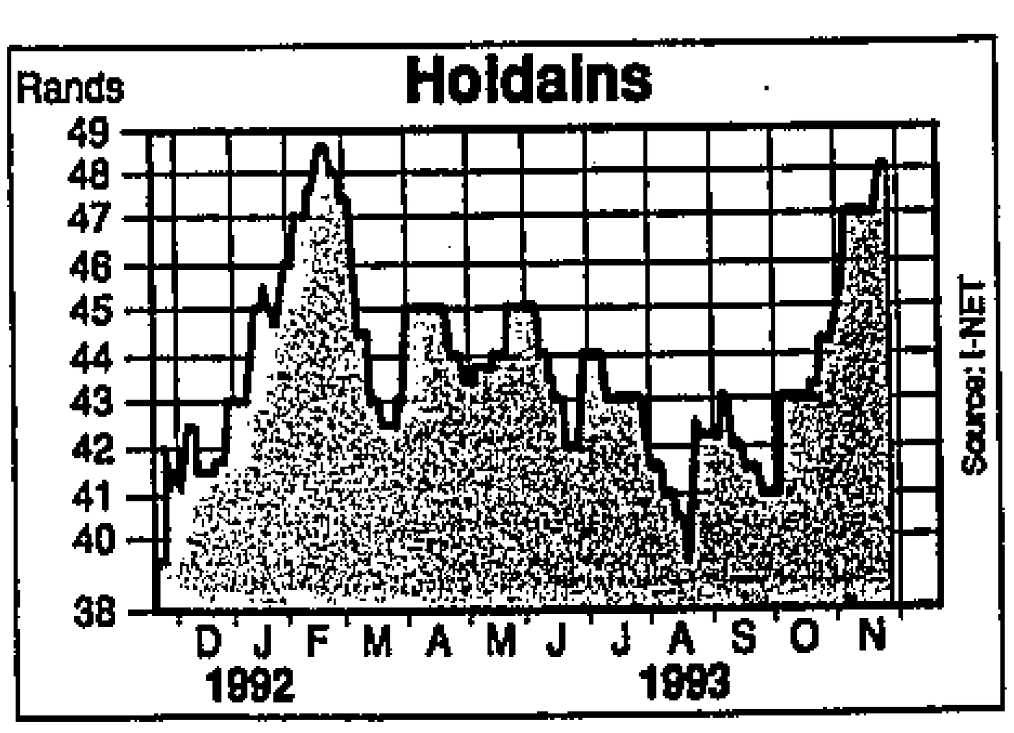
HOLDAINS FM 3/12/93

In a defensive stance

Reliant as it is on consumer spending, packaging group Holdains has done a remarkable job of containing working capital and reducing costs. Though margins came under extreme pressure, full-year earnings improved 14%. EPS, 3% better than 1992's, were diluted by the R191m rights offer in March.

Industry volumes for the year declined about 4% but Holdains stemmed its own volume decline to about half this. Profit rose 2% on a 12% turnover increase to R2,6bn, of which acquisitions contributed 6%. (194)

During the 1993 year, effort was devoted



FM 3/12/93

Activities: *Makes products for the paper, packaging and fibre industries.* (194)

Control: *Malbak 68,3%.*

Chairman: *I Willis; CE: S R Bruyns.*

Capital structure: *29,1m ords. Market capitalisation: R1,368bn.*

Share market: *Price: 4 700c. Yields: 2,7% on dividend; 7,7% on earnings; p:e ratio, 13,0; cover, 2,9. 12-month high, 4 850c; low, 3 775c. Trading volume last quarter, 390 000 shares.*

Year to Aug 31	'90	'91	'92	'93
ST debt (Rm)	118	132	192	74
LT debt (Rm)	38	35	38	52
Debt:equity ratio	0,40	0,27	0,45	0,05
Shareholders' interest	0,45	0,49	0,68	0,84
Int & leasing cover	3,50	3,97	4,52	6,12
Return on cap (%)	17,5	17,9	25,5	22,3
Turnover (Rbn)	1,80	1,95	2,30	2,57
Pre-int profit (Rm)	151	173	191	195
Pre-int margin (%)	8,4	8,9	8,3	7,6
Earnings (c)	322	358	349	361
Dividends (c)	110	121	121	125
Tangible NAV (c)	1 563	1 677	1 730	2 178

to consolidating and bedding down acquisitions of the past two years, costing some R200m. CE Richard Bruyns says the new businesses of Holdains Plastics and Sun Packaging performed better than expected, but the strategic investment in metal packaging company Crown Cork is still to make a useful contribution — this is not expected before 1995.

To maintain market share in the packaging business, of which Holdains has about a third, product prices had to be squeezed; margins consequently narrowed from 8,3% to 7,6%. Packaging, the core business incorporating operations of paper and board, metal cans and plastics, performed well overall, contributing 68% of operating profit from 57% of turnover. But the success of the packaging arm was due to rationalisations and strict control of working capital and costs, rather than increased demand.

An improved second half for listed Carlton Paper (Carlcor) saw the 16,8% decline in EPS transformed into an annual increase of 10,2% to 228,1c. It contributed 28% of Holdains' operating profit, from 19% (R485m) of turnover. An increase in tissue market share, from 1992's 42% to 45%, was at the expense of margins and resulted in a 3% drop in operating income. To counter Procter & Gamble's entry into the market, Bruyns says Carlcor will rely on technology from US company Kimberly-Clark (50% partner in Carlton Paper).

Paper merchant Graphtec remains a problem area, with results which are less than satisfactory. In response to a shrinking market, the business has been rationalised. Accounting for 24% (27%) of group turnover, its contribution to operating profit was a mere 4%, largely reflecting costs of substantial restructuring.

Exports accounted for 4% of turnover. Management would like to see the contribution from exports grow to around 10%.

Despite recent acquisitions, Holdains' balance sheet remains healthy. Strong cash flow, coupled with the rights issue and strict control of working capital, reduced net gearing to 5% (45%). Though Bruyns says gearing will remain prudent, maximum free cash flow will be spent on new capital equipment in identified areas.

Though budgeting for a "modest" increase in earnings this year — similar to that of 1993 — Bruyns cautions that the first financial quarter to end-November has been particularly weak; this is a period which normally reflects buoyant stocking up before Christmas. Margins will continue to suffer in 1994, but some relief is expected from improved contributions by Crown Cork and Graphtec.

The recent rerating of the share to R48 puts it just off its annual high of 4 850c, reflecting market recognition of Holdains' ability to batten down under recession, as well as its potential in a more active economy.

Marylou Greig

FM 3/12/93 (194)

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FM 3/12/93

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FM 10/12/93 (194)

NAMPAK FM 10/12/93

Growth by management

Superlative results for the 1993 year were signalled a few weeks ago with the release of Nampak's preliminaries. EPS rose 17% off an already high base and the dividend is being increased 16% to 238c. (194)

The balance sheet should be an area of focus for shareholders and analysts. Total capital employed has expanded to R1,76bn; this includes retained profits of R1,1bn and to which the managers are adding at a rate of about R150m a year. This means a considerable reduction in interest-bearing debt is possible and this year it has fallen by nearly R114m to R228,8m. Debt:equity has improved to 0,10 — minuscule when annual turnover is R4,5bn.

Another effect of this reduction in borrowings has been a sharply reduced interest bill of R32,1m (1992: R54,9m). Management's conservative practice is to bring as much in above the line as it can: that includes losses on disposing of fixed assets and writing off research and development as a direct charge against operating profit. I point this out because many SA companies make a habit of tucking away as much as they legally can below the line — that way their EPS calculations are not affected.

However, I have to note — because the sums are large — that Nampak's holding company (Barlow Rand) hasn't been shy with its own charges: it creamed off R5,2m in administrative and technical fees and another R6,6m for technology purchases. Interestingly, Nampak's directors — there are 17 including six non-executives and two alternates — earned R6,6m between them. That's R388 000 each assuming they all earned equally, which, of course, is nonsense.

Nampak is hugely efficient at generating cash: operations produced R712m which netted out at R356m. R106m went to shareholders and minorities and after shelling out R81m in expansion capex and meeting R&D and other acquisitions, Nampak's cash inflow over the year was a cool R158m.

Nampak has achieved a substantial increase in EPS not from turnover (which rose modestly by only 4,5%) but from cost reductions and containment across its operations. Of course, the sharp fall in the interest bill helped and so did the almost static tax bill at R198m.

Attracts competition

Packaging is a business which attracts considerable competition despite high barriers to entry. To some extent this explains Nampak's concentration on its capital expenditure programme — probably the only way it can ensure it retains its competitive edge. Over the last six years, Nampak has spent an average of R230m a year in capex projects and in 1993 it spent R237m, its largest single project being the completion of the new ends plant at Bevcan.

MD Trevor Evans says he expects capex this year to be about R250m and the company certainly can't afford to rest on its laurels.

Its principal competitors are Holdains and Consol and Highveld Steel whose Rheem aluminium can division is now in production. If anything, competition will increase over the next few years.

One aspect favouring Nampak is that the company has considerable unused capacity — chairman Brian Connellan hints it may be as much as 20%. That means it is well placed to meet increasing demand when the economy begins to expand.

The share price is R100 — appreciably improved since the R94 of barely a month ago but still below its 12-month high of R103. Assuming a real increase over 1994 of 3%, this implies EPS of about 695c. That gives a forward p:e of 14, which suggests there's still room for hesitant investors.

David Gleason

Activities: *Manufactures metal, paper, paperboard, plastic and glass packaging, as well as brown and tissue papers, tissue wadding conversion and distribution, paper merchanting and specialised printing.*

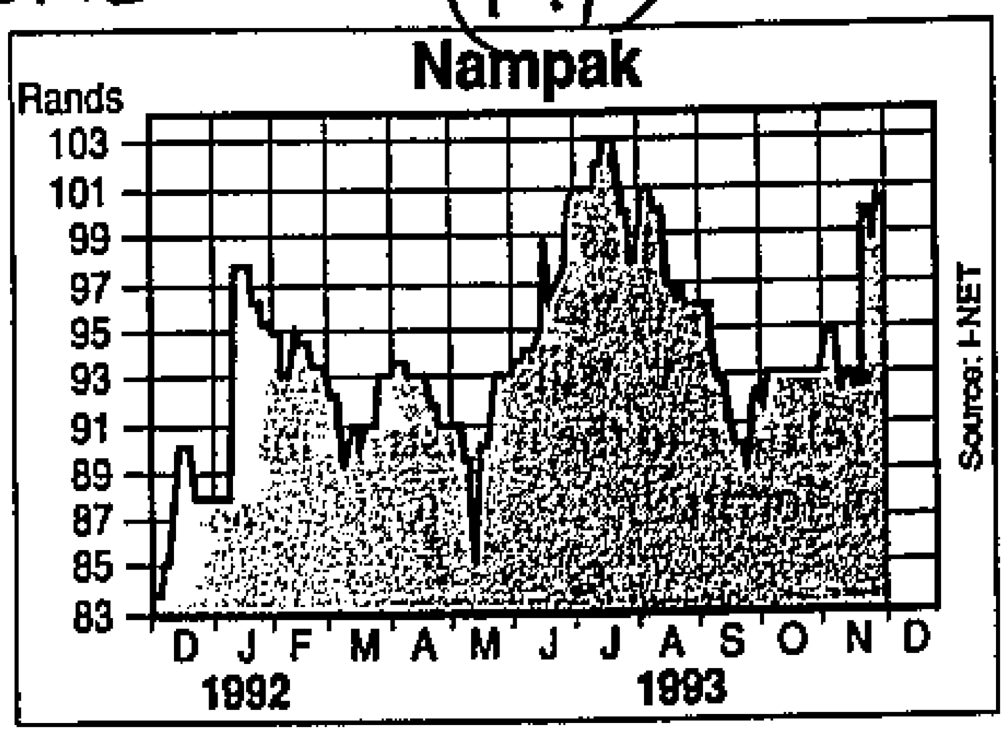
Control: *C G Smith 63%.*

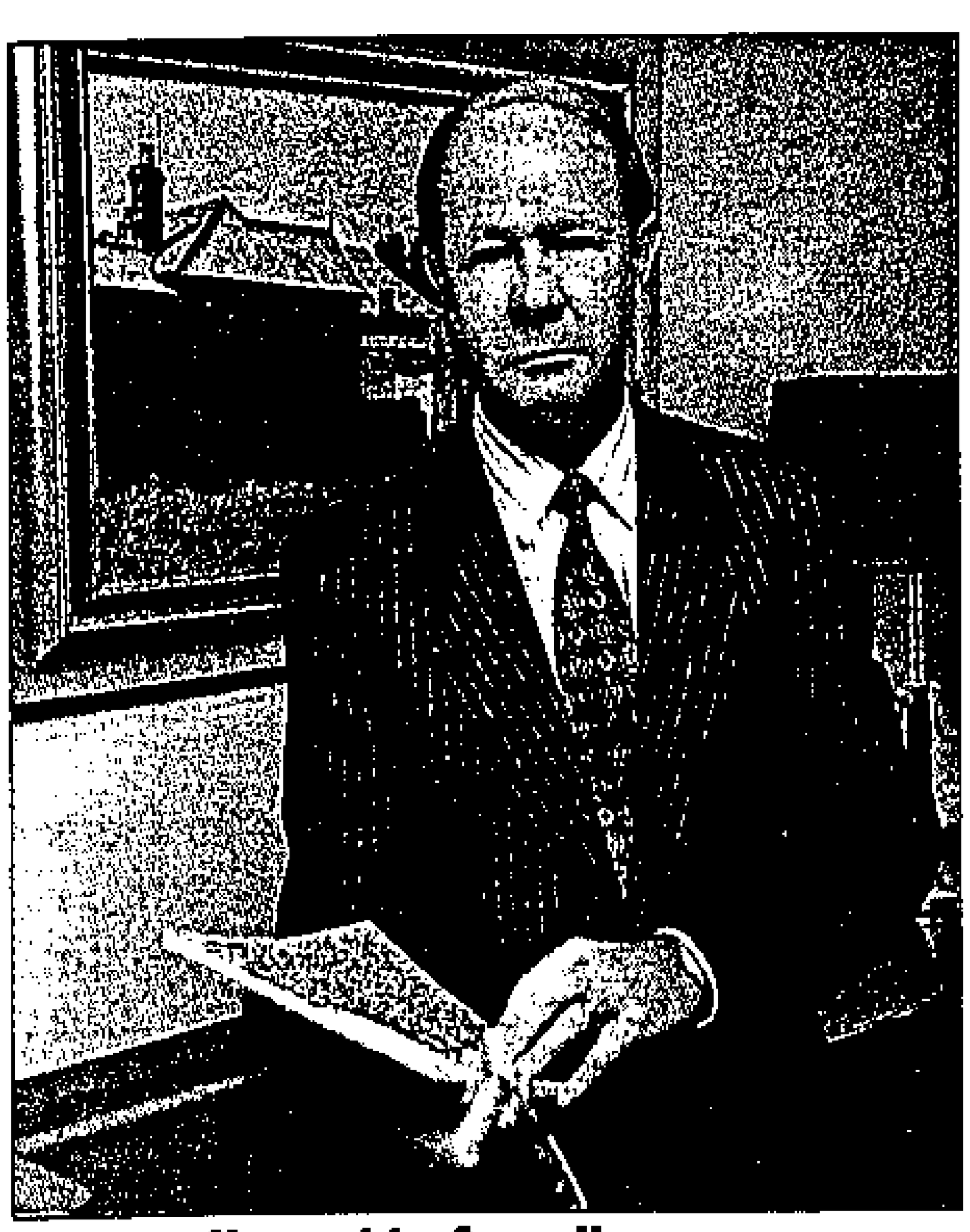
Chairman: *B Connellan; MD: T Evans.*

Capital structure: *48,5m ords. Market capitalisation: R4,9bn.*

Share market: *Price: 10 000c. Yields: 2,4% on dividend; 6,2% on earnings; p:e ratio, 16; cover, 2,6. 12-month high, 10 300c; low, 8 250c. Trading volume last quarter, 359 000 shares.*

Year to June 30	'90	'91	'92	'93
ST debt (Rm)	182	266	191	156,7
LT debt (Rm)	166	206	151	72,1
Debt:equity ratio	0,34	0,39	0,24	0,10
Shareholders' interest	0,47	0,46	0,55	0,59
Int & leasing cover	5,8	7,5	9,9	16,6
Return on cap (%)	20,3	19,3	23,2	21,9
Turnover (Rm)	3 520	3 990	4 360	4 544
Pre-int profit (Rm)	422	453	550	537,9
Pre-int margin (%)	11,7	11,3	12,6	11,8
Earnings (c)	422	491	531	620
Dividends (c)	166	190	205	238
Net worth (c)	1 896	2 171	2 610	2 876




Nampak's Connellan ...
plenty of capacity

COMPANIES

Consortium plans to delist Ruhold group

EDWARD WEST

A CONSORTIUM holding 88,6% of Rubenstein Holdings (Ruhold) plans to buy out minorities and delist the group. B/Day

Flexible packaging products manufacturer Ruhold said today it planned to buy out minority interests for R4,2m by way of a cash offer of 110c a share. 13/12/93

The offer represented a 29,4% premium on the closing share price of 85c on November 18 1993. A day later a cautionary announcement was published. The share was untraded at 90c on Friday.

A spokesman said the move to delist was prompted by the relatively small number of minority shareholders, limited market interest in Ruhold shares, costs associated with maintaining the listing and a review of the group's strategy. (194)

Ruhold's earnings a share climbed from an annualised 7,4c in 1990 to 15,5c in 1991, 16,8c in 1992 and 19,8c to February 1993.

Nampak to close plant

S I Times

NAMPAK has been forced to close its Klipriver paper plant because it is no longer a feasible economic operation, writes **DON ROBERTSON.** [BUSS]

The decision will affect more than 230 jobs and members of the Print, Paper, Wood and Allied Machine Workers' Union are angered at retrenchment packages they say they are being offered. 12/12/93

Union members have asked for a severance package of three months' salary plus one month for each completed year. They say they are being offered one month, plus two weeks for each year at the plant.

Nampak managing director Trevor Evans says negotiations have not been finalised. "We have come to some agreements with union officials. We hope to reposition some members of staff within the group and retrain others. We will put up the financial resources for this." (~~355~~) (194)

Clegg and Hortors in joint venture

MARCIA KLEIN

CLEGG Holdings, CTP Holdings and its subsidiary, Hortors, have announced two deals which will result in synergies between previous competitors in the packaging and printing industry.

Clegg subsidiary H R Clegg Labels has bought Avery Labels from CTP at NAV, with nearly R4,4m being settled by the issue of some Clegg shares, and the balance in cash.

Subsidiary H R Clegg Litho entered into a joint venture with the sheet feed division of Hortors to create a new packaging manufacturing group specialising in high quality folded cartons, paper labels and general lithographic printing.

The deals, effective from October 1, follow various cautionary announcements by Clegg and Hortors that they were involved in negotiations.

In an announcement published today, the companies said the joint venture would be 66,7% held by Hortors, with the rest being held by H R Clegg Litho. (1914)

Clegg and its subsidiaries will change their year-end from June to March.

200 jobless as Mondi mill set to close

(194) CT 15/12/93

MONDI Paper Co's cartonboard division mill at Bellville will stop production at the end of January — with the loss of about 200 jobs.

Mondi MD Derrick Minnie said the decision was "taken with much regret", after discussion with the trade unions involved.

"Major factors that influenced our decision were local and international over-capacity in board production — a problem that has been further aggravated here by the import of board products which are often effectively subsidised in their countries of origin — and the fact that the local and overseas markets are depressed with demand decreasing accordingly."

He said that, wherever possible, Bellville employees would be placed in other Mondi group operations. Severance packages would be paid to those retrenched "in accordance with Mondi group policy."

Transpaco falls into a deficit

MARCIA KLEIN

PACKAGING company Transpaco, struggling under the weight of unfavourable political and economic conditions, fell into the red in the six months ending September. BDay

Directors said the attributable loss of R664 000 (R91 000 profit) was due firstly to political instability and secondly to the poor economic climate "which has put pressure on sales while costs have risen and margins have reduced". 23/12/93

Turnover was marginally reduced to R25,9m (R26,3m), but operating profit dropped to R150 000 from R754 000 in the previous year.

Higher finance costs saw Transpaco report a pre-tax loss of R550 000 (R174 000 profit). No interim dividend was declared. (194)

Gearing rose to 114% from 95% at the same time last year and from 98% at the March 1993 year-end. Net asset value fell to 63,8c from 69,8c at year-end, but was up on the 63,5c at the interim stage last year.

Directors said the manufacturing divisions had performed in line with forecasts, but the paper and packaging division had not fully recovered.

The packaging division started a consolidation and restructuring process, and retrenchment and related costs were provided for in this set of results.

Action taken had proved successful, and the division was now trading profitably.

The directors said results for the second half would be better than those of the first "due to the seasonal nature of the group's business and the steps taken to consolidate and restructure the packaging division".

Trading in October and November had been reasonably good, and management was forecasting a profit for the full year.

Recovery in Sappi share price gathers momentum

CT 29/12/93 (194)

JOHANNESBURG. — The recovery in Sappi's share price gathered momentum yesterday as confidence in the pulp and paper producer's medium-term prospects took the stock to a five-month high in active trade on the JSE.

The shares closed at R30, up more than 7% or 200c on a day in which shares worth nearly R1,5m changed hands in 48 deals.

The shares are at their highest level since the start of August and compare with a five-year low of R18, touched in October.

It is understood that some stockbrokers have put out buy recommendations for the group in the past few days, as other counters also exposed to international industrial commodities markets, such as Anglo American Industrial Corporation, Iscor, and Samancor, have started to find favour with investors.

Sources said yesterday that international pulp prices had shown gains in December, with benchmark US prices rising to between $360 a ton and $370 a ton from $350 a ton. That compared with average prices for 1993 of about $385 a ton.

In addition, non-integrated North American paper producers — reliant on outside supply for their raw material needs — seemed to have accepted the increases, which should lead to firmer prices for newsprint, kraft and fine papers.

However, one analyst cautioned that it remained to be seen whether the prices would stick.

He said the European market — to which Sappi is particularly exposed through its UK and German operations — remained oversupplied and affected by sluggish growth in the EC and eastern Europe. Improving paper prices should enable Sappi's German subsidiary Hannover Papier to reduce its losses in 1994.

Local paper industry demand for output from Sappi and Anglo American Industrial Corporation subsidiary Mondi would depend on domestic economic recovery. Both companies, under pressure from cheap imports, have continued to cut staff at SA mills, with several hundred job losses announced in early December.

In a speech last week to a German paper conference, chairman Eugene van As sought to underline the group's good medium-term future.

The interim dividend was passed after a two-thirds slide in earnings to R64m from R175m, and shareholders could receive a scrip alternative to a final cash payout. Sappi paid a 160c total dividend in 1992/93.

MANUFACTURING - PAPER + PRODUCTS

1994

Shakeout in paper industry forecast

ARG 1/1/94

(194)

BERLIN. — The world's paper industry is likely to undergo a major shakeout in the next few years, according to Sappi executive chairman Eugene van As.

Speaking at the Deutsche Papier Wiertschaft East West Conference in Berlin, he forecast there was going to be a battle for resources and a battle for markets, with a lot of large companies emerging from the battle by the end of the decade.

"Sappi wants to be there amongst them by the year 2000," he told the conference in his address.

Mr Van As said the world's paper industry was highly fragmented, much more so than most of the other world industries.

"It was clear to us (in the late 80s) that this was going to change, and that there would be an enormous consolidation of the industry worldwide over the next decade.

"Our view was that this would be driven fundamentally by the huge cost of new investment."

Mr Van As said Sappi sought to expand in Europe because the industry was particularly fragmented there with over 1 100 paper mills.

It was Sappi's aim to build a pan-European business, which was why the company had taken the step of centralising its marketing for the whole of Europe in Brussels.

"We believe the industry will consolidate not only in ownership but in manufacturing and specialisation.

"Mills should make the products that they are best at, and so we believe that they should be wholly owned, so that there are no conflicts between different partners who might have different shareholdings in different parts of extended groups."

He said of western Europe's 1 100 mills, 40 percent had a capacity of less than 10 000 tons and only 14 percent had a capacity in excess of 100 000 tons.

"In eastern Europe, incidentally, the figures are similar."

A shakeout was therefore "clearly going to happen", Mr Van As said. — Sapa.

Malbak's UK arm MY expands in carton deal

(194) CT 2/2/94

JOHANNESBURG. — Malbak's UK-listed packaging company MY Holdings has acquired a folding carton business in a £21,2m deal which will more than double its size.

The deal will also enable MY to move back on to the main board of the London Stock Exchange. In 1990 MY moved to the unlisted securities market as a result of an LSE ruling that a full listing was not possible as less than 25% of the company's share capital was in public hands.

The acquisition of Insight Cartons Ltd will be funded by raising about £23m in cash through a private placing and public offer. Malbak's stake in MY will be reduced to about 65% from 85,7%.

MY and Malbak director Ian Willis said the acquisition was part of MY's strategy to become a leader in the specialist plastics and paperboard packaging sector.

He said that to be an important player, one had to be a European rather than a UK company, and MY was not yet in that league. However, the deal would be "a step in the right direction".

The move was a strategic step for MY, and marked the next stage in the development of Malbak's international operations.

Willis said MY paper had recently appreciated to 52p from around 42p, and he hoped the acquisition would result in a rerating to about 60p.

Insight, which manufactures printed folding cartons mainly for the food industry, reported turnover of £12,1m in the year to end-December. Pre-tax profits grew by 35% to £2m.

The enlarged group will have an historical turnover of £47m and a pre-tax profit of £4,6m for the year to end-August 1993.

Carlton Paper hit by strike

ERICA JANKOWITZ

CARLTON Paper's attempt to introduce a low basic wage increase with a profit-sharing component sparked a strike by Paper, Printing, Wood and Allied Workers' Union members at its Wadeville, Springs and Cape Town plants yesterday, Carlton MD Keith Partridge said.

He said the company had offered 50% of profits made after a certain target was reached. The union had responded that after its 14% demand was met it would be prepared to talk about profit-sharing. B/Day

Partridge said fewer than 1 000 members of the 1 600-strong work force were on strike. Not all union members had joined the action. Production was continuing, but "not at optimum levels". 3/2/94

Tough economic conditions had meant salaried staff had received small increases this year, calculated on merit. Some salaries had been frozen. Several competitors, "some paying a quarter of our wages", had forced the company to cut costs, Partridge said.

Profit-sharing would mean that all benefited from extra effort and all suffered "with the shareholders" when profit dropped. (~~152~~) (194)

He said Carlton's wages were high — an average worker received about R2 200 a month plus benefits.

Striking staff may be evicted

CARLTON Papers has warned that it may evict striking workers at its Epping, Cape Town plant who today continued to blockade the premises in defiance of a Supreme Court order.

Employees at four plants in the Cape and Transvaal started a legal strike on Tuesday, demanding a 12 percent increase, the Paper, Printing, Wood and Allied Workers Union said.

A Carlton Papers spokesman said the company had offered workers a five percent increase but this had been rejected. — Sapa. (194)

ARG 4/2/94

Sappi strike over wages

(194)

WHITE RIVER. — Workers at Sappi Novobord in White River in the Eastern Transvaal went on strike yesterday in connection with a wage dispute.

CT 5/2/94

Reports by Staff Reporter, Own Correspondent, Sapa-Reuter-AP and UPI

Carlton Paper raising tension, says union

ERICA JANKOWITZ

THE Paper, Printing, Wood and Allied Workers' Union has accused Carlton Paper of increasing tension between strikers and the company by bringing court interdicts to prevent picketing although an agreement allows such action. B/Day

Police said that on Friday 10 people were arrested at the Cape Town plant for intimidation. 7/2/94

Union general secretary Obed Zimande alleged that those arrested were relatives trying to bring food to strikers occupying the plant. They had been arrested for trespassing, he said.

The union threatened to increase pressure by calling on Cosatu affiliates and the SA National Civic Organisation to back a consumer boycott of the company's products.

It had also contacted "fraternal organisations abroad to organise international solidarity". This was particularly aimed at Kimberley-Clarke, part owners of Carlton. (194)(182)

Zimande said positive responses had been received to these requests, including one from the International Chemical and Energy Federation.

The union said at the weekend that the company had obtained the interdicts in Cape Town and Springs "to overturn rights workers have won previously".

The strike by about 950 union members at four Carlton Paper plants on the Reef and in Cape Town started on Tuesday after the parties deadlocked, with the union demanding 14% and the company offering 5% and a profit-sharing scheme.

The union subsequently reduced its demand to 12%. It also demanded three months' paid maternity leave.

Reorganised Bidvest lives up to expectations

BIDay 9/2/94

MARCIA KLEIN

A REORGANISED and considerably enlarged Bidvest group more than doubled attributable income to R41,4m (R17,3m) in the six months to end-December — living up to market expectations evident in the hike in its share price during the past year.

The services, packaging, catering supplies and food group's share closed yesterday at R115, just off its R116 high and nearly double its February 1993 low of R58. Yesterday Bidvest announced that shareholders would receive a 45% higher interim dividend of 142c (98c) a share for the interim period.

Results reflect the effect of various major changes in the previous year, including the R263m acquisition of freight clearing and forwarding company SA Freight Corporation (Safcor) and the acquisition of minorities in subsidiaries Crown Food Holdings and Afcom Group.

Chairman Brian Joffe said the results reflected the group's successful reorganisation, organic growth and positive contributions from recent acquisitions. Most divisions had performed satisfactorily.

Turnover of R1,2bn was more than three times higher than the R383,4m reported in the previous year.

Joffe said pressure on margins, and the traditionally high-volume low-margin nature of the Safcor business, saw the operating margin drop to 4,4% (9,2%). Operating income was up 53,5% at R54m (R35,2m).

The group earned interest of R1,8m after paying a R10,1m interest charge in the previous period.

Although the groups' attributable income was more than 200% up on the previous year, earnings were 56,5% higher at 410,2c (262,1c) a share on a large increase in the number of shares in issue.

The group has net current assets of R329,8m, of which R244m is in cash. Joffe said Bidvest's cash resources together with its strong capital base would enable it to look at acquisitions of considerable size and scope.

During the six-month period, the group acquired Prestige office cleaning and pest control company for R31m and disposed of cosmetics company Justine. (194)

Prestige has been incorporated into a new division Bidserv, "which has been created to accommodate the group's future growth activities in the industrial, commercial and leisure service sectors". Bidserv also includes Steiner Services.

The group created another division, Combined Foods, incorporating the bakery supplies division and Crown National, "to focus on developing the group's interests in the food ingredients industry".

Joffe expected Bidvest to maintain its performance in the second half.

Bidcorp, which has a 74% stake in Bidvest, reported earnings of 213,2c (136,2c) a share and declared an interim dividend of 74c (51c) a share.

Carlton strikers march to head office

ERICA JANKOWITZ

ABOUT 800 striking Paper, Printing, Wood and Allied Workers' Union (Ppwawu) members marched to Carlton Paper's Bedfordview head office yesterday, reiterating demands for a 12% wage increase and three months' paid maternity leave, union spokesman Phineas Masombuka said.

The company confirmed the march had passed without incident and a memorandum was handed to management.

The company offered a 5% basic wage increase plus a profit-sharing scheme whereby 50% of profit above an undisclosed target would be distributer to workers.

The strike by about 950 union members began on February 2 at Carlton plants in Cape Town and Springs. B/DAY

Court interdicts restraining workers were obtained at both plants. 11/2/94

Masombuka said the company had indicated it was willing to meet workers but a date had yet to be set. (194)

He said 40 workers were arrested in Cape Town on Tuesday, but all had been released without being charged.

He described the community boycott of Carlton products as a success. ([illegible])

Aries triumphs over recession

B/Day 1/12/94

MARCIA KLEIN

ARIES Packaging increased its earnings 52% to 19,7c (13c) a share in the year ending December after improvements in market share and significant savings.

Turnover grew 18% to R33,1m (R28,1m) and net income before tax was 59% higher at R4,1m (R2,6m).

The directors said although the recession continued throughout the year, the screenprinter and packaging manufacturer improved market share and was showing volume growth.

There was no improvement in selling prices, but significant savings were made through effective management and dedication by staff members.

Taxation, including company tax and adjustments for a film investment, was 67% higher at nearly R2m (R1,2m).

(194)

As a result, attributable earnings were up 52% to R2,2m (R1,4m).

A final dividend of 4,5c a share brought the full-year dividend up 50% to 6c (4c) a share.

The directors said there was "a positive mood in the market place".

There were signs that "an encouraging growth rate can be achieved", they added.

Aries had "the will, the drive and the capacity" to exploit any upswing, and it had budgeted for further improvements in its results in the coming year.

Carlton MD impatient

ERICA JANKOWITZ

CARLTON Paper MD Keith Partridge expressed impatience on Friday with the two-week wage strike by about 900 Paper, Printing, Wood and Allied Workers' Union (Ppwawu) members at plants in Springs and Cape Town. B/Day

He said the company had made a fair offer — 5% and profit sharing. 14/2/94

Partridge said Ppwawu had accepted 5% wage increases at Sappi plants, but conceded this might have been prompted by poor results diclosed to the union.

Ppwawu spokesman Phineas Masombuka denied the 5% increase at Sappi plants, saying this might be the case in some plants. However, the strike at Novobord in White River was prompted by this low wage offer. Sappi confirmed this. (365) (1-52)

□ The strike at Novobord, White River, continued on Friday. (194)

Nampak to split shares

CT 15/2/94 (194)

JOHANNESBURG. — Packaging group Nampak said it plans to subdivide its shares on a 10 for one basis to improve marketability.

After implementation of the split by March 21, the issued share capital is expected to be some 487,2m shares. Its current share price is R120.

No meetings at Carlton

B/Day 15/2/94

JACQUIE GOLDING

THE strike by Paper, Printing, Wood and Allied Workers' Union (Ppwawu) members in Cape Town and Springs looks set to continue indefinitely as no meeting with management has been arranged.

Strike action continued at the Carlton plant on the Reef yesterday, with Ppwawu refusing to approach management for further negotiations.

Ppwawu general secretary Obed Zimande branded the reopening of negotiations as "pointless".

"They (management) declared a deadlock when we refused to accept their 5% basic wage increase and now they want us to approach them, which we refuse to do," said Zimande.

A Carlton spokesman said the union had not approached them to open talks but that workers were "slowly returning to work".

Cape Town Ppwawu spokesman Mohammed Shahied said workers in the Cape were "prepared to strike until April 27 if necessary" but said that mediation between management and the union was in the pipeline. (194)

The strike began on February 2 with workers demanding a 12% wage increase and three months' paid maternity leave.

8 percent profit rise for Consol

Star 16/2/94

BY STEPHEN CRANSTON

Consol has reported an eight percent rise in earnings to 123,5c a share in the six months to December.

Turnover was up by nine percent to R1,20 billion and operating profit by four percent to R139,4 million.

Packaging turnover increased by just four percent, with the division's operating profit falling by 11 percent.

Glass was negatively affected by the low demand for returnable soft drink and beer bottles, with soft drink consumption down and beer sales unchanged.

The plastics business was affected by shrinking demand for laundry additives and detergent bottles.

Rubber performed much better, with turnover up 13 percent and operating profit up 25 percent. (194)

Tycon saw sales improve for passenger, tractor and truck tyres as a result of pre-price-increase buying in the October to December period. The Eagle GTA tyre was well accepted by the market.

Group MD Piet Neethling says no improvement in demand for group products is expected because of the unsettled political and social environment leading up to the April election.

Rubber division adds bounce to Consol group

B/Day 16/2/94

MARCIA KLEIN

PACKAGING and rubber group Consol yesterday reported an 8% earnings rise to 123,5c (114,9c) a share in the six months ending December as lower operating profits from its packaging interests were offset by a more buoyant performance by the rubber division. (194)

MD Piet Neethling said although there were tentative signs of an improvement in the economy, this had not yet influenced demand for the group's products.

Market shares were generally maintained, but most of the group's businesses experienced lower sales volumes than the previous year.

Turnover was 9% higher at R1,2bn (R1,1bn), and operating profit was 4% up at R139,4m (133,4m).

Higher net financing costs reflected the utilisation of internally generated funds to acquire Contred minorities and for the R205m acquisition of Interpak from Lion Match.

Pre-tax profit was 6% down at R127,4m (R135,1m). But sale and lease back arrangements and larger wear and tear allowances on fixed assets resulted in a lower tax rate, and profit after tax was 3% lower at R79,7m (R81,9m).

A lower minority interest, following the acquisition of Contred minorities and the redemption of preference shares in the year before, enabled the group to lift bottom line earnings 8% to R79,5m (R73,9m).

A dividned of 70c a share was declared in August and paid during the half year.

Neethling said the packaging division increased turnover just 4%, and operating profit dropped 11%. Glass was affected by shrinking consumption of soft drinks and unchanged beer consumption.

Paper showed growth in turnover and profit as a result of the acquisition of Interpak. The corrugated business maintained its profit growth, but the plastics division reported a loss for the period.

The rubber division increased turnover 13%, and operating profit 25%. Tycon showed an improvement in sales.

The rubber division's improvement was influenced by "excellent market acceptance of the Eagle GTA steel radial passenger tyre".

Neethling said he did not expect demand for the group's products to improve in the second half due to the political environment in the run-up to the April election. In addition, it woud be some time before an economic recovery would result in enhanced consumer spending.

In the full year, he expected a similar growth in earnings to that reported for the first half.

Striking workers urge boycott

Sowetan 18/2/94

ABOUT 1 000 striking Carlton Paper workers have called for a boycott of Carlton products after talks on wage increases stalled last week.

The workers, all members of the Paper, Printing, Wood and Allied Workers' Union, are demanding a 12 percent wage increase, while the company has offered five percent. The union is also demanding three months' maternity leave for women employees. PPWAWU national organiser Mr Phineas Masombuka yesterday said the union was also seeking solidarity action from Cosatu and the International Chemical and Energy Foundation.

Masombuka said 40 workers were arrested during the strike, which started three weeks ago.

(152) (194)

Union meeting to try to resolve strike

B Day 18/2/94

JACQUIE GOLDING

THE Paper, Printing, Wood and Allied Workers' Union (Ppwawu) will meet Carlton Paper management today to try to resolve a three-week strike at six plants countrywide.

Both parties had agreed to refer the dispute to mediation, Ppwawu general-secretary Obed Zimande said yesterday. (194)

About 950 workers — at four plants on the East Rand, one in Cape Town and one in Port Elizabeth — went on strike three weeks ago for a 12% wage increase and three months' maternity leave. Management has offered a 5% wage increase.

A consumer boycott of Carlton products was organised by Ppwawu with the union meeting Sappi and Kohler to discuss withholding raw materials from Carlton.

NEWS FEATURE Correcting the imbalances created by apartheid is no easy task

South African workers continue to fight for justice in the workplace. At Nampak, workers are beginning to see the fruits of their labour.

Mr Mohale Mahanyele of the National Sorghum Breweries is a champion of the philosophy of black economic empowerment. It is not surprising, therefore, that his company of is one of Nampak's biggest customers.

A company which is leading the way

Sowetan 21/2/94

(194)

CHALLENGES Persuading white people that changes are essential:

By Joe Mdhlela

THE PROCESS of democratisation in the workplace is inexorable, providing new challenges, some of which may probably be foreign to both workers and management.

Nampak Limited, mindful of the new challenges it is facing as the transitional phase unfolds, is geared up to have a better understanding of the environment in which it operates.

The understanding that workers are also stakeholders in a company is a critical factor that will either make or break the business world.

The appreciation that South Africa is moving into world markets is also a factor that should be a driving force behind making South Africa a democratic country.

Considering that apartheid made it impossible to regard normal practice as legitimate, management is called on to deliberately apply affirmative action in order to uplift those who were previously disadvantaged.

No serious about it

Mr Velaphi Ratshefola, a personnel manager at Nampak, argues that affirmative action should not be applied if those who apply it are not serious about it.

He says conservative whites should be taken out on a "*bosberaad*" and be assured that the changes that are taking place in the country, politically and otherwise, are necessary to level the playing fields.

Group human resources director Mr Neil Cumming says Nampak's approach to black advancement is a deliberate and measured process which is designed to normalise the racial makeup of the managerial and supervisory structures.

In this regard, the company is aiming at empowering black workers at shopfloor level so that they, too, can contribute to the wellbeing of the company.'

To support its drive for black advancement, the company provides bursaries to black workers. There are also numerous training programmes which are in place.

A general management recruitment scheme aimed at introducing senior managers in the company is in place, so is the literacy programme to enhance the skills of employees who have had little formal education.

Employees are happy at the training that is taking place at the company.

Said Mr Victor Fenyana: "Previously we used to come to work as non-thinkers. With the new changes, we now realise that we are part of the decision-making process contributing to the well-being of the company."

Following the introduction of the "World Class Manufacturing and Service Vision", a concept aimed at producing products and services of quality, a number of operations within Nampak have introduced profit-sharing schemes in which all employees, without exception, participate.

The aim here is to compete for quality and introduce "stakeholderships" for workers at all plants within the Nampak stable.

Currently the company employs 63 black managers under Paterson Scheme Grade D and above.

Cumming says this represents five percent of the total managerial strength. If you include coloured and Asian managers, the percentage increases to more than 10 percent.

He says Nampak has eight senior black managers, three coloureds and one Asian. Senior managers are graded "E" on the Paterson Scheme.

The company has set a target that within the next four years 20 percent of management, middle and senior, must be black.

Also, the company is hoping that within the same period, it will increase the number of black directors in its board.

The company has invested in a number of social investment projects. Examples of such programmes are Bridging Education Scheme, Support for Black Secondary Schools, Support for the Southern African Printing College and Smile Project, a scheme which encourages white school children to help black children communicate more proficiently in English.

Due to its commitment to peace, the company provides financial support to the Peace Secretariat. It also finances projects undertaken by the Black Management Forum.

Bias towards education

"A feature of our social investment policy is a bias towards education, and we will not make any donations to institutions which display any form of racism in their constitution or practices," said Cumming.

Nampak, said Cumming, has an extensive policy on environmental protection.

"Given the nature of our products, Nampak spends a significant amount of money and time recycling glass, plastic and paper and uses a large amount of these materials as feed stock into factories," he said.

Cumming says the company has a wonderful working relationship with Mr Mohale Mahanyele's National Sorghum Breweries.

"They are our major customer and we are proud that they are a successful black operation," says Cumming.

● Watch NNTV at 9pm tonight for the programme *People* to have another view of Business in Transition.

Foskor strikers will return to work tomorrow — NUM

BDay 22/2/94

ERICA JANKOWITZ

THE 900 striking NUM members at Foskor's phosphate plant near Phalaborwa are to return to work tomorrow after a wage strike which began on January 27, union regional secretary Archie Pilane said yesterday.

A consumer boycott of Phalaborwa, called in solidarity with the striking workers, was called off yesterday after a community meeting.

The wage dispute began on January 19 with management locking out workers when their final wage offer was rejected. The paid lockout lasted a week.

Pilane said the parties had resolved the dispute over the backdating of the effective date of wage increases with the NUM accepting a R400 ex gratia payment per member.

The 6% wage increase would be backdated to October 1, not July 1 as demanded by the union. A 1% shift allowance would be instituted from March 1 if a seven-day working week was implemented with the approval of the Mineral and Energy Affairs Departement, which still had to ratify the agreement.

Other concessions made were the appointment of a full-time shop steward, agreement to negotiate a health and safety agreement and the conversion of the pension fund into a provident fund. In addition, lower-paid workers who were previously excluded from joining the pension fund would be eligible to join the provident fund, Pilane said.

However, one sticking point was that of disciplinary action against some strikers accused of intimidation and arrested by police during the strike. Seventeen NUM members were arrested and charged, although the decision whether to proceed with criminal charges had yet to be taken by the attorney-general, Pilane said.

The parties agreed company charges would be finalised within the next fortnight and any challenged by the NUM would be referred to arbitration. Pilane was concerned the process might spark further problems as accusations of intimidation were divisive.

Illegal imports of dairy products rise

BDay 22/2/94

MUNGO SOGGOT

ILLEGAL imports of dairy products had risen over the past year, Agriculture Department deputy director of marketing and administration Dennis Farrell said yesterday.

Most of the illegal imports came via Namibia and Botswana. As members of the SA Customs Union, they were free to export their own produce to SA, but could not export produce from other countries.

Farrell said Botswana had trade agreements with Zimbabwe which meant it could import Zimabwean dairy products cheaply. These cheap imports could then be exported to SA.

The department said 140 tons of cheese, 170 tons of milk powder and 45 tons of other dairy products had been illegally imported.

Agriculture Department director-general Frans van der Merwe said although these figures appeared small compared with SA's annual consumption of 100 000 tons of butter, cheese, milk powder and condensed milk, the cheap imports could have a serious effect on prices.

Tight control of imports was needed especially since dairy prices were already low after good rains had boosted production, he said.

Union must respond today to Carlton offer

JACQUIE GOLDING

THE Paper, Printing, Wood and Allied Workers' Union has until 4pm today to respond to Carlton Paper's 7% across-the-board wage increase offer. BDay

Agreement was reached at mediation last Friday but if management's offer is not accepted by workers, the union says it will revert to its initial 12% demand. 22/2/94

Carlton Paper MD Keith Partridge said if the offer was not accepted by the union, management would also revert to its 5% across-the-board offer.

About 950 workers went on strike four weeks ago for a wage increase and three months' maternity leave. (194)(355)

Four plants on the East Rand, one in Cape Town and one in Port Elizabeth have been brought to a near-standstill by the strike.

Carlton Paper and the union also agreed to three months' paid maternity leave but only after three years of employment with the company.

Management and the union agreed that shop stewards would be appointed at each of the company's six plants.

Shop stewards would be allowed to take part in a national job grading committee which would investigate problems of job grading in the company.

The company would also appoint representatives to the committee and both parties would be allowed to call on outside experts where necessary.

In the case of child care, workers abstaining from work would have to produce certificates stating reasons for their absence, which would be treated on a no work, no pay, no penalty basis.

Alex White takes a dive

BIDay

MARCIA KLEIN

PAPER and packaging firm Alex White Holdings plunged to a loss of 2,8c in the six months to end-December against earnings of 7,5c in the previous year.

Group MD Terry Kane said the loss was a direct result of the poor trading conditions "which were reflected in the extremely weak consumer demand". This was particularly pronounced in the three months leading up to Christmas. 25/2/94.

Turnover was 2,1% down at R33,5m (R34,3m). Strong competition in most of the markets the company services resulted in lower margins, and operating income plunged 83% to R331 000 from R1,9m in the previous year.

Interest costs were reduced, and the net loss before tax was R439 000, against a profit of R1,1m in the previous year. 194

A net loss of R228 000 contrasted with the year earlier income of R609 000.

It is company policy to pay one dividend a year.

Kane said Alex White generally performed better in the second half. He expected a significant improvement in results by the June year-end.

White dips (194) into the red

CT 28/2/94

PACKAGING, printing and property holding company Alex White has reported a net loss of R439 000 in the six months to December 31 compared to a net profit before tax of R1m in the year-ago period.

Turnover decreased by 2,1% to R33,5m (R34,3m) and operating income by 82,8% to R331 000 (R1,9m). The annualised loss per share is 2,8c (7,5c plus). Interest costs were reduced from R861 000 in 1992 to R770 000.

Bowler Metcalf lifts dividend

TOM HOOD, Business Staff

CAPE packaging company Bowler Metcalf has boosted its total dividend payout by 20 percent to 6c (5c) a share for the year to December after a 35 percent jump in earnings to 14,6c (10,8c). (194) ARG 9/3/94

Bowler is planning a R10 million expansion, all or part of which may be raised on the JSE, according to chief executive Horst Sass.

This included a new factory which it would start building late this year or early next year as well as a new R4 million processing plant for rigid plastic packaging.

Turnover grew by 27 percent to R27 million but taxed profit rose 36 percent to R2,6 million, indicating an increase in margins.

The company expects to double its capacity in the Transvaal this year — the beginning of a five-year growth phase, according to Mr Sass.

■ A deteriorating operating environment, exacerbated by increased crime and floods, has led to a 16 percent fall in Mutual & Federal's earnings to 148c a share in the six months to December.

The interim dividend was nevertheless increased by 20 percent to 36c.

Gross premium income was 11 percent up to R717 million while net premiums grew by eight percent to R594 million.

The underwriting surplus was well down from R34,6 million to R12,3 million, but MD Ken Saggers says that he is pleased that a surplus has been achieved on the underwriting account.

Reduced interest rates led to a a marginal drop in investment income from R75,8 million to R74,4 million.

The group's solvency margin remained strong and was in excess of 180 percent at December 31.

Crime related losses continued unabated. Of particular concern had been the 20 percent rise in the number of vehicles stolen, with hijackings forming an ever increasing component of these losses.

Bowler Metcalf beats poor trading conditions

B/Day 9/3/94.

MARCIA KLEIN

PACKAGING company Bowler Metcalf continued its growth trend, lifting its earnings 35% to 14,6c (10,8c) a share in the year to December.

CE Horst Sass said the results were achieved against the backdrop of a decline in economic activity, as well as retrenchments and deflated consumer spending.

The company's turnover rose 27% to R27,1m (R21,4m). Pre-tax income was 27% higher at R6,6m (R5,2m) and net income after tax increased by 37% to R3,7m (R2,7m).

Sass said although net income showed a 51% improvement to R4,1m (R2,7m), this was misleading as a R400 000 deferred tax recoupment — reflected as an extraordinary item — was included. Tax was always provided for at the maximum rate, so the change in tax legislation was beneficial.

A final dividend of 3,5c a share was declared, pushing the full year dividend up 20% to 6c (5c) a share.

Sass said the results were in line with the 38% compounded growth over the past six years.

In October the company bought Plus Plastik for R1,54m.

Plus Plastik produced a small profit in a year of "indifferent trading", largely due to a shortage of working capital.

Sass said it was bought mainly for its machinery and competent staff, and would be incorporated into the main company. (194)

This should enable the company to double its capacity in the Transvaal within the next year. Sass said he hoped the purchase price would be justified this year.

This year would represent the beginning of a five-year growth phase. Bowler Metcalf was planning a new factory, which it would start building late this year or early next year.

The company was not immune to the recession, and volumes in certain proven lines had decreased.

In this light, it was looking at the rigid plastic packaging market, and would bring on stream a new process at a cost of R4m. The cost of financing this line, as well as the new factory, would be about R10m.

All or part of this could be raised on the JSE.

Despite the high cost of expansion, 1994 was expected to be satisfactory.

Share demand pushes packaging index up

BI Day 10/3/94

PETER GALLI

THE rapid turnaround in the paper and packaging index over the past five months was largely due to good recent local and offshore demand for shares in index constituents Sappi and Nampak and an improvement in international pulp and paper prices, analysts said yesterday.

The index gained 198,4 points or 2,6% to a new 12-month high of 7 736,4 yesterday, which is a 61% rise from its October 21 low of 4 808,67. Sappi and Nampak constitute about 82% of the index, while Consol has an 18% weighting.

(194)

Nampak and Sappi are well-known companies abroad and foreign buyers have been actively buying them, helping to push the price up, an analyst said.

She said Nampak was expected to show better growth than its sector rivals Holdains and Consol. "While Sappi is expected to report poor results to February, it will stage a strong recovery after this.

"Investors are taking a medium-term view and buying now."

Alexander Paterson Faure analyst Mark Ingham agreed, saying foreign investors were buying well-known shares that they felt had good growth potential.

"Packaging companies like Nampak have benefited from lower pulp and paper prices, but this has been largely offset by negative economic factors. As SA heads for what we hope is a sustainable economic upswing, Nampak is set to gain from improved capacity utilisation and greater volume throughput.

"In bidding up the share prices to current levels, investors are sending a clear signal that they are willing to pay a premium for good quality earnings," he said.

While Kohler Packaging was one of Holdains' star performers, investors were probably looking for more evidence that divisions like Crown Cork and Graphtec could overcome their problems.

"On the positive side, Holdains' acquisition of Crown Cork has resulted in access to foreign know-how and technology, which should pay off in the longer term," said Ingham.

Consol's share price had not risen as quickly as some others as volumes in its beverage can division were flat, keeping the price depressed, another analyst said.

Nampak yesterday surged 500c or 3,8% to a new annual high of R135. This brings its gains to R50 or 59% since its May 11 low of R85. The company recently announced a 10-for-one share split, which will enhance the tradeability of the stock tremendously.

Sappi rose 100c or 2,5% to a new R40 high yesterday, which is more than double its R18 low on October 21 as shares worth R14,25m changed hands in 49 deals. An analyst said it would benefit from the eventual restructuring and consolidation of the European pulp and paper industry, in which it is already well entrenched.

Consol was untraded at its ruling high of R43, having gained 28% since its May 7 low of R33,50, while Holdains was trading at R46,50, off its January 9 high of R50.

Aries hope to bang the profit drum

(194)

MARC HASENFUSS
Business Staff

ARG 19/3/94

ARIES Packaging is still looking for the 'big' contract to boost its promising Fibre Drum (FD) division, chief executive Dieter Neckel said in an interview after the group's AGM this week.

However, Mr Neckel reported that the division's turnover had increased by 30 percent in the first two trading months since year end.

The division doubled turnover and was brought to cash flow break-even in the financial year to end December by securing contracts from small and medium size businesses. The FD division's biggest account is chemical producer HTH.

"At this stage we have had no success with the bigger companies (particulary the oil and chemical groups) so we are still looking at increased business from smaller operators."

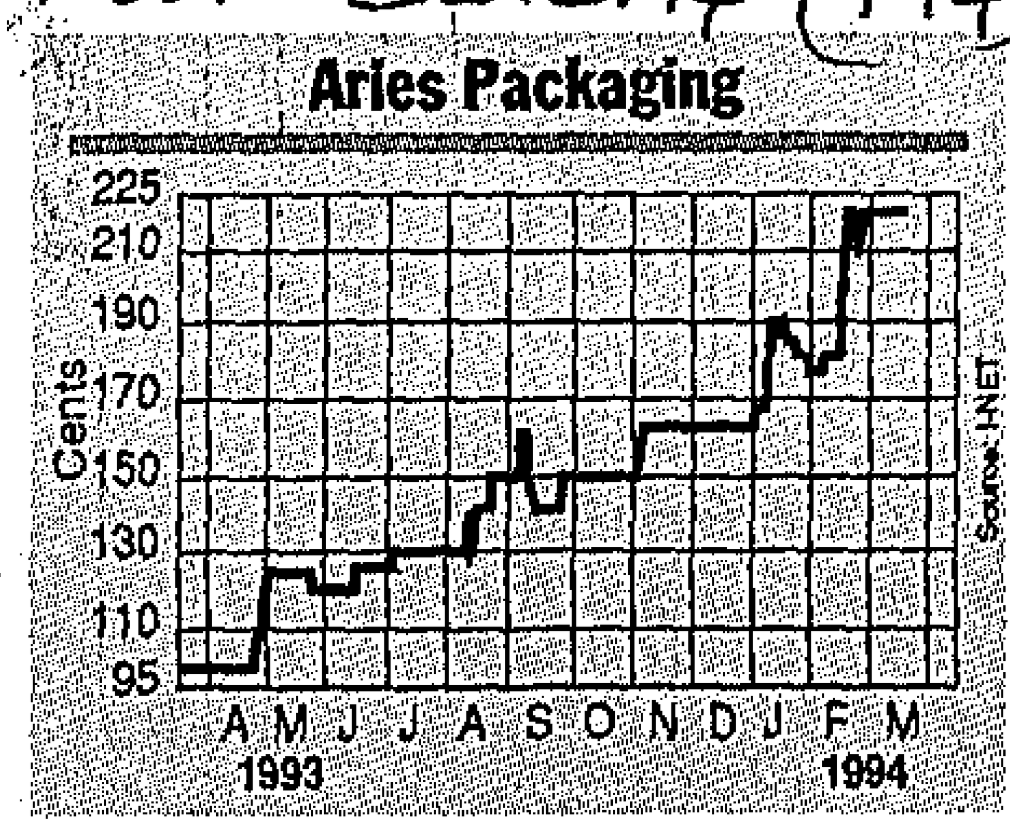
Mr Neckel said that if one big contract was secured the division would have to increase capacity significantly.

"Although growth is not as fast as we would like, we are confident about the future of the FD division."

Overall Aries Packaging is on target for another strong performance this year, with total business ahead of budget for the first two months of trading.

Mr Neckel noted that more people than usual turned up at the AGM this week — confirming that the group's consistent profit form has finally drawn punter's attentions.

FM 25/3/94 (194)



FM 25/3/94

ARIES PACKAGING

Volumes picking up (194)

Activities: *Manufacture of packaging, paper cores, tubes and fibre drums. Screenprinters.*
Control: *Directors 70%*
CE: *D Neckel.*
Capital structure: *11m ords. Market capitalisation: R24,2m.*
Share market: *Price: 210c. Yields: 2,9% on dividend; 9,4% on earnings; p:e ratio, 10,7; cover, 3,3. 12-month high, 220c; low, 95c. Trading volume last quarter, 344 000 shares.*

Year to Dec 31	'90	'91	'92	'93
ST debt (Rm)	0,6	1,5	1,9	0,9
LT debt (Rm)	0,3	1,9	2,1	1,4
Debt:equity ratio	0,12	0,46	0,4	0,2
Shareholders' interest	0,6	0,54	0,59	0,67
Int & leasing cover	108,7	5,3	5,5	11,5
Return on cap (%)	15,0	19,1	17,1	26,3
Turnover (Rm)	22,0	26,0	28,1	33,1
Pre-int profit (Rm)	1,6	2,6	3,2	4,5
Pre-int margin (%)	7,5	9,9	11,3	13,7
Earnings (c)	7,3	10,5	13,0	19,7
Dividends (c)	2,5	3,5	4,0	6,0
Tangible NAV (c)	60	67	76	106

The large improvement in Aries' profits for the year to end-December bodes well for shareholders and also serves notice that the company is an effective competitor in the packaging industry.

In the competitive corrugated containers division, Aries targets both large and smaller businesses and specialises in providing high specification, tailored runs. This division enjoyed its best year, as did the cores and tubes, the fibre drum and the screenprint divisions.

Turnover grew 18% and the increased volumes in each division provides ample evidence of market share gains. Margins widened and the improved operating profit reflects benefits from the economies of scale that followed better volumes.

Stringent working capital management is evident from the cash flow statement. Cash generated by operating activities improved markedly to R5,8m (1992: R2,9m). The working capital funding requirement declined marginally through tighter control of debtors, stock and expenses generally. Stronger cash flow enabled management to reduce short-term borrowings by more than half and to retire a portion of long-term loans. This, and lower interest rates during the year, brought down borrowing costs, contributing to the 59% jump in pre-tax income.

When discussing prospects for 1994, CE Dieter Neckel reckons that if the economy suffers no substantial damage before or after the elections, a more positive mood in the market justifies optimism that Aries will enjoy another good year. Further improvements in results have been budgeted.

EPS peaked in 1988 and were 2c a share higher at 15,4c in 1989. The following year they plummeted to 7,3c and then steadily recovered. Over the past five years NAV has increased at an annual compound rate of 19,1% and turnover has risen by a compound 15,4%, but the EPS compound growth has been poor at 5,3%. That means a higher rating of the share is not yet justified, but it does offer good value. The company seems well equipped for above average performance if the economy continues to improve.

Gerald Hirshon

Strike, costs knock Holdain's earnings

(194) CT 28/3/94

Own Correspondent

JOHANNESBURG. — Packaging and paper group Holdains' attributable earnings fell 7% to R40,1m (R43,3m) in the six months to end-February, in line with two previous warnings by management that an earnings decline should be expected.

The results reflect stiff competition in the Malbak subsidiary's major markets, as well as restructuring costs and a strike at its Carlton Paper division.

Turnover was marginally higher at R1,3bn (R1,28bn), but operating margins came under pressure as it tried to maintain market share, and operating profit dropped 24% to R78,6m.

Operating income fell because of once-off restructuring costs in the foam tray division and the strike.

CE Richard Bruyns said despite these problems, other core businesses performed satisfactorily.

The proceeds of a rights issue and strict containment of working capital resulted in a significant reduction in financing costs to R9,3m (R21,1m).

Pre-tax income was down 15% at R69,3m, and a lower tax rate saw income after tax drop 13% to R46m. An increased number of shares in issue, following the rights issue, saw earnings a share drop 23% to 137,6c. Nevertheless, the interim dividend was maintained at 51c a share.

Strikes, competition and restructuring hit Holdains

B/Day 28/3/94

MARCIA KLEIN

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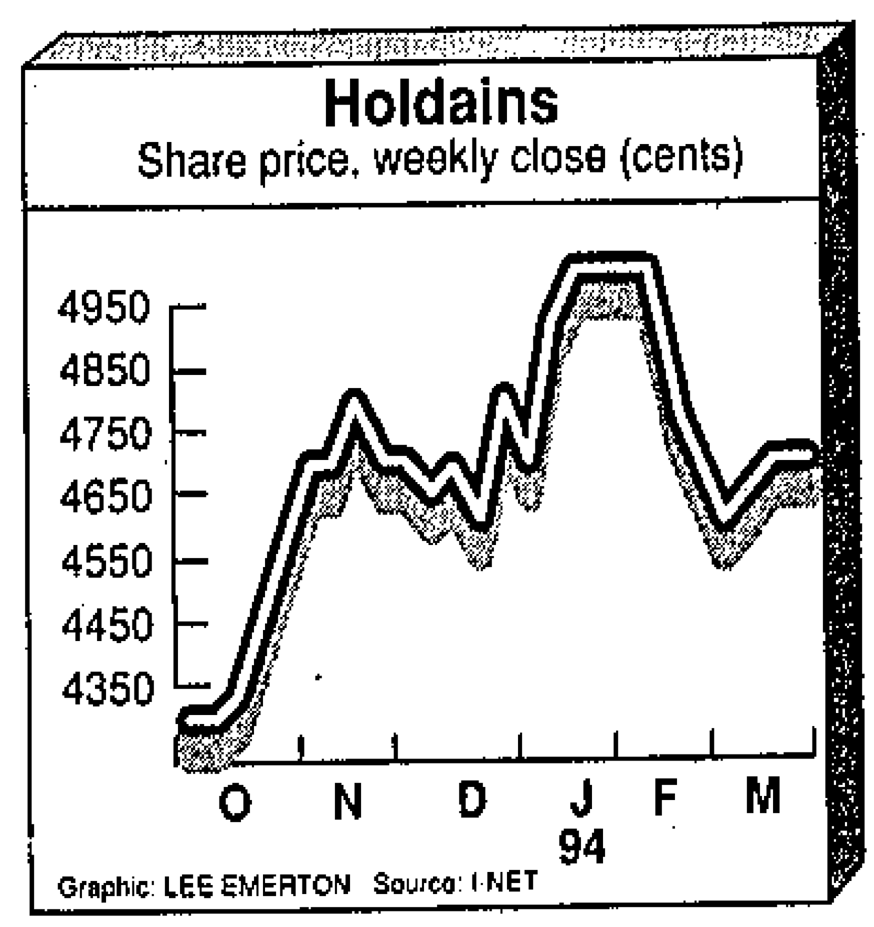

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An increased number of shares in issue, following the rights issue, saw earnings a share drop 23% to 137,6c. Nevertheless, the interim dividend was maintained at 51c a share.

The packaging business — including corrugated, cartons and plastics — increased its earnings 6%. Crown Cork improved profitability and increased its market share in the food and beer sectors.

The foam tray division was restructured at a cost of R6m, and improved profitability was expected in the second half.

The Polyfoam venture in the US was not successful, and was closed. A R28m write-off will be treated as an extraordinary item at year-end.

In the tissue sector, stiff competition put pressure on margins. The three-week strike just before the half-year took R2m off earnings.

Although Bruyns expected an improvement in the economy in the second half, consumer spending was expected to remain sluggish, and trading conditions would remain difficult and unpredictable.

He said Holdains expected earnings in the second half to be the same as in the first, so full-year earnings should be 275c-285c a share.

Consumer spending lag puts pressure on Malbak

MARCIA KLEIN

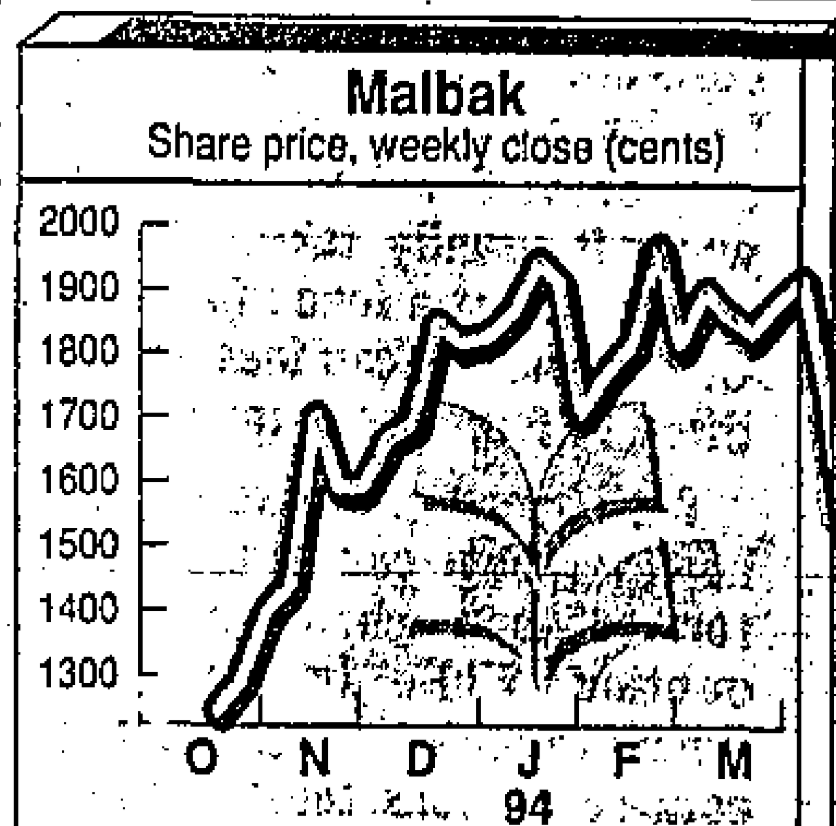
FOOD, packaging, health care and branded consumer products group Malbak lifted earnings 5% in the six months to February, as consumer spending was slow to react to improved economic conditions.

The group, whose major listed subsidiaries include Foodcorp, SA Druggists, Holdains and Ellerine, increased its turnover 8% to R5,8bn (R5,4bn). (194)

But pressure on sales volumes and operating margins resulted in a marginal decline in operating income to R384m (R388m). Executive chairman Grant Thomas said the margin was also depressed by the group's high level of cash, with cash balances earning less than a year ago because of lower interest rates.

Thomas said the economy had begun to show signs of a return to real growth, but the effects had not filtered through to the consumer.

"The past six months have been characterised by sporadic short bursts of consumer spending interspersed with periods of stagnation." This drop in consumer demand caused pressure on sales volumes and operating margins "and has been the major influencing factor on operating performance".



Graphic: KAREN MOOLMAN Source: I-NET

Management had applied itself to those areas of the business which it could control.

The interest bill dropped to R43m from R64m on the back of reduced borrowings and lower interest rates. This, together with a lower effective tax rate, saw income after tax rise by 11% to R233m (R209m).

Attributable earnings were 5% higher at R179m (R170m), equivalent to 58,2c (55,5c) a share. But the interim dividend rose by 12% to 14c (12,5c) a share, partly to reduce the disparity between the interim and final dividends which had emerged over the past three years.

Commenting on divisional performances, Thomas said branded consumer products, which now contributed 21% (13%) of group earnings, had an excellent first half. Furniture retailer Ellerine increased its earnings, while Tedelex returned to profitability. Malbak Motor Holdings' results were "pleasing", despite a shortage of new vehicles.

Food group Foodcorp, which made up 19% of earnings, reported "a small but satisfactory increase" in earnings. Packaging group Holdains felt the effect of competition, restructuring costs and a Carlton Paper strike.

SA Druggists increased its earnings 25% as it gained market share in a declining market and improved operating efficiencies. Its contribution to group earnings grew to 15% (12%). Offshore arm MY Holdings expanded its operations through the acquisition of a folding carton business in the UK.

Corporate earnings were affected by the sale of its interest in Standard Engineering in the second half of last year and lower results from Haggie.

While the economy should show real growth in the current calendar year, Thomas said, it would take some time for the benefits to translate into consumer spending. The group expected a modest rise in earnings for the full year.

CARLTON PAPER

Too much tissue capacity

Carlton Paper (Carlcor) came horribly unstuck in the last three weeks of its interim period at end-February. A strike over wage demands cost it at least R2m (11%) in pretax profit. FM 1|4|94

Shareholders should take heart, though, as MD Keith Partridge doesn't believe the second half can be any worse. The market hardly reacted to the strike; the tightly-held share has lost only 25c, dropping to 2 475c, since the beginning of February — though it shed another 175c on Monday. (194)

Aside from the strike, another cause of the narrowing margins was a simple economic situation of excess supply. The abundance of tissue capacity, which is expected to continue for the medium term, caused severe price competition particularly at the cheaper end of the tissue market.

To maintain market share, margins were squeezed; turnover rose marginally, but operating income fell 29%. Partridge says customers, too, have come under pressure, making it impossible to increase turnover or prices as needed.

Competitors can't keep their costs down for much longer and this is evident, he says, in a slight increase in prices. Until this hap-

FOX

FM 1|4|94

pens in larger proportions, it leaves Carlcor with only one route to improve profitability and that is cost cutting. Specific measures have not yet been decided, but opportunities exist. Working capital came down considerably in the interim period and gearing stands at about 6%, so perhaps management will have to look elsewhere to slash expenses.

Though Carlcor holds enormous potential in a more active economy, for now investors should take a cautious approach. On a p:e of 10,9, the stock trades well below the paper and packaging index's 16,4 average, but looks fully priced. (194) *Kate Rushton*

Holdains plans to merge Graphtron and Photra

B/Day 7/4/94

AMANDA VERMEULEN

PAPER and packaging company Holdains is to restructure its paper merchanting operation Graphtec Holdings, the group said this week.

Under the terms of the plan, Graphtec's press and prepress businesses, Graphtron and Photra-Allgraphics, will merge and operate as a Graphtec division.

Graphtec CE Derek Smith said the merger was in line with world trends in the industry. The new company — First Graphics — would combine the expertise of both operations, he added.

"First Graphics will offer an unparalleled product range to the SA printing industry," he said. "Customer service and support will be greatly improved by operating from a combined base."

He said the new company would be structurally stronger and employees would be integrated with minimum disruption.

Smith also said all existing agencies would be incorporated into First Graphics. Malbak-owned Holdains has made clear it plans to reshape its operations in an effort to underpin itself against falling prices.

The group sustained a 24% fall in earnings to 137,6c for the six months to February, hit by tough market conditions and restructuring costs.

Graphtec underwent heavy restructuring last year, though Holdains said its results remained disappointing. For the year to August 1993, Graphtec accounted for nearly one quarter of Holdains' R2,57bn turnover, but its operating income fell from R24,3m to just R8,3m.

Holdains has made clear it wants to reduce its investment in the sector in an attempt to bolster returns.

But a Graphtec spokesman said the reshaping was not part of a rationalisation programme. (194)

"The merger is not related to the cost-cutting programme. The decision was based on the enormous synergy between Graphtron and Photra-Allgraphics."

Photra-Allgraphics former MD Campbell Smillie would be appointed MD of First Graphics. Former Graphtron MD Ian Shortreed would leave Graphtec and rejoin Malbak.

The integration would be complete by September 1 to begin trading at the start of Graphtec's financial year.

Sappi passes dividend

(194)

ARG 26/4/94

Business Staff

IN line with market expectations, earnings of the pulp and paper giant Sappi slumped by 64 percent to 90c a share in the year to February.

Net income fell 59 percent to R145,2 million after operating income was down 63 percent to R165,5 million, despite stringent cost control.

No dividend has been declared, but chairman Eugene van As says that if conditions have improved by the interim stage this year, it should be able to declare an interim dividend.

Sales growth of 19 percent to R5,54 billion is almost entirely accounted for by the consolidation of Hannover Papier for the full year.

Sappi's core southern African operations were hit by sluggish economic and market conditions, but worse news was provided by the overseas operations.

Sappi's German operation, Hannover Papier, which accounts for 28 percent of sales, made a large loss.

Sappi Europe, which has 10 percent of sales, made further losses.

The brightest spot was the commodity trading business, Sappi Trading, which continued to boost its profits.

Pulp and paper prices have risen sharply in recent months and there are indications that the oversupply situation in the industry is coming to an end.

Mr Van As says the tide has turned and the upward trend of the market will stabilise.

Sappi passes div as earnings dive

(194) CT 26/4/94

By MAGGIE ROWLEY
Deputy Business Editor

FIERCE price cutting in tough international markets saw earnings of pulp and paper manufacturer Sappi plunge almost 64% in the year to end February in spite of turnover being up 19%.

The dividend has been passed.

Turnover was up at R5,5bn largely as a result of Hannover Papier's results being consolidated for a fully year. Heavy pressure on margins saw operating profit 63% lower at R165,5m.

This was partly offset by net non-trading income of R26,9m arising from the sale of non-core assets such as Hannover Papier's sack and stationery operations in Germany and the disposal of residential properties in SA.

Net finance costs, including capitalised interest at R45,2m reflected a 31% decline from the previous year in spite of the incorporation of interest on Hannover Papier's own debt for the full year. This mirrored lower interest rates as well as the R500m capital injection Sappi received when the Industrial Development Corporation made an investment in Saiccor. Sappi has undertaken to acquire the IDC's stake at a future date.

As Sappi is likely to increase its issued share capital, the company has notionally adjusted its earnings per share figure.

On this basis, Sappi's earnings amount to 90c per share compared with 249c last year.

Executive chairman Eugene van As said world markets for pulp and paper were in oversupply and selling prices of pulp, particularly coated paper showed the sharpest decline in recent memory. Prices continued to decline into the second half of the year but bottomed out towards the year end, he said.

Van As said that uncertainty ahead of the election had depressed the country's balance of payments and the rand had weakened. However, these factors coupled with improvements in group productivity and severe cost cutting had not been sufficient to compensate for the price declines.

Regarding prospects, Van As said prices in the pulp and paper industry had been rising sharply in recent months and indications were that the longest oversupply in the industry's history was now nearing an end.

"We believe the tide has turned and that the upward trend will stabilise and then grow in 1995."

A similar trend was anticipated in the dissolving pulp market and significant price rises for this product over the next few years are anticipated.

"In South Africa an improved political situation and a settled economy should result in reasonable growth for Sappi's products. Prices have already started to rise and Sappi will increase prices as the market improves."

Most of the improvement, he said, would only be seen in the second half of the calendar year.

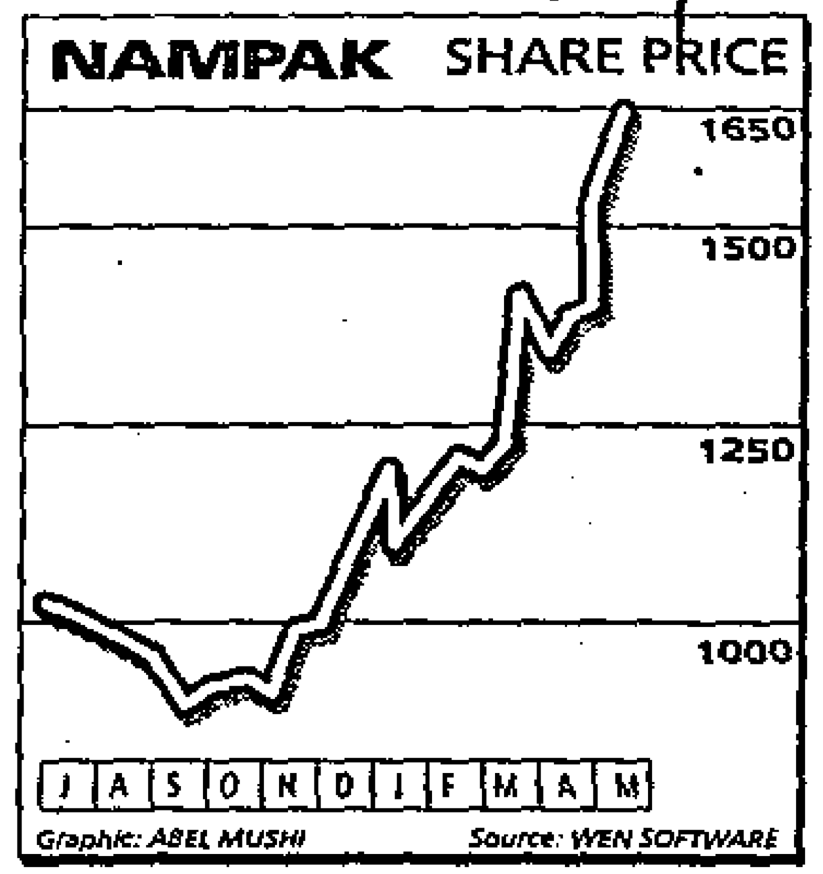
"It is hoped that by the time of the next interim, an improved outlook will be clearly evident and that dividends can be resumed."

Sappi had reviewed its policy of increasing prices just once a year, and "will increase prices from time to time as the market improves".

Nampak still awaiting upturn

Star 10/5/94

BY STEPHEN CRANSTON



Consumer spending has not yet started to recover, interim results to March of diversified paper and packaging group Nampak, seem to indicate.

Turnover was up just three percent to R2,38 billion and operating profit by the same percentage to R274,8 million.

MD Trevor Evans says the only area showing positive growth was tissue products, but here any benefit was off set by severe price competition.

Overall, volumes were down two percent.

Evans says that continued violence made the distribution of consumer products difficult; and because of uncertainty prior to the election, Nampak's customers were running their stocks very tight.

Nevertheless, a 72 percent reduction in interest costs to R5 million and a four percent reduction in the tax bill to R105,9 million enabled the group to report a 10 percent rise in taxed profit to R169,2 million.

An abnormal profit of R10,3 million was made on the sale of the Kliprivier brown paper machines to Mondi.

If this is included (though many companies would treat it as an extraordinary item), taxed profit was up 16 percent.

Earnings per share increased by 14 percent to 35,8c and the dividend is up nine percent at 9,5c.

There were fears that Bevcan, which makes soft drink and beer cans, would see profits affected by the entry of Rheem's aluminium can plant into the market, but profits were maintained. (194)

Evans says that further efficiency was achieved by the new Springs can and ends plant.

The glass and corrugated divisions both achieved substantial improvements off a low base, while Divpac, Cartons and Corrugated increased earnings.

Liquid packaging's earnings were down because decentralisation benefits at Isithebe had been phased out and there was lower demand for sacks in the second quarter.

Foodcan lost some market share to competitor Crown Cork and to imports, and the deciduous fruit crop was down from last year.

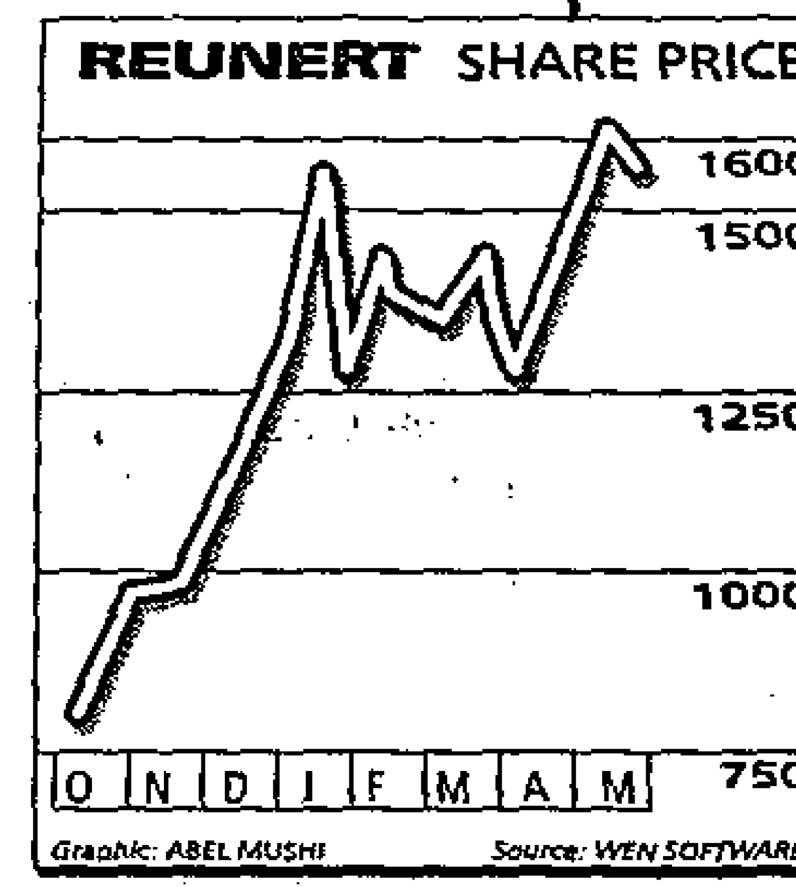
Although flexible packaging was able to increase volumes, price competition forced down earnings.

Operating profit from paper printing was down 56 percent to R15,2 million because of price competition.

New-look Reunert turns up current

Star 10/5/94

BY DEREK TOMMEY



The new-look Reunert, following its unbundling from Barlows, did better than expected in the six months to March.

Although the directors forecast little growth in this period, taxed attributable profit rose 38 percent from R46,3 million to R63,9 million.

Earnings rose 15 percent from 29,2c to 33,6c a share. The interim dividend has been raised by 14 percent from 6,6c to 7,5c a share.

Group chief executive Tony Ellingford says he is pleased with the results in the light of still-difficult economic circumstances.

Following the inclusion of the results of Panasonic and Nashua, which are grouped in the consumer products division, turnover increased by 46 percent from R1,16 billion to R1,7 billion.

But Ellingford says that the margins on these consumer products were far lower than on manufactured goods.

This accounted for the limited 10 percent rise to R125 million in gross profit.

Net interest rose 53 percent to R12 million, while the minority share of profits fell by 33 percent to R14,5 million.

Ellingford says two major subsidiaries have been reorganised, but that this has not happened to the partly-owned subsidiaries.

The tax rate was unchanged at 44 percent.

He says that all group companies other than African Cables and those disrupted temporarily by the restructure performed well.

African Cables was affected by the depressed local and international markets.

But good orders for supertension cables are expected to improve the position in the six months to September.

The markets served by the group are not showing any significant improvements, compared with last year. Meaningful growth may be expected only next year.

Nonetheless, Reunert expects to maintain the increase in earnings in the second half of the year at the first half's 15 percent.

He says that as a result of the reorganisation of the telecommunications division, Reunert now owns 40 percent of Telephone Manufacturers of SA and is to acquire 27,5 percent of Siemens Telecommications.

This will increase Reunert's access to the R1 billion GSM cellular telephone infrastructure market.

Nampak notches 15% rise in earnings

(194)

CT 10/5/'94

JOHANNESBURG. — With a turnover increase of only 2,7% to R2,4bn and a decline in volumes of 2%, packaging group Nampak improved attributable earnings by 15% — to R174,3m for the six months ended March.

With marginally more shares in issue, this translated into a 14% increase in earnings a share, to 35,8c.

The results included an abnormal profit of R10,3m, which refers to the disposal of the Klipriver brownpaper machines.

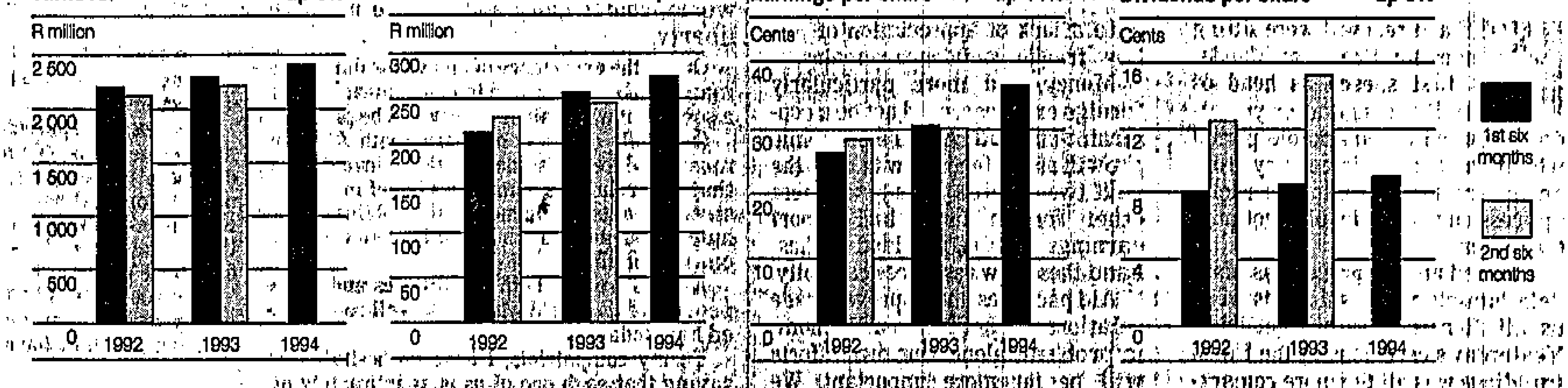
A dividend of 9,5c, up 9%, will be paid.

Nampak Limited

(Registration number 68/08070/06)

(194)

Turnover up 3% | Profit before tax up 7% | Earnings per share up 14% | Dividends per share up 9%



INTERIM REPORT TO SHAREHOLDERS FOR THE SIX MONTHS ENDED 31 MARCH 1994

The unaudited consolidated results of the group for the six month period are set out below:

Group income statement

	Unaudited 6 months ended 31 March 1994 Rm	Unaudited 6 months ended 31 March 1993 Rm	Change %	Audited Year 30 Sept 1993 Rm
Turnover	**2 378,8**	2 315,3	3	4 543,7
Operating profit	**274,8**	266,8	3	517,9
Interest	**5,0**	18,0	72	32,1
	269,8	248,8	8	485,8
Income from investments	**5,3**	7,6		20,0
Profit before taxation	**275,1**	256,4	7	505,8
Taxation	**105,9**	102,3	(4)	197,9
Profit after taxation	**169,2**	154,1	10	307,9
Abnormal item after taxation	**10,3**	-		-
Profit after taxation including abnormal item	**179,5**	154,1	16	307,9
Attributable to:				
– outside shareholders	**5,2**	2,9		8,0
– preference dividends	–	–		0,1
– ordinary shareholders in Nampak Limited	**174,3**	151,2	15	299,8
Interest cover (times)	**56,0**	15,2		16,8
Effective tax rate (%)	**39,2**	41,1		40,7
Weighted number of ordinary shares upon which earnings per share is based (000)	**486 670**	482 590		483 600
Earnings per ordinary share (including abnormal item) (cents)	**35,8**	31,3	14	62,0
Dividends per ordinary share (cents)	**9,5**	8,7	9	23,8

Note:

1. *A share split of 10 for 1 was approved at a general meeting on 17 March 1994; all relevant figures have been restated to reflect this change.*
2. *The 1993 half year figures have been restated for the change in accounting policy regarding joint ventures. The effect is not material.*

Group cash flow statement

	Unaudited 6 months ended 31 March 1994 Rm	Unaudited 6 months ended 31 March 1993 Rm	Audited Year ended 30 Sept 1993 Rm
Cash generated by operations	**366,6**	360,0	711,5
(Deduct)/add: Operating requirements			
Working capital	**(136,1)**	(85,6)	30,7
Replacement of fixed assets	**(70,8)**	(66,5)	(155,8)
Interest paid	**(5,0)**	(18,0)	(32,1)
Taxation paid	**(157,0)**	(147,0)	(197,9)
Cash available from operations	**(2,3)**	42,9	356,4
Dividends paid, including outside shareholders	**(73,5)**	(63,7)	(106,2)
Cash retained from operations	**(75,8)**	(20,8)	250,2
Other movements	**31,3**	2,9	10,0
Cash available for investment	**(44,5)**	(17,9)	260,2
Investment in future operations including expansion capital expenditure	**(83,9)**	(48,4)	(102,7)
Cash (outflow)/inflow for period	**(128,4)**	(66,3)	157,5

Group balance sheet

	Unaudited 31 March 1994 Rm	Unaudited 31 March 1993 Rm	Audited 30 Sept 1993 Rm
Capital employed			
Share capital and premium	**232,0**	223,8	225,7
Non-distributable reserves	**61,7**	61,9	61,7
Retained surplus	**1 231,2**	1 029,1	1 103,0
Outside shareholders' interest	**48,6**	41,5	43,4
Total shareholders' interest	**1 573,5**	1 356,3	1 433,8
Deferred taxation	**100,1**	95,6	101,0
Interest bearing debt	**294,8**	373,8	228,8
Long term	**68,9**	151,9	72,1
Short term and current	**225,9**	221,9	156,7
	1 968,4	1 825,7	1 763,6
Employment of capital			
Fixed assets	**1 209,6**	1 154,7	1 205,5
Investments	**58,4**	11,3	16,5
Current assets	**1 424,3**	1 374,2	1 386,4
Stocks	**651,7**	703,5	657,6
Debtors	**740,2**	660,0	640,3
Bank balances and cash	**32,4**	10,7	88,5
Total assets	**2 692,3**	2 540,2	2 608,4
Non interest bearing debt	**723,9**	714,5	844,8
Taxation	**63,3**	72,4	115,1
Creditors and shareholders for dividends	**660,6**	642,1	729,7
	1 968,4	1 825,7	1 763,6
Salient features			
Number of ordinary shares in issue (000)	**487 462**	484 160	485 060
Net asset value per ordinary share (cents)	**313**	271	286
Total borrowings: total shareholders' funds (:1)	**0,19**	0,28	0,16
Total liabilities: total shareholders' funds (:1)	**0,65**	0,80	0,75
Capital expenditure (Rm)	**106,4**	104,0	237,0
Includes interest capitalised	**0,9**	0,7	2,0
Capital commitments – fixed assets (Rm)	**178,6**	212,8	137,0
Contracted	**66,7**	126,5	61,7
Approved	**111,9**	86,3	75,3
Lease commitments (Rm)	**127,7**	121,1	133,0
Land and buildings	**120,9**	114,0	126,7
Other	**6,8**	7,1	6,3
Contingent liabilities – guarantees (Rm)	**14,9**	11,2	14,5

Bevcan profits remained constant despite a more competitive market. **Plastics, Glass, Divpac, Cartons, Corrugated** and **Polyfoil** increased earnings despite difficult trading conditions. **Liquid Packaging** profits were down, due to the phasing out of decentralisation benefits, as were **Sacks** as a result of sharply lower demand in the second quarter. **Foodcan** profits fell due to a decline in

Profit before taxation		275,1	256,4	7	505,8
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Abnormal item after taxation		10,3	–		–
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Effective tax rate	(%)	39,2	41,1		40,7
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Earnings per ordinary share (including abnormal item)	(cents)	35,8	31,3	14	62,0
Dividends per ordinary share	(cents)	9,5	8,7	9	23,8

Note:

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Working capital	(136,1)	(85,6)	30,7
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Interest paid	(5,0)	(18,0)	(32,1)
Taxation paid	(157,0)	(147,0)	(197,9)
Cash available from operations	(2,3)	42,9	356,4
Dividends paid, including outside shareholders	(73,5)	(63,7)	(106,2)
Cash retained from operations	(75,8)	(20,8)	250,2
Other movements	31,3	2,9	10,0
Cash available for investment	(44,5)	(17,9)	260,2
Investment in future operations including expansion capital expenditure	(83,9)	(48,4)	(102,7)
Cash (outflow)/inflow for period	(128,4)	(66,3)	157,5
Financing movements			
Long term borrowings	(3,2)	0,5	9,7
Short term borrowings	69,2	37,9	(119,2)
Cash	56,1	20,4	(57,4)
Shares issued for cash	6,3	7,5	9,4
	128,4	66,3	(157,5)

Review of results

Trading for the period under review has been difficult with selling prices and volumes under pressure. Turnover increased by 2,7% in Rand terms and sales volumes declined by 2,0%. Emphasis on improving efficiencies and cost control continued throughout the group, resulting in margins being maintained at 11,5% and operating profit increased to R274,8m, being 3% above the corresponding period last year.

With ongoing attention to asset management, total borrowings were on average lower during the period and with reduced interest rates, borrowing costs were 72% below last year. Profit before and after tax improved by 7% and 10% respectively, before the abnormal item.

The abnormal item refers to the disposal of the Kliprivier brown paper machines and is reported at an after tax level in order to highlight the full effect of the transaction to shareholders and to separate it from actual trading results for the period.

Net cash outflow for the period was R128,4m after capital expenditure of R154,7m and the borrowings ratio is 19%.

Sectoral information

Packaging	6 months ended 31 March 1994 Rm	1993 Rm	Change %	Year 30 Sept 1993 Rm
Turnover	1 941,6	1 908,9	2	3 724,5
Operating profit	259,6	232,4	12	451,1
Margin	13,4%	12,2%		12,1%

	1994	1993	Year 30 Sept 1993
Deferred taxation	100,1	95,6	101,0
Interest bearing debt	294,8	373,8	228,8
Long term	68,9	151,9	72,1
Short term and current	225,9	221,9	156,7
	1 968,4	1 825,7	1 763,6
Employment of capital			
Fixed assets	1 209,6	1 154,7	1 205,5
Investments	58,4	11,3	16,5
Current assets	1 424,3	1 374,2	1 386,4
Stocks	651,7	703,5	657,6
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Net asset value per ordinary share	(cents)	313	271	286
Total borrowings: total shareholders' funds	(:1)	0,19	0,28	0,16
Total liabilities: total shareholders' funds	(:1)	0,65	0,80	0,75
Capital expenditure	(Rm)	106,4	104,0	237,0
Includes interest capitalised		0,9	0,7	2,0
Capital commitments – fixed assets	(Rm)	178,6	212,8	137,0
Contracted		66,7	126,5	61,7
Approved		111,9	86,3	75,3
Lease commitments	(Rm)	127,7	121,1	133,0
Land and buildings		120,9	114,0	126,7
Other		6,8	7,1	6,3
Contingent liabilities – guarantees	(Rm)	14,9	11,2	14,5

Bevcan profits remained constant despite a more competitive market. **Plastics, Glass, Divpac, Cartons, Corrugated** and **Polyfoil** increased earnings despite difficult trading conditions. **Liquid Packaging** profits were down, due to the phasing out of decentralisation benefits, as were **Sacks** as a result of sharply lower demand in the second quarter. **Foodcan** profits fell due to a decline in demand and increased competition. **Flexible** volumes grew but pricing pressure reduced earnings.

Paper and printing	6 months ended 31 March 1994 Rm	1993 Rm	Change %	Year 30 Sept 1993 Rm
Turnover	542,4	561,6	(3)	1 117,8
Operating profit	15,2	34,4	(56)	66,8
Margin	2,8%	6,1%		6,0%

Turnover decreased mainly due to the disposal of the Kliprivier brown paper machines at the end of December 1993. Volume sales in **Paper Distribution, Tissue** and **Printing** were buoyant but at low selling prices due to severe price competition and consequently operating profit was affected.

Prospects

There was no growth in demand in the economy for non-durable consumer products during the period under review. At current levels of consumer demand, earnings for the year will show an improvement over 1993, but at a lower level than achieved at the half year.

Dividend

The board has declared an interim dividend (No. 51) of 9,5 cents per share (1993 – 8,7 cents) which is covered 3,8 times (1993 – 3,6 times) and is payable to shareholders registered on 27 May 1994. Payment will be effected on 15 July 1994 and, in this context, shareholders who have elected to receive their dividend by means of the electronic payment system will receive same on due date.

On behalf of the board

B P Connellan *Chairman*
T Evans *Managing director*

9 May 1994

Directors: B P Connellan *(Chairman)*, P L Campbell *(Deputy chairman)*, T Evans *(Managing)*, G E Bortolan, D E Cooper, D A Hawton, M M Katz, A S Lang *(British)*, A M Marthinusen, L M Ndlovu, A S Smit, J H Ward, R C White, R A Williams.
Alternates: D A Black, N Cumming.

Registered office: Nampak Centre, 114 Dennis Road, Atholl Gardens, Sandton 2196. (PO Box 784324, Sandton 2146). Telephone: (011) 444-7418.
Transfer secretaries: Rand Registrars Limited, Block C, 100 Northern Parkway, Ormonde 2091. (PO Box 82549, Southdale 2135). Telephone: (011) 835-1016.

Member of the CG SMITH GROUP

Nampak achieves rise in attributable profit of 15%

BIDay 11|5|94

MARCIA KLEIN

LOWER interest, tax and an abnormal profit on a disposal helped paper and packaging group Nampak produce a 15% rise in attributable profit to R174,3m (R151,2m) in the half-year to March.

Pressure on selling prices and a 2% decline in volumes saw turnover rise just 3% to R2,38bn (R2,32bn).

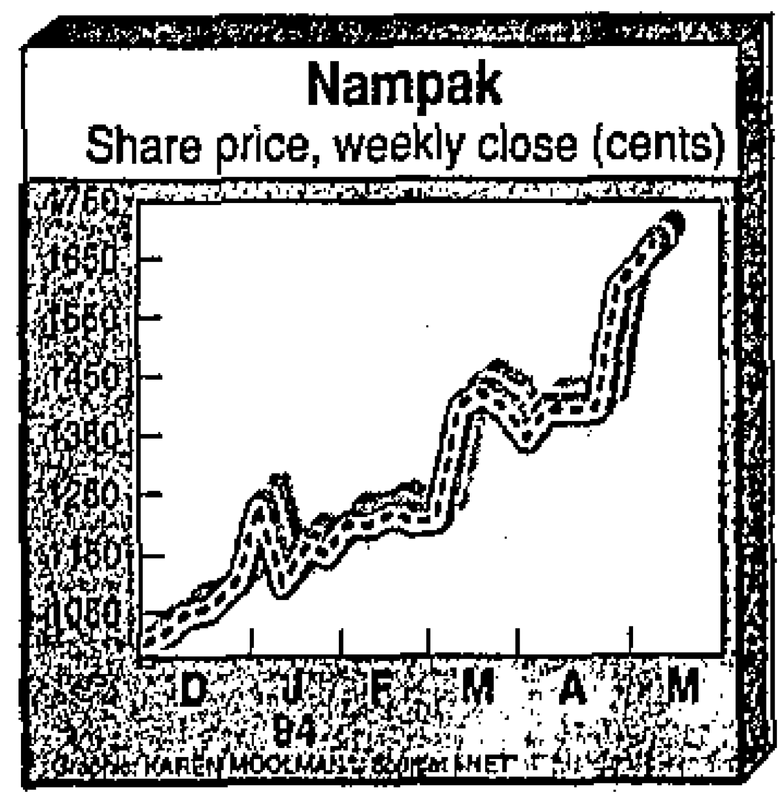
Margins were held through efficiencies and cost control, and operating profit rose similarly to R274,8m from R266,8m previously.

But a significant drop in interest to R5m (R18m) and a lower tax rate enabled the company to lift taxed profit 10% to R169,2m from R154,1m.

Attention to asset management enabled Nampak to spend R106,4m in capex and still increase its interest cover to a high 56 (15,2) times, and drop its gearing to 19% (28%).

The bottom line increase of 15% was helped by an abnormal profit of R10,3m on the sale of the Kliprivier brown paper machines.

This item was reported at an after-tax level to separate it from actual trading results and "to highlight the full effect of the transaction".



A small increase in shares in issue saw earnings rise 14% to 35,8c (31,3c) a share, and a 9% higher interim dividend of 9,5c (8,7c) was declared.

Chairman Brian Connellan said he was pleased with the results as trading conditions had been difficult, and selling prices and volumes under pressure.

There was no growth in demand for non-durable consumer products.

But the group had outperformed the industry through a focus on financial and management controls.

The packaging division increased turnover 2% to R1,94bn, and its operating profit 12% to R259,6m.

Connellan said can manufacturer Bevcan had maintained its profits in a market which had become highly competitive with the entry of aluminium cans.

(194)

The plastics, glass, Divpac, cartons, corrugated and polyfoil divisions all increased their earnings.

But liquid packaging profits were lower, following the phasing-out of decentralised benefits.

The Foodcan and sacks divisions also produced lower earnings due to a drop in demand in the second quarter. Flexible packaging increased volumes, but earnings were affected by pricing pressures.

The disposal of the Kliprivier brown paper machines saw the paper and printing division report a 3% drop in turnover to R542,4m.

Higher volumes in the paper distribution, tissue and printing divisions were offset by price wars in all these markets, and operating profit slumped 56% to R15,2m.

At current levels of demand, Nampak would increase full-year earnings, but at a lower level than the first half because of the benefit at this stage of the abnormal profit.

R16m single bad debt dents Boland Bank performance

BIDay 11|5|94

EDWARD WEST

CAPE TOWN — A single bad debt marred otherwise sound results by Boland Bank for the year to March, leaving attributable income marginally higher at R24,2,m (R24,1m), despite a 52% increase in operating profit.

MD Gert Liebenberg said growth was attained through a strong increase in net interest income, supplemented by steady income improvement income from other serves and containment of the rate of increase in expenses.

Liebenberg said liquidation of a single client necessitated a specific bad debt provision of R16m.

The bank refused to name the company liquidated.

The bad debt was the principle reason attributable income showed only a slight increase, Liebenberg said.

Interest income was 22% higher at R163,1m (R133,2m).

Provision for bad debts was 21% higher at R62,7m (R52m).

Total income was higher by a fifth to R197,1m (R164,8m).

Expenses were 14% higher at R168,1m (R139m) and operating income was 52% higher at R39m (R25,7m). Earnings a share came to 180,4c (179,2c).

In view of the fact the interim dividend had been lifted 2c, it was decided to retain the final dividend at its previous level 33c, bringing the total for the year to 58c (56c).

The board was confident the affects of the recession would be overcome this year.

Gradual recovery of the growth in financing and stabilisation of bad debt provisions would benefit profitability, it said.

ATC earnings plunge 33%

MUNGO SOGGOT

ANGLO-Transvaal Collieries' attributable earnings fell 33% to R2,6m for the year to March (R3,9m) on a 33% drop in turnover to R2,7m (R4m).

Dividend income from Randcoal — its sole investment — fell to R2,7m (R3,9m).

Earnings a share were cut to 154c (231,5c), and an ordinary dividend of 155c was declared.

Interest received was R11 000 (R12 000) and expenditure was unchanged.

The market value of the company's 8,36% stake in Randcoal rose to R151m (R70m). Book value was unchanged at R90 000. The net asset value of shares was 9 441c (4 388c) a share.

Longrail turnover moves into the fast lane

BIDay 11|5|94

MUNGO SOGGOT

ROAD freight group Longrail clocked up an 18% rise in earnings to 9c (7,6c) a share for the year to February, despite the high cost of increasing its fleet in the previous year.

On Monday, the share was untraded at its May 6 annual high of 105c, off an annual low of 40c in July last year.

The dividend increased 20% and a scrip alternative was declared.

The company — which is jointly owned by management and Imperial Holdings — saw turnover jump 31% to R92,3m from R70,6m the previous year. Income before interest and tax climbed to R4,9m (R4,3m).

Longrail's interest bill rose to R3,6m (R3,2), and its tax bill increased to R2,09m (R2,01m).

MD Marius Els predicted further strong growth in the coming year.

The company's gearing dipped to 89% from 201% the previous year. Gearing had been reduced further by share issues of R5,3m underwritten by Imperial to fund two recent acquisitions, the company said.

Political uncertainty, surplus capacity in transport and a high level of vehicle-related crime had led to turbulent business conditions. But the company looked forward to a "much improved business environment".

Longrail and Imperial chairman Bill Lynch said "the group had sufficient resources to grow with the new SA".

The board announced that shareholders could opt for capitalisation shares in the ratio of 3,33 new ordinary shares for every 100 shares held, or could take the dividend in cash at 3c a share.

Fm 13/5/94

Nampak Limited

(Registration number 68/08070/06)

(194)

INTERIM REPORT TO SHAREHOLDERS FOR THE SIX MONTHS ENDED 31 MARCH 1994

The unaudited consolidated results of the group for the six month period are set out below:

Group income statement

	Unaudited 6 months ended 31 March 1994 Rm	1993 Rm	Change %	Audited Year 30 Sept 1993 Rm
Turnover	**2 378,8**	2 315,3	3	4 543,7
Operating profit	**274,8**	266,8	3	517,9
Interest	**5,0**	18,0	72	32,1
	269,8	248,8	8	485,8
Income from investments	**5,3**	7,6		20,0
Profit before taxation	**275,1**	256,4	7	505,8
Taxation	**105,9**	102,3	(4)	197,9
Profit after taxation	**169,2**	154,1	10	307,9
Abnormal item after taxation	**10,3**	–		–
Profit after taxation including abnormal item	**179,5**	154,1	16	307,9
Attributable to:				
– outside shareholders	**5,2**	2,9		8,0
– preference dividends	**–**	–		0,1
– ordinary shareholders in Nampak Limited	**174,3**	151,2	15	299,8
Interest cover (times)	**56,0**	15,2		16,8
Effective tax rate (%)	**39,2**	41,1		40,7
Weighted number of ordinary shares upon which earnings per share is based (000)	**486 670**	482 590		483 600
Earnings per ordinary share (including abnormal item) (cents)	**35,8**	31,3	14	62,0
Dividends per ordinary share (cents)	**9,5**	8,7	9	23,8

Note:

1. *A share split of 10 for 1 was approved at a general meeting on 17 March 1994; all relevant figures have been restated to reflect this change.*
2. *The 1993 half year figures have been restated for the change in accounting policy regarding joint ventures. The effect is not material.*

Group cash flow statement

	Unaudited 6 months ended 31 March 1994 Rm	1993 Rm	Audited Year ended 30 Sept 1993 Rm
Cash generated by operations	**366,6**	360,0	711,5
(Deduct)/add: Operating requirements			
Working capital	**(136,1)**	(85,6)	30,7
Replacement of fixed assets	**(70,8)**	(66,5)	(155,8)
Interest paid	**(5,0)**	(18,0)	(32,1)
Taxation paid	**(157,0)**	(147,0)	(197,9)
Cash available from operations	**(2,3)**	42,9	356,4
Dividends paid, including outside shareholders	**(73,5)**	(63,7)	(106,2)
Cash retained from operations	**(75,8)**	(20,8)	250,2
Other movements	**31,3**	2,9	10,0
Cash available for investment	**(44,5)**	(17,9)	260,2
Investment in future operations including expansion capital expenditure	**(83,9)**	(48,4)	(102,7)
Cash (outflow)/inflow for period	**(128,4)**	(66,3)	157,5
Financing movements			
Long term borrowings	**(3,2)**	0,5	9,7
Short term borrowings	**69,2**	37,9	(119,2)
Cash	**56,1**	20,4	(57,4)
Shares issued for cash	**6,3**	7,5	9,4
	128,4	66,3	(157,5)

Group balance sheet

	Unaudited 31 March 1994 Rm	1993 Rm	Audited 30 Sept 1993 Rm
Capital employed			
Share capital and premium	**232,0**	223,8	225,7
Non-distributable reserves	**61,7**	61,9	61,7
Retained surplus	**1 231,2**	1 029,1	1 103,0
Outside shareholders' interest	**48,6**	41,5	43,4
Total shareholders' interest	**1 573,5**	1 356,3	1 433,8
Deferred taxation	**100,1**	95,6	101,0
Interest bearing debt	**294,8**	373,8	228,8
Long term	**68,9**	151,9	72,1
Short term and current	**225,9**	221,9	156,7
	1 968,4	1 825,7	1 763,6
Employment of capital			
Fixed assets	**1 209,6**	1 154,7	1 205,5
Investments	**58,4**	11,3	16,5
Current assets	**1 424,3**	1 374,2	1 386,4
Stocks	**651,7**	703,5	657,6
Debtors	**740,2**	660,0	640,3
Bank balances and cash	**32,4**	10,7	88,5
Total assets	**2 692,3**	2 540,2	2 608,4
Non interest bearing debt	**723,9**	714,5	844,8
Taxation	**63,3**	72,4	115,1
Creditors and shareholders for dividends	**660,6**	642,1	729,7
	1 968,4	1 825,7	1 763,6

Salient features

	Unaudited 31 March 1994	1993	Audited 30 Sept 1993
Number of ordinary shares in issue (000)	**487 462**	484 160	485 060
Net asset value per ordinary share (cents)	**313**	271	286
Total borrowings: total shareholders' funds (:1)	**0,19**	0,28	0,16
Total liabilities: total shareholders' funds (:1)	**0,65**	0,80	0,75
Capital expenditure (Rm)	**106,4**	104,0	237,0
includes interest capitalised	**0,9**	0,7	2,0
Capital commitments – fixed assets (Rm)	**178,6**	212,8	137,0
Contracted	**66,7**	126,5	61,7
Approved	**111,9**	86,3	75,3
Lease commitments (Rm)	**127,7**	121,1	133,0
Land and buildings	**120,9**	114,0	126,7
Other	**6,8**	7,1	6,3
Contingent liabilities – guarantees (Rm)	**14,9**	11,2	14,5

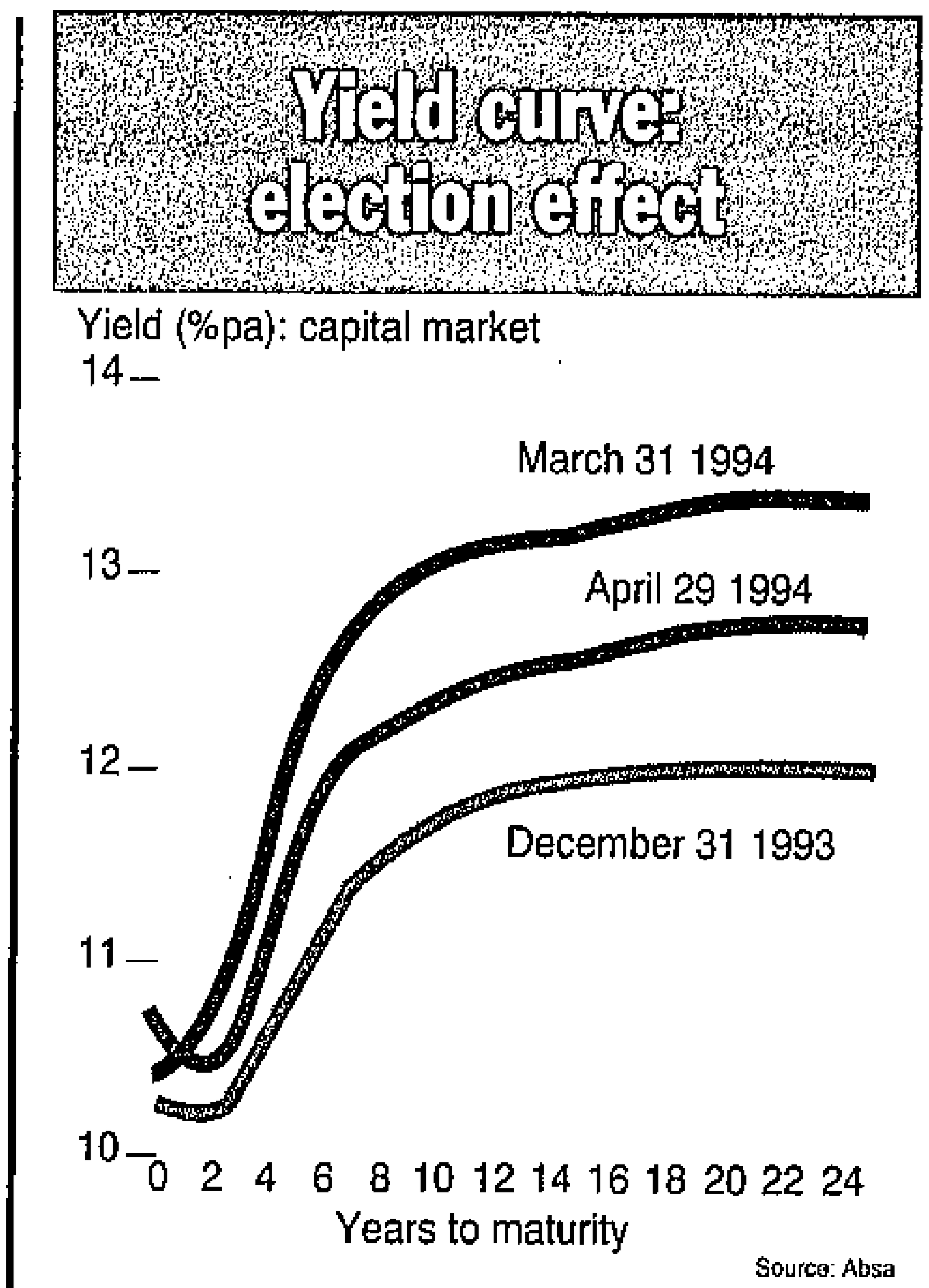
YIELD CURVES

Steep ride

Political uncertainty has been reflected in the bond market yield curve. This traditionally measures market expectations about future economic activity and inflation.

A yield curve provides only a snapshot of sentiment at any given moment. This makes it difficult to interpret in uncertain times. Today's curve may look very different from yesterday's. A steeply positive slope (in other words, long-term rates much higher than short-term ones) indicates high monetary growth and suggests high inflation will follow. A flatter or negative slope reflects sluggish economic activity and the probability that inflation would be less serious.

The steep slope in the first quarter (see graph), as long-term rates rose sharply, reflects fears that the Inkatha Freedom Party and the Freedom Front would refuse to take part in the election. The entry of these parties into the process in April improved sentiment, flattening the curve considerably — though yields were still above those for the end of December, probably because inflationary fears are rising.



Paradoxically, fears around the election created a flatter slope in the short-term section of the curve. Money market rates moved up in April in line with high levels of Reserve Bank accommodation — this in turn was caused by a large demand for cash from the general public and some outflows of short-term capital.

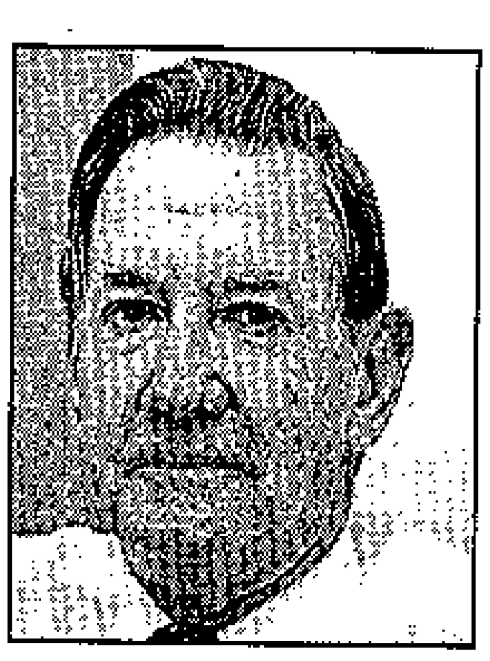
High official short-term interest rates also contributed to the higher yields at the shorter end.

Fergusson Brothers gilts analyst Tim Hacker says the curve should steepen this year. "Because of inflationary fears, we should see higher rates at the long end. A possible cut in official short-term rates would lower yields at that end." Falling short rates will generate further fears of inflation and higher long rates.

Simpson McKie analyst Marilyn Visser says: "Much of this will depend on the perceptions of foreign investors regarding the ANC's economic policies, in particular the reconstruction and development programme. It also depends on the timing of government stock." Equally important will be the behaviour of key indicators such as inflation and money supply in the short term. ■

ROBIN McGREGOR **IN MY OPINION**

Does size count?



Robin McGregor is author of *Who Owns Whom*

My economic philosophy is essentially free market and this is why I criticise anything that inhibits competition.

Furthermore, it has never been my intention to demonise big business *(Leaders* April 29) — which is essential for any economy, particularly a developing one such as ours. But concentration of economic power is an issue that needs to be aired and addressed.

The cause of this concentration is gross mismanagement.

Mismanagement of the economy has created a financial hothouse and encouraged the formation of cartels. The recommendations of the Competition Board, until the advent of chairman Pierre Brooks and the recent revelations of State corruption, have been consistently ignored and our large corporations have been allowed to absorb the major portion of the private sector.

My position has been stated in the book *Economic Alternatives*, in McGregor's Online Information report entitled *Unbundling in South Africa 1992* and in subsequent papers including one delivered at the ANC-organised antitrust workshop late in 1992.

My primary objective is to improve competitiveness on an industry-by-industry basis. For example: if competition is found wanting in a particular industry — and there are mechanisms that can identify this inexpensively and quickly — then a means of improving it should be introduced. This could be unbundling in a meaningful sense and, of course, revising import tariffs.

Any State motivated unbundling should be based on incentive and not be coercive. A 5-10 year period for the unbundling should be allowed so that there are no forced sales.

A major incentive could be a relaxation of exchange control to allow the proceeds of unbundling to be invested offshore. If not, ownership will simply pass from one group to another.

The *FM* article states: "McGregor denies socialist affiliations ... yet the current edition (of *Who Owns Whom*) ... sings a dubious song ..." It then goes on to quote from the advertising material which accompanied the book. This quite clearly advocates what every modern writer on corporate structure and governance is saying, and that is that the day of the conglomerate is over; small is beautiful. There is absolutely no mention in that advertising material that could possibly smack of socialist connotations.

What I find heartening about the article, however, is that, after 13 years I have, at last, not been accused of double counting.

With regard to my GDP calculations, the methodology was checked by Anglo and accepted.

These figures show the size of the dynamic economy and indicate that listed companies produce nearly 50% of the country's total GDP.

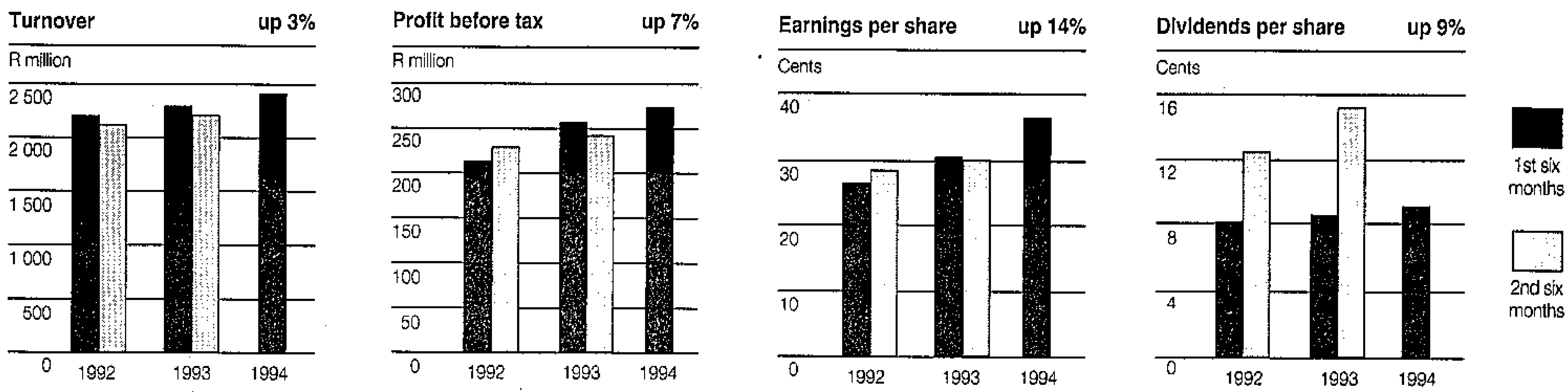
The State and semigovernment companies contribute 28% and the balance of only 22% is generated by the nonlisted private sector which includes agriculture, multinationals and private-sector institutions. That does not leave a great deal for independent medium and small businesses.

I do not believe the asset figures quoted in the article are meaningful in the context of the size of the economy. Anyway, I have not seen them used by any other country in the world. GDP generation is always the accepted measure.

The article is defensive, which surprises me. All our big groups have made and continue to make so many positive contributions to SA that one would think these would be emphasised. Anglo alone generates 10% of GDP; it generates more GDP than 37 countries in Africa. It employs more than 400 000 people and is the recognised world leader in deep mining technology. I won't go on, but there are 16 positive attributes of size enumerated in "Economic Alternatives" on pages 363 to 366.

My criticisms are and have always been directed at the mismanaged economic and sociological environments. The fact that the major groups are evidence of this mismanagement, both to their advantage and disadvantage, is incidental.

Fm 13/5/94 (194)



Review of results

Trading for the period under review has been difficult with selling prices and volumes under pressure. Turnover increased by 2,7% in Rand terms and sales volumes declined by 2,0%. Emphasis on improving efficiencies and cost control continued throughout the group, resulting in margins being maintained at 11,5% and operating profit increased to R274,8m, being 3% above the corresponding period last year.

With ongoing attention to asset management, total borrowings were on average lower during the period and with reduced interest rates borrowing costs were 72% below last year. Profit before and after tax improved by 7% and 10% respectively, before the abnormal item.

The abnormal item refers to the disposal of the Kliprivier brown paper machines and is reported at an after tax level in order to highlight the full effect of the transaction to shareholders and to separate it from actual trading results for the period.

Net cash outflow for the period was R128,4m after capital expenditure of R154,7m and the borrowings ratio is 19%.

Turnover decreased mainly due to the disposal of the Kliprivier brown paper machines at the end of December 1993. Volume sales in **Paper Distribution, Tissue** and **Printing** were buoyant but at low selling prices due to severe price competition and consequently operating profit was affected.

Prospects

There was no growth in demand in the economy for non-durable consumer products during the period under review. At current levels of consumer demand, earnings for the year will show an improvement over 1993, but at a lower level than achieved at the half year.

Dividend

The board has declared an interim dividend (No. 51) of 9,5 cents per share (1993 – 8,7 cents) which is covered 3,8 times (1993 – 3,6 times) and is payable to shareholders registered on 27 May 1994. Payment will be effected on 15 July 1994 and, in this context, shareholders who have elected to receive their dividend by means of the electronic payment system will receive same on due date.

Sectoral information

	6 months ended 31 March			Year 30 Sept
Packaging	**1994 Rm**	1993 Rm	Change %	1993 Rm
Turnover	**1 941,6**	1 908,9	2	3 724,5
Operating profit	**259,6**	232,4	12	451,1
Margin	**13,4%**	12,2%		12,1%

Bevcan profits remained constant despite a more competitive market. **Plastics, Glass, Divpac, Cartons, Corrugated** and **Polyfoil** increased earnings despite difficult trading conditions. **Liquid Packaging** profits were down, due to the phasing out of decentralisation benefits, as were **Sacks** as a result of sharply lower demand in the second quarter. **Foodcan** profits fell due to a decline in demand and increased competition. **Flexible** volumes grew but pricing pressure reduced earnings.

	6 months ended 31 March			Year 30 Sept
Paper and printing	**1994 Rm**	1993 Rm	Change %	1993 Rm
Turnover	**542,4**	561,6	(3)	1 117,8
Operating profit	**15,2**	34,4	(56)	66,8
Margin	**2,8%**	6,1%		6,0%

On behalf of the board

B P Connellan *Chairman*
T Evans *Managing director*

9 May 1994

Directors: B P Connellan *(Chairman)*, P L Campbell *(Deputy chairman)*, T Evans *(Managing)*, G E Bortolan, D E Cooper, D A Hawton, M M Katz, A S Lang *(British)*, A M Marthinusen, L M Ndlovu, A S Smit, J H Ward, R C White, R A Williams.

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Member of the CG SMITH GROUP

JONSSONS

R10-m packaging expansion

MARC HASENFUSS (194)
Business Staff

CLAREMONT-based Bowler Metcalf (Bowcalf) will not have to go cap in hand to the market to raise funds for expansion.

Conversely, investors are likely to beg for any new issue.

Bowcalf's reputation is of a consistent profit performer over the last five years.

In his annual review, chairman Horst Sass said: "The cost of financing the new product line and the factory will be some R10 million and we may raise all or part of this through the JSE." ARGL 21/5/94

He said the specialist packaging group was in an advanced planning stage for a new 9000m² factory in Ottery. Building will commence either in late 1994 or early 1995 and will boost production capacity by 60 percent.

Mr Sass disclosed that Bowcalf will extend its range in the rigid plastic packaging market by bringing a new process on stream in 1994 at a cost of R4 million.

Bowcalf's most recent acquisition — Plus Plastik (R1,54 million) — would not be run as a separate entity but rather incorporated into the main group.

Plus Plastik offered an excellent opportunity to double group capacity in the Transvaal in the year ahead, Mr Sass said. "I am confident that the medium term benefits will be substantial and that the purchase price will be justified during 1994."

The year ahead was important for Bowcalf because it signalled the start of its next five-year growth phase. "I believe 1994 will be satisfactory despite the high cost of expansion and the minimal contribution that it is likely to make for the year," he said.

Bowcalf traded at R3 in smallish volumes on the JSE this week with a scarcity of scrip prompting investors to pay handsome premiums for what was available.

Scrip is trading at nearly 10 times its net asset value of 33c. The market gives Bowcalf as much respect as blue chip packager Nampak.

Amaprop hit by losses at Carlton

Ongoing losses from the Carlton Hotel and the land-trading division saw attributable earnings of Anglo American Properties (Amaprop) drop 23% to R26m for the year to end-March as expected, chairman Gerald Leissner said.

He said the small improvement in the profit from rental properties had not been enough to compensate for these losses.

Earnings at the share level were 57,79c against 71,81c the previous year. (194)

Leissner said land sales, both for cash and on instalment, continued to be affected by the unsettled political and economic position in the country during the period under review.

Although occupancy levels at the Carlton Hotel continued to be adversely affected by the recession, the announcement of plans by Three Cities Hotels — which manages the hotel — for a R500m international conference centre and casino centred around the hotel was expected to be beneficial. CT 27/5/94

Shareholders were awarded capitalisation shares on March 30 in the ratio of five capitalisation shares for every 100 existing ordinary shares held at an issue price of R5 per share, but subject to having the right to elect to receive instead a final dividend of 25c per share.

NAMPAK

Fm 3/6/94

Exciting package

Prudence in hard times could soon be handsomely rewarded

Good times for the man in the street mean good times for Nampak, C G Smith's 62%-owned packaging and paper giant. There haven't been many good times so far this decade, which has been characterised by sharply reduced demand for food and other goods which — as it holds well over 40% of SA's packaging market — often come wrapped, boxed or canned in a Nampak product.

Still, despite the engine of consumer spending operating in slow-down mode for most of the early Nineties (see graph), Nampak held market share and maintained margins. What's more, it managed to grow earnings. Now that increased spending is on the horizon, with an encouraging forecast for 1995, investors have been quick to see Nampak's potential.

Buying has driven the share price up (see graph) about 60% over the year, compared with around 50% for Consol and only 4,4% for Holdains (though Malbak Group's price was up about 11% earlier this year).

The rush may have sent the price up too high, too soon, a point we will return to later. What's important is that the market clearly expects a lot from Nampak as the economy continues to improve. Will it be able to satisfy those high expectations?

To answer that, we need to look at what Nampak did through the recession to sustain financial growth. Traditionally, packaging activities have a close correlation with gross domestic product (GDP), growing roughly 2% better than GDP. That was the trend in the late Eighties, which MD Trevor Evans calls the "hallelujah days." (1994)

But Nampak still grew through the subsequent recession, often while competitors were in decline — basically through rigorous cost containment and an emphasis on sharpening efficiencies. That's how it's run now and this is important to future performance. When consumer spending rises and volumes increase, they will flow through a radically altered cost structure. That could push up earnings growth significantly.

Evans took over as MD in 1991 soon after Brian Connellan was appointed chairman. The result was a new, streamlined management structure at a difficult time. Recession was starting to bite and the earlier merger with Metal Box was still bedding down.

Evans points to three areas where Nampak took on the downturn: strict control of working capital; a reduction in staff complements; and increased emphasis on productivity through training, accompanied by what were at the start of the Nineties considered radical affirmative action and worker participation programmes.

"We concentrated on bringing down working capital as a percentage of sales. For example, stocks were cut by 5% — it may not sound much, but it translated into a big saving and helped wind up the balance sheet," says Evans.

Cutting back on operating costs and stocks saved on inventory and interest charges. Debt has declined steadily, reducing gearing since 1991 from 39% to a comfortable 10% at year-end. Interim results showed a further reduction in average debt, helping to shave R13m off the interest bill.

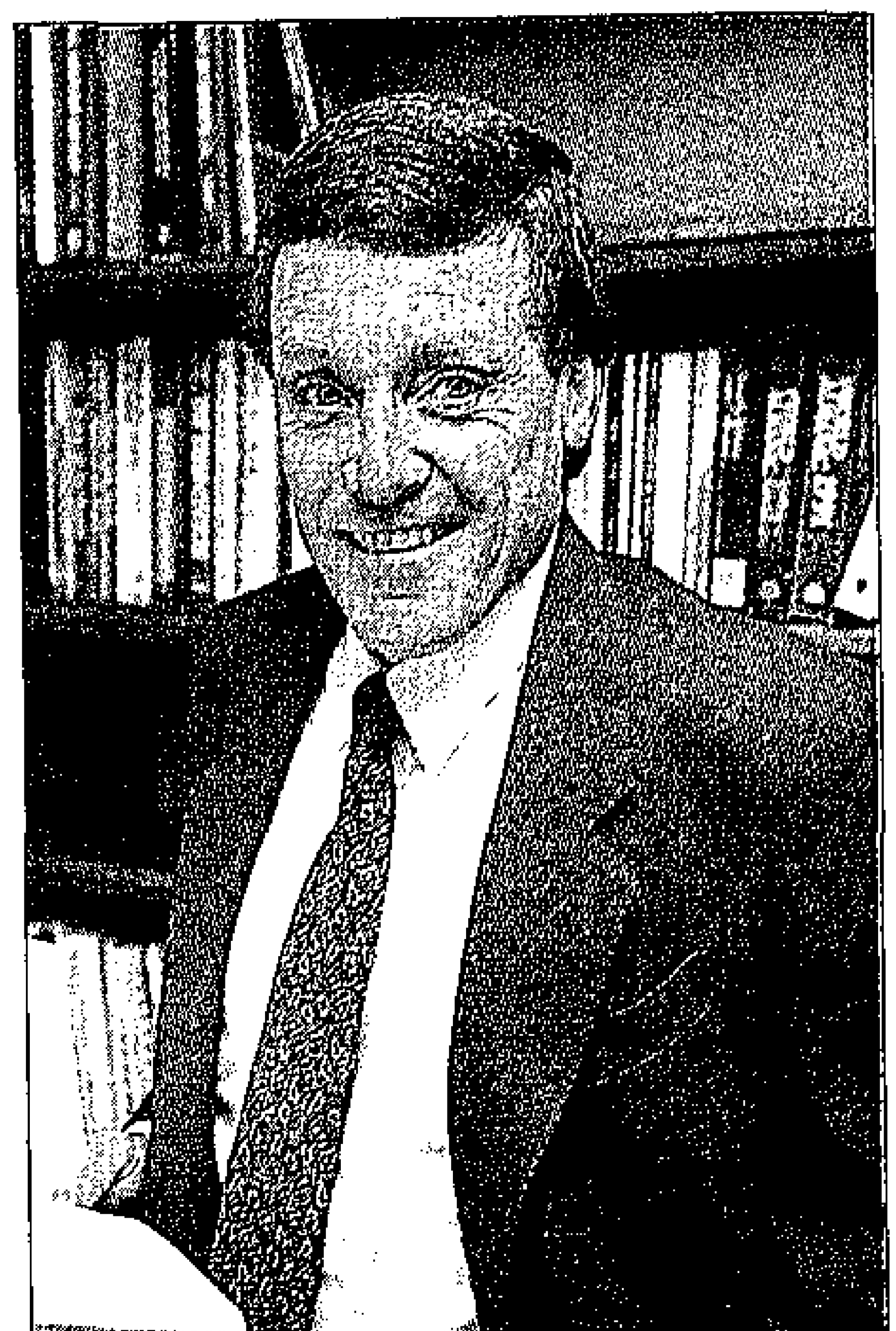
Employee numbers followed the trend, coming down from 23 500 in 1990 to about 18 000 now. "We are trying not to retrench any more," says Evans. "Further reductions should come from natural wastage."

In a capital-intensive industry such as packaging, where the skills level demands competitive wages, lower staff numbers (about 57% of total wealth created goes on the wage bill) have a big effect.

During the retrenchment years, an inverse trend developed between staff reductions and man-days lost. "In 1991, when retrenchments started, we lost 140 000 man-days to industrial action. When retrenchment got really serious in 1992 and 1993, the figure fell to the point where we now lose fewer than 10 000 man-days," Evans says.

Retrenchments were combined with more attention to training, from shop floor to senior management. The result was a gain of about 20% in productivity per employee.

But is productivity high enough to make Nampak internationally competitive, something its new world-class manufacturing and service programme is targeting? Maybe not yet, though Evans believes Nampak is closing the gap. "You see it simply in the fact that we are getting more turnover from fewer people." And training is continuing.



Evans ... *ready for the upturn*

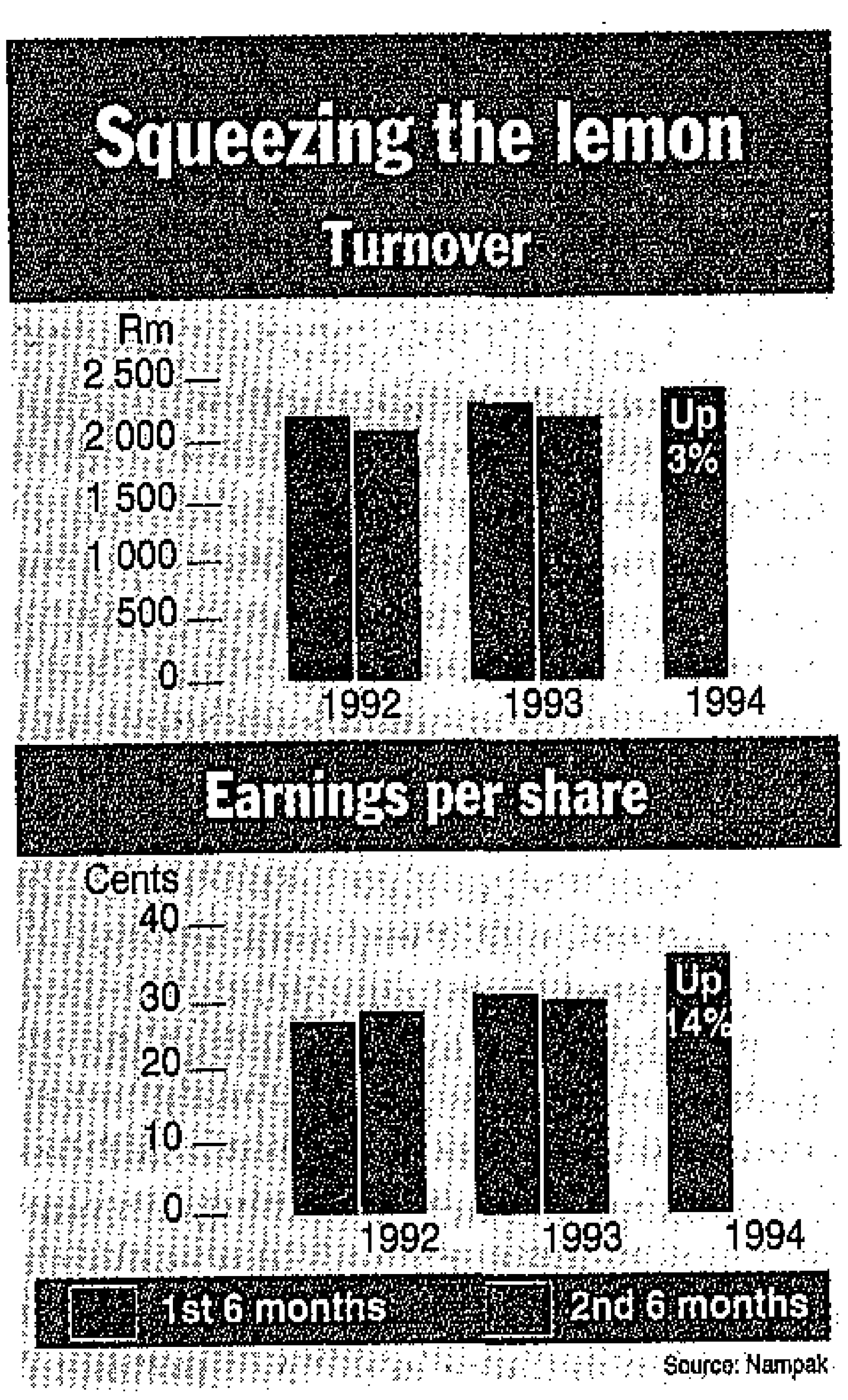
This investment in the human dynamic earned Nampak the "most progressive company" award from the Black Management Forum in 1992. Last year the forum voted Evans SA's most progressive CE.

These achievements might not have counted for much more than a few Brownie points from the democratic movement in the past but could carry far more currency in SA's evolving political arrangements. The benefits of recognition from the unions and politically correct investment funds at home and abroad are obvious.

Evans does not dwell on the awards, save to point out the underlying principle that policies towards employees are raising awareness of the importance of productivity and service to customers. In the end, that translates into profits.

A remarkably consistent operating margin has not deviated much from its present 11,6%. "We could not hold margins through volume or price increases. We just had to be more efficient," Evans says.

That leaves Nampak in good shape to meet the expected upturn, lean and with a strong balance sheet. But increased demand will not necessarily mean easier trading. For one thing, competition will remain fierce and could intensify as competitors abroad and at home get their acts together.



FM 3/6/94

new Ministry can enable 1m homes to be built in five years, given that only about 50 000 have been produced over the past two years. The consensus is that there are a host of variables — "all these variables are bastards," comments one official — which will have to fall in place if the target is to be achieved.

To Urban Foundation housing director Jill Strelitz, one variable is the definition of the roles of the public and private sectors so that developers (from community-based organisations through to nonprofit and profit-orientated companies) know exactly what is expected of them and how the channels of interaction will work. This could be something as simple as making public the names of the officials to whom applications are sent.

Strelitz believes the State should be limited to promoting and regulating so that the private sector is mobilised. "The target will not be met if the public sector chooses to play a direct role in housing delivery as a developer, thereby limiting the role of the private sector to that of contractor. If it does this — and this is a problem endemic to provincial and local authorities — it will crowd out the private sector."

Building Industries Federation of SA executive director Ian Robinson thinks the target can be met. Bifsa is planning on building 100 000 houses in 1995 (it believes the Minister should concentrate on building institutional capacity in the remaining months of 1994), 200 000 in 1996, and 300 000 in each of the remaining three years. "The building materials supply industry has assured me it can meet these targets," says Robinson.


Robinson

He does not deny, however, that the industry is critically short of skills, especially in supervisory roles. Bifsa has added R5m to its R20m training budget and aims to turn out 10 000 trainees a year.

Delivery will be the acid test of the policy. This is where all the fine ideas about subsidies and training can run aground. Slovo must be careful not to give community trusts too much say. In the past, these have been slow deliverers of serviced stands, because of the labyrinthine but politically correct process of reaching consensus in entire communities. And Slovo's political clout will be tested in the reaction of township dwellers to his call to end bond and rent boycotts.

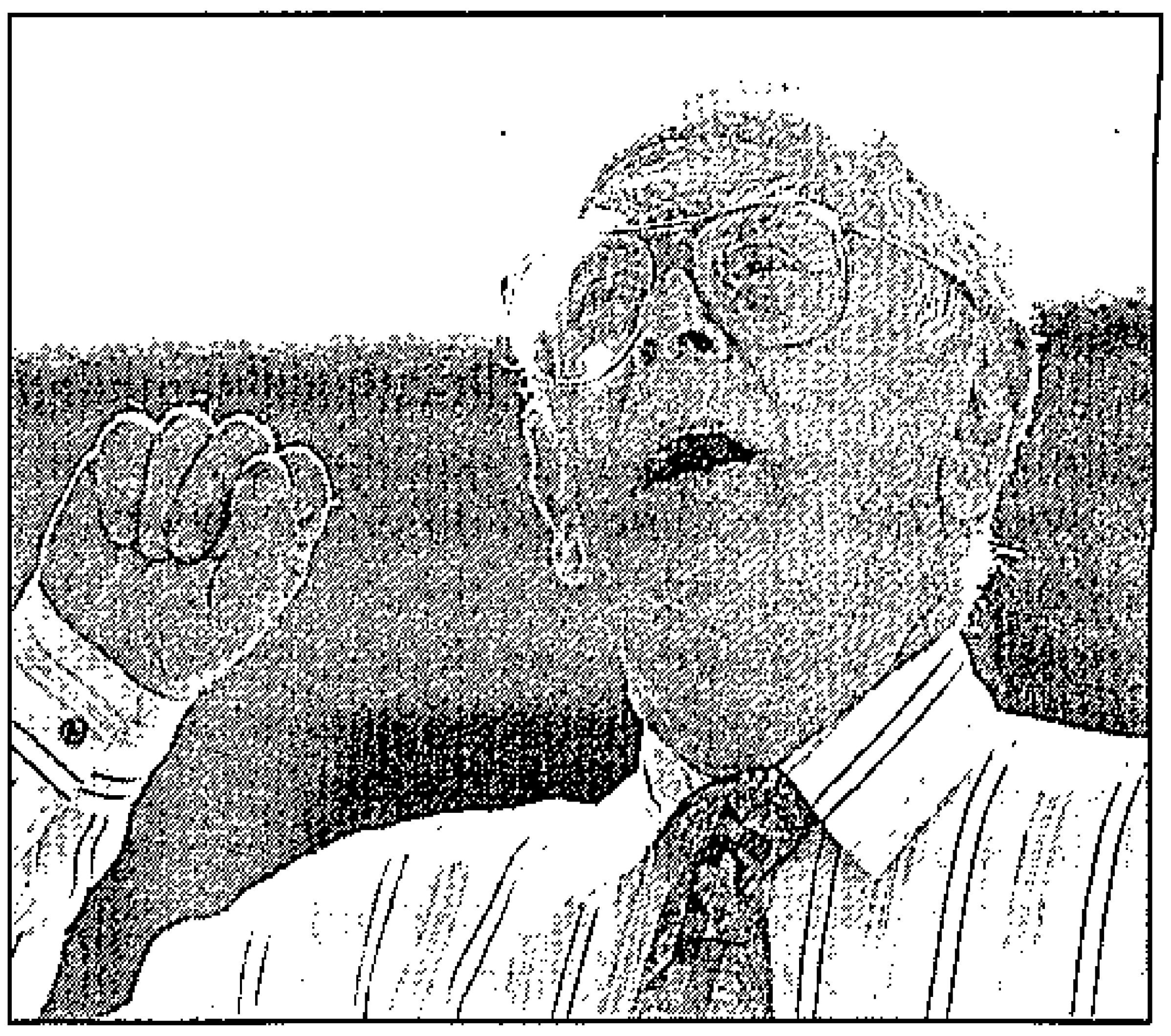
Another problem is to get information and identify needs. This will best be done provincially. The last thing we need is a centralised Ministry trying to do everything. One difficulty is that, as in education, the new government cannot begin with a clean slate. There are already structures and customs in place, with waiting lists to be accommodated.

Even if all these obstacles are overcome, the new policy has not yet addressed the overwhelming need to accommodate the estimated 65% of households that cannot afford the commitment of home ownership. That percentage comes from the De Loor report of 1992 and covers people earning less than R800 a month and those currently renting homes.

Slovo has been admirably energetic in preparing for action, making most of his Cabinet colleagues look slothful. In Billy Cobbett — young, bright and expert in the field — he seems to have made a good appointment as director-general. Both have already demonstrated an acute awareness that no promises should be made that can't be kept and a shrewd pragmatism in balancing idealistic targets against the realities on the ground.

But it is clear that there are many problems, any of which could on its own derail the massive project:

☐ Rising expectations of the homeless;
☐ Establishing fair and efficient ways of funding;
☐ Bureaucracy set to surge and possibly strangle enterprises;
☐ The untested capacity of the building industry in materials and labour;
☐ Townships that remain unstable because of political unrest or crime;
☐ A tradition of bond payment boycotts;
☐ The need to restore confidence among lenders;
☐ The lack of reliable demographic information;
☐ The clash for resources and blurred responsibility between the central authority and the nine provinces;
☐ Difficulties of co-ordination to ensure delivery; and
☐ A lack of policy on rental accommodation.


Slovo ... *power to the provinces*

It is a formidable task and cannot be performed from the centre. If Slovo is to achieve reasonable success, he must devolve as much authority as possible, along with the resources. The provincial administrations are desperate to control projects which affect them and on which the electorate will judge them next time. Socialist measures such as rent control and excessive subsidies, however politically seductive they may be, would be disastrous. Where possible, no matter how much it sticks in the Minister's gullet, he should leave housing to the market. ■

Fm 3/6/94

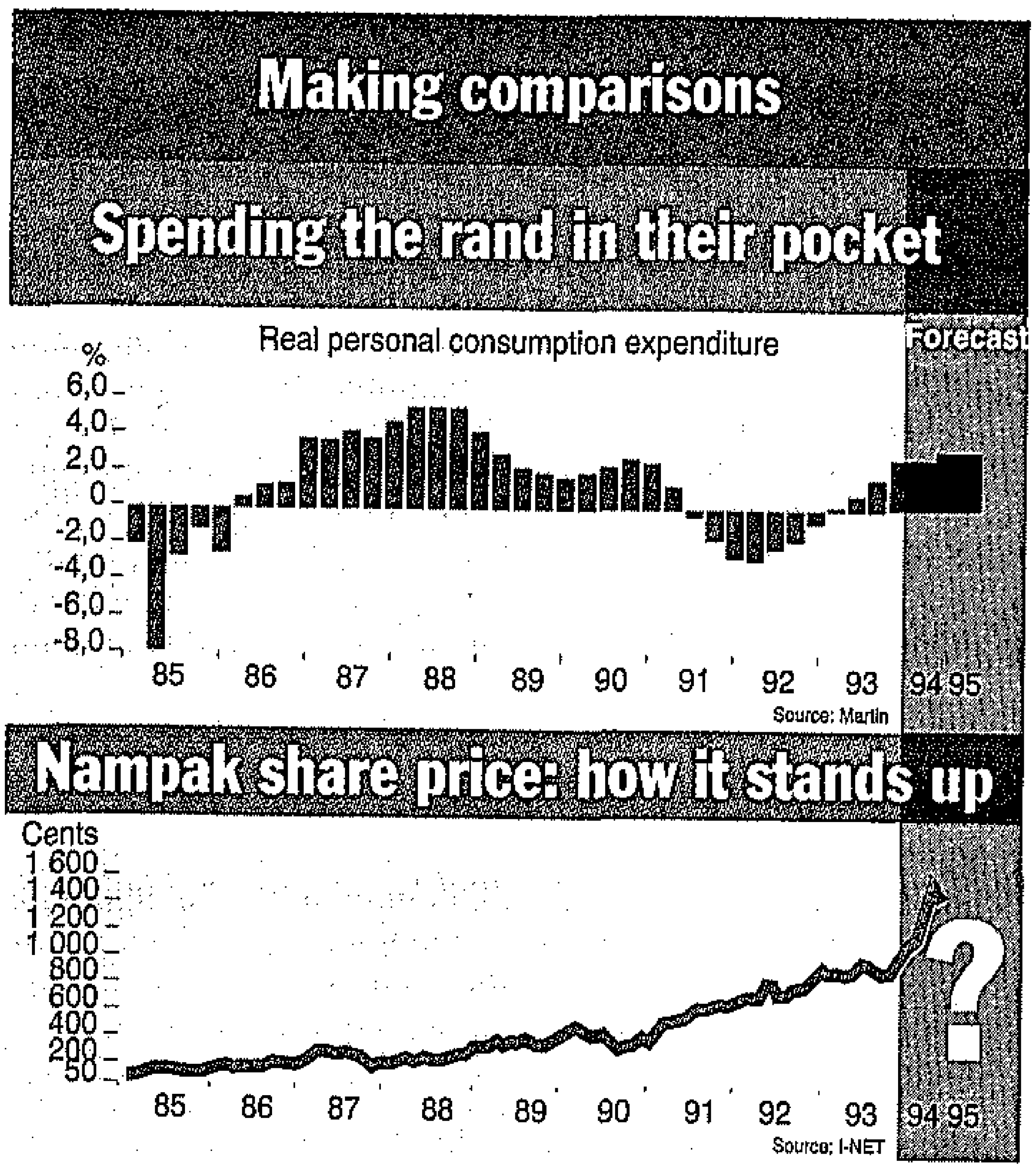
Foreign competition could be easier to handle. "Basically, it could come in two forms: imports or foreign companies setting up operations here," Evans says.

"It's easy to work out who can land products in SA cheaper than we can make them. There aren't many — imports to certain niche markets can be competitive but affect only small pockets of our business."

A larger question mark is the threat of international companies setting up in SA. Many are already here, often in partnership with SA companies. For example, Nampak, Consol and Holdains have foreign partners in packaging ventures. More could follow.

"Increasingly, our divisions are doing zero-based exercises to try to determine the effects of international competition. We do the numbers as if we were moving into this market, working out what pricing would be. There are two benefits to this. We get an idea of what foreign competitors' costing would be and we can determine whether our pricing is in line.

"We can draw some comfort from these exercises. It seems we are not too vulnerable; we don't see foreign competition as a major threat," he says.



Challenges in most areas are more likely to come from Nampak's back yard.

Dominance of the major beverage and food metal can sector is under threat. On the one side is Malbak's Holdains, which entered the market just over a year ago, when it acquired a stake in US-based Crown Cork. It had some problems getting the plant up to scratch but the plant is working properly now and competing head-on with Nampak.

On the other side is the Rheem aluminium can plant, aggressively pushing into the market as Amic chairman Leslie Boyd enthusiastically refocuses the Anglo group's industrial interests. Rheem, which can run off 500m cans a year, is making inroads into the SA market, long dominated by metal cans. That follows the trend in the US, where aluminium has the bulk of the market, and parts of Europe.

Evans is well aware of competitors' abilities in the beverage and food cans market, and admits Nampak could lose market share. "But we won't give market share away easily. We are working hard at efficiency, quality and service."

Potentially, aluminium is the biggest threat if SA follows world trends. Evans argues, however, that SA could be a different case. "Iscor has seen what's happened to steel production elsewhere and has moved quickly to protect its can market. For 20 years, Nampak operated its own collection business for recycling metal cans. Iscor has bought this and 25%-30% of the can pool is being recycled. Collection rates could be even higher. Iscor is aiming at 50%."

More important, steel cans could be particularly suited to Africa. More robust, they are better able to withstand the rigours of transport on the continent. It also costs 5%-10% less to make a steel can. Evans says projections show steel will remain cheaper.

His arguments are convincing but by no means conclusive. Rivalry for the beverage market will continue.

Yet he says Nampak is not wedded to steel cans. "If a customer wants an aluminium can, we'll make it. Should aluminium turn out to be the favoured material, we'll switch our lines."

This flexible attitude, something often missing in large groups which have dominated markets for long periods, is important.

The size and importance of the beverage can market tends to obscure Nampak's broad range of other activities. Some of these — glass, tissue, and corrugated containers, for example — have been through a few tough years, but Evans says previous underperformers have been pulled into line.

Nampak has an arsenal of big assets in markets other than beverage cans, assets which could also benefit greatly from economic growth and compensate for trends that might harm the group.

"Government's Reconstruction & Development Programme offers great scope for some of our businesses. For example, if house building really gets under way, the tissue division will pick up the benefits. There is a direct correlation between installation of water-borne sewerage and sales of disposable paper.

"The pool of glass bottles is also getting old. There could be a great increase in demand for bottles next year."

Evans says the programme has been implemented across the board. Most businesses are ready to take full advantage of an upturn. (194)

"We have spare capacity of about 20%, which could be switched on in weeks or even days. If we get GDP growth of 3%-4% and packaging gets a bit more on top of this, Nampak will pick up the benefit. When volumes start to recover, we'll see the full benefit of our improved cost structure."

Competitors also have spare capacity and will pick up the same benefits. But Nampak has produced stronger earnings growth than rivals through the recession. Some analysts expect Nampak to continue growing faster.

Evans says Nampak will seek growth through acquisitions and exports. "There are a few small to medium-sized businesses worth looking at. Foreign partners also offer opportunities. We will look at developing business relationships, maybe joint ventures.

"There has been a change of mindset regarding exports. It's not just a case of exporting surplus capacity. We are well represented through Africa but will seek other export markets as well."

In the end, increased consumer spending will give Nampak the biggest boost. It appears to have done just about as much as it can do to improve internal efficiencies — though Evans says savings are continuing and more can be achieved.

He echoes his chairman's caution. "We have based our planning on business not improving much this financial year to September. We expect a pick-up in the final quarter of the calendar year, with the real improvement starting in 1995."

Some economists are more bullish. Nampak, however, can afford to be cautious. It got through the recession in remarkable shape; it can keep performing even without an increase in consumer spending.

A comparison between the personal expenditure graph and Nampak's share price shows how resilient the stock has been, appreciating even in the lean period from the beginning of 1991 to the end of 1992, when overall spending fell by 3%.

Ironically, the buoyant price is now working against investor sentiment. In the present financial year, share price appreciation has outstripped earnings growth. Even with encouraging prospects, a p:e of nearly 23 is expensive and makes it hard to justify buying now. Consol and Holdains probably offer more value in the short term.

But, for investors who read Nampak's potential and bought in the last quarter of 1993, it's worth holding. Nampak will remain a quality medium- to long-term investment. Increased consumer spending will add the cream on the top.

Shaun Harris

Transpaco plunges into red

BDay 29/6/94

AMANDA VERMEULEN

PACKAGING company Transpaco failed to overcome the effects of a poor economic climate and political instability, reporting an attributable loss of R498 000 (R798 000 profit) for the year to March.

Financial manager Clive Vidergauz said turnover had come under extreme pressure, dropping 6,3% to R51,3m. Operating profit before financing costs slumped 63,8% to R695 000. A 6,4% increase in financing costs to R1m contributed to a pretax loss of R338 000 (R947 000 profit). No dividend was declared.

Vidergauz said although budgeted margins were not achieved due to the strained economy and increased competition, the second half had seen improvement.

He said Transpaco's manufacturing divisions had continued to perform profitably but the printing and packaging side, which traded at a loss, had taken longer than anticipated to streamline in accordance with management decisions. (194)

"However, the division has now been restructured and is budgeting a profit for the year."

Vidergauz said trading for the current year had been reasonably good, with the wholesale divisions looking more buoyant, and management was forecasting a turnaround.

Light at the end of Sappi's tunnel

(194) CT 5/7/94

Demand picks up, prices improve

From BEATRIX PAYNE

JOHANNESBURG. — Sappi expects growth to take root next year as paper and pulp prices improve after two years of price cuts and stiff competition, chairman Eugene Van As said yesterday in the annual report.

The group turned in a sharply weaker performance for the year to February with a 64% fall in earnings to 90c a share (249c) and no dividend declared.

Van As said earnings during financial 1995 should improve "significantly".

But he said the group would only pay a dividend once there was clarity about its future performance and earnings were at an "acceptable level".

He said demand for paper products in SA was likely to accelerate during the second half of 1994 and for the next few years as the economy improved.

Local demand for the group's panel products was expected to increase once construction of houses started.

But he said improved margins in the local market would only appear once the group's "existing commitments on pricing" ran out.

Improved earnings from exports were expected during the second half of the financial year on the back of the weaker rand and rapidly rising prices.

Pulp prices rose about 45% during the last six months, the report said.

Van As said the Saiccor dissolving pulp mill was expected to come on stream in January 1995 and take advantage of higher dissolving pulp prices.

Saiccor's sales fell 3% during the year but was expected to expand output by 33%, the report said.

Van As said results of Sappi Europe would improve "markedly" with higher demand and prices in Europe.

Costs at Hanover Papier in Germany had been sharply reduced and it should break even by the middle of the year. By year end it would eliminate the first half's losses, Van As said.

It was reported in April that the business which manufactured coated wood-free and speciality papers and represented 28% of the group's turnover made a R100m loss during financial 1994.

The plant will invest R100m to upgrade paper machines and increase capacity at the Alfeld mill, the report board said.

Van As said the structure of the board would be revised to reflect the international nature of the company, the shareholding and the SA population.

The group intended having a majority of non-executive directors.

Paper market 'will benefit' from RDP

YURI THUMBRAN

THE paper and packaging market was set to gain from spin-offs emanating from government's reconstruction and development programme, analysts said yesterday.

The market, which flattened since recording a high of 9 356,69 in June, has picked up 38 percentage points to 8 831 at yesterday's close.

An analyst said the RDP would hold immense benefits for Sappi, being a timber manufacturer. It would gain directly due to increased demand for timber necessary for the construction of homes. (194)

Consol and Nampak could benefit indirectly through increased consumer spending.

One analyst said Nampak would benefit further through subsidiary Dispak which manufactured paint, while Consol's rubber and plastics would be in demand for projects.

Another company, which an analyst predicted would gain from consumer spending, was Holdains.

He said while two-thirds of Sappi's goods were for the export market, its local lumber production would see it gain market share.

But he pointed out that the recent upturn on the paper and packaging index would continue and predicted a further strengthening of the sector.

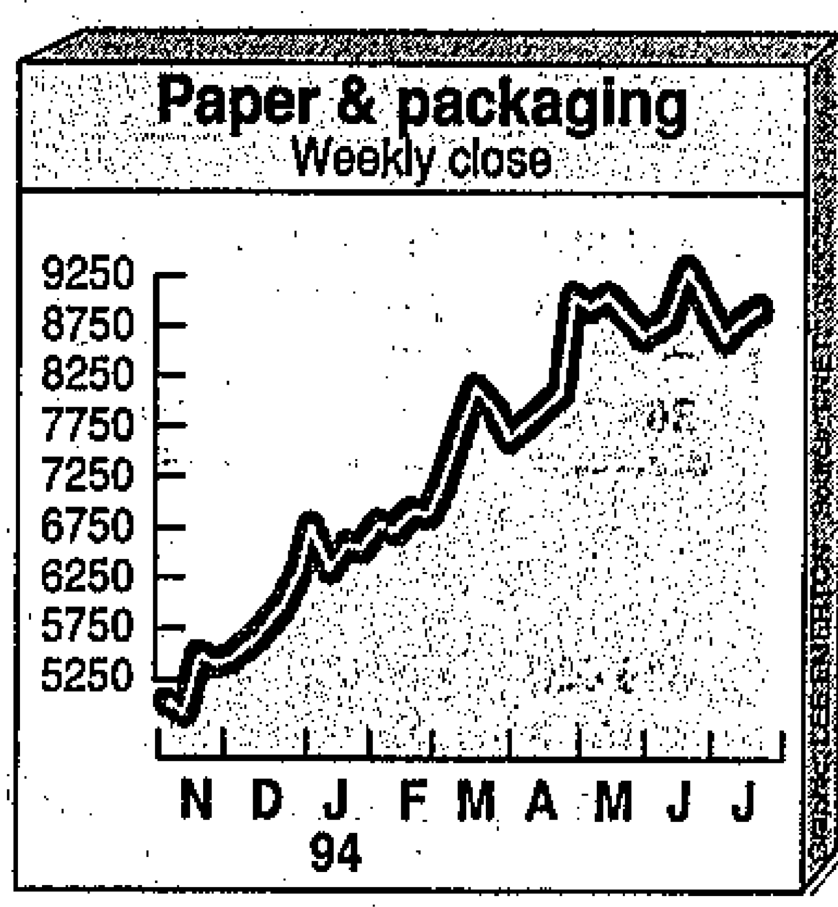
Another analyst said there was a cyclic recovery in the pulp market which should have a positive effect on Sappi shares, and the re-rating of Nampak would also held benefits for the sector. B/Day

These two issues would hold good for the paper and packaging index, he said. 12/7/94

The three companies which form part of the JSE's actuaries indices were all dormant during trading yesterday, but were close to their highs.

Sappi's ruling price was R46,75 (R48,00), Nampak R14,25 (R16,75) and Consol R53,00 (R57,00).

The ruling price of Holdains, which does not form part of the index, was R49,00 (R51,00).



Carlton Paper 'may be on verge of delisting'

B/Day

YURI THUMBRAN

PAPER and packaging company Carlton Paper Corporation (Carlcor) could be on the verge of delisting from the JSE, market sources said yesterday.

One analyst said Carlcor was a small company which did not derive much advantage from being listed.

He said the Holdains company had a very low profile and was very small in its sector, so it would be an advantage for the holding company to buy out minority shareholders and delist the company.

Speculation of the delisting follows Carlcor's cautionary notice yesterday in which it said negotiations were under way which could have an effect on its share price.

Company directors predicted in its interim report that the second half of the financial year — which ends next month — would be difficult.

Carlcor reported a 32% decline in net income to R10,3m (R15,2m) for the half year to February. Turnover lifted 0,2% to R228,4m (R227,9m) but operating income declined nearly 30% to R17,6m (R24,8m).

Roughly 24% of the company is listed, with the bulk of its equity held by Holdains and Kimberley Clarke SA. The analyst said it was likely this 24% would be purchased to enable delisting.

Chairman Ian Willis would not comment on plans, saying: "We cannot go public with what we intend before informing our shareholders."

The analyst said the improvement in commodities was set to aid Carlcor as the company started picking up in market share, which should improve profitability.

(194) 27/7/94

Sanlam injects R50m into Lenco

(194) CT 29/7/94

By MAGGIE ROWLEY
Deputy Business Editor

SANLAM is injecting close to R50m into Cape-based Lenco Holdings to fund the group's expansion.

At the Lenco group AGMs yesterday shareholders approved the issue of 4,5m new ordinary shares at 1100c each to Sanlam to raise R49,8m.

The money is to be used to further fund the expansion of Lenco's operations in Australia where it has acquired packaging company Peteron Plastic for R14m as well as acquisitions and growth opportunities on the domestic front without compromising targeted gearing levels of 50%, chairman Douglas de Jager said.

Package 'more beneficial to UK'

LENCO chairman, Douglas de Jager, yesterday dismissed the UK's £1,5bn export credit guarantee package announced earlier this week as more beneficial to UK industrialists than to South Africa.

"The whole emphasis of the package seems aimed at promoting exports from the UK to South Africa which does not help us at all.

"The best way they could assist us would be to waiver whatever duties exist on goods of South African origin. If they were to do this we would see significant benefits.

"We need to create jobs based on products made in South Africa and sold in the competitive global markets. If the UK waivered the 14% odd duty on certain products this would have given us a tremendous boost," he said.

● Meanwhile, the European Union is likely to agree next week on trade concessions for SA worth about $315m annually, EU diplomats said in Brussels yesterday.

Reuter reports that France, Italy, Belgium and Portugal, which blocked agreement at two meetings this week, are expected to lift their reservations on concessions for paper, wood, metal furniture and manganese oxide to be granted under the Generalised System of Preferences (GSP).

Lenco is controlled by its listed pyramid Lencor Investment Holdings (Lenvest) which holds 50,3% of its issued shares. Sanlam will renounce its entitlement to 2 259 952 Lenco shares in favour of Lenvest in exchange for 3,39 million Lenvest shares — equivalent to 6,2% of the issued share capital — at a price of 733c.

This will dilute Lenvest's interest in Lenco to 50,2%.

De Jager said that they had decided to go this route rather than through a public issue of shares because it was both "cheaper" and "quicker" and Sanlam had "approached us at the right time".

Turning to the group's operations, he said in the first four months of this year both the House of Monatic and Cravateur Tie in the clothing division had moved ahead of the business plan — as had the packaging division.

While one-off costs of R7m had been incurred in the closing of Budget Footwear in Durban, the division's return on capital employed would improve during the current year and would benefit from the acquisition Olympic Flair which has given the division a larger presence in the branded segment of the market.

The group had also acquired a 50% interest in Leisure Plan Holdings which has developed a PC-based tourism package. They anticipated achieving substantial yields on their R3,2m investment in the short term.

However, due to poor production efficiencies, election stayaways and lower consumer demand, the housewares division had performed below plan for the first quarter.

Labour unrest

Commenting of the current labour unrest, De Jager warned what actions by some sectors of the labour movement and workforce was prejudicial to business and to the underlying objectives of the RDP.

If this situation continued unabated, he predicted the closure of "many many factories".

De Jager said the greater the amount of taxes generated from business and other sources, the greater the amount the government would have for the RDP.

"Yet some sectors of the labour movement seem to be doing everything in their power to ensure companies pay less tax.

"Unless there is a genuine effort to respect freedom of association and unless irresponsible union representatives are called to account for actions that threaten the future of businesses and employees, then the consequences for the RDP, and all that it stands for, are alarming."

He warned that investors and entrepreneurs who were confronted by intolerance and unrealistic approaches to wage negotiations and whose operations were under-performing and losing money as a result were left with one choice — namely to close shop.

"The Minister of Manpower has indicated that changes are afoot but I sincerely hope he is talking to the people living with the problem."

Waltons to write up comfy profits

(194)

HRU 30/7/94

Business Staff

WALTONS Stationery Company is set to chalk up neat profits this year.

Group financial director Mark Davis told shareholders at the annual meeting yesterday that sales to date were 14 percent ahead of budget and that margins were looking better than the previous year.

But Mr Davis stressed that being ahead of budget did not mean the interim results to end-June would show growth over the previous year. "We had budgeted down for disruptions during the elections. The closure of certain Redgwoods Holdings' toy stores would also reduce turnover."

However, group profits should show acceptable growth for the full year as Waltons traditionally enjoys stronger second-half trade — especially in December and January.

He noted that the group's Helios-Minolta division was performing strongly, while the stationery division was trading steadily.

Waltons' stationery division was likely to show strong second-half growth on the back of the traditional back-to-office and back-to-school spending.

Mr Davis said Waltons last year achieved exceptional growth in Natal in educational supply sales. "We hope to repeat this performance in the Transvaal and Western Cape this year."

Waltons back on track for real growth

(194)

Business Staff

STATIONERY group Waltons would show "positive growth" for the year to February 1995, group financial director Mark Davis said at its AGM in the Cape yesterday. CT 30/7/94

Davis pointed out that the group would be looking for greater growth in the second six months because the first half of the new financial year had been impaired by stayaways and lost days leading up to the April election.

He added that all the divisions were performing well and said that rationalisation measures at toy store Reggies should see it return to profit in the second half of the year.

Davis said that the group's turnover was up 14% in the five months to July, as compared with the previous year. Group margins were improving from lower costs as well as higher pricing.

Holdains expects earnings of R83m

YURI THUMBRAN

PAPER and packaging company Holdains expects to post attributable earnings of around R83m (R96,3m) for the year to September, after a post-election upswing partially offset continuing stiff competition.

Chairman Ian Willis said yesterday that the Malbak-owned company, hit in the first half by restructuring costs and falling margins, had seen increased demand stemming from a recovering food and beverages market.

Rising fruit exports had also helped volumes, while a stronger showing by the agricultural industry was benefiting the company.

Willis was optimistic that the upswing the group had experienced would continue into its new financial year. B/Day

But earnings a share would register a 20% fall on last year to around 285c, partly because of an expanded share base. 18/8/94

At the interim stage Holdians had posted attributable earnings of R40,1m — down 7% on 1993 — on sales marginally ahead at R1,3bn.

Willis said Holdains was now looking to expand into sub-Saharan Africa, where the company had held exploratory talks.

He was also upbeat about the reconstruction and development programme, which he said would lift volumes.

However, Willis cautioned that Holdains's recovery hinged on industrial relations remaining stable.

Listed subsidiary Carlton Paper had reported an improvement in second half trading, but would still post final earnings below last year's level. The company had invested heavily to upgrade and promote its product range, in the face of threatened overseas competition.

Willis said such efforts would take time to translate into better returns for Carlton Paper's shareholders. (194)

Printers warn of shortages for packaging

SI Times (Buss)

(194)

By DON ROBERTSON

PRINTERS of packaging for such household names as Kellogs cornflakes and Surf washing powder say they are facing a shortage of "crisis proportions".

One print manager says supplies are now being allocated rather than being made freely available and "that is a warning to us. We are not short of board at present but I foresee difficulty in being able to supply packaging to our customers in the next few months."

He blames the monopoly of a sole supplier — only Mondi makes cartonboard in South Africa — and the high cost of imports for what he expects will soon become a supply crisis.

"I negotiate supply on an annual basis, but now (the suppliers) want to increase prices in September in line with rising overseas prices. It's blackmail."

With only one cartonboard supplier in the market, some print companies are reluctant to speak out too strongly for fear of being victimised.

Mondi says it has capacity to produce 100 000 tons of cartonboard a year, sufficient to meet local demand, although managing director Derrick Minnie concedes there might be a "supply imbalance at present".

Demand for cartonboard in the first half of the year was soft, says Mr Minnie. Cartonboard imports increased dramatically in the past 12 months because of low international paper and board prices. As a result Mondi had to export its surplus. 28/8/94

Mr Minnie says many of the major packaging customers have recently won export orders and have increased their demand.

While Mondi has had price discussions with some printing companies, no decision has yet been taken, says Mr Minnie, but it certainly will not be in September. "We have price commitments with most of our major customers."

Mondi closed its cartonboard division in Bellville in the Cape in January because of local and international over-production of board and the increase in board imports. In the past few months international prices have rocketed.

Two Mondi cartonboard mills in Springs and Durban were said to have sufficient capacity to meet demand. Mr Minnie says, however, that the surge in orders in the second half of the year is 60% up on the first six months.

Chief executive of another company, which prints cartons for products such as Surf and Omo, says that supply of cartonboard has definitely tightened up.

"We order on a monthly basis, but milling times are going out and out. Sometimes supply is three weeks late on rush orders and if we put in orders now, we don't know if they (Mondi) will be able to supply. They can't meet all our requirements. We are heading for a bit of a problem."

Doug Black, managing director of Interpak, which includes Keartland Press, says that although supplies "are getting tight", there is no shortage at present.

He believes the increase in demand might come from companies who had imported previously but were now switching to the local market because of rising international prices.

Acquisition spree soaks up Consol's spare cash

B/Day 30/8/94

YURI THUMBRAN

ANGLOVAAL-owned packaging and tyre group Consol lifted earnings 6% to R165m for the year to June after improved conditions following the elections helped take the sting out of tough trading.

Although turnover rose 13% to R2,44bn, this owed more to the company's acquisitions than improved sales. Thinning margins helped cut growth in operating profit 2% to just R285m.

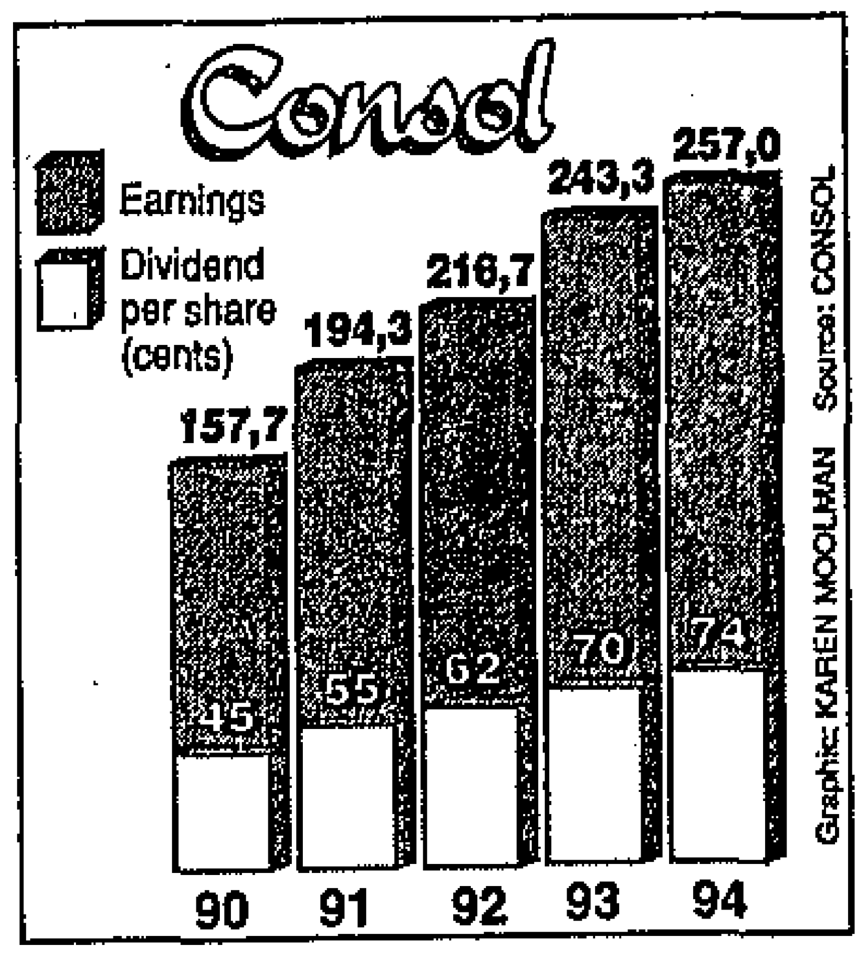
Financing costs jumped from R8,4m to R28,4m after the company's acquisition spree absorbed internal funds, leaving Consol to resort to debt finance for working capital and machinery.

The tax bill was down 14% at R91,8m. Earnings a share were set at 257c (243,3c) and the dividend edged forward 6% to 74c.

Chairman Clive Menell said overall performance reflected an improvement in business confidence, both domestically and internationally, after the April elections.

For most of the year there had been zero to negative sales growth and Consol's rubber, packaging, glass and plastics divisions suffered from tight competition which cut margins.

MD Piet Neethling said the 6% earnings increase was "not a great performance", but under the circumstances Consol was "grateful".



He said the 13% rise in turnover was due mainly to the new acquisitions — Interpak contributed R115m, Safe-T-Tyre R44m and Arctic R18m. Organic turnover growth was 5%.

Operating profit was affected by the Custom Plastics division which sustained a substantial loss because of a sharp reduction in demand for bottles and strong competition in beverage bottles.

This forced the rationalisation of the division and the sale of the beverage-bottle business to Nampak. Had the plastics division matched last year's performance, Neethling said, Consol's earnings would have risen 15-20%.

(194)

A further setback was the cessation of tariff concessions, worth R10m, from Consol tyre manufacturer Tycon. R5m had been spent restructuring the rubber business.

Turnover in the packaging division rose 11% to R1,04bn (R939m), mainly the result of the acquisition of Interpak in November for R205m and increased growth in glass and corrugated paper sales.

The turnover increase was partially offset by a substantial decline in plastics sales and a small decrease in turnover of speciality glass.

Neethling said the glass division recorded an increase in operating profit as did the paper division because of an improvement in the corrugated paper business.

He predicted glass volumes would pick up as SA Breweries experienced a rise in beer sales.

Interpak — which mainly converts and prints boards, paper and other substrates — had had a slight affect on earnings, but a positive contribution was now expected.

Neethling said the company planned a R163m capital expenditure programme, split R17m for the glass division, R41m for paper, R22m for plastics and R83m for rubber.

Consol improves in teeth of adversity

Star 30/8/94

■ BY CHARLOTTE MATHEWS

Packaging and tyre group Consol, an Anglovaal subsidiary, lifted earnings 6 percent to R165,4 million in the year to June, compared with the same period last year in an environment of static demand and intensified competition.

Turnover rose 9 percent to R2,4 billion, but operating profit was only 2 percent better at R285,5 million, as margins were squeezed to 11,7 percent, their lowest level in seven years.

Financing costs grew to R28,4 million from R8,4 million on the back of gearing of 21,7 percent after a net cash position in 1993 and 1992.

However, the tax rate was lower because of higher capital expenditure, partially offset by the increase in secondary tax on companies (STC).

Financial director Keith Forgan said yesterday the group had looked at a capitalisation award but, as part of the Anglovaal group, had to follow group policy. (194)

On earnings of 257c (243,3c), a dividend of 74c (70c) has been declared.

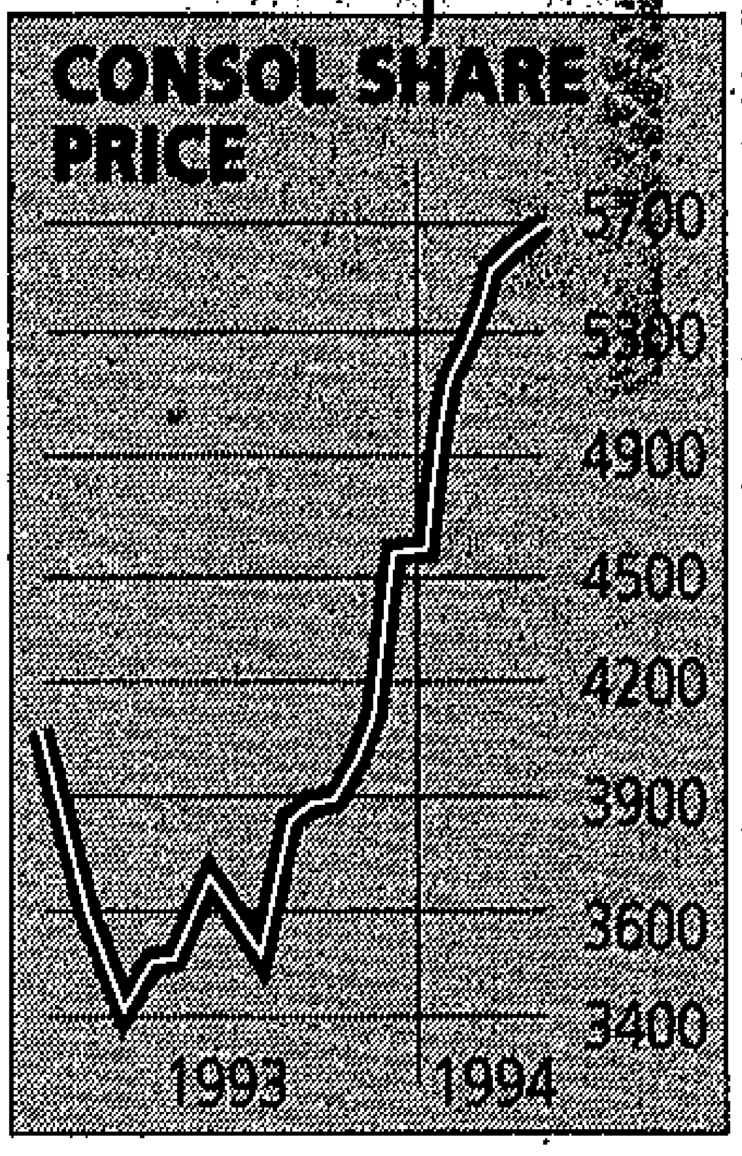
In the past year, group capital expenditure was R163 million, of which R83 million was spent on the rubber division. Consol group MD Piet Neethling said capex on this division in 1994/95 would rise to R117 million.

Rubber division MD Mike McNamara said the high level of investment in the division was intended to make it globally competitive because the level of tariff protection was expected to fall over the next few years.

The rubber division improved turnover by 14 percent, about 3 percent of which arose from Safe-T-Tyre, acquired in July 1993.

Although volume gains were made in passenger, light truck and agricultural markets, sales to the commercial, construction and mining sectors showed further declines.

The glass division made an acceptable profit contribution, Neethling said. The markets for glass packaging remained depressed for most of the year, but showed significant improvement in the closing months.



A large loss was made by the plastics division because of market changes, retrenchment and closure costs.

In the laundry additive market there was a move towards concentrates and refill packaging, while in carbonated soft drinks the demand for PET bottles declined and the division was exchanged for Nampak subsidiary Custom Plastics' rigid container business.

In Consol's paper operations, the corrugated carton market remained under pressure, but carton and print was boosted by the acquisition of Interpak in November 1993.

Interpak's performance was in line with forecasts, contributing to turnover, but slightly detracting from earnings. As well as operating four profitable divisions, Interpak held exciting future prospects for the group, Neethling said.

Signs of an improvement in business confidence and firmer demand for Consol products had been evident in recent months, but these were not expected to materialise fully until the end of 1994 or in 1995.

Neethling said the group's earnings could lift by 10 percent to 20 percent in the current financial year, based on growth in markets and the fact that Consol's manufacturing operations were in better shape.

Consol shares closed untraded at R57 yesterday, where they offer a P/E ratio of 22,2, similar to the packaging sector's 20,8 and Nampak's 21,4. The group is well rated and poised to benefit from growth in spending.

CONSOL Fm 2/9/94

Heavy spending phase

For Consol, Anglovaal's packaging and rubber subsidiary, its golden anniversary was not accompanied by a set of similarly garnished results. Negative volume growth, an intensified price war and higher finance charges put paid to real earnings growth. (194)

The 13% rise in turnover to R2,44bn in the year to June is somewhat deceiving, because it incorporates the results from acquisitions: Interpak from SAB's subsidiary Lion Match and Safe-T-Tyre, bought by tyre manufacturing subsidiary Tredcor. If these are excluded, Consol MD Piet Neethling says, sales increased a more realistic 5% on a year ago.

Neethling ascribes the marginal 2% growth in operating profit to three major factors. First, a swing from profit to loss by the plastics division. The size of the loss is not disclosed, though Neethling hints that if the division had retained its profit of financial 1993, Consol's earnings growth would have been around 17%; this suggests about R17,5m.

Second, the loss of decentralisation transport benefits in the Eastern Cape previously granted to Tycon. Neethling puts this loss at R10m. Third, costs of R5m for the restructuring of tyre operations, the benefits of which will be realised only in future years.

Between them, these factors wiped at least 13% off the growth in operating income, squeezing the margin to 11,7% (1993: 13%). But Neethling is confident he can reverse the setbacks, which would contribute to an improved margin in the current year. Better volumes over the last few months — too late to have a significant impact on 1994's financials — will provide additional support.

There have been other positive developments: management has used this time of weak demand to upgrade and enhance installed capacity and to redesign information systems. Capex increased substantially in 1994 to R163m (R87m), with rubber interests absorbing 51% of this. Neethling says the group is not yet clear of heavy capex spending, with R215m earmarked for the current year — rubber again taking the lion's share.

Though such spending has impaired returns on shareholders' interest and capital employed, management is confident these ratios are at their lowest.

The negative cashflow of R263m (1993: R116,7m) — after the R205m Interpak acquisition and capex — will improve in the current year, though the position will only be positive in 1996. Gearing at 22% is not unduly high.

Fm 2/9/94

Sales of returnable glass bottles declined owing to the continued lack of growth in consumption of beer and soft drinks. Major structural changes in certain markets serviced by the plastics division resulted in a severe decline in volumes, requiring production rationalisation and reduction of overheads. Demand for tyres and conveyor belts from the mining and construction industries remained low, but demand for tractor tyres picked up.

Neethling believes earnings growth of 10%-20% could be achieved this year given the investments and the improvement in manufacturing. (194)

The share has climbed 60% over the past year to R57, outperforming the sector index. On a p:e of 21,7 and dividend yield of 1,2, it looks fully priced for now, though investors will have to look hard for a better alternative within the sector. *Marylou Grieg*

GEARED FOR GROWTH

Year to June 30	1993	1994
Turnover (Rm)	2 166	2 443
Operating income (Rm)	280,5	285,5
Attributable (Rm)	156,6	165,4
Earnings (c)	243,3	257,0
Dividends (c)	70,0	74,0

IDT A number of companies feel the pain of late implemention of affirmative action

As Nampak's relationship with trade unions improve, such strike action has been lessened.

Sowetan 5/9/94

Nampak uplifts black staff

(194)

By Joe Mdhlela

THE WORKERS' STRUGGLE, often fierce and bitter, has contributed to changes in the work place and the implementation of affirmative action to correct the legacy of apartheid.

That is the general pattern that has also been greatly felt by Nampak, especially its glass division, Metal Box Glass in Roodekop near Katlehong.

However, the changes, as was to be expected, are bringing with them a lot of uncertainty and anxiety. White workers are fearful that they may be marginalised as this black tide inexorably reaches its crescendo.

The ANC's Mohammed Valli Moosa, says the trend by business to open avenues and scope for blacks would have been less painful had the business world taken a lead in the process of democratisation.

However, due to narrow interests, and the fear to castigate the Nationalist Party's apartheid policies, business is now paying a heavy price.

He says at the time of repression, when the apartheid government imposed a number of draconian measures, including the state of emergency, business leaders spoke in whispers as they feared to upset the status quo.

"Business was backwards and unenlightened at the time, displaying narrow concerns about itself. They were reluctant to take a firm stand against apartheid and the architects of this policy, the Nationalist Party," he says.

Despite the unbridled talk, business more than ever before now realises, as

■ NARROW INTERESTS *The "Opening of avenues would be easier":*

Nampak does, that its survival is dependent on sharing their "business cake" with its most important assets, the workers.

Deputy chairman of Nampak Mr Peter Campbell concedes that to become a "world class player", it is critical that the company develops its human resources potential to the full, especially that of blacks who have had little training over the years.

"We have to place a lot of emphasis on developing our people," he says.

Production leader, Mr Meshack Nkosi, feels that the past policies of the company which excluded black workers from decision-making processes were wrong and unjustified.

"I am now happy that we are stakeholders in our company and because of that, workers are likely to be more motivated, and therefore efficient as they contribute to productivity," he says.

That the workers are now made to feel they own the machine they operate, contributes to the high productivity realised by the company.

But Nkosi is also mindful that the change of heart by the bosses did not just happen by itself, it had to be forced onto them by circumstances.

"The changes happening in our company are the results of political changes taking place in our country. Without these changes this company would have become history.

"In the past we used to come to this company as non-thinkers, always being kicked on our buttocks by our bosses. I am happy to say that this has now changed. We are now made to feel as part of the company," he says.

The company's human resources director, Mr Velaphi Ratshefola, is also confident about the future, and sees the changes as being initiated by "the process of democratisation."

He argues that the process involved "winning over the hearts of the workers" to buy into company policy, a procedure he is prepared to defend because he feels is founded on a sound basis.

"All we were doing was trying to make business legitimate, as our company was conflict-ridden," he says.

The company is using affirmative action to level the playing field, in that way giving those who were denied opportunities to progress in their work stations.

As wrongs of the past are corrected, new racial tensions develop as a section of the white work force feels its livelihood threatened.

Mrs Jackie Botha, a shop steward at the company, says:"White employees feel insecure... they feel as though roles have been switched, with blacks going to dominate them."

However, Ratshefola response is blunt: "White skills cannot fulfil the needs of this country.

"We need to train more blacks, and even use affirmative action to correct the imbalances brought about by apart-

Mohammed Valli Moosa charges big business of having kept quite at the height of the apartheid era.

heid."

But Ratshefola will have nothing to do with the implementation of affirmative if its intention is simply to window-dress, or become some form of tokenism.

For whites to accept the changes, the company organised a "bosberaad" where two days of open discussions on various issues took place.

The idea, says Ratshefola, was to create an open dialogue between white and black workers "so that they could begin to understand one another better."

This was also intended to assure white workers that they had nothing to fear about the changes taking place in the workplace.

The group human resources director Mr Neil Cumming says the black advancement programme is a deliberate and measured process designed to ensure that companies within the Nampak stable survive in the local and international markets.

"The programme deliberately enhances a number of black managers at a supervisory, middle and senior management and executive levels," says Cumming.

To support the development, the company offers bursaries in order to produce graduates, apprentices, technicians and managers.

Coupled with that, the company offers literacy programmes to their unlettered workers.

This, says Cumming, they do with the agreement of trade unions and management.

Certainly, the changes in the workplace are a reflection of the total change happening in the country.

Operations director Mr Ken Royds put things in their perspective, "Our factory is a microcosm of what is happening in the country."

By this Royds was saying that the political changes must impact, and permeate through all sectors of life, including social activities and in the economy.

"What we are doing does not only reflect our social responsibility, but it also makes good business sense," he says.

There is still of lot of ground to cover, but Nampak is proud of its track record and the commitment to upgrade all its people, especially blacks.

Currently, 63 percent of the company's managers, are black (those in the Paterson D level and above).

This, says Cumming, represents 10 percent managerial strength. In addition, the company employs 12 senior managers, those in the E Paterson grading.

NNTV tonight at 9 presents another angle to this story.

Nampak seals £20m purchase

(194)

CT 12/9/94

From AMANDA VERMEULEN

JOHANNESBURG. — Paper and packaging group Nampak is to buy UK company BlowMocan for £20m, after a two-year struggle to get permission from the Reserve Bank.

Nampak MD Trevor Evans said yesterday that the UK company — a £20m-a-year blow moulded plastic bottle manufacturer — would become a wholly owned subsidiary of Nampak, which would issue ordinary shares for listing on the JSE.

The shares would be placed with international investors in the form of European Depository Receipts (EDRs) — tradeable papers denoting share ownership — to be listed on the Luxembourg Stock Exchange.

Investors would have to hold the shares for three years as part of a package of conditions demanded by the Reserve Bank.

The CG Smith-owned group said the deal should be the first in a string of offshore niche acquisitions, underpinned by Nampak's healthy balance sheet. Its attributable earnings rose 15% to R174,3m for the six months to March on sales of R2,38bn. Interest-bearing debt stood at R295m, against shareholders' funds of R1,6bn.

BlowMocan is the UK's second-largest manufacturer of plastic bottles for dairy products, holding 20% of the market, which would at least double over the next few years, as the dairy industry was changing to plastic bottles from glass.

The deal was unlikely to have an impact on Nampak's earnings in the short term.

TRANSPACO

Asset cushion

Fm 16/9/94

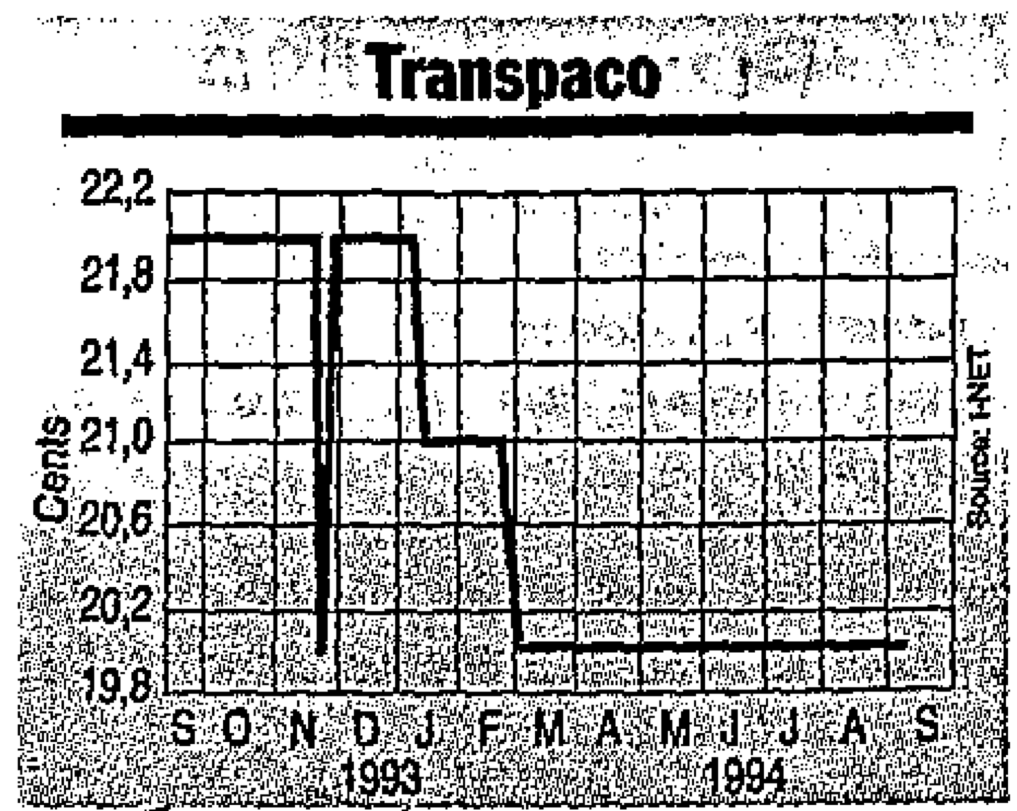
Activities: *Makes and distributes plastic and packaging products.* (194)
Control: *Directors 74%.*
Chairman: *S Abelheim; Joint MDs: M B Abelheim, P N Abelheim.*
Capital structure: *11m ords. Market capitalisation: R2,2m.*
Share market: *Price: 20c. 12-month high, 22c; low, 20c. Trading volume last quarter, 33 000 shares.*

Year to March 31	'91	'92	'93	'94
ST debt (Rm)	3,6	3,7	6,2	6,6
LT debt (Rm)	2,1	1,5	1,6	1,6
Debt:equity ratio	0,82	0,62	0,99	1,10
Shareholders' interest	0,31	0,30	0,31	0,30
Int & leasing cover	3,2	3,2	1,5	0,73
Return on cap (%)	15,4	8,1	7,9	4,0
Turnover (Rm)	51,4	50,4	54,8	51,3
Pre-int profit (Rm)	3,3	1,9	1,9	0,95
Pre-int margin (%)	6,3	3,7	3,5	1,9
Earnings (c)	9,5	5,3	7,3	—
Dividends (c)	4	2,5	0,5	—
Tangible NAV (c)	59	63	70	65

At half-time, when six-month trading profit fell from R754 000 to R150 000, the directors forecast that (a) the second half would be better and (b) there would be a profit for the full year.

Well, they were 50% correct; the second half brought a trading profit of R800 000 (12 months before: R1,4m). But with finance charges little changed at R1,3m there was a pre-tax loss of R338 000 (1993: R948 000 profit), and a R160 000 tax charge in respect of profitable subsidiaries worsened the position at net level further to a R498 000 loss (R799 000 profit).

The directors blame this on recession,



(194)

ongoing violence and severe competition. They say further steps are being taken to streamline operations, and believe the group is well placed to benefit from any improvements in the economy. Emphasis is being placed on improved margins, reduced expenditure and "overall consolidation of activities." Chairman Sam Abelheim hopes these steps will "improve profitability" — which sounds slightly less optimistic than the view expressed in the preliminary report, that management looks forward to a "successful turnaround" this year.

The company was listed in 1987 and earnings peaked as far back as 1989. The steady downward profit trend of recent years was briefly checked only by an abnormally low tax charge in 1993. Liquidity has also deteriorated.

The one plus factor is a share price less than a third reported NAV. This cushion is presumably why the share price is virtually unchanged over the past year, despite the worse than expected results, but is unlikely to trigger any great investor interest until there is solid evidence of a revival in trading fortunes. It should be noted that shares seldom change hands, so even small orders either way could have a disproportionate effect on the price. *Michael Coulson*

Fm 16/9/94

Fm 23/9/94

HORTORS

Back on the trail

194

It appears to be a case of *déjá vu* for printing and packaging group Hortors. In July last year the share was favourably

rerated and the company issued a cautionary notice alerting investors to the subsequent acquisition of Clegg.

A year later, the price has jumped by 33% to 240c and a cautionary has again been issued. This time, negotiations involve the contentious Penrose. Though management could not be drawn, discussions appear to centre on the possible sale of Penrose shares to Hortors.

Jankelowitz

Fm 23/9/94

Benefiting from more focused operations, turnover in the 1994 year increased 31% to R123,1m, exceeding R100m for the first time. The Clegg acquisition undoubtedly helped boost sales, though the benefits did not filter through to the bottom line — Clegg lost R1,2m in the year to March.

Margins were again under pressure and operating income increased only 6% to R12,9m. Nevertheless, chairman Edwin Jankelowitz says most of the profit centres posted satisfactory profits, despite keener market competition. He says only nominal growth was achieved in the CTP-Artonegravure division, due to depressed consumer spending in the beer and cigarette markets. Earnings for the year advanced 15,6% to R9,5m.

The new operation CTP-Clegg has been geared to create a stronger packaging business and Jankelowitz says benefits arising from the merger should flow through in the current year as synergies start taking shape in an improved economic climate.

Hortors earned a significant R3,3m in interest, more than offsetting finance costs of R1,1m. The balance sheet remains strong despite a steady increase in gearing over the past two years: at the 1992 year-end, Hortors was ungeared but debt:equity has climbed to 0,13.

Capex commitments increased from R180 000 in 1993 to R6,7m. Jankelowitz says investment was made in new and smarter production technologies and equipment to maintain competitive advantage in the core businesses of reprographics and printing.

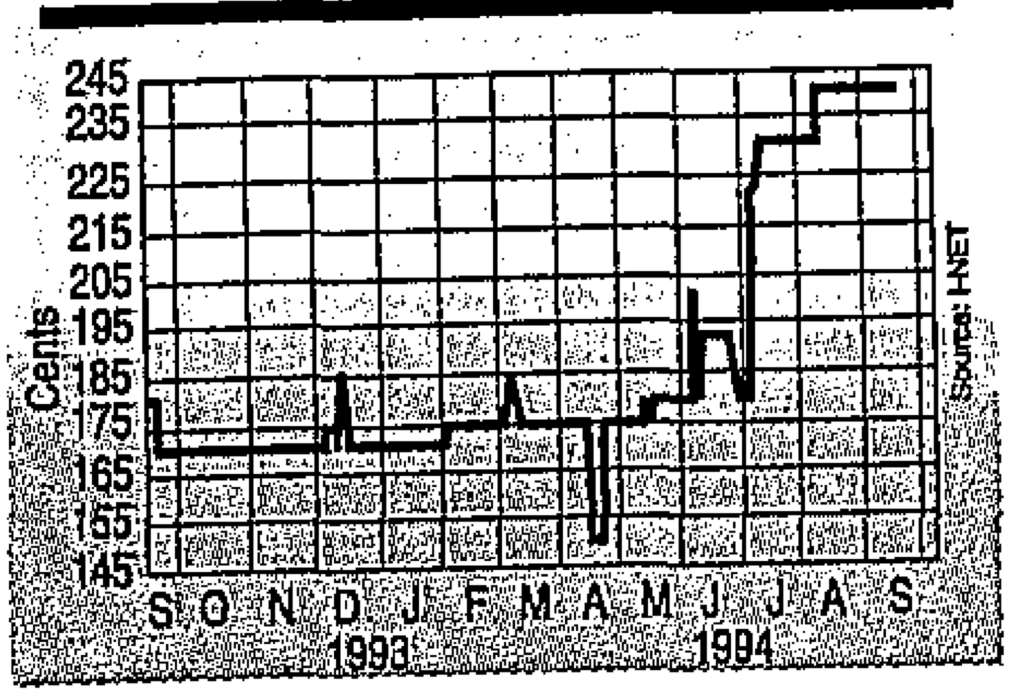
Though its managers believe Hortors well placed to take advantage of an upswing in confidence and spending, Jankelowitz does not believe the overall market will show a substantial improvement in confidence until financial 1996.

On a p:e of 13 and dividend yield of 2,9%, the counter trades at a premium to NAV. With better conditions only expected next year, it looks fully priced for now.

194

Marylou Greig

Hortors



Activities: *Printing, packaging and photolithography.*
Control: *CTP 88%.*
Chairman: *E Jankelowitz. MD: S Cormack.*
Capital structure: *51,6m ords. Market capitalisation: R123,8m.*
Share market: *Price: 240c. Yields: 2,9% on dividend; 7,7% on earnings; p:e ratio, 13,0; cover, 2,7. 12-month high, 240c; low, 150c. Trading volume last quarter, 59 800 shares.*

Year to March 31	'91	'92	'93	'94
ST debt (Rm)	0,22	0,33	3,52	6,24
LT debt (Rm)	0,04	1,05	3,42	3,93
Debt:equity ratio	nil	nil	10,7	13,1
Shareholders' interest	0,76	0,65	0,61	0,59
Return on cap (%)	9,1	15,5	15,4	13,6
Turnover (Rm)	48,8	81,1	94,0	123,1
Pre-int profit (Rm)	5,3	10,3	12,1	12,9
Pre-int margin (%)	10,9	12,6	12,9	10,5
Earnings (c)	8,3	14,2	16,0	18,5
Dividends (c)	3,0	5,0	6,0	7,0
Tangible NAV (c)	85,6	84,0	91,7	102,2

INTRUST

More tradeable

Activities: *Investment trust focusing on selected second-tier companies.*
Control: *Investec 57%; Fedsure 37,5%.*
Chairman: *Bas Kardol.*
Capital structure: *72,6m ords. Market capitalisation: R457m.*
Share market: *Price: 630c. Yields: 1,7% on dividend; 2,6% on earnings; p:e ratio, 38,8; cover, 1,1. 12-month high, 650c; low, 300c. Trading volume last quarter, 2,8m shares.*

Year to March 31	†'91	'92	'93	'94
Invest income (Rm)	1,3	1,9	2,8	3,8
Dividend income (Rm)	1,0	1,5	2,4	3,5
Attributable (Rm)	1,0	1,3	2,1	2,8
Earnings (c)*	9,9	10,0	10,1	11,6
Dividends (c)*	8,7	8,1	10,1	10,5
Tangible NAV (c)*	190	235	341	448

† 18-month period. * Restated after share split.

Chairman Bas Kardol calls financial 1994 a watershed year for Intrust, Investec's listed investment trust company. Issued share capital increased by 51,7m to 72,6m ordinary shares through Intrust's philosophy of acquiring new investments by issue of shares or share swaps.

That, with a share price which has doubled over the year, raised Intrust's market capitalisation from R63m at the end of the previous financial year to R521m now, the fourth highest in a sector dom-

Higher confidence to result in better growth, says Consol

BDay 2/9/94

AMANDA VERMEULEN

PACKAGING and rubber group Consol expected an improvement in business confidence to lead to increased volumes and earnings growth in the 1995 financial year, chairman Clive Menell said in the group's annual report.

But this trend was not expected to materialise fully until the end of this year at the earliest.

The group experienced sharp decreases in demand in its plastics division, resulting in the sale of its beverage bottle business to Nampak, and the simultaneous acquisition of its rigid plastics division.

This led to a reduction in overhead costs and retrenchments. The plastics division made substantial losses from poor demand and disrupted manufacturing operations, but a turnaround was expected this year (94)(95).

Depressed beer and soft drink consumption continued to have a negative effect on sales of returnable glass bottles.

The 11% turnover increase in the packaging sector was mainly due to the acquistion of Interpak in November 1993.

Both the glass and paper divisions recorded an increase in operating profit, assisted partly by the Interpak acquisition.

The group's rubber interests showed turnover growth from volume gains in the consumer and agricultural markets, but commercial, construction and mining markets declined.

The small increase in operating profit was a result of downward pressure on margins in a sluggish economy, competition from imported products and loss of decentralisation benefits. In addition, certain costs incurred in restructuring would provide benefits only in future years.

The rubber interests were well positioned to meet future challenges, said Menell, and restructuring would result in reduced warehousing, handling and overhead costs.

Sappi in $1,6bn US acquisition

CT 11/10/94 (194)

Deal makes group top wood-free producer

By ARI JACOBSON

SA PAPER and pulp group Sappi has scored a major coup, in an adventurous leveraged acquisition of the largest US-based wood-free paper producer, S D Warren for some $1,6bn, Sappi executive chairman Eugene van As announced yesterday.

This follows the suspension of Sappi shares on the JSE on Friday, at R59,50 a share and in London yesterday.

At a press conference in downtown Johannesburg, Van As stressed that the transaction would be financed by overseas institutions, which meant that "not one cent would leave the country".

He added that Sappi's foreign assets (in the UK, Germany and now the US) had been put up as security for the acquisition and a portion of the purchase price ($375m) would be financed through high yielding paper — commonly termed junk bonds.

The transaction, the largest by a local company investing in the US, also takes Sappi to the top globally, in the production of wood-free paper.

The Sappi-Warren deal would be effective from December and the existing Warren debt, amounting to $120m, would make the effective purchase price $1,48bn.

Van As said that the equity finance would amount to $400m and the debt finance would be just over $1bn, with the remainder made up of cash resources already in the US company.

Sappi would take up a 70% or $250m equity stake in S D Warren, with the remaining 30% or $150m taken up by The Union Bank of Switzerland (UBS) and Wall Street securities firm Donaldson, Lufkin & Jenrette (DLJ).

The debt finance for the acquisition would come from a rough $1bn provided by Chemical Bank (the third largest bank in the US). This will be split up into a bank facility of some $630m and the bank would also underwrite the issue of $375m high yielding senior sub-ordinated notes maturing in 2004.

In addition, Sappi would borrow about $200m from the Union Bank of Switzerland (UBS).

Van As said that Sappi would repay the loan to UBS by launching a long-dated Eurobond issue "in due course".

The final touches to the deal coincided with SA president Nelson Mandela'a trip to the US and Van As found himself in the enviable situation of "having the US's best banks competing to do Sappi's business".

Coated wood-free paper is the fastest growing area of paper consumption and Sappi now controls 15% of the world market.

Van As said that Sappi's strategy was to become "a global player in certain markets by the year 2000".

"We identified the fast growing coated wood-free market and the dissolving pulp market as the two markets we wanted to dominate. This is why we made the Hanover Papier acquisition in 1990. It elevated Sappi to the third largest producer of coated wood-free paper in Europe but not a global player".

Sappi's financial director Bill Hewitt added that over the past several years, Sappi had expanded its operations outside SA and it was these assets which enabled the group to provide its equity contribution to the Warren acquisition, without the need for SA currency.

"It has become increasingly clear that the constraints on the balance of payments account has made the authorities reluctant to give permission to SA corporations to take funds out the country to make purchases abroad."

He said "if Sappi is to become a global player — it is obvious that we had to have international assets."

Van As said that "the R1bn modernisation of Sappi's Saiccor plant in Natal, which comes on stream in January 1995, will reinforce its global leadership in another market — dissolving pulp".

'Sappi is wearing thin'

(194) WM(BM) 14-20/10/94

From PAGE B1

company's share price will be about 8 000 cents in 1997.

This offers investors a return of about 16 percent a year, which is the same as the risk-free bond rate.

If the cycle is shorter than expected, Sappi would run into cash-flow problems. Effectively, the company has banked on a long cycle, which would be used to reduce gearing levels.

The problem, say the experts, is that unprofitable European ventures will be a constant drain on resources and impede any benefits Sappi will get from the commodity cycle.

"It would have been better if Sappi had expanded in South Africa, secured contracts to sell its goods overseas and thus obtained rand hedge advantages," says a Paper & Packaging analyst. Therefore, if Sappi had sold its products in foreign currency it would have offset any increase in local interest rates or inflation rates.

Dramatic takeover: Removing M-Net shares would instantly boost TML's share price as the M-Net connection distorts the company's financial image
PHOTOGRAPH: THEMBA HADEBE

Argus shadow steps onward to Omni-potence

WM(BM)14-20|10|94

Omni Media's increased shareholding in TML places a question mark over the future of the media empire, reports **Jacques Magliolo**

NOW that it has effectively taken over Times Media Limited, Omni Media — the reincarnation of Argus Holdings — plans to delist, restructure and then relist TML.

Omni Media's offer to TML minority shareholders last week was successful. Omni Media now controls 92 percent of TML, which places a question mark over the future of TML.

It is reliably learnt that this is not the end of Omni's plans. Market experts believe that Omni's next step will be to force TML minority shareholders to sell the remaining eight percent shares to them. Once the court procedure has been completed and Omni obtains complete ownership of TML, it will immediately delist the company.

Why would Omni undertake such a venture?

Market consensus is Omni wants to remove the R100-million now sitting in the books of TML and secondly, to transfer TML's M-Net shares to itself. This would make it the single largest M-Net shareholder, with a controlling interest of 36,1 percent — surpassing Nationale Pers' 28 percent stake in M-Net.

The last step in the takeover would be to relist TML and sell a portion of the company to the public. It is important that Omni retains a controlling interest in a newspaper group if they are to retain their M-Net stake.

According to the original rules of the consortium which set up M-Net in 1985, a major investment in a daily newspaper is necessary for an investor to hold a significant stake in M-Net.

The arrangement was designed to offset the loss of advertising revenue from daily newspapers to the electronic media as television took off in South Africa.

Omni could thus sell a maximum 49 percent stake in TML.

There is no doubt that the takeover was well prepared and well executed and that it has taken years in planning.

The steps taken to strip vast quantities of cash and M-Net shares from TML could even be seen as a "saviour for TML and its publications", says a Printing and Publishing sector analyst.

"There are a host of other advantages for Omni in conducting the takeover in such a manner. In removing M-Net shares it would instantly boost TML's share price as the M-Net connection distorts the company's financial image," he adds.

M-Net's March financial results displayed an earnings per share of 1,4 cents, which — on a share price of 1 400 cents — translates into a p:e ratio of 1 000 times.

If M-Net continued to produce such profits at these share prices, it would take an investor 1 000 years to recoup his investment if measured in earnings.

Another analyst says: "At present TML's p:e ratio is eight times, which is marginal at the start of an economic upturn." She believes that removing M-Net from TML's books would result in the company's share price climbing by "at least 60 percent". So its p:e ratio would climb to about 12 times.

This means that Omni would buy the remaining eight percent for about R72-million (at a share price of 4 050 cents), but after restructuring, Omni would obtain over R700-million from selling a 49 percent stake in TML at the increased price.

While it may seem contradictory to conduct a takeover to obtain a company which negatively distorts financial profiles, M-Net remains an attractive investment with strong long-term upward potential.

The reason lies in M-Net's massive cash inflows from monthly subscriptions.

With a base of nearly a million subscribers, M-Net receives over R70-million in cash every month.

Market experts believe that the company's unacceptable p:e ratio will adjust once it absorbs capital expenditure encountered in expanding to overseas markets.

Analysis of the extent to which M-Net will affect Omni's future results is difficult, given incomparable results within Omni itself — it sold a 35 percent stake in Argus Newspapers to Independent Newspapers and the remaining shares to Omni minority shareholders and to the public — and the restructuring within M-Net in 1993.

M-Net/Multichoice shares are controlled through M-Net Holdings, which is a private company and is therefore not obliged to divulge information.

In addition, M-Net's 1993 deal to split the subscriber management services and communications divisions from its television media operations makes it difficult to analyse the importance of the company in financial terms.

It is unclear what, if anything, Omni intends to do with *Business Day*, *Financial Mail* and the lucrative *Sunday Times*.

Sappi is wearing thin, say analysts

WM(BM)14-20|10|94

Jacques Magliolo 94

DESPITE media hype, market reaction this week was not favourable to paper giant Sappi's acquisition of a controlling interest in United States-based paper company SD Warren for $1,6-billion. The share price dropped from a high of 6 000 cents on Tuesday to 5 700 cents the next day.

Both stockbroking and institutional analysts are concerned that Sappi may have bitten off more than it can chew. "The deal comes too close after extensive investment in European ventures," says a Cape Town-based institutional analyst.

Another called Sappi executive chairman Eugene van As "power hungry and guilty of empire-building". Reaction from the stockbroking fraternity was similar, with one dealer saying: "Van As should remember that his British and German companies are not yet profitable enough to venture into another unfamiliar territory."

Why all the negative reaction? After all, this is the largest investment made by a South African company in the US. The acquisition means that Sappi will control 70 percent of SD Warren and thereby become the world's largest producer of coated wood-free papers.

Since 1990 the company has acquired five British paper mills for R510-million and German paper-milling company Hannover Papier Ag for nearly R1-billion. Sappi has set up two wholly-owned sales companies, based in Brussels and Hong Kong.

Companies in these countries have not yet produced expected profits. In Sappi's financial year to end-February 1994, Hannover had shown a turnover decline of two percent and Sappi Europe Ltd suffered from the continued effect of recessions in Europe and the United Kingdom, causing line-item prices to decline by four to eight percent.

Analysts indicate that these acquisitions "needed to be assimilated into the Sappi fold before other investments can even be contemplated". While gearing was a respectable 41 percent at its financial year end, the US venture pushes this to a high of 125 percent.

In addition to the cry of "invest in South Africa — we need it", there are two main points of opposition to Sappi's investment in the US. Firstly, it is questionable whether Sappi has forecast the extent of the infant commodity cycle; secondly, at present prices future forecasts offer investors marginal capital gains.

Market experts say that, if the cycle lasts until 1997/1998, Sappi's earnings per share would equal about 800 cents, which — on a p:e ratio of 10 times — means that the

To PAGE B2

Fm 14/10/94 (194)

ALEX WHITE

More stability needed

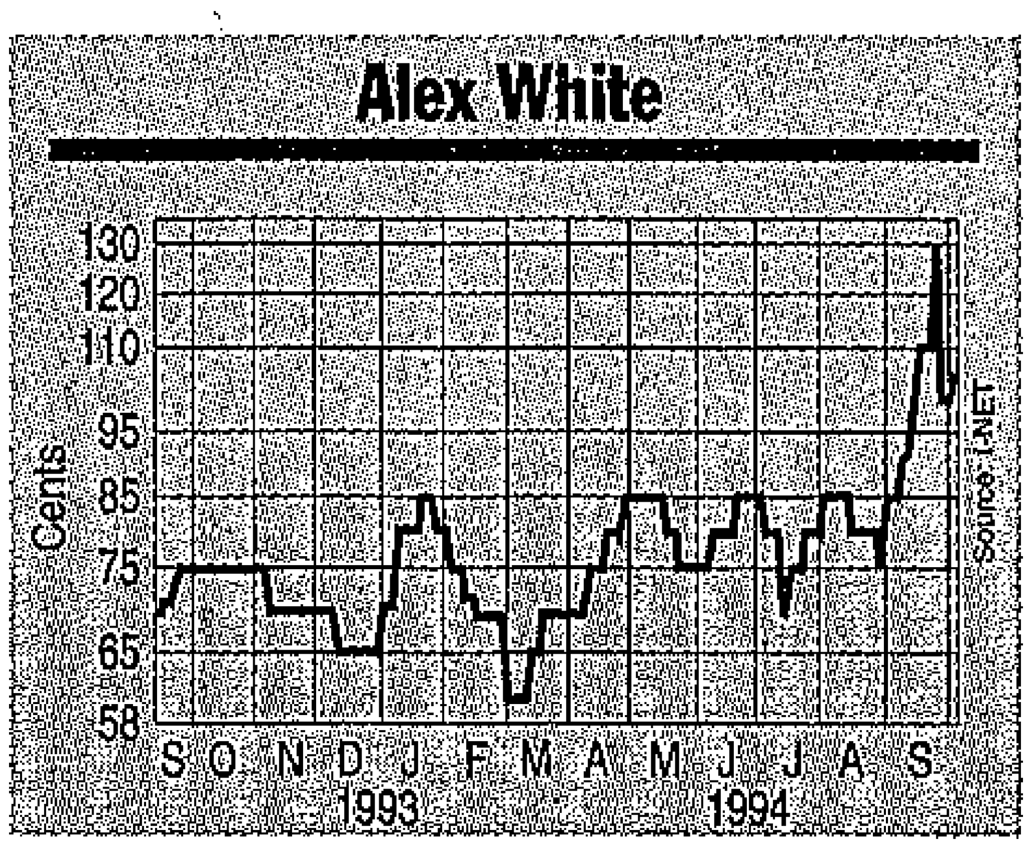
Fm 14/10/94

Activities: *Packaging and printing.*
Control: *Directors (56%).*
CEO: *T P Kane.* (194)
Capital structure: *16,2m ords. Market capitalisation: R19,4m.*
Share market: *Price: 120c. Yields: 11,8% on earnings; p:e ratio, 8,5. 12-month high, 120c; low, 60c. Trading volume last quarter, 586 000 shares.*

Year to June 30	'91	'92	'93	'94
ST debt (Rm)	9,8	7,6	6,6	10,9
LT debt (Rm)	5,6	4,4	3,6	3,0
Debt:equity ratio	0,88	0,56	0,34	0,56
Shareholders' interest	0,42	0,43	0,44	0,45
Int & leasing cover	1,6	2,7	3,4	2,2
Return on cap (%)	11,3	13,6	11,3	7,0
Turnover (Rm)	57,2	67,3	73,4	70,8
Pre-int profit (Rm)	4,7	6,5	5,8	3,9
Pre-int margin (%)	8,2	9,6	7,9	5,5
Earnings (c)	5,6	14,3	17,7	14,1
Dividends (c)	2,5	6	6,5	—
Tangible NAV (c)	108	127	138	152

The recovery that had been taking place at Alex White since 1991 hit the wall with a thump last year. Put simply, from a trading point of view just about everything that could go wrong did so: sales volumes declined, margins continued to crumble and the balance sheet took a battering as working capital requirements ballooned.

Predictably, executive chairman Terry Kane attributes the setback to the state of the economy and, particularly, to the exceptionally unsettled conditions during the lead-up to the April elections. Quite surprising in the circumstances, therefore, is that the group performed well during this period. EPS of 15,5c were achieved during the six months to June, 1994, a record half-yearly result.



The real damage was done earlier, with negative first-half EPS of 1,4 — reminiscent of calendar 1990 when the group was struggling to digest an over-ambitious expansion.

Reading between the lines, the central problem is that, in terms of the industries in which it operates, Alex White is a small fish fighting for space in a large and not friendly pond. To survive, it needs to be price-competitive without being able to achieve the production volumes (and economies of scale) available to the larger players. And, an unwelcome development in 1994, customers seem to be able to take advantage by demanding more favourable payment terms.

Given that over-gearing was among the reasons for the poor performance in 1990-1991, a worrying feature of the two 1994 financial statements is the substantial rise in borrowings and corresponding deterioration in the net debt:equity ratio from 0,34 in 1993 to 0,56, especially as this occurred at a time of weak profitability.

In rand terms, net borrowings increased by R6,2m (81%), from R7,6m to R13,8m, and this was due almost entirely to the additional investment required in net working capital which rose R7,5m from R9,4m (equivalent to 12,8% of turnover) to R16,9m (23,9% of sales).

The culprit was the debtors book which grew from R12m to R26m, pushing the effective payment period out from 59 days in 1993 to 103 days. The best thing that can be said about this is that the extent of the rise is probably exaggerated as, with hindsight, the 1993 ratio of debtors to sales seems to have been abnormally low. Even so, compared with 1992 the effective payment period is still up from 78 days and there is no question the situation has deteriorated markedly.

Kane, however, cites two factors that distorted the debtors picture at year-end: the debtors book at June 30 included the R2,9m proceeds from the disposal of fixed assets; and the book was inflated by abnormally high sales in May and June, after slow trading ahead of the elections. These distortions have since worked their way out of the system and, says, Kane, net debt:equity is now back below 23%.

Nevertheless, the fact that the group had been caught in a cash squeeze is reflected in the decision to pass the dividend for 1994, even though the 6,5c payout in 1993 cost only R1,1m.

Not that there is any despondency within the group as a result of the setback. Various operations have been rationalised and Kane is looking to a significant improvement in profitability in the coming year. His view is apparently shared by the market, which has driven the share price up from 70c a year ago to the current high of 120c.

The rerating was in line with the *FM*'s views a year ago which, on the basis of the 1993 annual report, concluded that the market had not given due recognition to the progress the group had made up to that point. However, the assumption then was that the recovery would continue and, in the wake of what has happened over the past year, it seems that an overriding consideration must be the establishment of a more stable profit pattern if the share is to extend its uptrend.

Brian Thompson

Holdains heads for better times

Star 17/10/94

BY CHARLOTTE MATHEWS

Earnings reported by paper and packaging group Holdains declined in the year to August compared with the previous year, in line with its earlier warnings, but it said the second half of the year showed a marked improvement over the first half.

194

Comparable figures for 1993 have been re-stated because the group changed its accounting policy on the acquisition of the Crown Cork business and assets acquired in 1992.

This meant that R59 million, previously allocated to tangible assets, was written off as goodwill, adding a further 7c a share to the 1994 earnings figure and 5c to the 1993 figure.

Turnover moved up by nine percent for the full year to R2,8 billion but in the second half of the year it grew by 16 percent over the first half. Operating income, however, was 14 percent lower than in 1993 at R168,7 million.

A lighter interest bill and lower tax rate partly compensated for the decline at operating profit level and shareholders' earnings were 3,6 percent weaker than the previous year at R94,2 million.

Earnings a share dropped by 11,5 percent to 323,3c (365,7c).

Shareholders will be offered a capitalisation award or final cash dividend of 74c a share, with the full-year dividend maintained at 125c.

The packaging division contributed 81 percent to group earnings, with paper and board accounting for most of the profit.

Holdains chief executive Richard Bruyns said volumes in the corrugated division grew but cement sacks and carton volumes were static.

In plastics packaging, the tray and flexible divisions were making acceptable returns by year-end after restructuring and Holdains Plastics performed well in a declining consumer market.

Crown Cork, which operates in the beverage can market, gained market share and its improved contribution to earnings was expected to continue in line with plans to increase capacity and upgrade plant technology.

Carlton Paper Corporation had a difficult year, hit by lower consumer spending and a strike, while Graphtec Holdings improved profitability.

Bruyns said the past year had been a period of consolidation but the group was now poised to achieve strong growth in 1995, subject to a reasonably stable economy and sound labour relations.

Stability gives Holdains a boost

B/Day 17/10/94

AMANDA VERMEULEN

GREATER political stability and improved trading conditions helped paper, printing and packaging group Holdains improve on forecasts at the interim stage to report a 3,6% decline to R94,2m in attributable earnings in the year to August.

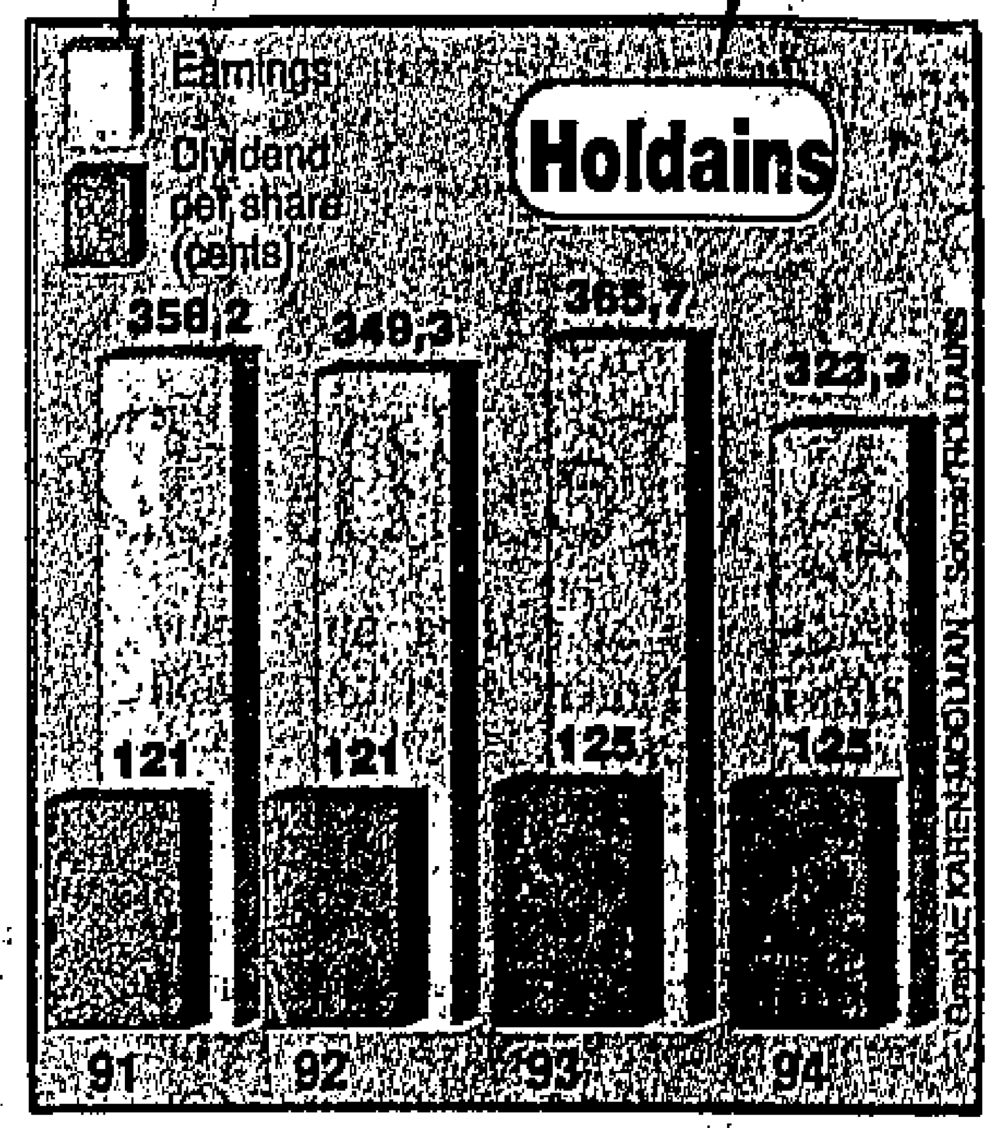
Earnings fell 11,6% to 323,3c a share, but this was well ahead of the 275c to 285c forecast by the group at the interim stage. The final dividend was unchanged at 74c.

The group had elected to offer shareholders a capitalisation award in lieu of a cash dividend and details would be published in two weeks.

While turnover rose 8,9% to R2,8bn, operating income slipped 13,9% to R168,7m. After an interest payment of R19,8m (31,8m), pre-tax income was 9,3% lower at R148,9m. A tax bill of R38,3m (R48,3m) left taxed income down 4,6% at R110,6m.

The directors said remedial steps taken by management over the past few years were starting to show returns.

At the interim stage competitive pressure was intense and margins came under pressure. But, while the full-year group profit margin at 6% was still below last year's 7%, the board said there had been a marked improvement in the second half of the year. (~~1995~~)(1994)



CE Richard Bruyns said strong turnover growth in all the group's divisions was achieved in the last quarter and he expected the accelerated pace to continue.

☐ To Page 2

Holdains

B/Day 17/10/94

☐ From Page 1

The group's performance had been influenced by a review of its accounting for the Crown Cork business and assets, acquired by the group in 1992. The R59m previously allocated to tangible assets was written off as goodwill.

This had a positive effect on the results, amounting to 7c a share, and the 1993 results were restated by 5c a share.

The company's balance sheet remained "strong" despite a R24m cash outflow arising from R105m expenditure on the expansion of the existing plant and facilities, and R34m on replacing assets. (1994)(~~1995~~)

Gearing declined to 15% at the year-end, but R52m was held in cash at the end of the period which reduced net gearing to 8%.

The packaging division — plastic, paper and metal — remained the group's dominant interest, contributing 57% of turnover and 81% of earnings.

Tissue and absorbent products company Carlton Paper contributed 18% to turnover and 15% to earnings. Paper merchanting had undergone a massive restructuring and was now on the road to recovery. It contributed 25% of group turnover and 4% of its earnings.

Paper and board remained the packaging division's main performers. "Corrugated volumes, assisted by an aggressive export drive and growth in the fruit market, showed real growth while cement sacks and carton volumes were static."

In plastics packaging, the tray and flexible divisions were restructured at a one-off cost of R6m and they reported "acceptable" returns.

Crown Cork, which was 34% owned by Holdains and represented the group's venture in the beverage can market, gained market share. Bruyns said despite a sluggish market affected by the recession, Crown Cork's turnover, profitability, and contribution to earnings improved. This was expected to continue as the group implemented more plans to increase capacity and upgrade plant technology to the value of R80m in the year ahead.

The group had dealt with its problem areas, he said, and after a year of consolidation, was well positioned for longer-term consistent growth subject to a stable economy and sound labour relations.

Consumer uncertainty harms Carlton Paper

BDay 17/10/94

AMANDA VERMEULEN

CARLTON Paper reported a drop in net income of 22,6% to R27,9m in the year to August in the face of consumer uncertainty and overcapacity in the tissue market.

Turnover increased a marginal 2,3% to R496,1m, but operating income dropped 20,6% to R42,5m.

Interest payments of R1,9m (R2,4m) left pre-tax income 20,6% lower at R40,6m. Tax of R12,7m (R15,1m) saw net income down at R27,9m (R36m).

Earnings a share dropped to 176,5c (228,1c) and a total dividend of 66c (82c) was declared.

Chairman Ian Willis said the group had experienced a bad year in its tissue division due to an overcapacity of tissue in a competitive market in which companies were scrambling for market share.

This had prevented the recovery of cost increases, and had squeezed margins.

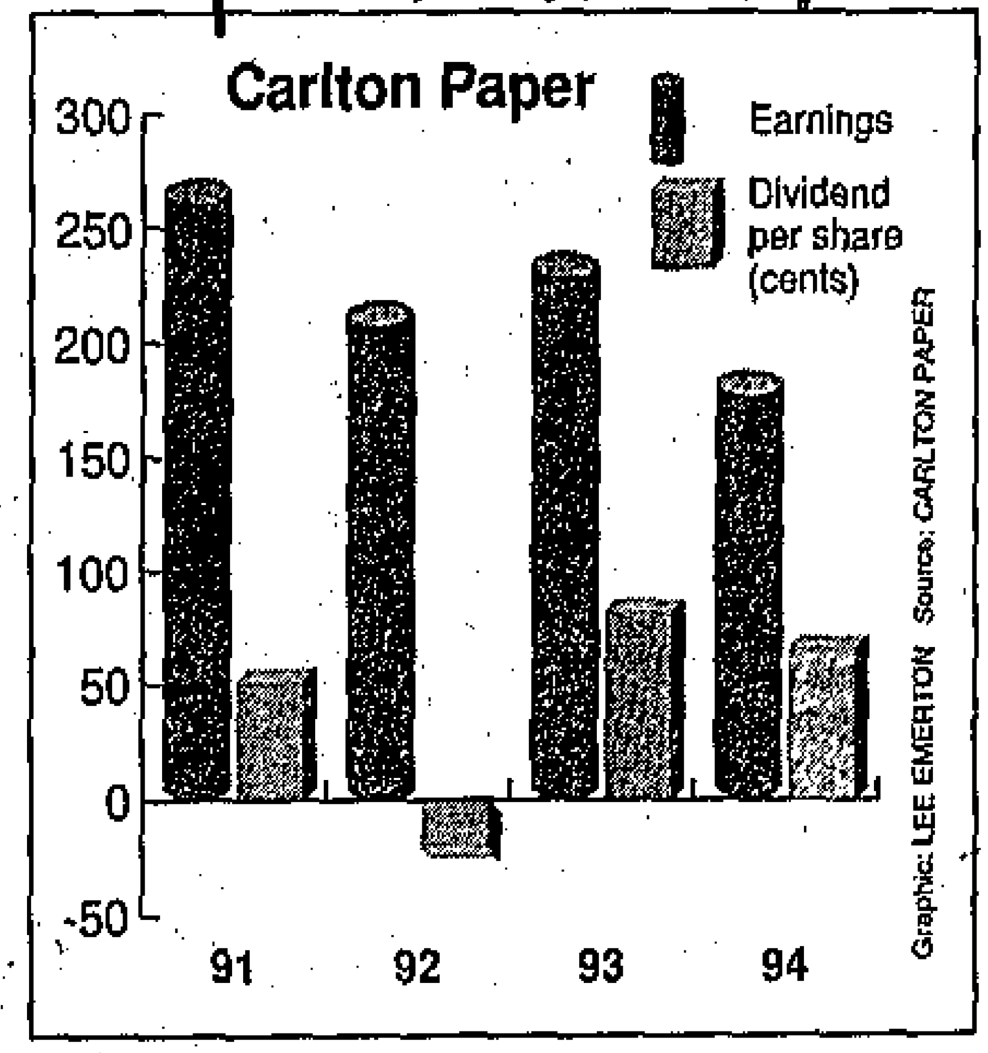
The company had also been plagued by a three-week strike in February, which had cost at least R2m in pre-tax profits.

The first half had also been characterised by uncertainty over the election and flat consumer demand. This had improved in the second half but had not returned to previous levels.

Export markets, mainly in Europe, had also not been strong in the first half.

But strong growth in feminine care and diaper products had resulted in increased market share, while considerable investment in these products brought them in line with international standards.

This was partly to meet the threat of Proctor & Gamble products, Willis said.



"It is essential that our products are of an equal standard to the major internationals if we want to retain our market share," he added. (1994)

Willis said consumer levels remained fairly fragile, and the transitional levy was also likely to have an effect.

The market for the group's products was, however, improving, and although new competitors were entering the market, the group was likely to benefit from the improvement.

Management had budgeted for improved earnings, and continued building of feminine care and diaper products was likely to result in the group holding its share of these markets.

The company announced negotiations in August, which market sources speculated were in connection with a possible delisting. Willis declined to comment on whether this would be the outcome.

Nampak to merge with UK's Bowater

Business Staff (194)

PAPER and packaging group Nampak is at a "fairly advanced stage" in merging with UK group Bowater Polysystems, according to a Nampak spokesman yesterday. CT 18/10/94

The deal will involve a "share swop" with Bowater being absorbed into recently purchased UK blowmoulding company BlowMocan. In September, Nampak acquired BlowMocan for some £22m.

Bowater is already an equal partner with Nampak in SA's largest security printing company, Brown Davis & McCorquodale.

Nampak in talks to acquire UK company Polysystems

B/Day 18/10/94

AMANDA VERMEULEN

PACKAGING group Nampak yesterday announced it was negotiating to acquire 100% of Polysystems, a wholly owned subsidiary of UK packaging giant Bowater, in a deal valued at £6m. (194)

Nampak chairman Brian Connellan said negotiations would probably be concluded in three weeks and, if successful, would see Nampak's recent UK acquisition, BloMocan, acquire 100% of Polysystems.

The discussions were subject to Reserve Bank approval, although no SA funding would be used in the deal, and it could see the merger of Bowater's Polysystems business with BloMocan in return for equity in BloMocan. Nampak would also provide the management to run Polysystems.

This would dilute Nampak's holding of BloMocan but Connellan said Nampak would still have a controlling stake of between 60% and 65%.

The joint annual sales turnover of the merged BloMocan and Polysystems, which both manufactured blow-moulded plastic containers for dairy and oil products, would be about£26m, of which Polysystems would contribute £5,5m.

Bowater first became involved in a partnership with Nampak seven years ago when it acquired the entire holding from Nampak's former partner in SA company Brown Davis & McCorquodale.

Nampak's acquisition of BloMocan in a £22m deal was facilitated through raising funds by way of a 13,2-million share issue on the JSE.

From the share issue, about 4,4-million European Depository Receipts (EDRs), each representing three new Nampak shares, were listed on the Luxembourg Stock Exchange and placed with international investors by West Merchant Bank and Standard Bank of London.

The EDRs were freely tradeable but the underlying shares could not be accessed by EDR holders for three years.

Connellan said the two acquisitions would not have a short-term affect on Nampak's earnings or net assest value, and in the long term would have a minor effect on the R4,5bn-a-year group.

But the transactions were indicative of its plans to become a global player.

Connellan stressed that the group would move only in markets in which it could contribute technical expertise.

He said Nampak was on the acquisition trail, but there were no further deals on the cards.

But the group's low gearing, strong balance sheet and strong cash flow left it well-postioned to make further acquisitions.

Sappi wraps up 125% rise in income

CT 19/10/94 (194)

From AMANDA VERMEULEN

JOHANNESBURG. — SA-based paper and pulp multinational Sappi lifted net income 125,2% to R144,8m in the six months to August off the back of an improved outlook for its products.

Earnings a share grew 108% to 90c, and and an interim dividend, of 30c, was resumed. Turnover climbed 14,3% to R3,1bn, while operating income rose 105% to R207,1m. Financial director Bill Hewitt said the outlook had improved with prices increasing for most products manufactured in SA and Europe. The most notable increases had been in pulp, both paper and dissolving grades, which had grown 79% and 37% respectively since November.

"The market is in strong recovery mode and producers are likely to enjoy a period of significantly improved profitability, the start of which is reflected in the results."

Net financing costs were 65% higher at R51,8m, leaving pre-tax income 146,3% up at R158,4m. A higher tax payment of R7m (R1,5m) left after-tax profit up 141,1% at R151,4m. After attributable income to outside shareholders of R6,6m (R1,5m loss), net income ended at R144,8m (R64,3m).

The group's balance sheet remained strong, with gearing only slightly higher at 44% from 41% at the February year end.

Sappi SA MD Ian Heron said there had been significant improvement in the markets in which the group operated, allowing it to increase domestic prices of certain products for the first time in several years. In real terms, however, prices were still well below those at the peak of the previous upturn.

The group's offshore operation in Germany, Hannover Papier, was running at capacity, and should make a profit at the year end. Sappi's UK operation would show an improvement in margins on the back of better product prices.

The European marketing arm of the group, based in Brussels, continued to perform well, and the Hong Kong sales operation made a contribution to profits.

Sappi's recent $1,6bn acquisition of US paper company Warren would have a minimal effect in the current year as the deal was likely to be concluded only by the end of 1994. As the acquisition was being financed on a fully-leveraged stand-alone basis, and would be fully consolidated, Sappi's debt to equity ratio would increase to about 1,25:1 at year-end, but was expected to be below 1:1 within 18 months.

The company said it would be changing its year-end from February to September with effect from September 1995.

Price of paper products set to escalate

194

CT 9/10/94

EAST LONDON. — The prices of paper and cardboard products are set to rocket following three price hikes by SA pulp mills between April and September, each by about 10%.

Also, Sappi and Mondi, which dominate the SA pulp and paper industry, have indicated a further price increase is likely early next year.

Mr Vrij Harry of the Border Printing Industries Federation said the rapid increase in prices this year had "major implications" as printers could no longer absorb escalating costs.

Publishers of newspapers and magazines, already under pressure due to the expansion of the electronic media, would be forced to slash margins or risk losing readers through regular price increases.

Mr Harry said he was concerned increased costs and reduced supplies would affect the provision of school books next year and stymie RDP education projects.

This year's sudden price hikes follow a two-year period of no real price rises when the international market was oversupplied.

● **Sappi wraps up 125% rise in income — Page 10**

Fishing resources being 'plundered'

FISHING CT 19/10/94

By GLYNNIS UNDERHILL

THE rampant poaching of fishing resources that is costing the region "dearly" would continue until fishing stocks had been totally plundered — or until a regional naval presence called a halt to the "robbery".

This warning was sounded yesterday by Deputy Defence Minister Mr Ronnie Kasrils, who opened the South African Regional Maritime Co-operation Conference in Cape Town attended by navy chiefs from the Southern African region.

Mr Kasrils said "billions of dollars worth of sea-food alone", as well as oil, gas and minerals that may be exploited beneath the sea-bed, would be lost if the vast maritime resources were not protected.

"The more fish lost the more hungry stomachs on land and the less jobs. Those thousands of kilometres of open sea and coastline beckon the gun runners, the drug smugglers, the mafia, the terrorists and the pirates, who are fast becoming the greatest security threat of our time."

Navy 'should help protect coastline'

Mr Kasrils said he was not trying to conjure up a frightening threat to make the government "cough up" more cash for the naval budget. "We must be mindful of history which shows that conflict arises from the struggle over scarce resources."

A vision was needed to create a common regional maritime policy that can be put into practice, he said.

Chief of the South African Navy, Vice-Admiral Robert Simpson-Anderson, said co-operation among countries promoted ties of friendship, peace and prosperity.

"On the naval side, security is the most important issue, but there is tremendous scope for co-operation on issues such as the protection of the marine environment and its resources, combating of pollution, of piracy (already a problem on the West African Coast), drug smuggling, which is on the increase, and illegal immigration, all of which will probably increase in years to come," he said.

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194 CT 19/10/94

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● **Sappi wraps up 125% rise in income — Page 10**

UN convoy hit, [redacted] A dream

Sappi doubles income

ARGT 19/10/94

Business Staff

IMPROVED paper and pulp prices contributed to Sappi's more than doubling net income for the six months to August to R144,8 million from R64,3 million in the same period in 1993.

Last week Sappi announced it had made the biggest ever US acquisition by a South African company in buying coated woodfree paper manufacturer SD Warren for $1,6 billion.

Sappi chairman Eugene van As said yesterday this would have a minimal effect on figures for the current financial year to February since the deal would only be concluded in December.

Although turnover rose by a moderate 14 percent to R3,1 billion in the six months to August, operating income more than doubled to R207,1 million.

An interim dividend of 30c, against no dividend in 1993, has been declared.

Shortage squeezes packagers

S/Times (Buss)

By CIARAN RYAN

A SEVERE shortage of cartonboard — used extensively in the packaging industry — has developed nine months after the country's monopoly supplier Mondi closed one of its three cartonboard factories.

One customer who normally buys 40 tons of cartonboard a month has been told he will be allocated 10.

It is also alleged that Mondi refuses to admit in writing that it cannot meet local demand, fearing that this will be used to lobby the Board on Tariffs and Trade for a waiver of the 10% import duty on cartonboard.

Several packaging printers say they are forced to import the product despite the import duty and rising world prices.

"Mondi refuses to answer calls," says one customer, who asked not to be named for fear of victimisation.

"I have been told by Mondi's buying department that it is obliged to satisfy export orders first. But when I asked for this to be confirmed in writing, they refused."

Mondi denies that it is trying to maintain import tariffs and claims it is able to meet local supply, although it is currently "overbooked".

This is disputed by customers who say Mondi refuses to confirm buying orders, as is usual practice, and is allocating customers a fraction of normal purchases.

Rising world prices have forced importers of cartonboard to switch to local supply.

Derrick Minnie, Mondi's managing director, says: "The volume of orders we are receiving is out of the ordinary and may reflect pre-price increase buying.

"Many orders reflect a 60% to 100% increase over those placed for the first six months of the year. Orders from overseas customers are, in fact, being delayed to accommodate local orders. Our first commitment is, and has always been, to the domestic market."

Mondi confirms that the price of cartonboard will rise from January 1995 but cannot say by how much. One printer was told he would be charged 17% to 20% more.

Mondi closed its Bellville plant in January, citing local and international over-capacity in board, subsidisation of imported product and depressed markets.

Mr Minnie says that, based on past experience, local demand should normalise early next year.

23/10/94

(194)

Analysts say all signs point to strong Nampak performance

AMANDA VERMEULEN

INCREASED consumer spending, acquisitions in foreign markets and tight cost management bodes well for R4,5bn a year packaging group Nampak which releases its 1994 results today.

Analysts said the group, which has shown consistent earnings growth over the recession, was expected to report good results for the year to September.

"The group has managed better than any of the other companies in its sector to keep costs under control, and should show good earnings growth off the back of increases in demand since July," said one.

Analysts estimated earnings growth at 15%, higher than competitors which had shown small or negative growth. Most agreed they were optimistic about the company because of its sound management and good business mix.

The group did not rely on any one division for more than 15% of its total turnover, which left it well protected in the event of downturns in any one market.

Increased consumer spending had been reflected in stronger demand for the company's products, and even though food inflation had reached 22%, volumes were unlikely to be affected, said one analyst.

"With the increase in spending, particularly on food items, there are good times ahead for the group which has kept its margins and market share over the lean years of the early 1990s."

Tighter cost management also meant that an altered cost structure would reap the benefits of improved consumer confidence. Other measures, such as cutting back on the workforce, bringing gearing down and increasing emphasis on productivity, had helped the group trim interest charges. 3/10/94

An indication of the group's strong balance sheet and low gearing was the recent announcements of acquisitions in the UK. BloMocan, a company that specialised in the production of moulded plastic bottles, mainly for the dairy industry, was bought for £20m in September.

Nampak saw an opportunity to expand its international base at a time when the UK was switching over from glass milk containers to plastic. Shortly after the BloMocan deal came the announcement the group was negotiating to buy 100% of UK company Polysystems, also in the blow-moulded container industry.

The deal, worth about £6m, would see UK turnover reach about £26m, but this was not expected to have a major effect on earnings in the short term.

While management stressed they had no immediate plans for other acquisitions, the low gearing and strong cash flow left Nampak ideally positioned to consider further expansion.

Analysts said the recent offshore expansion was small for a company Nampak's size but it pointed to several advantages. First, the group had little room left to expand in the domestic market, where it had a large market share and second, the UK acquisition could be an opportunity for the group to develop offshore assets with a view to borrowing against them in the international financing community..

Analysts said the group had responded to domestic competition by restructuring Bevcan, resulting in the division reporting good profit. 3/10/94

One concern was the trend in rising materials prices, particularly pulp, paper and plastics. But until existing contracts with suppliers expired, these cost increases were unlikely to have any effect on the group. (194)

Nampak packs in 17% earnings hike

BDay 1/11/94

AMANDA VERMEULEN

PRODUCTION efficiencies and the economic upturn caused packager Nampak to report a 17% increase in attributable earnings to R350,5m in the year to September.

Earnings a share increased to 71,9c (62c) and a dividend of 27,5c (23,8c) was declared. Turnover improved 5,4% to R4,8bn. Operating profit grew 6,1% to R549,7m.

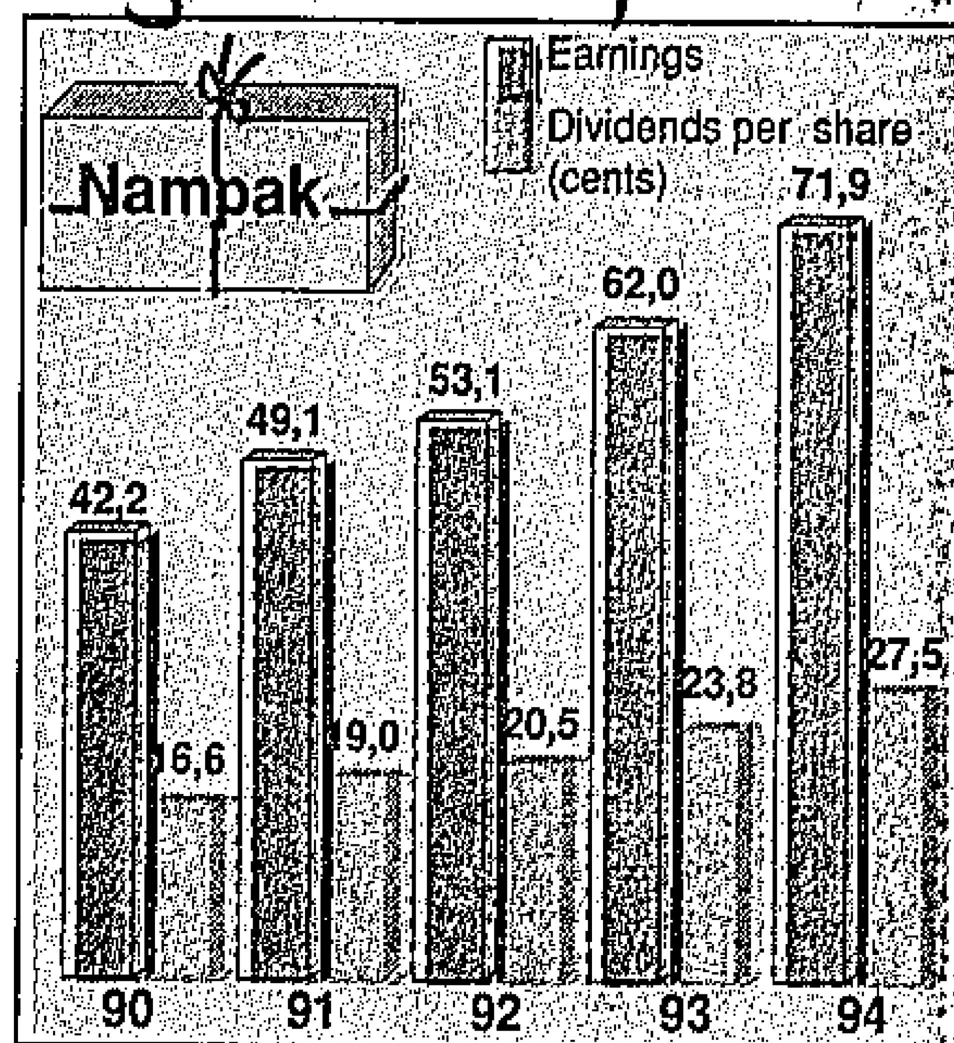
After interest of R10,3m (R32,1m) and income from investments of R12,9m (R20m), profit before tax increased 9,2% to R552,3m. Tax of R201,4m (R197,9m) left after-tax profit up 14% at R350,9m.

An abnormal item of R10,5m relating to the sale of the Kliprivier brown paper machines left attributable earnings at R350,5m (R299,8m) after earnings to outside shareholders of R10,9m (R8,1m).

Chairman Brian Connellan said the year under review had been characterised by signs of an economic recovery although there had been no significant increase in real private consumption expenditure. (194)

The growth in turnover was accompanied by selling price increases held below inflation levels as a result of a highly competitive market. Strict attention was paid to cost and production efficiencies and the operating margin improved to 11,5% (11,4%) of sales.

In the packaging sector, Bevcan in-



Graphic: LEE EMERTON Source: NAMPAK

To Page 2

Nampak

BDay 1/11/94

From Page 1

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The liquid packaging division was down as it could not match selling price increases to the escalation in the cost of imported coated board. Further cost reductions did not prevent a slide in the Foodcan division's profit as a result of disappointing fruit and vegetable crops.

Connellan said the Divpac, flexible and polyfoil divisions all increased sales and profits, with polyfoil being assisted by improved export sales. (194)

In the paper and printing sector, the cartons and corrugated divisions reported higher profit on the back of improved demand and production efficiencies. The sacks division was affected by lower exports and by the effects of the drought on sugar and staple food products.

The paper distribution operations benefited from increased demand but the printing and tissue division profits declined in highly competitive markets.

Borrowings came down to R151,4m (R228,8m), with gearing down to 9% (16%).

The group spent R252m on capital projects, bring to R1,3bn total capex in the past five years.

Since the year end, Nampak bought 100% of UK company BioMocan for £22m and was involved in negotiations to acquire another UK operation, Polysystems.

Connellan said increases in world pulp prices boded well for its paper-related operations, and if GDP next year matched expectations, the group would show good growth. Nampak was also considering moving into other African countries, while increasing its exports.

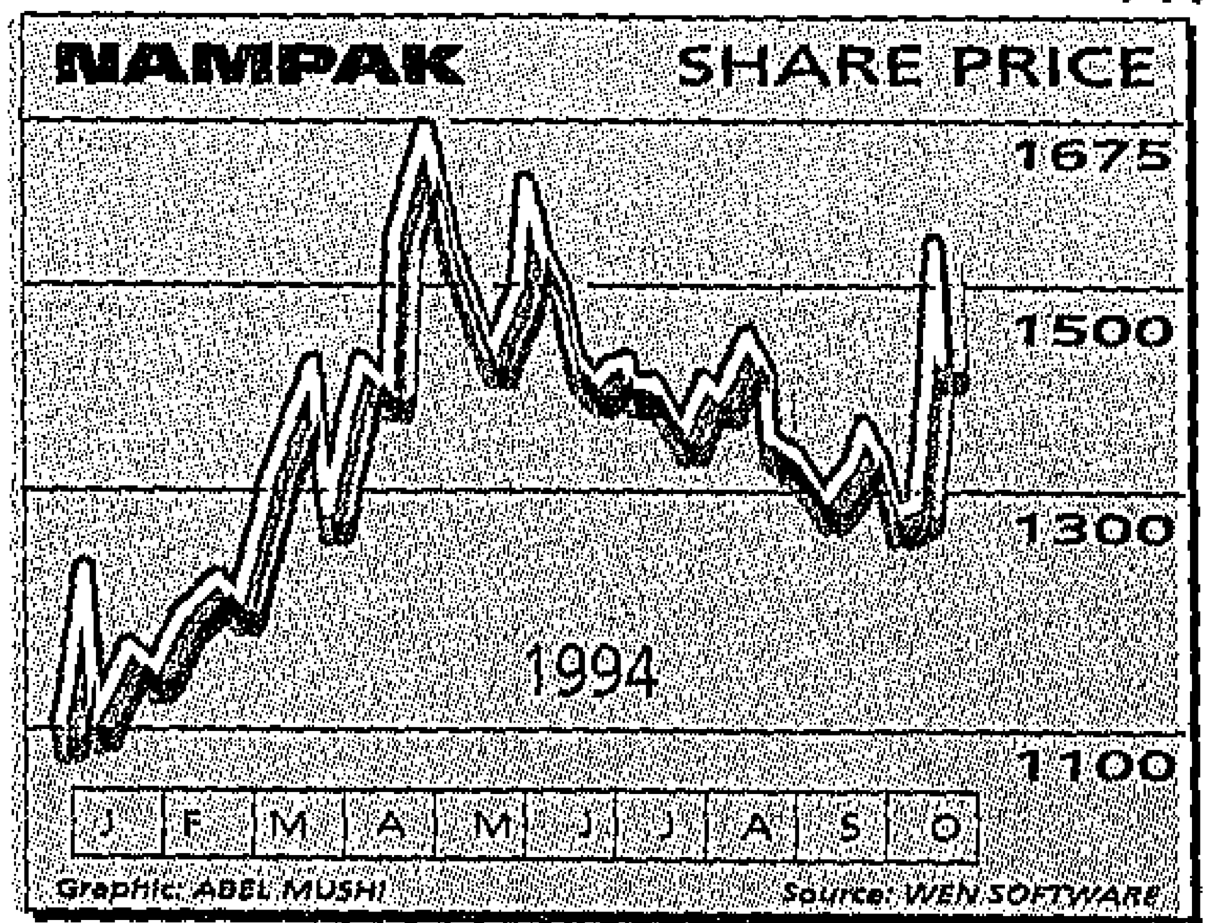
BUSINESS

THE STAR / TUESDAY NOVEMBER 1 1994

Nampak weathers storms

Star 1/11/94

BY CHARLOTTE MATHEWS



(194)

In a year of pressure on volumes and prices Nampak improved attributable earnings by 17 percent to R350,5 million against the same period in 1993.

Turnover grew 5 percent to R4,8 billion in the year to September, but the group maintained market share.

Chairman Brian Connellan said yesterday price increases had been well below the inflation rate, but rising raw material costs would necessitate higher prices in the current year.

Operating profit rose 6 percent, showing a slight improvement in margins to 11,5 (11,4) percent.

A lower interest bill and fall in the tax rate were partly offset by a decline in investment income. But the bottom line benefited from an abnormal profit of R10,5 million on the disposal of the Klipriver brown paper machines.

On a slightly higher number of shares in issue, earnings a share were 16 percent better at 71,9c. A dividend of 27,5c (23,8c) is being paid.

Capital expenditure over the next two to three years should be about R1 billion.

Where acquisitions were concerned, Nampak could call on R600 million, keeping gearing within acceptable levels.

Offshore opportunities would be explored cautiously, but there was still scope for organic growth, acquisitions in SA and southern Africa.

The group was budgeting for increased profits in all divisions except Foodcan, with a large improvement expected in both the corrugated and tissue divisions.

Although signs of an upturn had been uncertain in the past year, the past three months had been positive and the group was forecasting real growth in earnings in the year to September 1995.

Nampak nets 17% growth in earnings

From AMANDA VERMEULEN

CT 1/11/94 (194)

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NAMPAK Fm 4/11/94

Finding silver linings

After a long series of superlative performances, this packaging, paper and printing group has produced yet another, this time a 17% increase on the bottom line to follow last year's 17%. (194)

And, once again, it has been achieved in the comparative absence of real demand growth: turnover rose only 5%, of which chairman Brian Connellan says only 1% came from volume increases. On that basis, a 6% increase in the operating profit indicates considerable attention to costs. I have openly canvassed Nampak managers' ability to continue squeezing this orange; on the contrary, Connellan says he's certain even more can be achieved through efficiencies and enhanced productivity.

A sharp reduction in interest-bearing debt to R151m (1993: R229m) played a major role in reducing the interest burden, down this year to R10,3m from R32,1m. This has been done at what some would consider just the right time: as the interest rate curve begins its upward movement in the economic cycle. Tax is virtually unchanged at R201m, and attributable earnings are R350,5m or 71,9c a share (1993: 62c). The dividend is increased to 27,5c on maintained cover of 2,6 times.

These preliminaries do not include a consolidated balance sheet: however, the cash balance has declined to R60m from

Fm 4/11/94

1993's R88,5m, reflecting interest-bearing debt retirement. Evidence of the strong cash flow also comes from Nampak's ability to fund its capital expenditure programme largely from internal sources: capex totalled R252m compared with 1993's R237m; for next year R400m is intended, of which half is for expansion. Cash generated from operations rose to R733,5m; debt:equity is a highly conservative 0,09.

Frankly, the turnover figure is disappointing because it confirms — if that is necessary — what a bad year it has been in some sectors; the impact of political

LOOKING PRETTY

Year to September 30	1993	1994
Turnover (Rm)	4 544	4 791
Operating income (Rm)	517,9	549,7
Attributable (Rm)	299,8	350,5
Earnings (c)	62,0	71,9
Dividends (c)	23,8	27,5

(194)

turbulence, continuing violence and endless public holidays all took their toll. However, MD Trevor Evans says the silver lining may be evident in sales over the last quarter of the financial year which indicate a 12% improvement on the year-ago quarter.

In a sense, Nampak's business is usually an early indicator of economic trends because what consumers buy is usually packaged in some form. While a single quarter's results can't be taken to indicate an unstoppable consumer-led recovery, if these demand levels can be sustained, Nampak will spin money to the bottom line at an unprecedented rate.

Important keys to Nampak's success are its continued efforts at securing employee participation in decision-making, and its concentration on productivity improvement allied with technological advances. Evans says Nampak is approaching world standards in some areas, though it lags in others. Nevertheless, enabling shop stewards to see for themselves how packaging is organised in First World countries is clearly designed to drive home the need for ever-improving standards. These are innovative approaches which show in Nampak's bottom line.

The results put the counter on an historical p:e of 20,5; even though all the indications are for continued improvements in earnings over 1995, the price is probably too demanding now. *David Gleason*

Holdains 'well positioned for growth'

AMANDA VERMEULEN

INCREASED consumer sentiment and demand for paper and plastics products outstripping supply left paper and packaging giant Holdains well positioned for growth in coming years, chairman Ian Willis said.

He said in the group's latest annual report that in the last quarter of the year to August it had begun to see the effects of improved consumer demand.

Willis said the consumer market, on which Holdains is heavily reliant, was under pressure for much of the financial year. Over the past decade, the packaging market had grown at 2,3 times GDP but this had slowed or even reversed in recent years.

But as consumer confidence returned, and world paper and pulp prices started increasing, trading conditions had improved. Holdains had prepared for a resurgence in demand, and had ensured a continuity of supply even in the prevailing high-demand environment.

Willis said acquisition growth within SA was limited for the group, and strategy would include offshore growth while ensuring home businesses were operating to capacity.

He said the group had for many years embraced the alliance between the state, labour and capital, which had led to sound labour relations in recent times. BDay 29/11/94

It had also made progress in reducing costs to world levels in its packaging division, using a major portion of capital expenditure to achieve this goal. (194)

High levels of investment were planned to ensure the group remained at the forefront of technology, had the lowest cost of production and catered for market growth. Part of the cost-reduction drive had resulted in lower workforce numbers which were unlikely to increase as the market recovered.

"The process of re-engineering every division will continue to result in a continuing drive for cost efficiencies."

The 1994 results, which showed a 4% decline in earnings, reflected the pressure on most of the group's businesses, and a number of one-off costs. But Willis said the decline was not acceptable, given that the group's objective was to ensure real long-term earnings growth for shareholders.

But the major restructuring tasks which it had completed during the year should help ensure that the objective was met in the future.

Malbak in major offshore deal

(194)

AKLG 30/11/94

MALBAK'S London-listed paperboard and plastics packaging group, MY Holdings, has announced the acquisition of specialist folding carton business PropharmaPak for £22 million.

The acquisition would make the MY Holdings group one of the largest specialist packaging suppliers to the UK pharmaceutical sector.

Ian Willis, the Malbak director responsible for MY Holdings, said Propharma Pak consisted of two separate businesses, Eagle Press and Selective Design Service.

MY Holdings would undertake a rights issue at 53 pence a share to raise approximately £25 million to fund the acquisition and provide the group with additional capital.

Malbak has undertaken to follow its rights and after the issue would have a 64 percent interest in MY Holdings. The transaction has South African Reserve Bank approval.

■ The KwaZulu Finance and Investment Corporation's sorghum breweries at Imbali and Madadeni, together with plant and equipment in its industrial and commercial malt facility are to be sold to **National Sorghum Breweries** in a multi-million rand deal, according to a joint statement.

The disposal of these business interests was in line with KFC's policy of promoting black entrepreneurial activity through privatisation.

Commenting on the deal, Dr Marius Spies, KFC executive director and chairman of Amabele Breweries and Amabele Malt, said: "It has always been our intention to privatise these business interests. We have long held the view that we have acted simply as the custodians of these enterprises on behalf of the community."

NSB chairman and chief executive, Professor Mohale Mahanyele, said the transaction was in accordance with the organisation's strategy to strengthen its dominant position in the sorghum beer market.

The acquisition takes effect from tomorrow.

■ Healthy increases in trading and investment income helped **Anglo American Corporation** (AAC) lift attributable income by 27 percent to R794 million for the six months ended September 30 1994.

Announcing interim results yesterday, the group said generally improved performances from a wide range of sectors had contributed towards healthy results.

Total net earnings increased 18 percent to R1,560 billion.

This translated into attributable earnings of 341c a share and total net earnings of 670c a share.

The group increased its interim dividend by 16 percent to 110c a share (1993: 95c).

Net income before taxation increased by 29 percent to R1,233 billion (1993; R959 million).

Income from investments increased by 20 percent.

FM 2\12\94

PAPER

Royal game?

194

SA's Printing Industries Federation is asking Trade & Industry Minister Trevor Mauel to abolish all tariffs on imported paper and board with immediate effect.

In a letter to Manuel, the Board on Tariffs & Trade and the Competition Board, the Federation's Chris Sykes claims that government's latest tariff reduction proposals for paper and board (submitted by the National Economic Forum (NEF) in Au-

FM 2\12\94

gust) are out of line with proposed tariff cuts for printed goods and will cause the printing industry severe prejudice.

In a nutshell, the NEF is proposing to cut tariffs on paper and board — now an average 10% — to 5% by the year 2005, starting only from the year 2000. Put differently, the present tariff of 10% will remain in place for the next five years. In contrast, the forum wants to cut back tariffs on printed goods from 20% to 10% over the next five years — starting next year. By the year 2005, tariff protection on printed goods will also be 5%.

194

Sykes argues that if government wants to reduce the protection on value added products (printed goods) immediately, it must do the same for the raw material used by the industry. "Tariff protection for the two industries should at least come down in tandem," says Sykes.

Paper producers Sappi and Mondi believe the present average 10% protection is very low. Says Mondi chairman Tony Trahar: "The SA pulp and paper industry should, at least, enjoy competitive protection with other world players in the pulp and paper industry." He points out that other major international producers presently enjoy tariff protection of from 9% to 25%. Says Trahar: "It's also inequitable that the level of protection enjoyed by the industry should range only from 0% to 10% when other manufacturing sectors that supply the paper industry with raw materials enjoy protection of up to 30% — notwithstanding Gatt limitations."

But Sykes points out that Mondi and Sappi are now international players not fledgling operators in need of protection. They also have access to their main raw material (pulp) free of duty but continue to fight the printing industry's attempts to acquire its main raw material (paper and board) at reduced prices or free of duty. Mondi points out that both it and Sappi are net exporters of pulp, not net importers.

Sykes claims that the abolition or reduction of tariffs will reduce local prices of raw materials without threatening the mills. Trahar disagrees: "Further tariff reduction will inhibit the enthusiasm of the paper industry to invest in new plant if it perceives the level of protection in SA to be noncompetitive in world terms." ■

S D Warren 'rated tops'

JOHANNESBURG. — Sappi said S D Warren Co, which it plans to acquire, had been granted excellent credit ratings by agencies which would facilitate the marketing of high yield paper in the US.

Shareholders meet on December 19 to approve Sappi's leveraged acquisition, as head of a consortium of investors, of 70% of the US's Warren from Scott Paper Co.

CT 7/12/94

Sappi said in a statement the high yield notes being issued as part of the take-over, representing $375m of the $1,48bn cash purchase price, achieved a B rating from Standard Poors Corp and a B1 from Moody's Investor Service.

(194)

election promises.

Armscor buys gas warfare firm

(235) BD 9/12/94

STEPHANE BOTHMA

ARMSCOR had purchased a defensive chemical warfare research and development company which would support the Council for the Non-proliferation of Weapons of Mass Destruction with regard to local implementation of the Chemical Weapons Convention, Armscor MD Tielman de Waal announced yesterday.

The R4m deal to purchase Protechnik Laboratories, was concluded three months ago, De Waal said, adding that Armscor needed the investment in such a facility because proliferation did not necessarily occur in well-formed and well-shaped missiles or guns only.

Through Protechnik, Armscor would provide specialist technical support to the council, although the Trade and Industry Department was the custodian of the Non-Proliferation Act, he said.

He said SA did not produce weapons of mass destruction and was committed to a policy of non-proliferation. In January last year SA became a signatory to the Chemical Weapons Convention.

Protechnik manager Phillip Coleman said his company manufactured chemical warfare agents such as mustand gas in limited research quantities allowed by the international convention.

It produced small samples of chemical agents to test protective clothing, air filters and chemical weapons detection systems.

Paper industry warns against tariff removal

(194) BD 9/12/94

AMANDA VERMEULEN

SA's paper and pulp industry has warned that the removal of tariffs on imported paper could force local producers to seek investment opportunities outside the country's borders.

Responding to the Printing Industries' Federation (PIF) call to the Department of Trade and Industry to remove the 10% tariff protection, paper industry players said it could have a detrimental effect on the local industry.

A Trade and Industry Ministry spokesman said the application to the Board on Tariffs and Trade should be published today in the Government Gazette.

After publication, the board will ask for comment and complete an investigation before making a report to Trade and Industry Minister Trevor Manuel.

Mondi MD Derrick Minnie said yesterday many of the group's products, supplied to the local printing and packaging industry, were substantially below prices of imported paper and board, even when the tariff protection was not included.

He said almost every paper-producing nation had some form of tariff protection, with some being as much as 30%.

The paper industry required massive capital investment, and local producers had to be assured that there would be a market for their products to ensure a return on investment. Tariff protection was the main mechanism of assurance paper producers needed, and if it was to fall away, then local companies could look at investing in other countries which had protection.

Minnie said Mondi had been loyal to its local customer base, despite the fact that they could receive substantial prices for products in overseas markets, particularly now that paper and pulp prices had increased dramatically.

Sappi Fine Paper MD Bert Ibertson said the tariff issue relating to the paper industry had been dealt with under GATT, and over time tariffs worldwide would be reduced.

If the tariffs fell away, the printing industry would become more reliant on imports, which could become a problem in the current undersupply in world markets.

The PIF's Chris Sykes said he found it strange that local producers were using tariff protection as a reason to keep investment in SA, when Sappi and Mondi were investing abroad already.

"If SA industry is to be world competitive there is a decreasing need for tariff protection."

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Nampak pursues foreign interests

AMANDA VERMEULEN

PAPER and packaging group Nampak has taken the first steps in a long-term drive to establish the group as a global player in selected niche markets. B/Day 6/12/94

Chairman Brian Connellan said the 1994 financial year had seen a number of offshore and cross-border acquisitions.

The group had increased its stake in Zambian company International Cartons & Packaging to 50%. It had also acquired a 5% shareholding in Hunyani Holdings in Zimbabwe, and was negotiating to increase its stake in Packaging Industries (Malawi) to 21%.

Nampak's largest acquisition was the £22m UK-based BlowMocan. The financing was raised by the issue of European Depository Receipts quoted on the Luxembourg Stock Exchange against the security of an issue of 13,2-million Nampak shares on the JSE.

Connellan said offshore expansion would not be at the expense of the group's SA base.

The year had seen a R252m capital expenditure budget and R25m allocated to training. The group reported a 16% increase in earnings a share to 72c.

Export development was a vital area of growth, and several divisions saw a significant increase in volumes.

Connellan said the group's prospects were partly dependent on the RDP. "As the RDP gains momentum and employment levels increase, spending in the non-durable consumer market should show strong growth." (194)

But this could be partially offset by further increases in interest rates early next year, and the effect of additional tax levies.

"Also, the recommencement of payment for rent and services by some communities could negatively affect discretionary spending, while the sharp increase in the group's raw material input costs, particularly paper and plastics, will put pressure on margins."

HOLDAINS

Fm 16/12/94

Paper chase

Several one-off costs tore strips off Holdains' profits last year and efforts to maintain market share in highly competitive sectors came at an enormous cost to margins. In the six months to end-February turnover rose marginally but operating profit fell almost a quarter to R78,6m. By year-end the decline in operating profit was restricted to 4%. (194)

Consumer spending increased after the general election and the decision to review the accounting treatment of canner Crown Cork provided a cushion. About R59m, previously allocated to tangible assets, was written off as goodwill. A lower effective tax rate also helped earnings.

Fm 16/12/94

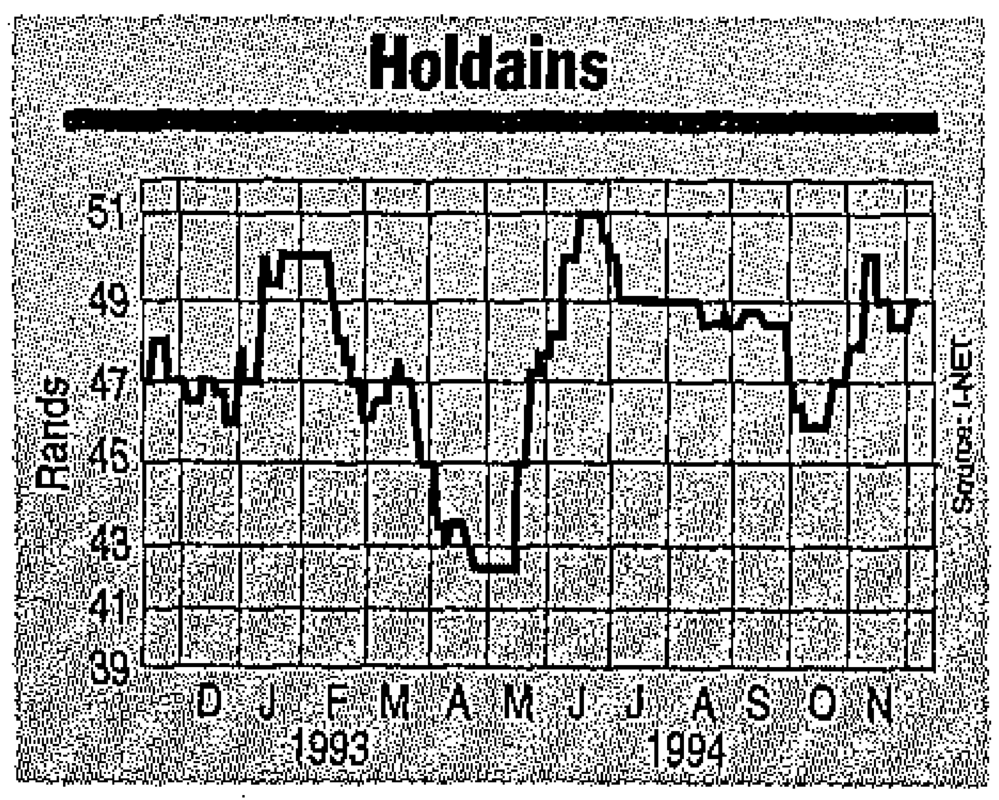
Activities: *Makes products for the paper, packaging and fibre industries.*
Control: *Malbak 68,1%.*
Chairman: *I Willis. CEO: S R Bruyns.*
Capital structure: *29,1m ords. Market capitalisation: R1,4bn.*
Share market: *Price: 4 900c. Yields: 2,6% on dividend; 6,6% on earnings; p:e ratio, 15,2; cover, 2,6. 12-month high, 5 100c; low, 4 250c. Trading volume last quarter, 542 000 shares.*

Year to August 31	'91	'92	'93	'94
ST debt (Rm)	132	191,8	73,7	59,7
LT debt (Rm)	35	37,7	51,7	52,6
Debt:equity ratio	0,27	0,45	0,05	0,08
Shareholders' interest	0,49	0,68	0,83	0,86
Int & leasing cover	4,0	4,5	6,2	8,5
Return on cap (%)	17,9	25,5	24,0	19,2
Turnover (Rm)	2 208	2 303	2 571	2 801
Pre-int profit (Rm)	212,1	190,7	196,0	168,7
Pre-int margin (%)	9,6	8,3	7,6	6,0
Earnings (c)	358,2	349,3	365,7	323,3
Dividends (c)	121	121	125	125
Tangible NAV (c)	1 677	1 730	1 980	2 185

Holdains' Willis ... *improved divisional disclosure*

Credit must, however, be given to improved divisional disclosure. It's now evident Packaging — paper, plastic and metal — remains Holdains' dominant business. About 57% of turnover and 81% of earnings originate from this division. Tissue and absorbent products subsidiary Carlton Paper Corp (see separate report) contributed 18% of turnover and 15% of earnings in financial 1994. (194)

Clearly, paper & merchanting, the smallest division, provided one of the largest headaches last year. New competition in the Foam Tray business used pricing to gain market share and margins fell. Restructuring, including closure of plant and retrenchments (the workforce was halved in just 15 months) cost Holdains R15m. This business, says CE Richard Bruyns, is recovering; the paper & merchanting division earned 25% of turnover and 4% of earnings and its margins should improve this year.



Fortunately, international corrugated consumption continued to grow throughout the recession and even the developed European markets, pressured by environmental lobbyists, have not declined. The SA market is no exception. The growth in the agricultural market is stronger after the recovery from the drought.

Early in the year the international paper and pulp markets began to revive and paper prices, and more recently those for plastic raw materials, started to increase. The long period of oversupply of raw materials to the packaging industry has ended. With worldwide demand outstripping supply, there are now shortages. (194)

A major portion of Holdains' capex has had to be devoted to technology to reduce costs to international levels. Last year R139m was spent on expansion and replacement of fixed assets. More than R80m is planned for investment in increased capacity and the extension of the range of food and beverage cans alone this year.

With the improvement in the business climate, increases in the cost of raw materials, rising interest rates and major planned capital expenditure, cash flow will remain a key issue for Holdains — R24,2m was used in 1994 against the R3,6m generated in 1993.

Products linked to the RDP include multiwall sacking for dry cement. Also, demand for tissue paper should increase once sewerage systems are installed. Neither these positive prospects nor the expected return to earnings growth this year is reflected in the share price. The counter has oscillated in a narrow band for most of the year. Its 15,2 p:e rightly lags that of rival Nampak (19,8). *Kate Rushton*

CARLTON PAPER

Disappointing year

Fm 16/12/94

Carlton Paper, long known for its strong balance sheet and consistent profit growth, struck out last year. Increased competition and a three-week strike were largely responsible for the disappointing 22,6% fall in earnings.

194

The aggressive pricing strategy adopted by competitors to gain sales volumes in an over supplied market reduced toilet tissue prices to 1991 levels. Also, after three years of stable fibre prices, the upturn in the world economy is absorbing excess capacity and the cost of fibre is now increasing; selling prices are expected to increase this year.

As if this isn't enough, Proctor & Gamble have launched a range of products which will compete against those marketed by Carlton. Fortunately, through its association with Kimberley Clark of the US — control of Carlcor vests with KCSA which is equally held by Holdains and Kimberley Clark — Carlcor should be able to benefit from technology and favourable raw material supplies. Chairman Ian Willis says the group will focus on "being cost efficient and innovative" to be able to grow.

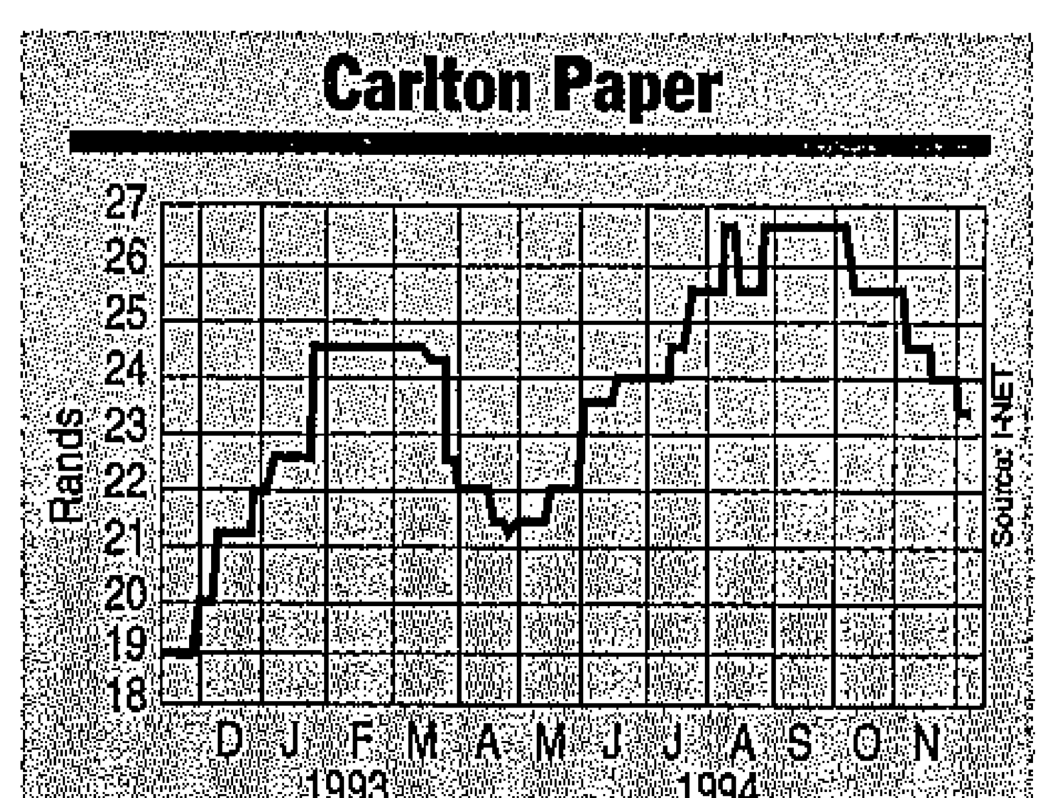
Fm 16/12/94

The real low point of 1994 has to be the strike in February over wage demands. It cost Carlcor at least R2m (5%) in pre-interest profit. But working capital was well managed throughout the year and cash flow remained positive. The balance sheet is strong; gearing fell from 12% to 9%.

The share has risen R4,50 to R24 during the year. This, however, has been on thin trade; considerably less than 10% of equity is in minorities' hands. All the listing is doing for Carlcor is providing competitors with the edge.

194

Kate Rushton



Activities: *Makes and distributes tissues, toilet paper, disposable nappies & health-care clothing.*
Control: *Holdains 50,04%.*
Chairman: *I Willis. MD & CEO: K S Partridge.*
Capital structure: *15,8m ords. Market capitalisation: R379m.*
Share market: *Price: 2 400c. Yields: 2,8% on dividend; 7,4% on earnings; p:e ratio, 13,6; cover, 2,7. 12-month high, 2 700c; low, 2 175c. Trading volume last quarter, 19 000 shares.*

Year to August 31	*'91	'92	'93	'94
ST debt (Rm)	4,4	31,8	16,3	16,3
LT debt (Rm)	16,5	6,1	3,6	1,0
Debt:equity ratio	0,01	0,26	0,12	0,09
Shareholders' interest	0,53	0,61	0,68	0,66
Int & leasing cover	26,6	15,2	22,4	22,3
Return on cap (%)	20,6	23,2	21,6	15,2
Turnover (Rm)	303	444	485	496
Pre-int profit (Rm)	47,7	55,4	53,5	42,5
Pre-int margin (%)	15,8	12,5	11,0	8,6
Earnings (c)	187,2	207,0	228,1	176,5
Dividends (c)	119	75	82	66
Tangible NAV (c)	786	918	1 063	1 176

* 8-month trading period.

Carlcor bid offer 'a $15m injection'

THE announcement yesterday that Kimberly-Clark Corporation Inc and Holdains Limited were offering to buy out the Carlton Paper Corporation (Carlcor) minority represented a $15m investment in SA, the company said in a statement at the weekend.

It said the Carlcor minority were being offered R30 a share, which reflected a generous R6 a share premium on the market price which in itself had appreciated by over 10% in the past 12 months.

Between them, Kimberly-Clark and Holdains currently hold 88,6% of Carlcor and would operate the corporation as a 50/50 joint venture after buying out the minorities. (194) CT 19/12/94

Holdains CE Richard Bruyns said it was positive for South Africa that Kimberly-Clark had decided to increase its investment in Carlcor.

"Kimberly-Clark is taking a positive view of developments in southern Africa and sees great potential in our market," he said.

Kimberly-Clark is a manufacturer of household, personal care and health-care products, as well as newsprint and premium business correspondence and speciality papers. — Sapa

FM 23/12/94

NAMPAK FM 23/12/94

Top drawer

(1994)

Activities: *Manufactures metal, paper, paperboard, plastic and glass packaging, as well as brown and tissue papers, tissue wadding conversion and distribution, paper merchanting and specialised printing.*

Control: *C G Smith 62%.*

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

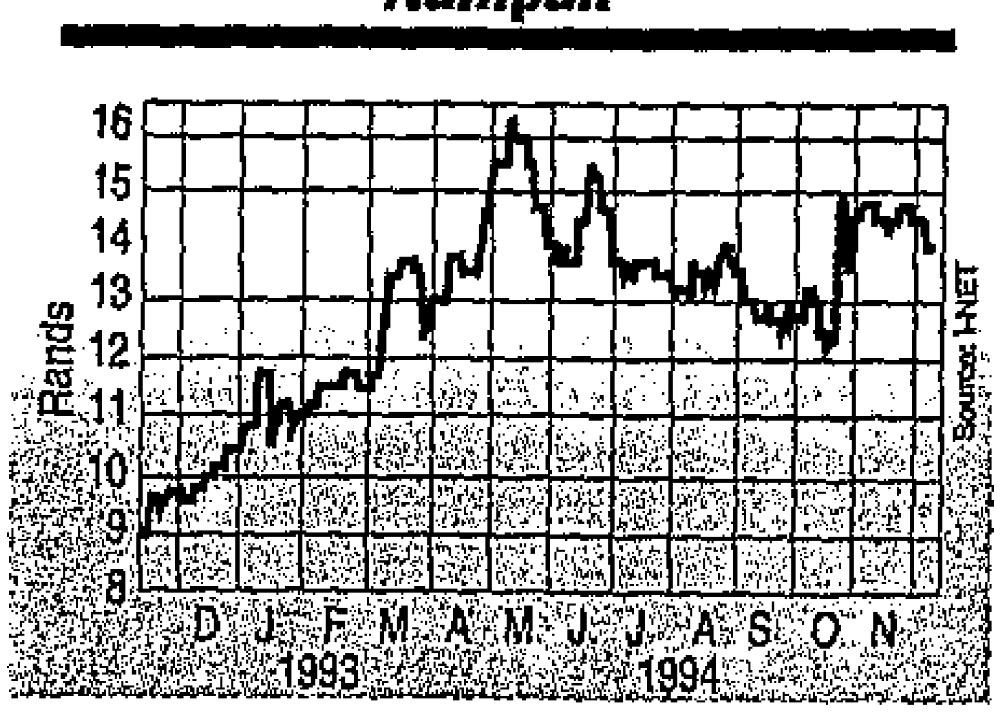
Capital structure: *488m ords. Market capitalisation: R7bn.*

Share market: *Price: 1 425c. Yields: 1,9% on dividend; 5% on earnings; p:e ratio, 19,8; cover, 2,6. 12-month high, 1 675c; low, 1 020c. Trading volume last quarter, 3,5m shares.*

Year to Sept 30	'91	'92	'93	'94
ST debt (Rm)	266	191	156,7	92,8
LT debt (Rm)	206	151	72,1	58,6
Debt:equity ratio	0,39	0,24	0,10	0,05
Shareholders' interest.	0,46	0,55	0,59	0,62
Int & leasing cover ...	7,5	9,9	16,6	54,6
Return on cap (%) ...	19,3	23,2	21,9	20,2
Turnover (Rm)	3 990	4 360	4 544	4 791
Pre-int profit (Rm)....	453	550	538	563
Pre-int margin (%) ...	11,3	12,6	11,8	11,6
Earnings (c)	49,1	53,1	62,0	71,9
Dividends (c)	19,0	20,5	23,8	27,5
Tangible NAV (c).....	217	249	286	330

There's not much doubt about the blue-chip status of this remarkable packaging, paper and printing group; its pre-eminence is reinforced by its latest annual report which illustrates the extent of its ability to ride out the recession and its readiness to benefit from better times.

Nampak



The income statement, cash flow and balance sheet reveal the true extent of its consistent performance. This year, turnover rose only 5% to R4,791bn; that modest rise in sales was translated into a 6% increase in operating income. This should not escape discerning investors because Nampak's husbandry over the years has been such as to ensure that turnover increases will now find their way through to the bottom line almost unimpeded.

The attributable line this year is boosted artificially by a small surplus of R10,5m arising from the sale to Mondi of the Klipriver brown paper machines; in the scheme of Nampak's business, the sum is small. On R350,5m, EPS rises 16% to 71,9c. The dividend rises 15,5%.

Cash generation is strong: R733,5m was produced from operations; working capital was cut by R100m in the face of increasing demand. However, capital expenditure absorbed substantial sums: R182m on replacing fixed assets, another R125m on new developments. Tax and dividends rose appreciably but despite this R98,2m in long-term borrowings were retired.

Total interest-bearing debt has plunged to R151,4m, from last year's R228,8m, reflecting a considered view by Nampak's managers that at the bottom of the interest rate cycle the intention and practice must be to lighten borrowings as much as possible. However, debtors have rocketed 23% to R748,2m while creditors are managing Nampak rather better: they have increased only R58m or 9%.

While on this subject, I must comment on Nampak's acquisition of a UK company called BlowMocan situated in Milton Keynes. Its turnover is UK£22m; Nampak's purchase price was £22m; two pieces of information which tell shareholders nothing about BlowMocan's viability or about the underlying financial rationale applied in arriving at the buying decision.

Payment was effected by the use of European Depositary Receipts (EDR's), a device criticised in last week's *Torque* column. Nampak is a tightly-held stock; last year only 3,5% of its issued equity was traded (out of 488m shares). Now, another 13,2m shares have been locked into a European depositary bank for three years.

(1994)

A major issue facing all SA businesses is the dismal showing of the country's workforce. A constant refrain is that productivity in SA is so low as to prohibit effective competition with, for example, the high work ethic of the Eastern tigers.

This is probably true. However, Nampak presents a refreshing change: from an index of 100 in 1988, employee productivity measured as an increase in sales volume per person has risen nearly 40%. Over the same period, the workforce has fallen from 22 389 in 1988 to this year's 17 392.

Nampak's true value to investors is shown in statistics such as these. In an industry already highly competitive — and, since Gatt, is on the way to becoming more so — a company's ability to stay on its feet is reflected in employee commitment to their business.

In the case of Nampak, this is clearly evident.

The p:e of nearly 20 is demanding, but Nampak's potential for substantially enhanced earnings in a resurgent economy cannot be denied.

David Gleason

PAPER Fm 23/12/94

We have a lift-off

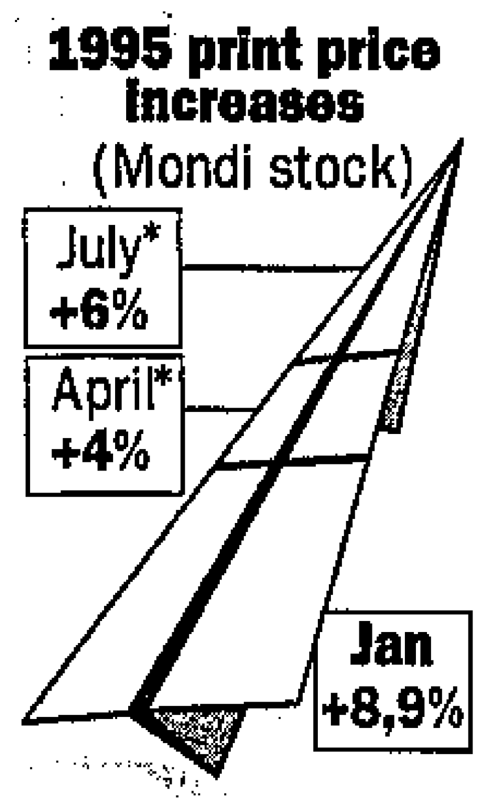
Paper prices could rise by up to 19% in the next six months as world demand for pulp soars.

This month Mondi announced average paper price hikes of 8,9% from January 1. It suggested a further 4% increase is possible in April followed by another 6% in July. Sappi Fine Papers MD Bert Ibertson says Sappi hasn't finalised its price increases for the new year but he confirms that steep increases are likely to continue for some time as international demand for pulp grows. "Strikes in British Columbia and Finland, both large pulp producers, are aggravating the situation," he says. (194)

The increases are likely to intensify the bitter feud over tariffs between paper producers and printers (*Business* December 2). The Printing Industries Federation's Chris Sykes is asking Trade & Industry Minister Trevor Manuel to abolish all tariff protection on paper imports or start reducing the average 10% tariff level on paper to 5% over the next five years rather than wait for

Fm 23/12/94

PRICEY PAPER



*possible increases

the year 2000 before tariffs are reduced. The federation is objecting to a National Economic Forum proposal that effectively keeps tariff protection on paper fixed at 10% for the next five years while tariffs on printed goods are to be lowered, starting next year, from an average 20% to 10% in five years.

Says Sykes: "Local mills blame the excessive paper price increases on international pulp price hikes even though some paper grades have little or no imported pulp. They argue that they are obliged to charge their paper manufacturing facilities the same price they get for their pulp sold overseas — clearly a major advantage of vertical integration."

Paper producers maintain paper users have nothing to complain about as their price increases have been kept below inflation for the past four years. A Mondi spokesman says: "The international pulp price has risen from US$293/t last December to its present high of $680/t. But we have to remember that pulp prices fell from $800 at the end of 1989 and have been low ever since then. The industry is extremely cyclical so we have to recoup our losses during the good times." (194)

He points out the 10% tariff protection on paper is low enough to make imports viable for printers, though he concedes that there is little paper available overseas.

But Sykes says there are other barriers to paper importation which make even a 10% tariff unnecessary. "The weak rand and SA's distance from the major paper manufacturing countries should offer producers sufficient protection in itself." ■

MANUFACTURING - PAPER & PRODUCTS

1995

Mondi's sights set on JSE listing

WM 6-12/1/95 (194)

Mondi Paper is likely to apply for a JSE listing this month — but nobody's talking, reports Jacques Magliolo

AMIC-CONTROLLED Mondi Paper is to apply to the Johannesburg Stock Exchange for a listing within the next month, reliable industry sources from within the company confirmed this week.

Speaking on behalf of Mondi company directors, who are "still on leave," public affairs manager Zelda Jonker said: "Of course, it is up to the Amic board to decide whether they actually want to list a subsidiary and in what manner, but we can confirm that there are strong rumours within Mondi that we will be listed this year."

No information is forthcoming as to the timing and manner of the listing, but these are, after all, details which will be unveiled at a later stage.

Not unexpectedly, Amic company secretary and press agent Mike Nayler was not available for comment. Nor has the JSE been approached. A spokesman for the JSE listings department says that they "haven't received a formal application from Mondi, but it doesn't mean that the company isn't busy preparing the way for such a listing".

Analysts confirm that 1995 would be the best time for the company to list. EW Balderson head of research at Arthur Thompson says: "The pulp and paper commodity cycle has just begun and it would be the right time for a company in this field to list."

In addition to an upswing in the cycle, experts believe that South Africa's desperate need to implement its reconstruction and development programme means that there will be a focus on housing, education and health care facilities.

A portfolio manager says: "Infrastructural development related to these areas of the RDP will boost demand for Mondi's timber products." Experts say that Mondi is the "only timber choice" when it comes to benefiting from the RDP. Not only does the company operate the largest sawmill in South Africa, but it already has the largest share in education papers.

Once investors and speculators alike smell a possible new listing, they immediately demand the answer to three questions: will it be a profitable and sound investment, when will the listing take place and how will it list? It is in this sphere that analysts differ in their opinions.

The first question is bluntly answered by one analyst: "Mondi is the same dog as Sappi." In contrast, another believes that "the company is an excellent short-term buy". He says Mondi's share price will perform the same as Sappi's did last year.

Sappi's share price started 1994 on 2 900 cents and is now trading at 7 200 cents, which means that investors saw the value of their investments increase by a phenomenal 148 percent.

Thompson more objectively sums it up this way: "Pulp and paper companies are too linked to the commodity cycle to be sound long-term investments, but in the short term these shares perform dramatically." And as the cycle is unlikely to turn down before 1999, it certainly bodes well for potential investors.

It seems possible that the company will list within the first half of this year. One Sappi analyst said: "In the past few years Mondi has been telling the investment community that it intends to list, but particularly in the last few months when the cycle has shown signs of an upturn".

The JSE listings department says that they have a "48-hour document turnaround," so the amount of time it will take for the formal paper work to "work through the system" is dependent on the company's sponsoring stockbroker.

How will the company list? Amic controls 53 percent of Mondi's shares, which means that they have the final say as to whether, when or how it will list Mondi.

At present there are 77-million Mondi ordinary shares in issue and it is possible that Amic will retain a portion of shares, say 10 percent, and float the remainder to the public.

This would release 33-million shares to the public. Alternatively, Amic could place these shares with financial institutions. The manner of the listing is entirely up to them.

Mondi is a fully integrated forest products business employing some 16 700 people and comprising six divisions. Mondi Forests owns or manages extensive timber plantations, Mondi Paper produces newsprint and Mondi Craft produces a variety of pulp.

Mondi Cartonboard manufactures a diverse range of board for industry; Mondi Timber products operates 11 sawmills and other manufacturing facilities which produce SAB-graded lumber and a wide range of timber products; and its 60 percent Paperlink division operates as a paper and board merchant supplying the printing and allied industries.

Sappi (194) spends R100-m on offshore plants

AR1 9/1/95

JOHANNESBURG. — As part of its drive to become the world's leading speciality paper producer, Sappi Ltd has invested R100 million in two of its European mills in the past year.

The investment at Sappi's Hannover paper mill at Alfeld in Germany and Wolvercote in the UK will make these two mills capable of producing superior quality flexible packaging grades and laminating papers, according to Sappi's executive chairman Eugene van As.

The Alfeld expansion came on stream this month and Mr Van As said papers being produced there meet the demanding requirements of the group's multinational customers.

As a result of the new investment in the two plants, it was proposed to transfer all production at the Keynsham mill in the UK to Alfeld and Wolvercote, he said.

The Keynsham mill, acquired as part of DRG papermaking activities in 1990, and which would require significant investment to bring it up to "modern-quality standards", would be closed in April this year.

Following its $1,6 billion acquisition of the SD Warren group in the US last year, the Sappi group became the largest producer of coated wood-free paper in the world with about 15 percent market share. — Sapa.

Sappi expands foreign mills

CT 9/1/95 ~~18~~ (194)

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Paper and packaging set for an active year

(194) BD 10/1/95

AMANDA VERMEULEN

THE paper and packaging sector looks forward to another active year, with Mondi facing a possible listing, Sappi bringing its massive $1,6bn acquisition, SD Warren, on line and Nampak expanding its plastics operation in the UK.

Nampak chairman Brian Connellan said yesterday negotiations with UK company Bowater were well-advanced to merge wholly owned subsidiary Polysystems with Nampak's BloMocan, in a deal said to be worth about £6m. The deal would probably be firmed up at the end of the month.

While the group was unlikely to consider further offshore acquisitions soon, it would look at expanding or acquiring new companies on the African subcontinent.

Nampak remained cautious about the effect the drought would have on agricultural output, one of the important markets in its packaging division.

However, the group was in a strong position to fend off this potentially negative effect due to a broad and expanding spread of interests that included corrugated and folding cartons, tin plate food and beverage cans, glass, and PET containers.

Mondi this week denied speculation that it would seek a listing next month. Financial director Les Lloyd said the board had yet to discuss the timing of a listing. However, analysts had estimated it would occur in the next two years.

Offshore acquisitions were unlikely while Reserve Bank restrictions remained. Increasing commodity prices also reduced the number of companies looking to sell assets while margins were growing.

Sappi, which invested $1,6bn in US company SD Warren late last year, would continue to look at investing in its local and offshore interests. About R3bn would be spent on upgrades and expansion of its SA operations, while evaluations were under way regarding capital expenditure on any of its three overseas interests.

Corporate technical director Andre Vlok said Warren, which in the past 10 years invested $1bn on capacity expansion and upgrading, would probably initially concentrate on bringing the increased capacity to its full potential.

There would be no further investment in the group's UK and German ventures in the near future, while one of the three UK mills would be closed.

Carlcor ready for paper war

(194) Star 18/1/95

BY CHARLOTTE MATHEWS

As the SA market is opening up to overseas competitors, Proctor & Gamble have launched a range of products that will compete against products marketed by Carlton Paper Corporation (Carlcor).

Carlcor chairman Ian Willis said in the group's latest annual report the company's managers are focusing on being cost efficient and innovative to enable the company to grow and prosper in this new environment.

Through the group's association with Kimberly-Clark, it has world-class products which have been tested in the US and European markets. The SA market is beginning to grow again and consumer spending is returning, although slowly.

"The management team is confident that it can successfully defend its market leadership and have budgeted to improve earnings in the year ahead," Willis said.

The year to August 1994 was difficult and its first half was the worst trading period Carlcor has experienced in the last 15 years.

It included aggressive pricing by local competitors, weak consumer spending, lower returns from export than domestic markets and a three-week strike over wages.

Despite weak consumer spending, the markets for Carlcor's personal and infant care products continue to grow, Willis said.

In household products, the cost of fibre is now increasing and selling prices, which were depressed by competition, are expected to rise.

"The implementation of the new government's Reconstruction and Development Programme is expected to have substantial benefits for the division as waterborne sewage is installed and levels of employment and disposable incomes rise."

Carlcor shares were trading at R24 this week, where they are merely six percent above their R22,50 at the beginning of the year.

Their p:e of 13,6 is below the paper and packaging sector average of 19,6.

Although this is very much a cyclical share, its performance is restrained by the fact that it is tightly held.

Carlcor ready for paper war

CT 18/1/95

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Carlcor minorities offered R30 a share

30/1/95

MINORITY shareholders in Carlton Paper were yesterday offered R30 in cash for their shares yesterday, a market price last reached during 1993. (194)

The share price of around R25 reflects a 10% appreciation in the past year.

A circular outlined details of the conditional offer which was being made by Kimberley-Clark Corpand Holdains to Carlcor shareholders to acquire all their shares.

The offer was conditional on 90% of Carlcor shareholders accepting the offer, which closes on February 10.

If 90% accepted the offer, the two companies would compulsorily acquire the remainder of the shares at the R30 offer price and the Carlcor listing would be terminated on March 31. — Sapa.

Name	Description	Code
distcode	District C	
clustn	Clus N	
hhnum	House	
pcode	Person	
age	Age of P	
gender_c	Gender cod	
mtonque	Mother ton	
cd15_16	Code for m	

Carlcor ready for paper war

194

Business Staff ARG 21/1/95

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■ Minority shareholders in Carlton Paper Corporation were this week offered R30 a share cash for their shares, a market price last reached during 1993. The current share price of around R25 reflects a 10 percent appreciation in the past year.

A circular outlined details of the conditional offer which was being made by Kimberley-Clark Corporation and Holdains to Carlcor shareholders to acquire all their shares. The offer opened on Thursday.

The motivation behind the offer was for KCC to increase its investment in Carlcor to a level essentially equal to that of its long-time partner, local packaging group Holdains. The circular said it had always been KCC's policy to manage its international operations with its joint venture partners through unlisted vehicles and for this reason, if the offer was successful, Carlcor's Johannesburg Stock Exchange listing would be terminated.

The offer was conditional on 90 percent of Carlcor shareholders accepting the offer which would close on Friday February 10.

If the cash offer was accepted by 90 percent or more of Carlcor's minority shareholders, the offer would become unconditional and the two companies would compulsorily acquire the remainder of the offer shares at the R30 offer price and the Carlcor listing would be terminated on March 31.

KCC's involvement represented an investment of 15-million US dollars (R52m) in the country and it was planned that KCC and Holdains would operate Carlcor as a 50-50 joint venture.

Nampak opts for ADRs (194)

MARCIA KLEIN BD 25/11/95

PACKAGING group Nampak announced an American Depositary Receipt programme yesterday — a move which would enable US investors to invest in the local company without having to go through the JSE.

The move follows announcements of ADR facilities by its holding company CG Smith and CG Smith subsidiary Tiger Oats.

ADRs enable US investors to trade in shares in non-US companies without having to deal through the stock exchange of the issuing company.

Nampak said it had established a sponsored level one programme which allowed ADRs to be traded in the over-the-counter market. The Bank of New York will be the depositary bank for the ADRs.

Waltons is my kind of company, says Wiese

(194) ST(BT) 29/1/95

By JEREMY WOODS

PEPKOR, which this week snapped up CNA's 24% stake in stationery company Waltons, looks set to become the group's major shareholder in the near future, say analysts.

"We had to move quickly," said Mr Christo Wiese, chairman of Pepkor, on Friday.

"There were other companies looking at buying the stake and we have been interested in Waltons for many years."

The deal was structured by Cape Town financier Steve Phelps.

In terms of the deal Pepkor bought 24% of Walhold, Waltons holding company, for 850c a share and 910 000 Walton shares also at 850c each. Analysts said they were surprised Pepkor did not immediately acquire full control.

Mr Wiese says he likes the "critical mass" of Waltons. "It's just the sort of company we like."

Specifically, he likes the sheer volume of the business with sales of over R1-billion, its position in the market, a strong management and a good balance sheet.

Will he be increasing Pepkor's stake? "We don't plan to at the moment, but the situation could change."

Mr Wiese, boss of the largest retailing group in southern Africa, had similar views when, in a lightning move, he picked up a 10% stake in Boland Bank, where he was already a minority shareholder.

Now he is controlling shareholder at Boland.

"Opportunities come up in business and you have to move quickly. Our retail groups are structured so that if we have to make fast decisions we are in a position to do so," he added.

The share price of Waltons firmed on news of the deal. On Friday it picked up 75c to 850c before easing back 25c.

Market speculation is that Brian Joffe's Bidvest group was also negotiating to buy the stake not knowing that another buyer was around.

CNA gave up 2c to 408c in spite of grossing R82-million.

Race on for textbook market

AMANDA VERMEULEN

THE race for the R600m a year educational book market is picking up pace, with foreign players looking to enter the SA market, and contract holders brushing up their images to appeal to the new political order. (194) BD 31/1/95

Printing and publishing giant Perskor has entered into negotiations with Kagiso Trust Investments, sparking industry criticism that the group, which had had close links with the previous government, was trying to reform its image to protect its 15% share of the school textbook market.

"Perskor is trying to protect its piece of the school book print and publishing pie by entering into a strategic partnership with Kagiso, which has the correct political profile with the new government," said an industry source.

Perskor executive chairman Koos Buitendag was not available for comment.

The attraction for Kagiso, said one source, was that it needed a printer for its school textbook publishing company, Kagiso Publishers, formed last year after Kagiso's acquisition of the Dutch Reformed Church's publishing interests, Haum-De Jager.

Perskor — together with Nasionale Pers, Juta's, Kagiso Publishers and Maskew Miller Longman — is one of the top five printing and publishing companies which dominate the industry.

Kagiso Publishers executive director Lindelwe Mabandla said the contracts were unlikely to change until government had reworked all the syllabuses.

Sources said textbooks containing the new syllabuses were unlikely to be published before 1998 due to budgetary constraints in the Education Department.

Other publishing groups had entered into joint ventures with black companies, including Macmillan UK which was a shareholder with Thebe Investments and Skotaville, a black trade publisher in Nolwazi formed to bid for school textbook publishing contracts.

Macmillan Boleswa, a wholly owned subsidiary of Macmillan UK, would also pursue these lucrative contracts, according to group publishing director Peter Murvy. He said there had been reports in the UK media that Cambridge University Press would launch in SA to capitalise on the textbook market.

Nasionale Pers, which also had about 15% of the market, had made serious efforts to reposition itself to ensure it retained its contracts, sources said.

PAPER #194 FM 3/2/95

A fine line

Competition Board chairman Pierre Brooks this week confirmed the board will decide soon whether to launch a formal investigation into the paper industry. SA has only two paper manufacturers and distributors — Sappi and Mondi — and Brooks says the board has received many complaints from the industry about steep paper price rises. And paper prices are expected to rise by a further 19% this year (*Business* December 23).

Printing Industries Federation of SA (Pifsa) director of commercial and technical services Erich Kühl says that though some federation members would welcome an investigation, the industry's problems would be more effectively addressed by the removal of import duties on paper. Pifsa recently asked Trade & Industry Minister Trevor Manuel to abolish tariffs on imported paper and board.

This followed proposals from the National Economic Forum to cut tariffs on paper and board — now an average 10% — to 5% by the year 2005, starting from 2000. And the forum recommended an immediate 2% a year tariff cut on printed goods — from the present 20%. Pifsa says if government wants to reduce the protection on printed goods now, it must do the same for the raw material used by the industry.

But Sappi and Mondi say the average 10% protection on paper is low compared with the 9%-25% protection other international producers enjoy. They say some manufacturing sectors which supply the paper industry have protection of up to 30%. In particular, they say paper users have benefited from below-inflation price increases for the past four years because of low international demand.

Only in the last year has the international pulp price risen from US$293/t in December 1993 to $680/t now. Pulp prices fell from $800/t at the end of 1989 and have been low ever since. Because the industry is cyclical, paper producers claim they have had to recoup their losses when they can.

Kühl adds that while there is no evidence of collusion between Sappi and Mondi, in practice there are few grades of paper that both manufacture — a situation that has a negative influence on the industry. ■

Packaging firm ups profits 57 percent (194)

ALIDE DASNOIS, Deputy Business Editor

Atlantis packaging company Aries Packaging wrapped up a 57 percent increase in attributable profit to R3,4 million in the year ended December on the back of a nine percent rise in turnover.

Directors said the first half of the year had been beset with difficulties and uncertainties, but trading improved after the April elections and the last quarter showed unexpected strength.

"In spite of rising raw material prices and increased competition throughout the year we were able to achieve our objectives," they said.

Tax was reduced to R2 million from R3,5 million because of previous over provisions.

The company was well placed to take advantage of further upswings in the economy, they said.

The dividend was up from 6c to 9c, covered 3,4 times. ARGT 10/2/95

■ Better results from **Consolidated Wire Industries** helped **Haggie Rand** lift attributable earnings 74 percent to R60,9 million in the year ended December.

Turnover was up 13 percent to R1,4 billion. Margins surged to 7,6 percent from 4,6 percent previously. Net interest payments fell slightly, but there was a R19,5 million tax liability.

Analysts forecast buoyant results for Sappi, Mondi

BD 17/2/95 (194)

MARCIA KLEIN

ANALYSTS are forecasting buoyant results for Sappi and Mondi — the two companies which dominate the local pulp and paper market — following a boom in the industry on the back of rapidly rising prices.

But the companies have come under fire for their steep price hikes and the level of protection which they receive. The Competition Board has indicated it was considering an investigation into the industry following complaints about higher prices.

International pulp prices have soared over the past year, and are expected to rise further. Pulp was at $293 a ton at end-1993 and has risen in the past year to test the $800 a ton level achieved at the end of 1989.

Sappi Fine Papers MD Bert Ibertson said real prices were still below the levels of the previous upward cycle of 1988/89. Over the past three years, most producers had recorded heavy losses and investment in new capacity was curtailed.

But the world economy picked up and demand increased. Stock levels were low, and shortages ensued.

Higher prices have caused concern in the printing industry. But an analyst said paper companies had for some time been warning about the increase in raw material costs. Furthermore, there were no complaints in the years when prices were low and where downstream industries benefited at the expense of the paper companies.

The Printing Industries Federation has called for the abolition of all tariff protection for the paper industry. Sappi and Mondi say the existing 10% general tariff structure on paper and board was negotiated at the Uruguay round of GATT.

Mondi MD Derrick Minnie said the removal of duties "would reduce the competitiveness of the pulp and paper industry and hamper growth".

The industry was a high capital investment industry "with a historically low return on assets compared with other secondary industries". In this light, it was "not surprising" that in all major pulp and paper producing countries, tariff protection applied at levels from 6,5% to 45%.

SA paper and board had a total weighted average duty of 7,5% — below the 11,7% average for the main importing and exporting countries.

"The pulp and paper industry tariff is not a barrier to international competition and is substantially lower than the average afforded other SA secondary industries," Minnie said. The local industry had to source raw materials at protection prices higher than those afforded the competition. "This protection on inputs alone costs the industry about R180m a year."

Ibertson said the 10% average import duty on paper compared with about 25% for the manufacturing industry, and protection of local producers was on a par with major world producers. "The industry should have at least the same level of protection as its competitors in their home markets."

Minnie said with the scrapping of import control on paper and board products "we have been fully exposed to the cycles of the international pulp, paper and board market".

"If duty is also abolished, any return to international overcapacity sets up SA as an easy target for the disposal of excess capacity."

Wiese stirs the pot at Waltons

Star 20/2/95 (194)

BY CHARLOTTE MATHEWS

Shareholders in Waltons may be uncertain about prospects for their shares after Pepkor's purchase of CNA Gallo's 24 percent stake in holding company Waltons Holdings and close to a million shares in Waltons itself.

According to analysts, Pepkor chairman Christo Wiese does not generally hold minority stakes in companies and is likely to increase his holding to a majority some time in the future, despite saying soon after the deal that he did not plan to increase his stake "at the moment".

Wiese, who is overseas this week, could not be contacted for further comment.

If Pepkor increases its stake above 30 percent it will have to make an offer to the other Walhold shareholders under JSE regulations, but analysts said it was impossible now to speculate on the price at which such an offer could be pitched. If it arises at all, it could be some time in the future.

Minority shareholders might in any case consider that holding onto their Waltons shares might be more attractive than cash.

The Walhold shares bought from CNA Gallo formed part of a pool of shares and were sold with the agreement of the other pool members, mainly directors. It was in no sense a hostile takeover.

A further 20 percent of the Walhold shares are held in this pool and, if and when the holders of these shares agree to sell, this could help to lift Pepkor's stake over a period of time.

Pepkor paid 850c a share for the Walhold and Waltons shares it bought with effect from March 1, 1995, which was the year's high for both shares. But analysts did not feel that Pepkor had paid too much since Waltons is a well-run company with good prospects.

Interim results for the six months to August showed a 13 percent increase in earnings and the directors said then this growth was expected to continue for the full financial year.

Waltons financial director Mark Davis said on Friday those projections now appeared to have been conservative and growth would probably be higher.

In addition, Waltons is expected to benefit from surging demand for stationery arising from the increased number of scholars under the new government's policies.

The new link with Pepkor could have additional medium to long term benefits for Waltons, such as the ability to distribute stationery through Pepkor's other retailing operations both locally and overseas.

Waltons' existing management have been assured they will continue to run the company.

Waltons shares were trading at 700c on Friday while Walhold was at the same level, but prospects are looking sunny.

The group's profits are only now starting to reflect the economic upturn and the P:Es of both companies are below the average for the sector. The benefits of the tie-up with Pepkor, excluding any speculative possibilities, should also lead to a re-rating.

(194)

CONSOL

FM 24/2/95

Mixed fortunes

Despite good results, to say Anglovaal packaging and rubber subsidiary Consol had an easy time of it last year would be stretching the truth. Margins came under pressure and interest-bearing debt soared.

Interpak, bought from SAB's subsidiary Lion Match 14 months ago, kicked in for a full year for the first time and contributed positively to the 27% increase in sales and operating profit in the packaging division.

However, the acquisition and upgrading of plant led to increased borrowings and working capital. Financial director Keith Forgan says borrowings and gearing will not be materially different at year-end.

Glass volume improvements stemmed mainly from growth in demand for wine bottles to meet increased exports. But this market share could shrink marginally. Metal Box Glass is returning to wine bottle production after opting out of making green wine bottles in 1992, which left Consol as virtually the sole supplier for winemakers.

Meanwhile, general improvement in the economy also boosted sales, particularly in the soft drink bottles and food jars. This demand should be sustainable.

The plastics division continued to lose money. Forgan says if plastics had broken even, Consol's earnings would have increased by more than 25% instead of the actual 15%. MD Piet Neethling cites changed market conditions and difficulties with assimilating a business acquired a year ago, as main problem areas.

"Major remedial steps," — he's not saying what — "have been taken and a return to profit is expected during the second half."

Benefits from the improved plastics performance should offset changes in the rubber division; world natural rubber prices are increasing. Rubber achieved an interim turnover increase of 16%, but profit rose only a tenth.

The spread of interests between the packaging and motor sectors, which are of roughly equal importance to Consol, limits comparative p:e analysis. The share enjoyed a good run during the first quarter of 1994 but has since drifted from R57 to R48,50 and a p:e of 17,3.

Kate Rushton

Group (ISG) was the largest among ...

Saiccor exports net R1bn in forex

BD 28/2/95

MARCIA KLEIN

SAPPI's R1bn expansion of its Saiccor dissolving pulp operation had been commissioned within budget and ahead of schedule, the company said. (194)

The expansion at the Umkomaas mill increased Saiccor's output by a third to 600 000 tons a year. At full production, Saiccor would supply more than 20% of world demand for viscose pulp.

Sappi Saiccor project director Brian Beard said that Saiccor exported nearly all of its output. Exports earned more than R1bn in foreign exchange.

Saiccor's output was used in the manufacture of cellulosic products, including viscose staple fibres used for woven and non-woven rayon products.

Beard said the expansion strengthened Sappi's position as the world's largest and lowest-cost producer of dissolving pulp, and improved overall pulp quality.

It also enabled the company to enter niche markets with good growth prospects, like the acetate and moulded plastics market and markets which are serviced in roll form only.

Sappi bought Saiccor from UK group Courtaulds in 1988 for R1bn. In the year to end-February 1994, Saiccor contributed almost R700m to Sappi's R7,9bn sales.

In April last year, Sappi announced it would go ahead with the expansion which would be commissioned early this year when market prices for dissolving pulp will have improved substantially.

The Industrial Development Corporation provided R500m in equity finance, and Sappi has the right to buy back the stake after 1996.

Beard said completion of the project, and the consolidation of Saiccor's position in the international market, "is part of Sappi's company-wide drive to become a global company".

Last year Sappi announced it would become the world's largest coated wood-free paper producer through the $1,6bn acquisition of US-based SG Warren. In 1990, it bought German company Hannover Papier for R1bn.

(194) BD 28/2/95

Alex White reaps the election bonus

PACKAGING, printing and property company Alex White Holdings yesterday reported an 18,8% increase in turnover during the six months to December to R39,83m from R33,51m in the same period the previous year.

Operating profit was up 527% to R2,07m (1993: R0,33m). The group turned a net loss before tax in 1993 into a net profit of R1,33m in the current interim period.

Group policy is to pay only one dividend a year. No interim dividend was declared.

"The results were a direct result of improving trading conditions following the elections in April last year", group MD Terry Kane said.

"As a result of the 5,3% reduction in interest costs we were able to turn in a net profit before tax of R1,33m.

"The annualised earnings per share amounted to 10,8c, which is a sizeable improvement on the annualised loss per share for 1993 of 2,8c."

Kane said the group performed better in the second half of the financial year and he expected to report satisfactory results by the year-end. — Sapa.

Cape Tim

Alex White makes a comeback

(194)

CT 28/2/95

JOHANNESBURG. — Packaging, printing and property company Alex White Holdings yesterday reported an 18,8% increase in turnover during the six months to December to R39,83m from R33,51m in the same period the previous year.

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"The improved results were a direct result of improving trading conditions following the elections in April last year", says Terry Kane, group managing director.

"As a result of the 5,3% reduction in interest costs we were able to turn in a net profit before tax of R1,33m.

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Kane said the group performed better in the second half of the financial year and he expected to report satisfactory results by the year end. — Sapa

Nampak in UK merger deal

MARCIA KLEIN

NAMPAK and UK-based packaging group Bowater have concluded the merger of Bowater's Polysystems business with that of BlowMocan, the company which was acquired by Nampak last year (194)

Bowater and Nampak are already equal partners in local security printing business Brown Davis & McCorquodale. BD 2/3/95

Nampak and Bowater would each hold an equal stake in the equity of the joint venture company. The two companies specialise in manufacturing plastic blowmoulded containers.

Nampak deputy chairman and BlowMocan chairman Peter Campbell said the joint venture company would have sales of over £30m. He said Polysystems' sales "will enhance the company's position in a growing market.

"The merger is consistent with Nampak's intention to add value to our BlowMocan acquisition."

Nampak's investment in plastic bottles manufacturer BlowMocan, including recapitalisation, totalled £22m. The acquisition, announced in September last year, was financed through the issue of European Depository Receipts.

Probe into SA paper industry monopoly

(194) Star 13/3/95

BY NIKKI WHITFIELD
CONSUMER REPORTER

The Competition Board has confirmed that an investigation is being conducted into South Africa's paper industry to determine whether a monolopy situation exists.

Paper prices have risen significantly since December, sparking anger among Gauteng businesses and giving rise to allegations of a monolopy existing between SA's two major paper companies, Sappi and Mondi.

Bruce Meyerson, director of National Panasonic's Rivonia franchise, said his company was supplied paper by Sappi who had increased prices three times since setting a figure of R10,80 per ream in December. April 1 would see the price per ream increase again to R16,82.

"My company buys 300 tons of paper a year and these price increases are ridiculous," he said. "And there's nothing we can do about it because of a monolopy in the paper industry."

He said questions about the increases directed at the paper merchant who supplied his company revealed a hike in the price of pulp imported from the US.

"But what I don't understand is why Sappi has to import pulp when South Africa owns the largest pulp manufacturing plant in the southern hemisphere."

Dr Pierre Brooks, chairman of the Competition Board, said several complaints had been received about the paper industry and that an investigation was being conducted under the Maintenance and Promotion of Competition Act.

Competitors

Bert Ibertson, managing director of Sappi, said Sappi and Mondi were competitors in the South African market and also competed with imports.

"During the decline in the world pulp price from 1990 to 1993, the prices of paper reduced under the influence of this competition.

"Currently, both South African manufacturers, in common with paper manufacturers worldwide, are increasing prices due to the pulp price effect, as well as supply and demand factors."

Referring to complaints that pulp was imported despite the presence of local pulp manufacturing plants, Ibertson said pulp was manufactured by both Sappi and Mondi and only a small percentage imported.

"Pulp is a commodity which fluctuates in price in long-term cycles. The price of pulp has increased from \$380 per metric ton in November 1993, to \$825 per metric ton currently."

Mondi's managing director Derrick Minnie said he "welcomed" the Competition Board's investigation.

"The investigation will lay to rest once and for all the many misconceptions about the paper industry that exist in the minds of the converting industries that we supply."

Paper makers profits rise

BD 13/3/95

MARCIA KLEIN

HIGHER pulp prices were lifting the profits of major printing and writing paper producers after a three-year spell of sharply declining margins, according to the US publication, PaperTree Letter. (1994)

It said printing and writing paper producers, like newsprint producers, had been hard hit in the past three years after the collapse of prices in the second quarter of 1991. Now industry profits were "heading up" on the back of a turnaround in prices in the second half of 1994.

PaperTree said: "The biggest risk is forecasting how high prices might go."

Demand had risen about 5% a year in 1992 to 1994. In the second half of 1994, demand surged to record levels on the back of increased advertising and a strong economy.

It said markets would remain good, but not as strong as late 1994 "and paper companies will be making a lot of money again unless something unusual sinks the US or European economies overnight". Demand remained strong, and stocks were low.

Price hikes had caused conflict with customers but it was "hard to lay the blame on paper makers".

ARIES PACKAGING (194)

Strong record

FM 17/3/95

Activities: *Screenprinting and manufacture of packaging paper cores, tubes and fibre drums.*

Control: *Directors 59%.*

Chairman: *G E Kohler. MD: D Neckel.*

Capital structure: *11m ords. Market capitalisation: R34m.*

Share market: *Price: 310c. Yields: 2,9% on dividend; 10,0% on earnings; p:e ratio, 10,0; cover, 3,5. 12-month high, 310c; low, 220c. Trading volume last quarter, 409 000 shares.*

Year to December 31	'91	'92	'93	'94
ST debt (Rm)	1,5	1,9	0,9	1,5
LT debt (Rm)	1,9	2,1	1,4	0,8
Debt:equity ratio	0,46	0,48	0,19	n/a
Shareholders' interest	0,54	0,52	0,62	0,65
Int & leasing cover	5,3	5,5	11,5	45,0
Return on cap (%)	19,1	19,9	30,4	29,6
Turnover (Rm)	26,0	28,1	33,1	36,2
Pre-int profit (Rm)	2,6	3,2	4,5	5,6
Pre-int margin (%)	9,9	11,3	13,7	15,4
Earnings (c)	10,5	13,0	19,7	31,1
Dividends (c)	3,5	4,0	6,0	9,0
Tangible NAV (c)	67	76	89	111

After a first half fraught with trading and manufacturing uncertainties, Aries turned in an unexpectedly strong second-half performance on the back of the improving economy and increasing packaging usage.

Turnover advanced by 9%, about in line with inflation, so there was no gain in market share. However, the company's customer base expanded along with volume growth especially in the corrugated containers division. MD Dieter Neckel says turnover value was constrained because, in the face of stiffer competition, selling prices were held constant for most of the year.

The cores and tubes division sacrificed sales volumes to aim for a more profitable niche market. This strategy worked but the fibre drum division, the only producer of this type of packaging in southern Africa, fell short of its volume growth objectives.

The 24% increase in operating income is a better indicator of the group's progress. It shows working capital was well managed and productivity improvements continue to be gleaned from the production and distribution process.

Cash generated by operations rose 16%. And though working capital increased — principally because of forward buying ahead of paper price increases — funds on call at the year-end were a high R2,2m. Net interest paid fell two-thirds and pre-tax profit rose 32%.

The share rose from 70c in 1992 to 130c a year later and from 220c in March 1994 to 310c now. It has appreciated 4,4 times in the past three years; EPS trebled over the same period. Yet the share is valued on a low historical p:e of 10 in a sector with an

Packaging companies 'set for a good year'

(194) BD 20/3/95

MARCIA KLEIN

PACKAGING companies are set for a good year on the back of improved consumer spending, analysts said at the weekend.

They said the shares of major players Nampak, Consol and Holdains had remained stable over the past year in depressed trading.

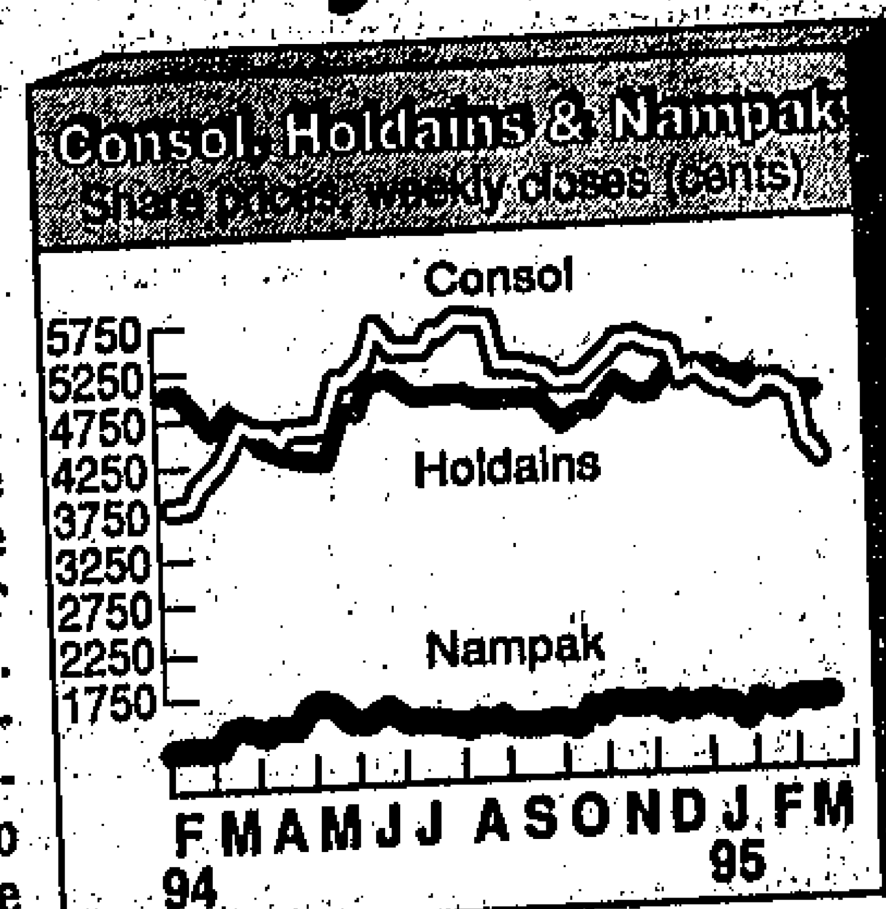
Nampak closed on Friday at R15, off a May high of R16,75 and a March 1994 low of R12,50. Consol closed at R41, just off its recent low of R40 and well below its June high of R57. Holdains, at R48, was trading near to its June high of R51 from a low of R42,50 at this time last year.

Analysts said during the recession the companies had experienced no volume growth or even declining volumes. Now all were experiencing significantly improved volume growth, particularly those manufacturing beverage and beer cans.

Although raw material costs were increasing, these would be passed on to consumers and would be offset to an extent by large increases in sales volumes.

The cost of raw materials such as paper, corrugated board, plastic and aluminium have risen sharply in recent months, while other major input costs like tin plate had remained stable. But it was pointed out that packaging companies enter into medium-term contracts, so these price increases may not affect them in the short term.

Analysts said highly rated Nampak had excellent growth throughout the recession despite depressed or lower volumes. Its ability to produce a 17% earnings rise to R350,5m in the year to September on limited turnover growth meant it was well positioned to achieve significant real growth in the environment of an improving economy and increased consumer spending.



Holdains' results had been subdued in the past three years by depressed volumes and costs associated with restructuring. But analysts said the improving trend in the second half of the last financial year would continue, and they were expecting good growth in the year to August.

Outgoing chairman Ian Willis said recently it would start to reap benefits of two years of consolidation, and was poised to show real earnings growth in the year to August.

Group companies had a good Christmas, and order books remained good. Holdains was doing well in its corrugated division, carton and print division and in paper merchanting.

Consol, which has interests in packaging as well as tyres, recently reported a 15% earnings rise to 146,5c a share for the six months to December, and indicated its earnings growth for the full year would be similar. Yet the share has recently come under pressure.

An analyst said it was not a well traded share, and it had gone down on small volume, so there was a chance it could pick up. Consol recently announced a R650m expansion over the next three years.

EXECUTIVE SUITE

Sappi to consolidate in Europe

194

By Audrey D'Angelo

Cape Business Editor

Sappi is restructuring all its European and United Kingdom interests under an umbrella organisation, Sappi Europe, with its headquarters in London.

Executive chairman Eugene van As said since the acquisition of German company Hannover Papier in 1992, his group's European interests had been run through two independently managed businesses — Sappi Europe in Britain and Sappi Europe/Hannover Papier in Germany, with a joint venture between the two, Sappi Europe (SA), distributing products in other countries.

"It has now been decided, with the growth of our business, to streamline that structure."

Van As said the European operations had provided a platform for the group's expansion into the United States with the $1,6 billion acquisition of S D Warren. This had made Sappi the world leader in high-quality coated papers.

The European operations had benefited from the steep rise in paper prices.

A spokeswoman for the group said the United States business was going well: "The assets have proved better than expected." The group is now looking for a new chief executive in the US.

Franz Neudeck, chairman of Hannover Papier, will become chief executive of Sappi's European operations and executive director responsible for them from May 1.

Executive director Kim Jokipii, managing director of Sappi Europe (UK), is leaving to join European paper distribution group INAPA.

CT (BR) 22/3/95

Sappi Europe restructures

Business Day Reporter

PAPER and pulp group Sappi had restructured its European operations due to an expansion in its business on the continent, Sappi EC Eugene van As said yesterday. BD 22/3/95

As part of the restructuring, the management of all the European operations would be transferred to Sappi Europe in London.

Van As said since the acquisition of Hannover Papier in 1992, Sappi's interests had been handled through two independently managed companies — Sappi Europe Ltd and Sappi Europe AG/Hannover Papier AG in Germany.

It was decided that with the growth in business, the structure had to be streamlined to operate through one headquarter. (194)

Putting trust and democracy on the line

(194) CT(BR) 29/3/95

Where armed workers once fought and machinery broke down routinely, Nampak is achieving a remarkable transformation

By Ross Herbert
Staff Reporter

In Vanderbijlpark, where not long ago employees regularly carried guns and pangas to work and guards patrolled the factory with shotguns, an industrial experiment is taking place that could be a model for the new South Africa.

The scene is a sprawling can-making factory, part of the Divpak unit of Nampak. "Vanderbijlpark was known as the Beirut of Nampak. People were physically fighting each other. We'd have strikes at the drop of a hat," said Barry Wilson, a production manager.

Last Friday, genuine smiles and laughter accompanied the public inauguration of a pilot industrial relations programme that unions and management praised richly. The effort is designed to boost productivity to world-class levels. The factory's approach, built on thorough employee training, promises of job security and democracy on the factory floor, is a radical departure from the past.

At the nadir of employee-management relations, the company began to eye international competition and concluded Divpak would be easy prey if a big, international competitor decided to put a canning plant in South Africa.

An internal study found that Australian can-making plants were able to take an order and deliver it in two weeks. At the time Divpak was averaging eight weeks. An importer began selling Italian coffee in a can for less than it cost Divpak to make the can alone.

The plant wasn't running close enough to capacity to justify buying the newest, most efficient equipment. One of the biggest sources of inefficiency was mechanical breakdowns, which would take a can-printing line out for four to six hours.

When machinery broke down, maintenance workers were called and production workers took a long break. After studying the production lines two things became apparent: many breakdowns were avoidable or easily fixable and production workers didn't know enough about why the mechanisms broke.

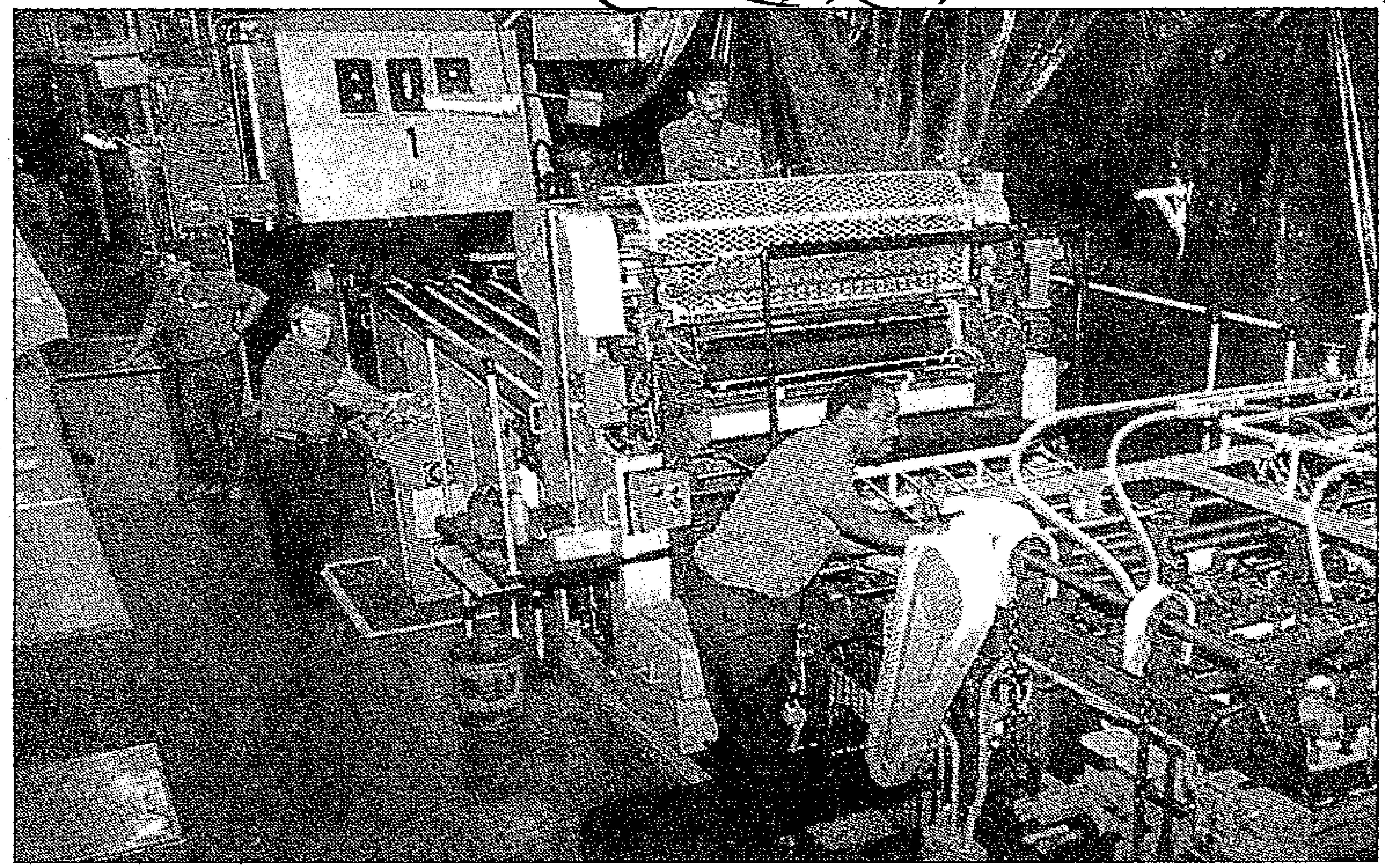
But even common-sense solutions couldn't be implemented unless the divisive employee-management relations changed.

The conclusion? Divpak could get vastly more productivity by improving its people and building trust than by investing in new machines.

Last year, Divpak began a total productive maintenance programme (TPM), the first step of which was to inform employees about world competition in can-making.

Employees were trained in concepts of total quality management and techniques for measuring and charting productivity.

To re-establish a co-operative work environment, union members and management worked out a code of conduct to which everyone would be held accountable. It included a pledge that everyone would work to improve efficiency



BRAVE EXPERIMENT *These workers took part in revamping the worst production line at Divpak, where they elected team leaders and worked with engineers to rebuild their machinery. Efficiency is expected to rise from 19 percent to 65 percent*

PHOTO: ETIENNE ROTHBART

and strive toward world-class performance, which the company pledged would not result in job losses.

Employees would be cross-trained and each could request training courses to complement his abilities. Violation of the code would be considered grounds for union action.

Divpak took its worst-performing production line, which printed labels onto sheet metal. All the employees and managers involved in the line were sent on a three-day team-building bosberaad, after which the team democratically elected a leader to co-ordinate its efforts. The team then spent a month completely stripping its production line, refurbishing all its parts.

Engineers, who formerly never interacted with line workers, worked with the team, explaining how the mechanisms functioned and re-engineering parts of the line to better accommodate worker needs.

By the time the line was reassembled, every employee was trained in preventing mechanical breakdowns. When a breakdown does occur and a line worker can fix it himself, he does. If maintenance teams must be called, the production workers watch the repair and learn how to prevent it or repair it themselves in future.

The team is autonomous. Its foreman, who once had sole authority over the line, must now confer with the elected team leader, who has the authority to requisition supplies and stop or change production as needed. The team leader will, based on his democratically conferred duties, qualify for higher pay.

Last Friday, the revamped production line — christened BOB by the workers for Best of the Best — went back into production.

The next step will be to repeat the process with another of the 15 printing and coating production lines, beginning with a bosberaad, then team elections, training and revamping of machinery.

Before BOB was stripped, it was running at around 19 percent operating efficiency, according to Wilson, who believes it can be boosted to 65 percent in a year. Faizel Kearns, TPM manager, said the goal is a more conservative 51 percent, still a radical leap in productivity.

Team members admit the factory has a long way to go and many employees are still not aware of the international threat the company faces. But, at least on the BOB line, there is a clear enjoyment of work.

"We used to work by just what is your job description," said April Mofokeng, the team's elected leader. "Now I like my job and sometimes don't want to go home at the end of the shift."

Just minutes before BOB was to be fired up for a crowd of company employees, the line began misfeeding metal plates. One person said it couldn't be fixed. But the team gathered around the machine and devised a metal guide to keep every plate straight.

"Trust is really the basis of this programme," said Gideon Skhosana, a member of the National Productivity Institute who was on hand for the relaunch of BOB. "One of the biggest problems we have in South Africa on the shop floor is the adversarial relationship between management and labour.

"There is a tendency to put too much focus on the equipment and take the people for granted."

COMPANIES

Mondi Paper opens Sydney office

MARCIA KLEIN

MONDI subsidiary Mondi Paper has opened a sales office in Sydney to service its growing exports to Australia.

Mondi Paper GM John Barton said yesterday that worldwide export sales exceeded R350m last year.

In Australia, the company's focus was on newsprint and on supercalendered papers for magazine publishers.

Annual Australian newsprint consumption was 620 000 tons compared with SA's 150 000 tons.

Australian mills supplied 400 000 tons, and Mondi Paper, with annual capacity of 500 000 tons, aimed "to gain a significant share of the imported balance".

Barton said the Australian venture was "part of an overall international strategy for Mondi". (194) BD 6/4/95

Pulp and paper manufacture was a global industry, and now that its export activities were not curtailed by sanctions, it was "determined to take up all opportunities to become a global player".

Holding company Mondi, in the Amic stable, recently reported a 143% rise in attributable profit to R243m on 21% higher turnover of R3,1bn for the year to December. Total exports are believed to be considerably higher than those of Mondi Paper alone.

At the release of the results, chairman Tony Trahar said there was an increase in export turnover during the year.

Massive earnings rise predicted for Sappi

(194)

BD 6/4/95

MARCIA KLEIN

SAPPI would show a massive three- to fourfold increase in earnings for the year to February on a sharp recovery in most of its product prices, analysts said this week.

They were expecting earnings of between 300c and 340c a share from the low 90c base in the previous year. Sappi's improved fortunes were already evident at the August interim stage, when earnings grew by 108% off a low base to 90c — equivalent to the full previous year total.

The trend was expected to continue until the beginning of 1998, and some analysts have forecast compound earnings growth of more than 100% until the end of financial 1997. An analyst said that while this year's growth would be significant, earnings would still be well off the 649c a share earned in financial 1990 at the peak of the previous commodity cycle.

This would be the last time for some years that results would be comparable, due to a change in Sappi's year-end to September. The next reporting period would reflect trading for the seven months to September.

Sources said the market, and even the industry, had been taken aback at the rapidity of the price increases. World pulp and paper prices were expected to continue to rise steadily, peaking in 1998.

Sappi's earnings would also benefit from a weakening rand — the currency had weakened by an average 7% against the dollar over the year.

The benefits of the $1,6bn acquisition of US-based coated woodfree paper company SD Warren would not be material in the current results, as the acquisition was only effective from December. SD Warren's contribution to this year's results was not expected to exceed 30c a share.

But in the seven months to September, SD Warren's earnings would have a meaningful positive effect on the bottom line. An analyst added that demand for coated woodfree paper was outperforming growth in other fine papers.

Another analyst said Sappi had always been highly geared, but it was not concerned as it compared itself with other producers who had higher debt.

CT(BR) 6/4/95

Indian Ocean working group set up: Seven Indian Ocean rim countries, including South Africa, have set up a working group to investigate closer regional economic cooperation following a conference in Mauritius late last month.

World economic summit in May: The Southern African Economic Summit of the World Economic Forum will take place on May 11 and 12 in Johannesburg. The summit is expected to attract senior business and political leaders from the region.

(194)

Mondi opens in Australia: Mondi Paper said yesterday it had opened an office in Australia to serve its export market to that country. A division of the R3 billion a year Amic subsidiary and integrated forest group Mondi Ltd, Mondi Paper achieved worldwide sales of more than R350 million during 1994.

CT(BR) 6/4/95

Japan in debt after disasters: European credit rating agency IBCA estimates the total bad debts held by the 21 large Japanese banks to be around $400 billion at current exchange rates, arising from the weak economy, strong yen and Kobe earthquake. Japanese banks are likely to have to make a Y4 trillion provision in 1994/95 although the banks' operating profits will be only about Y3 trillion.

Brain drain continues: The brain drain from South Africa continued in the first 10 months of last year, with 1 726 professional, semi-professional and technically qualified people leaving the country. Over the same period South Africa admitted 954 skilled immigrants, according to figures released by Minister of Home Affairs Mangosuthu Buthelezi in parliament.

CT(BR) 6/4/95

Industry recovery boosts Sappi: Sappi said yesterday the unexpected speed in the recovery of global pulp and paper prices puts the group on course for a four-fold jump in per-share earnings in the 12 months to February 28 1995. The strong earnings forecast helped push Sappi shares to R75 on the Johannesburg Stock Exchange yesterday. Benchmark pulp prices will rise to $925 a ton in June from $825 a ton in March and $750 a ton in December, the finance director, Bill Hewitt, said.

CT(BR)20/4/95 (94)

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CT(BR)20/4/95 (94)

Analysts still bullish on SA paper shares

(194) CT(BR) 21/4/95

By Ross Herbert

Staff Writer

Anticipating a crest in wood pulp prices, US investment analysts have downgraded North American paper and pulp company stocks. However, South African analysts say they remain bullish on South African paper and pulp shares.

Merrill Lynch and CS First Boston this week dropped their rating of some paper company stocks from "buy" to "neutral", explaining that the price-cycle for paper was nearing its peak. The shares downgraded include Weyerhaeuser, Temple-Inland, Willamette Industries, Georgia-Pacific, Stone Container and Union Camp.

Many paper companies around the world reported record earnings this week. The four leading Finnish paper companies reported sharply higher profits, as did Jefferson Smurfit in the UK, Long Chen Paper in Taiwan and Scott Paper in the US. Scott announced first quarter 1995 sales up 21 percent and earnings a share up 237 percent over the first quarter 1994.

In South Africa, a variety of analysts said the US investment banks were discounting shares too early. "Historically, Europe and Africa tend to lag the pulp and paper price cycle in the US by six to 18 months," said Pierre Malan, investment analyst at Senekal Mouton & Kitshoff. "I go with the view that both Sappi and Mondi have a lot of earnings potential ahead." He anticipated earnings a share of R7 for Sappi for its September year end.

Bill Hewitt, Sappi's financial director, remains optimistic

Another paper industry analyst said: "I think Sappi has enormous earnings potential until 1997. As an investor though, one has to be very careful about paper stocks in 1997."

The key questions are: How much will demand grow and how much new capacity will be added worldwide?

Bill Hewitt, financial director at Sappi, said he thought the US view was too pessimistic and not enough new capacity would come on line to significantly affect prices before 1998.

Analysts also were positive, but less enthusiastic about the paper packaging industry. Pulp prices to SA packagers will rise from 40 to 60 percent when contracts expire later this year and prices are boosted to world levels. The price hikes will mean a 15 to 20 percent increase in packaging costs.

(194)

Wave Paper expands: Rising exports have caused Wave Paper, the Durban-based packaging systems company partly owned by Mondi, to open offices in the Western Cape, Johannesburg and the Eastern Cape as part of a big expansion programme.

CT (BR) 26/4/95

Greens win a round

(194)

■ Sappi is spending nearly R1bn on its Saiccor plant at Mkomazi

FM 28/4/95

It is hoped that environmentalists will laud the decision to upgrade Saiccor's Mkomazi plant. While millions are being spent on increasing production from 1 200 t a day to 1 600 t, much is going towards reducing the plant's impact on the environment.

The entire expansion will cost R800m. This includes upgrading machinery that is reaching the end of its economic life, but does not include the R100m being spent on an oxygen bleaching plant which will eliminate the use of elemental chlorine.

The R800m does, however, include the new plant to automate the pulp digesters that will cost R29m, the new pipeline to replace the 3 km open effluent channel that will cost R44m, and the R10m being spent on additional scrubbers to absorb sulphur-dioxide emission. Nearly all of this expenditure is intended to make the plant a nicer place to be near.

Works director Sinclair Stone says the new pipeline will not increase production but eliminate gas emissions from the channel. There are other benefits, too. The existing channel "is a maintenance problem. It can be flooded; it was filled with mud in the 1987 floods," says Stone.

That pipeline will be completed in August and connected to a pipeline that goes 3 km out to sea. The final pipeline, from the factory in to the sea, will be 7 km long.

Automating the digesters will eventually reduce the total number of people employed at the plant by 30, or 2,4%, says Stone.

The R800m will also include an 800 t-a-day pulp machine, an 800 t-a-day bleach plant, three new 285 m³ digesters, a new chipping line, an 800 t-a-day oxygen stage for existing bleachings, a sulphur burning line, a chilling plant and a scrubbing plant.

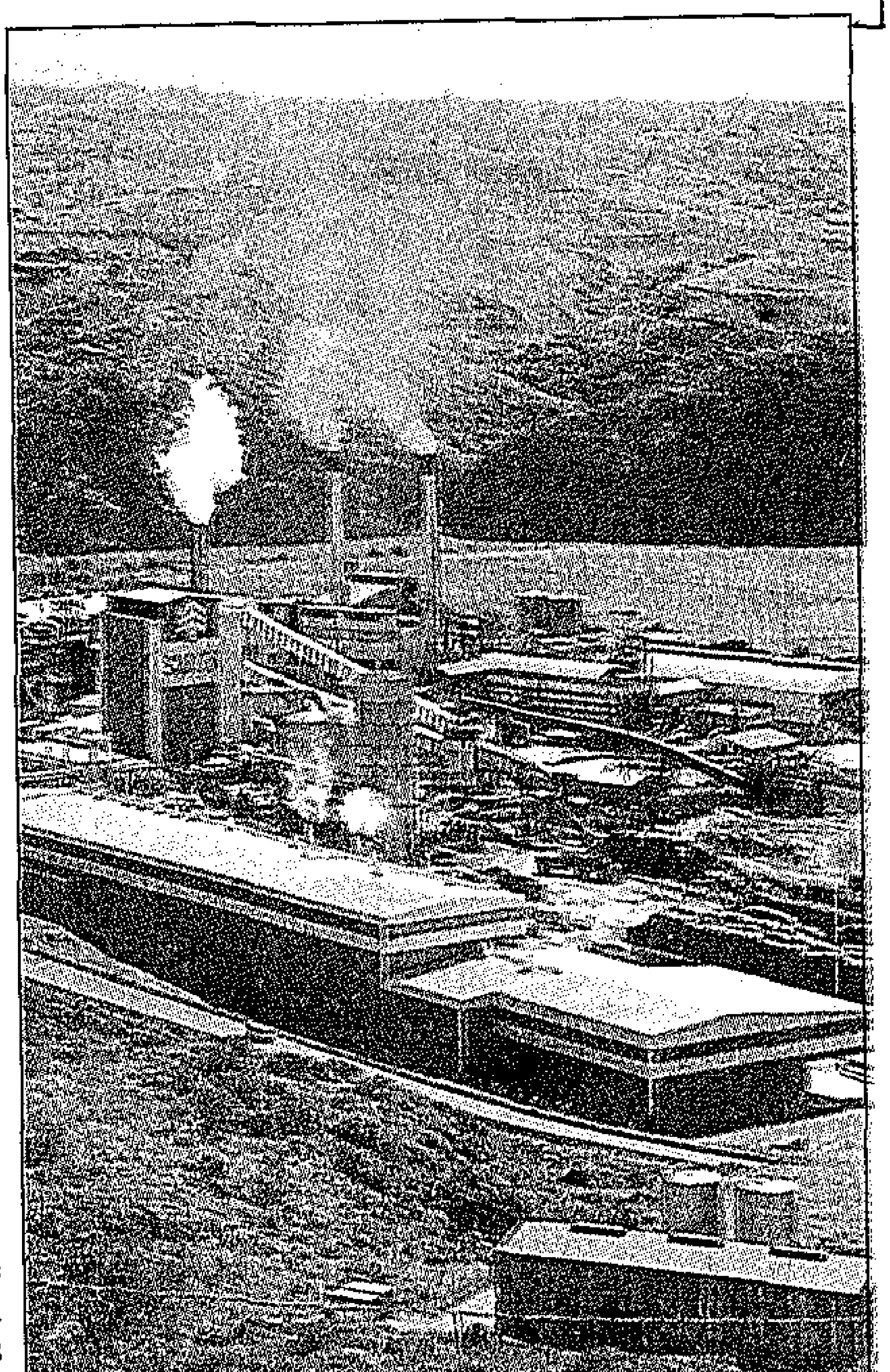
Stone admits Saiccor has been under pressure from environmentalists "in recent times."

The company has gone out of its way to meet their demands and has already achieved a measure of success. The swing away from chlorine is purely for environmental reasons, and the sulphur dioxide scrubbers have reduced emissions by 30%.

Sappi acquired Saiccor in September 1988 when it bought out Courtaulds' southern African interests for R1bn. The acquisition was labelled a gem of a deal because, at the time, Saiccor was the world's largest single manufacturer of chemical cellulose used in the manufacture of rayon and cellophane, supplying 11% of the market.

Immediately after it acquired Saiccor, Sappi started a R50m improvement of its mill at Umkomaas on the Natal South Coast. By July 1989 Saiccor's production had been increased by 10%, which placed it alongside the Ngodwana pulp mill, the major contributor to Sappi group earnings.

About 98% of Saiccor's 12 00 t-a-day output is being exported fairly equally to the Far East, the Americas and Europe. ■



Saiccor at Umkomaas . . . millions are being spent on detoxing the plant

Cold storage division boosts Oceana Fishing

BD 4/5/95

EDWARD WEST

CAPE TOWN — Oceana Fishing Group lifted earnings 26% to 19,5c a share in the six months to end-March and profit for the full year was expected to show an improvement on last year, chairman Donald Ncube said.

The interim dividend was lifted to 5,3c (4,6c) a share.

Results published yesterday showed turnover up 34% to R277,1m and operating profit up 38% to R33,2m.

Income from investments dropped substantially to R126 000 from R3,5m at the same time last year. A R7,3m extraordinary item represented mainly the disinvestment of a shareholding in a small non-quoted pelagic company.

Financial director Rod Nicol attributed the lower income from investments to the increase in business which had used greater working capital, and to the use of some R30m in cash for the purchase of the balance of the shareholding in a cold storage company in October.

"We are employing our cash more in the business," he said. Cash deposits had fallen to R3,3m from R14,1m and short-term borrowings came to R13,2m compared with no borrowings at the end of the previous interim period and year end.

Nicol said although investment income had comprised 16% of attributable income at the same time last year compared with only 2% at the end of the period under review, the income was made up by increased profits from the cold storage division.

The catches and quality of lobster were good with improved export prices. The profit contribution to date was less than last year due to the lower volume sold during the first half.

Oceana's pelagic fishing operations had performed satisfactorily, with overall landings ahead of the same period last year, due mainly to good catches of redeye herring.

The pilchard resource remained sound, with catches ahead of last year. Although the total allowable catch was increased to 60 000 tons from 50 000, Oceana was allocated an increase of only 60% of its traditional participation as the Quota Board favoured new entrants.

Oceana's trading and shipping division's turnover increased by 49% and export trading had been particularly active. Abalone landings had been satisfactory, although the export market had softened with demand and prices for canned product lower than last year.

Occupancy levels in the group's cold storage division increased considerably towards the end of last year and had remained high. The construction of a new store in Durban harbour and expansions to existing facilities elsewhere were being investigated.

Ncube said earnings in the fishing division should improve in the second half of the financial year, provided pelagic fishing landings met expectations. While occupancy rates in the cold stores appeared stable at present, these unusually high levels were unlikely to continue for much longer. Group earnings for the full year were expected to show an improvement on last year.

Waltons sells Reggies interest to management

YURI THUMBRAN (194)

STATIONERY group Waltons has disposed of its 60% interest in toy and baby group Redgwoods Holdings (Reggies) to Reggies management for R11m, or 30c a share.

Joint Reggies MDs David Bagg and Da[illegible] [illegible]ell had decided to buy the controlling interest, th[illegible] [illegible]o companies said in a joint statement.

A standby offer had been made to Regg[illegible] minorities, who had been offered 31,8c a share.

Analysts said yesterday the buyout ha[illegible] fuelled speculation that Pepkor, which recently acq[illegible]ired a 24,1% interest in Waltons, wanted to increase its stake in the stationery business and shed baby goods.

One analyst said that Pepkor needed Reggies, which trades as Reggies Baby World and Toys R Us, to list its retail chain Ackermans.

Another analyst said it was likely that Pepkor would offer Reggies shareholders 37,5c for each share in the company and then list Ackerman's via Reggies.

Bagg and Bell have assured the Securities Regulation Panel that they have sufficient cash resources to fulfil their obligations in terms of the standby offer.

Reggies' shares closed 1c or 2,44% up at 41c on the JSE yesterday, near their annual high of 45c touched on March 13, while those for Waltons finished the session unchanged at 750c, having peaked at 850c on January 24.

BD 4/5/95

Fourfold rise crowns Sappi's finest year

(194)

CT(BR) 10/5/95

By Maggie Rowley

Pulp and paper giant Sappi has performed according to market expectations, lifting earnings by 288 percent to R562 million for the year to end-February for its "finest-ever" year.

While the almost fourfold increase in earnings came off a low base following last year's poor results, they were still significantly up on previous years.

This was due to improved prices on the back of the revival in the commodity markets and benefits accruing from Sappi's R5,6 billion acquisition of a controlling interest in US company SD Warren.

Turnover for the year, which includes a two-month contribution from SD Warren — the world's leading coated woodfree paper maker — was up 41 percent at R7,8 billion.

Eugene van As, Sappi's executive chairman, said that on a pro-forma basis group turnover would have surged to around R12 billion had Sappi controlled SD Warren for the full year.

Strict controls and the benefit of rising prices saw operating income increase by nearly four times to R812 million. Non-trading income was down at R8 million.

After increased net finance costs of R195 million (R45 million), taxation of R36 million, and R28 million attributable to outside shareholders, net earnings were R562 million, equal to 352c (90c) a share.

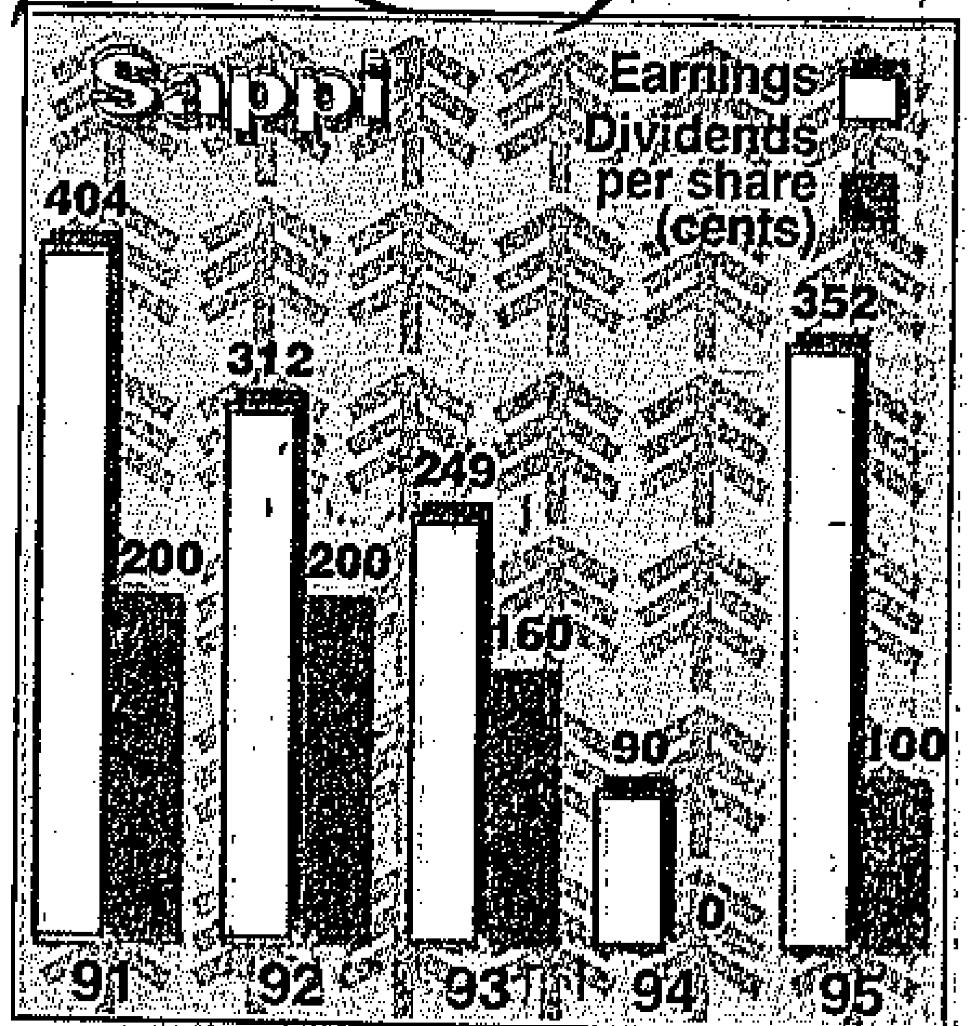
A final dividend of 70c a share will bring the full payout for the year to 100c. No payout was made last year.

Van As said Sappi was continuing to invest heavily in its South African operations and was proceeding with its programmes of expansion and modernisation, which amounted to R550 million.

Sappi posts 291% jump in earnings

BD 10/5/95 (194)

MARCIA KLEIN



Graphic: KAREN MOOLMAN Source: SAPPI

PULP and paper group Sappi's earnings surged 291% to 352c (90c) a share in the 12 months to February — off a low base and better than bullish market expectations.

Results included just two months' contribution from recently acquired US-based coated wood-free paper maker SD Warren. The sharp earnings rise reflected a significant improvement in the markets in which Sappi operated, strong demand for paper products and pulp and a jump in prices.

Executive chairman Eugene van As said the upward turn in the paper cycle was well established. Conditions were likely to remain buoyant "for a number of years".

Turnover was 41% higher at R7,8bn (R5,5bn) on the back of increasing prices and sales volumes and the incorporation of SD Warren's turnover from December. Cost controls, with the benefit of rising prices, saw operating income climb nearly fivefold to R812,2m (R165,5m).

A jump in net funding costs to R194,5m (R45,2m) largely reflected Sappi's R800m Saiccor expansion and its R5,6m investment in a 75% holding in SD Warren. Borrowings to make these investments pushed gearing to 116% from 41% last year.

Van As said the "relatively minor liability" of R35,7m for tax reflected tax shelter or allowances on capital expenditure its major subsidiaries had from previous periods. After tax and outside shareholders, net income was 287% up at R561,7m (R145,2m). A final dividend of 70c took the full year dividend to 100c a share. No dividend was paid in financial 1994.

Van As said trading conditions in SA had improved and exports benefited from higher prices. Demand was good in Europe and products prices rose. Manufacturing facilities in Germany were "fully stretched" and Hannover Papier turned around to earn "excellent profit".

☐ To Page 2

Sappi

BD 10/5/95 (194)

☐ From Page 1

UK results were "somewhat disappointing" as the rapid rise in pulp prices was not fully recovered by selling price increases.

Van As said SD Warren had a neutral effect on earnings, but would make a significant contribution in future. It was ahead of its output target and performing ahead of budget.

SD Warren was highly geared, so a large proportion of operating earnings was offset by finance costs.

A five-year recession in the paper industry "has clearly ended", Van As said. Margins were widening as prices rose. This began to show in the fourth quarter.

Sappi's earnings were expected to rise sharply again in the period to end-September — its new year-end.

Star 10/5/95 (194)

Giant Sappi energised by best year ever

Pulp and paper giant Sappi has performed to market expectations, lifting earnings by 288% to R562-million for the year to end February, — its finest year ever.

While the almost three-fold increase in earnings came off a low base following last year's poor results, they were still significantly up on previous years.

This is thanks to improved prices on the back of the revival in the commodity markets and benefits accrueing from Sappi's R5,6-billion acquisition of a controlling interest in US-based SD Warren.

Turnover for the year, which includes a two month contribution from SD Warren — the world's leading coated woodfree paper maker — was up 41% at R7,8-billion.

Executive chairman Eugene van As said that on a pro forma basis, group turnover would have surged to around R12-billion had Sappi controlled SD Warren for the full year.

Strict controls and the benefit of rising prices saw operating income up almost four-fold at R812-million. Non trading income was down at R8-million and after increased net finance costs of R195-million (R45-million), taxation of R36-million, and R28-million attributable to outside shareholders, net earnings were R562-million, equal to 352c (90c) a share.

A final dividend of 70c a share will bring the full payout for the year to 100c. No payout was made last year.

Van As said most of the price rises which had impacted dramatically on the results had come through in the second half, particularly the last three months when 41% of the earnings were achieved. This augured well for a further improvement in earnings for the current year. — Own Correspondent.

(194)

SAPPI FM 12/5/95

Stunning the market

After earning as much in the first half as in the whole of the previous year, Sappi (admittedly, off a low base) made a stunning further advance in the second half of the year to February, and topped most analysts' forecasts.

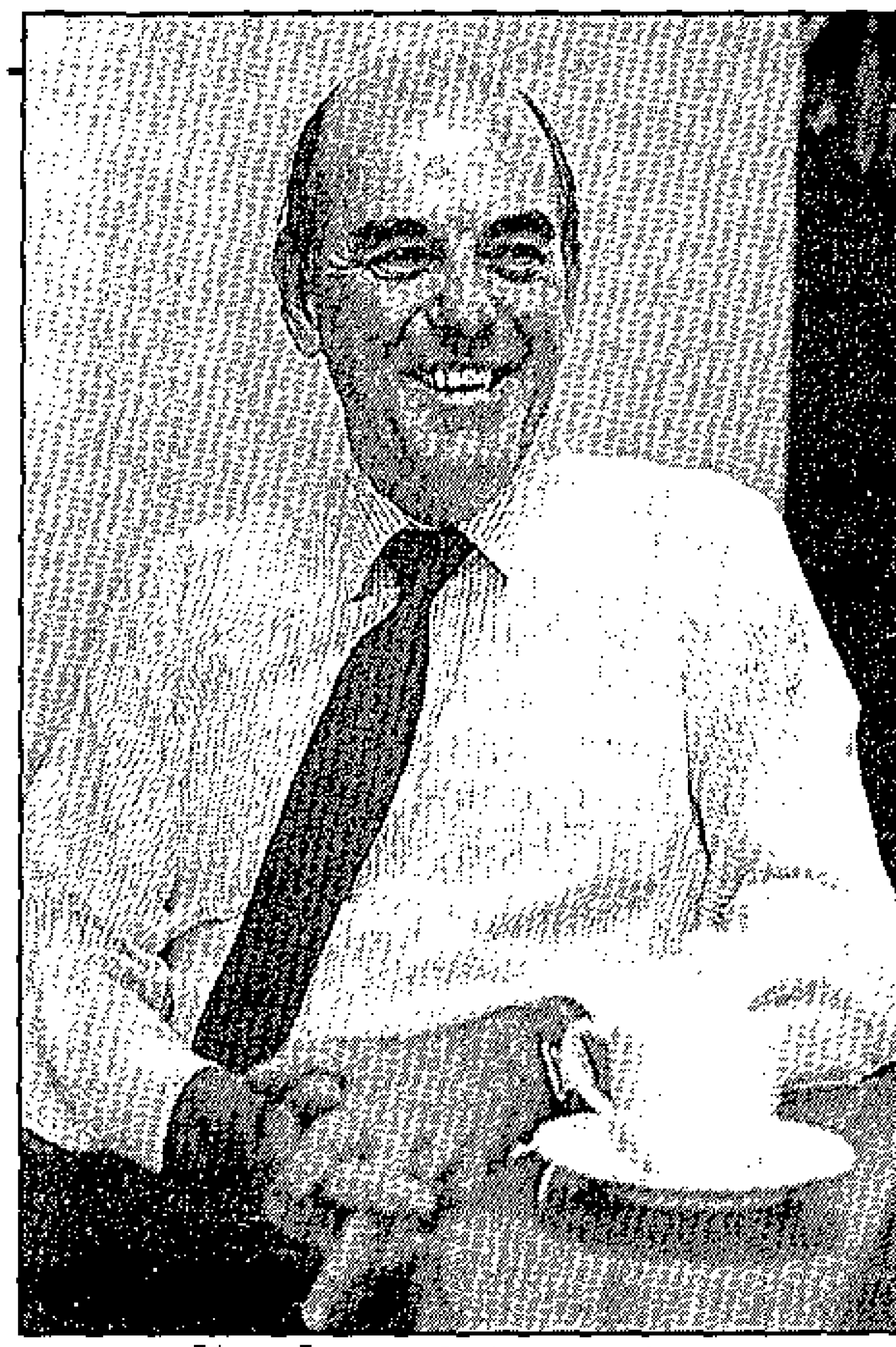
While overall size was substantially increased by the inclusion of S D Warren from December 20 (*Fox* October 14), the bottom line benefits from a substantial gain in trading margin, from 6% in the first half to 13% in the second.

Had Warren been included for the full 12 months instead of only two, annual turnover would have been around R12bn — 50% more than was actually reported.

And though finance costs were pushed up by R150m, mainly on Warren, EPS almost quadrupled. Dividends of 100c are the first since the same amount in 1991.

The directors say all markets "improved significantly, albeit at differing rates." The kraft pulp price rose from US$390/t in November to $750 this February, pulling other product prices up too. In Europe, Hannover Paper was producing "excellent profits" by year-end — though as it exports half of its production, the strong Deutschemark will be a partial offset.

The tax charge remains low, at 5,7%, as most group companies have some form of tax shelter. The directors expect this situation to alter, but say actual tax charged is unlikely to exceed 15% in the foreseeable future. However, SA adoption of the new international standard on deferred tax could force it to provide deferred tax on the comprehensive basis, which would hit reported earnings but not cash flow.



Van As . . . *he's got plenty to smile about*

That item, incidentally, remains strong at R853m, generated by operations (1994 R387m). While the debt:equity ratio rose from 0,41 to 1,16, this is already below the 1,25 the group envisaged at end-December. Nevertheless, the need to improve liquidity and finance heavy capital spending must mean a conservative dividend policy for the foreseeable future.

All group companies are to change their year-ends to September 30, so the next report will be for the seven months to this September, including nine months from Hannover. Despite the cyclical nature of the industry, Sappi expects a number of favourable years ahead, with a "sharp rise" in earnings in the period to September.

Given the broken periods, it's difficult to gauge what this may mean. Still, with a full (if modest, because of financing costs) contribution from Warren, returns should surely more than equal the second half of the year just ended. Indeed, executive chairman Eugene van As says 41% of the 352c annual EPS came in the fourth quarter, even though Warren had a neutral effect. So 400c-500c a share could be in reach, with a dividend of maybe 125c.

Allow that growth can't continue forever at that headlong pace, and double those figures for an annual equivalent.

At R76 — up only R10 from R66 when we reviewed the interim — that's a notional forward p:e of no more than 8,5 and dividend yield of 3,3%. Either that's cheap for a leading rand hedge stock, or the market doesn't share the company's optimism on the trade cycle. *Michael Coulson*

BLAZING AWAY

Six months to	Aug 1993	Feb 1994	Aug 1994	Feb 1995
Turnover (Rm)	2 748	2 793	3 142	4 662
Op profit (Rm)	101	65	207	605
Attributable (Rm)	64	78	145	417
Earned (c)	43	47	90	262
Dividend (c)	—	—	30	70

Sappi's recovery plan does well on paper

ST(BT) 14/5/95 (194)

PACIOLI

INVESTORS had plenty to cheer about this week as solid results from companies operating in diverse sectors of the economy continued to roll in.

Leading the pack was paper and pulp producer Sappi which saw its earnings per share leap 291% to 352c (90c) for the year to end-February.

While this level of growth was off a low base, it was higher than bullish market forecasts.

Sappi benefited from strong international demand and rising prices, especially in the second half. These, together with tight cost controls, helped push up operating margins. Results from S D Warren are included from December 20. In October, Sappi acquired this US paper maker for $1-billion.

Shareholders were rewarded with a final dividend of 70c a share, bringing the total distribution for the year to 100c. Last year, Sappi passed its dividend because of poor results.

Eugene van As, Sappi's chairman, believes the company can look forward to a number of favourable years.

On the electronics side, Altron appeared to take the market by surprise with its 18% improvement in earnings for the year to February.

This growth was achieved in spite of the problems preceding the elections, additional public holidays and industrial unrest related to annual wage negotiations which caused poor levels of productivity and efficiency, especially in the first half.

Altron enjoyed its first real growth in sales in some time — a 20,1% rise to R3,9-billion. In addition, the group, which holds companies like Altech, Powertech and Fintech, achieved an all-time record by exporting 17% of total manufactured output.

Fellow electronics group, Reunert, announced a 32% jump in its earnings for the six months to March after scoring from improved market conditions and continued control over expenses.

When it came to banking, First National Bank's 21,5% rise in earnings to 88,1c a share in the six months to March was in line with expectations.

Boland Bank's attributable earnings for the year to end-March were up 31% and Future Bank, a joint venture between WesBank and Fabcos, doubled its after-tax income to R804 000 in the six months to March. It was helped along by a fall in both its bad debt provisions and its tax charge.

This week, SA Breweries subsidiary Plate Glass & Shatterprufe Industries announced a 32% growth in attributable earnings before non-trading items for the year to end-March.

Results were boosted by its international arm Belron International's growth, a lower tax bill and a record performance from its board division.

The disappointment of the week was Hunt Leuchars & Hepburn's 66% fall in earnings to 23,7c a share for the year to end-March. It was badly hurt by the drought. Although results were better than at the interim stage, its sugar in[illegible]s fell deeply into the red and its chi[illegible]n and timber businesses perfor[illegible]d below expectations.

Zilla Efrat

Waltons enjoys a post-election boost

CT(BR) 15/5/95 (194)

By Charlotte Mathews and Maggie Rowley

Waltons Stationery Company benefited from improved post-election trading, a higher operating margin, lower tax rate and more equity earnings to post a 21,6 percent increase in earnings a share to 62,0c in the year to February against the same period last year.

The group said last week that it planned to sell its interest in toy retailer Redgwoods Holdings to management for about R11 million.

Turnover grew 18,6 percent to exceed R1 billion for the first time, while operating profit was 19 percent better at R101,2 million, reflecting an operating margin of 9,9 percent from 9,6 percent previously. The directors said that a small increase in the margin indicated a reversal of the downward trend of the past three years.

Net finance costs were slightly higher, showing gearing at 88 percent. Financial director Mark Davis said at the weekend that the recently announced deal with Pep-kor, in which Waltons would issue about 7 million new shares to Pepkor to raise R51,7 million, will help to bring gearing down to about 60 percent. This level is more in line with the group's long-term objectives.

One of the reasons the group's long-term borrowings have risen is because of growth in the Helios Minolta photocopier, fax and laser printer leasing business. The assets leased out are mostly included in the fixed assets figure of R172,6 million (R129,7 million) on the balance sheet.

Waltons put an extraordinary item of R13,5 million, which represents the write-off of goodwill on the balance sheet, above the line, effectively reducing the figure for attributable profits to show a 7 percent decline compared with 1994.

Davis said goodwill and trademarks shown at R1,4 million on the balance sheet were mainly trademarks and that no further substantial goodwill write-offs were envisaged.

Shareholders are not being offered a final dividend in cash, but shares in the ratio of two new Waltons shares for every 100 shares held. Taken in conjunction with the interim dividend, this is equivalent to about 21,3c for the year, against last year's 17,3c.

Chairman Frank Robarts said that during the year under review, sales in the office furniture division more than doubled, while the scholastic stationery division reported a four-fold increase in turnover to R20 million.

The manufacturing division, which had been the star performer in previous years, had a "rather tight but satisfactory" year.

Robarts said trading conditions were continuing to improve and they were running ahead of budgets in the first two months of the new year.

The disposal of Waltons' holdings in Reggies, effective from March 1, would affect turnover in the current year but not earnings, which were expected to show growth of 22 percent.

Exports, however, were being hindered by the worldwide shortage of paper, with South African suppliers having increased prices four times in the past 12 months.

Waltons enjoys a post-election boost

CT(BR) 15/5/95 (194)

BY CHARLOTTE MATHEWS AND MAGGIE ROWLEY

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nium' is near, says Alcoa chairman

Waltons earnings up on good trading

BD 15/5/95 (194)

YURI THUMBRAN

WALTONS Stationery lifted earnings 21,6% to 62c a share for the year to February amid improved trading conditions, it said at the weekend.

The rise at the earnings level came in spite of a fall in attributable income after extraordinary items to R29m (R31m). Extraordinary items — mainly goodwill written off — totalled R14m (R4m).

The group's turnover rose 18,6% to R1bn, largely driven by post-election trading activity. A marginally improved operating margin enabled the group to increase operating profit 19% to R101m.

Financing costs increased to R22m (R19m), while tax rose to R30m (R26m).

Directors said they had resolved to award capitalisation shares in lieu of a dividend for the year. Had a dividend been declared, it would have been in the region of 21,3c (17,3c) a share, they said.

In terms of the capitalisation award, shareholders would receive two new shares for every 100, issued at 710c.

They said although the increase in margins was not significant in value, it indicated a reversal of the downward trend experienced over the past three years.

They noted that the improved operating profit also reflected a solid performance by all divisions within the group.

Outside shareholders' interests improved mainly as a result of the recovery in the results of toy and baby goods retailer Redgwoods Holdings (Reggies).

Waltons disposed of its controlling stake in Reggies with effect from March 1. The group was sold to management for R11m.

Directors noted that Reggies always represented a diversification from the group's core business, and the board's decision to focus its attention and future activities on the office products market had motivated the decision to dispose of it.

Increased long-term borrowings reflected the group's growing capital requirements as a result of its increased operating and investment activity, particularly in the Helios Minolta division.

The proposed allotment of 6,9-million new Waltons shares to Pepkor to raise about R51,7m would be used to reduce debt and for further growth.

Waltons Consolidated Investment Holdings (Walhold), which holds a 50,1% stake in Waltons, increased attributable earnings to 59,5c (49c) a share.

In line with Waltons, a capitalisation issue was announced, in terms of which Walhold shareholders would receive two new fully paid shares for every 100 held at an issue price of 661c.

Nampak grows earnings by 30%

CT(BR) 16/5/95 (194)

By Charlotte Mathews

Investment Editor

Paper and packaging group Nampak grew attributable earnings by 30 percent to R225,8 million in the six months to March, compared with the same period in 1994, as higher volumes and productivity offset pressure from more costly raw materials.

Chairman Brian Connellan said the group was "very happy" with these results because they showed the first real increase in volumes for some time. Financing costs had been contained despite some heavy capital expenditure.

Turnover rose by 21 percent to R2,9 billion, which represented a 10 percent increase in volume.

Operating margins widened to 12,5 percent from 11,6 percent, resulting in a 31 percent surge in the group's operating profit — to R361,1 million.

Connellan said the improvement in margins reflected the fact that, as volumes rose, spare capacity was being used up and gross profit was converted almost directly into net profit. It also reflected the group's drive for world class manufacturing standards which had been translated into better productivity on the shop floor.

These factors had offset the effects of steep price hikes in raw materials, in cases up to 50 percent, some of which had to be absorbed.

The group's net financing costs dropped from R5 million to R2,8 million as gearing rates eased to 13 percent from 19 percent and the tax rate fell from 38,5 percent to 36,5 percent.

With earnings of 45,0c (35,8c) a share on a higher number of shares in issue, a dividend of 12c (9,5c) was declared.

The figures included the results of BlowMocan Polysystems, the UK-based packaging group bought last year for £22 million, for the first time. BlowMocan reported a small loss due to sharp increases in the price of high density polyethylene, its sole source of raw material, from £415 a ton in the second quarter of last year to £811 a ton on April 1. Connellan said Nampak was very happy with BlowMocan's volumes and it was performing exactly as hoped.

Strong growth for Nampak

Marcia Klein

BLUE chip packaging group Nampak lifted attributable profit 30% to R225,8m (R174,3m) in the six months to March as volumes showed strong real growth for the first time in years.

MD Trevor Evans said the 21% growth in turnover to R2,9bn (R2,4bn) was Nampak's highest since 1989 and represented a 10% real volume increase. Divisions' market shares either held or improved.

The higher volumes and continued productivity improvements saw operating profit climb 31% to R361,1m (R274,8m), despite significant increases in raw materials costs. Reduced net financing costs and a lower tax rate saw taxed profit increase 36% to R230,5m (R169,2m). Chairman Brian Connellan said bottom-line profit would have been 38% up instead of the published 30% after adjusting for last year's abnormal profit on the disposal of the Kliprivier brown paper machines.

Earnings were 26% higher at 45c (35,8c) a share on more shares in issue following the recent acquisition of UK blow-moulded plastic container manufacturer Blow-Mocan Polysystems. A 26% higher interim dividend of 12c (9,5c) a share was declared.

BlowMocan reported a small loss, mainly because the sharp rise in raw material costs could not be recovered in selling prices. It would benefit from the swing away from glass bottles to plastic milk containers in Britain. Market growth of

(194) BD 16/5/95

Continued on Page 2

Strong growth for Nampak

Continued from Page 1

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more than 20% a year was expected.

Packaging interests reported turnover up 22% at R1,7bn and a 21% improvement in operating profit to R226,8m. Evans said the Bevcan, plastics, Foodcan, Divpac and flexible divisions benefited from higher sales volumes and improvements in manufacturing productivity.

The liquid division was affected by reduced volumes and underrecovery on raw material costs, and the glass division's profits declined because of downtime relating to a planned furnace rebuild.

Paper and printing interests reported turnover up 19% at R1,3bn and operating profit up 54% to R134,3m as the world paper market picked up. Cartons, sacks and paper distribution all did well.

Nampak's capex increased to R151m while gearing was down to 13% (19%).

The group was expecting further good growth in earnings in the second half.

Sappi Saiccor plans offshore expansion

(194) CT(BR) 17/5/95

BY DAVID CANNING
ASSISTANT EDITOR

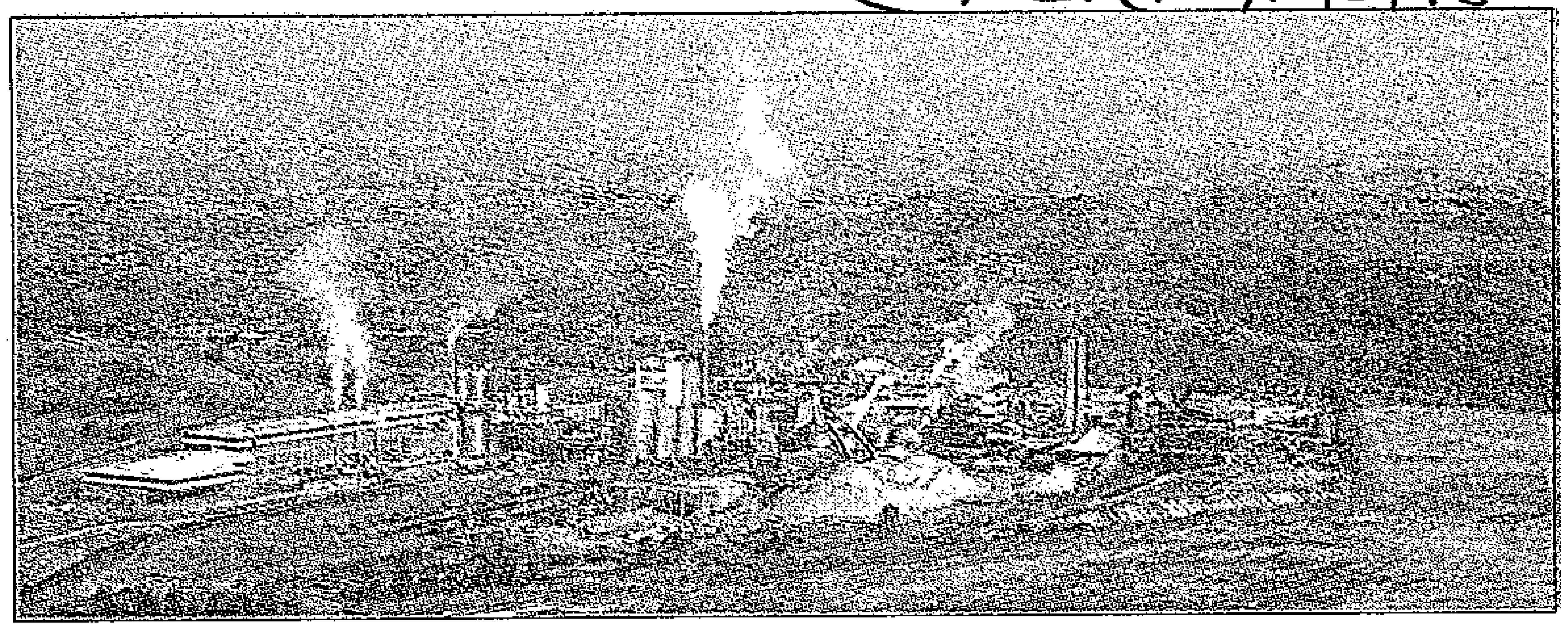
Sappi Saiccor, already the world's largest and lowest-cost producer of dissolving pulp, will within the next five years consider yet another major expansion — at least equivalent in size to the R1 billion project recently completed.

The new expansion, however, is unlikely to be at its Umkomaas site on the Kwazulu Natal coast, but offshore. MD Roland Mazery says limited availability of local timber is a major reason for considering an offshore site.

He says the forest products company, which exports 99 percent of its production and earns R1,5 billion a year in foreign exchange, is in a happy position. Its recent expansion phase was completed at a time when world prices have doubled.

Moreover, it faces a substantial increase in demand for viscose rayon staple (short-cut) fibres, used in the textile industry as cotton substitute, as well as a growing demand for lyocell fibres, which are the new generation of high performance cellulosic fibres. He says growth in demand is continuing, especially in Asia.

Land available for cotton production, for which rayon and lyocell are good alternatives, is under increasing pressure.



PAPER TIGER *The Sappi Saiccor plant at Umkomaas.*

Sustainable fibre yields per hectare of land for cellulosics are some nine times higher than cotton.

Sappi-Saiccor, whose major competitors are in North America, has a total world market share of around 15 percent for all categories of celluliosic products and 29 percent for viscose products.

Its volumes are huge – its expanded mill produces sufficient material to make a long dress for every adult woman in the world each year – some 650 million garments.

In order to maintain growth Mazery said planning for the next expansion phase must begin in three years.

Over the next few years Mazery said Sappi-Saiccor would also round off its recent expansion programme. Capex of R800 million before the year 2000 will be designed to improve efficiencies and reduce pollution. He says that unlike many of their overseas competitors, South African firms receive no tax breaks towards environmental programmes.

However the company, which faces a "never-ending" environmental challenge, has decided systematically to tackle pollution problems caused by outdated equipment, such as SO emissions.

In fact, a significant portion of the R1 billion Mkomazi expansion project completed in February was devoted to reducing the chlorinated organic value in the effluent from the mill to 0,3kg per ton of pulp which, he says, is in line with the best of international standards.

The company employs 1 277 people and is one of the province's largest industries.

Its high purity cellulose is used in the textile, chemical and plastics industries.

End uses for the company's viscose products include women's dresses, casual shirts, suit linings, tyre cord (inside rubber tread), and cellophane film wrapping (for foods, sweets, etc).

Cellulise acetate flake,. which is another cellulosic derivative, can be converted into yarns for textiles (particularly underwear), filter tow in cigarette tips, plastics, films and coatings.

The firm, established in 1954 by Courtaulde plc, together with an Italian partner and the IDC, obtains about half of its timber from Sappi-owned forests and uses mainly eucalyptus (gum) with smaller amounts of acacia (wattle).

Mazery says that when Sappi bought Saiccor from Courtaulde of the UK in 1988, the plant was producing about 419 000 tons a year.

After completion of its recent Mkomazi expansion, the group's exports will rise to 584 000 tons this year and will peak at around 600 000 tons some two years later.

All exports are handled through a dedicated forest product terminal in Durban harbour, which is managed by Rennies.

Mazery says customers are spread throughout the world and about 30% of its exports go to each continent – Asia, Europe and America.

However the Far East's market share is continually increasing. Mazery says the company's markets tend to be a little less volatile than is usual in the pulp and paper industry because there is greater equilibrium between supply and demand.

CG Smith seems set for good year

(194) CT(BR) 18/5/95

By Sudarsan Raghavan

Special Writer

This week's stellar earnings results from Nampac and Tiger Oats alone would have made parent CG Smith a company to watch for in the future.

Yesterday's anouncement of solid six-month figures appear to confirm this expectation.

"It's going to perform well for the year," said Steve Rubenstein, an analyst with Fergusson Brothers, who predicted CG Smith's earnings to grow by 25 percent this financial year.

Other analysts had similar numbers in mind. They said virtually all of CG Smith's subsidiaries have posted high growth figures.

"They are all contributing to the top of the pyramid, namely CG Smith," said Mark Rule, an analyst with Frankel Pollak Vinderine.

Since the spawning of Island View Holdings from a restructuring of Romatex last December, both firms have performed well. Romatex's earnings doubled in the first six months to March 31.

CG Smith's food and pharmaceutical divisions have also posted good results. Last week, Illovo Sugar announced half-year earnings a share of 26,5c compared with 5,4c in the previous six months.

Food subsidiary ICS Holdings' earnings surged 66 percent in the first half as the share price this week soared to a new high of R29.

Pharmaceutical arm Adcock Ingrams joined the rest of the pack with a strong six months to March 31, with increases in both earnings and dividends.

CG Smith's shares closed 25c better at R21,25 yesterday, while CG Smith Foods ended unchanged at R61,00.

CG Smith has benefited from a realignment of several of its subsidiaries, technological link ups with key international players such as the US-based Carnud Metal Box, and shedding of non-core businesses such as Clayville Diary.

With the economy in an upswing, an astute management team, a booming market in commodity foods and a more favourable trading environment should help perk up earnings this year, analysts said.

However analysts have questioned whether CG Smith's subsidiaries could do as well if they were unbundled, as their parent was once separated from Barlows.

Whereas the smaller companies like Romatex and ICS could benefit from association with a parent like CG Smith, the bigger companies would be likely to perform even better on their own, another analyst asserted.

"It's difficult to argue that CG Smith adds value to Tiger Oats and Nampac," said the analyst.

Another challenge for consumer-orientated CG Smith was an overheating economy.

Analysts said interest rates needed to rise to cool the economy down, which could sharply reduce consumer spending.

In the next year or two, CG Smith could be looking overseas for growth, analysts said.

With a national economic growth forecast of no higher than 3 percent next year and the year after, the company seemed unlikely to reach anywhere close to a 25 percent growth rate, analysts said.

"There's a major drive (within CG Smith) to increase productivity and become globally competitive," said Rule.

"There's not a lot of scope in the South African market to acquire."

The question is: Will CG Smith find another Tiger Oats or Nampac overseas?

WATCHING THE FUTURE *Nampak chairman Brian Connellan, CG Smith chairman Derek Cooper and CG Smith Food chairman Robbie Williams*

PHOTO: JOHN WOODROOF

NAMPAK (194) FM 19/5/95

Prospering microcosm

For the first time since the late Eighties, Nampak reports real growth. The packaging, paper and print group is positioned to read economic trends and the latest results reflect substantially improved activity.

After-tax profits rose 36% to R230,5m on a 21% improvement in turnover to R2,875bn. Operating profit of R361m denotes a trading margin of 12,6% (1994 11,6%). Though tax appears to have mushroomed (R132m compared with R106m), the rate has fallen 2% to 36,5%. The bottom line is EPS of 45c and an improved interim dividend of 12c (9,5c).

The balance sheet reflects some interesting swings at this stage of the financial cycle — net interest-bearing debt has soared to R245m after a low number at the September year-end (R151m). But this time last year debt was R295m. So, if anything, the 1995 position reflects much more effective loan controls.

HAPPILY CANNED

Six months to	1994 Mar 31	1994 Sep 30	1995 Mar 31
Turnover (Rm)	2 379	2 412	2 875
Operating income (Rm)	275	275	361
Attributable (Rm)	174	177	226
Earnings (c)	35,8	36,1	45
Dividends (c)	9,5	18	12

These oscillations also say a lot about the nature of the business. Dependent as it is on a variety of raw materials and diverse suppliers, this is traditionally the time annual price increases start flowing through. Logically, Nampak lays in comparatively large stocks to delay the full effect of these. This also goes some way to explaining a large — R207m — rise in working capital, though more of that is accounted for by volume demand growth.

An important feature of renewed demand is the way nearly all plants have shifted from comfortable production to near-capacity. Chairman Brian Connellan says some cans and bottles are already being imported but this must be given a perspective. SA's annual production of beverage cans is about 3bn. Imports this year will run at around 100m. Of total production, Nampak's share is about 2,1bn or 70%.

"This is why," says Connellan wryly, "we will defend it all the way down the line. We have the cash and balance sheet strength and we won't flinch."

Nampak is one of those companies whose consistent EPS improvement over a long period, much of it in straitened recessionary times, marks it as an investor favourite. At least some of this comes from an enlightened approach to labour. Nampak pioneered the principle of demonstrating at first hand the depth and nature of international competition.

"We stick to our aim to be a world-class competitor," says MD Trevor Evans. To achieve this, it has already transported shop stewards and union officials in-company with a sprinkling of low echelon employees to various plants. "Now they believe us," says Evans, "when we remind them what's waiting for us out there."

The counter is R17,25, only a little off its 12-month high, offering a p:e of 21,7, high in present market conditions. Though management will probably deliver the same again in the next six months, it appears fully priced.

David Gleason

Toilet paper producers have big stake in RDP

CT(BR) 22/5/95 (194)

By Charlotte Mathews

Investment Editor

The necessity of installing flush toilets for a large proportion of South Africa's population as part of the reconstruction and development programme could have a huge spin-off for the toilet paper market, now worth R500 million a year, Carlton Paper business sector manager Tienie Botha says.

A large proportion of the population, particularly in rural areas, are using alternatives to toilet paper which range from newspaper ("We're in direct competition with The Star", Botha says), brown paper bags, the Yellow Pages and anything else provided by nature.

As far as consumers are concerned, the main criteria for toilet paper are that it should be soft, strong and absorbent. In urban areas in particular, the prevalence of flush toilets makes it necessary that toilet paper should also be flushable. Faced with a hefty plumbing bill, most urban dwellers soon become persuaded of the need to use commercial toilet paper, Botha says.

He believes if the total South African market were toilet paper users the market could be worth around R1,5 billion a year. This is obviously dependent on the successful implementation of the reconstruction and development programme.

John Bortolan, Nampak Tissue's chief executive, agrees there could be a major boost from the reconstruction and development programme, because toilet paper use is related to water-borne sewage.

The provision of that service depends on how quickly progress is made and how much money is available.

Almost all white consumers use toilet paper, either single or double ply.

Double ply tissue, which accounts for about 10 percent of the market, is considerably more expensive than single ply, but those who buy it argue that it cuts down on the number of sheets used. Besides, double-ply toilet paper is a status item — it is soft on the skin and goes with expensive cars and large houses.

Research has shown that the average person uses 10-15 sheets a day but the actual consumption is difficult to measure because toilet paper is also used for blowing noses, wiping up spills and cleaning glasses. Most housewives, when surveyed, tend to exaggerate how much toilet paper they use, but it is probably little more than one roll per person per month, Botha suggests.

"A very low cost for a great convenience," he says.

Government standards

The government has laid down standards for toilet paper which include the number of sheets per roll — a minimum of 500 for single ply and 350 for double ply — the size of the sheets and diameter of the core.

To date the government has not decreed the amount of fibre in the toilet roll that has to be virgin compared to the amount that has to be recycled, and Botha says such legislation appears to be unlikely in the near future. In the long term the industry will move towards a greater component of recycled material in all tissue-related products, provided it is cost effective and consumer-friendly.

It is not necessarily true that recycled paper makes the product cheaper because the recycling costs include collection and purification and the cost of the technology has to be recovered from the selling price, Botha said.

Nampak's Bortolan said the cost advantages of using recycled paper depends on the comparison of waste paper against the pulp price, which can fluctuate dramatically. Several years ago the pulp price was $800 a ton and it slipped to $380 in 1993 but in the last year recovered to about $800 again. Nampak believes in the long term the right decision is to adapt to using recycled fibre.

The extent of using recycled or secondary fibre in South Africa varies, from 80 percent from some companies to very little in others. The recycled material is collected from a variety of sources ranging from milk cartons to office waste but it passes through stringent processes including heat and chemical treatment to remove the bacteria. Some companies use only high grade waste paper, such as office paper.

Consumers show little brand loyalty to different products and appear to be ruled rather by price considerations, Botha says.

"Some brands like Carlton Paper's Baby Soft have strong support because of many years of excellent quality and consumer satisfaction."

Although the industry has been able to implement some price increases in the past six months, for the three preceding years intense competition made price increases almost impossible. Despite ongoing cost saving programmes, price increases have become necessary to recover the escalating cost of fibres, packing materials, operating expenditure and delivery costs.

"In the final analysis, considering lifestyle, convenience and the nature of substitutes, toilet paper does a tremendous job at a very affordable price," Botha said. "Kids can use the cores to make toys. Carlton has published a booklet with ideas for toys which can be obtained from the address on the packaging."

(194)(⊗)

C G SMITH

Fair value

FM 26/5/95

On the face of it, conglomerate C G Smith has returned results entirely acceptable to an expectant market — though it has to be said these have been severely overtaken by those of former holding company Barlow (see page 106).

The principal components are Nampak (paper and packaging) and C G Smith Foods, which incorporates Tiger, one of SA's most important food manufacturing and processing companies which, in turn, holds diverse interests in pharmaceuticals, fishing and food production.

And, by and large, these elements have produced good rewards in the past six months. Nampak, in particular, manages repeatedly to return exceptional growth figures — this time an increase in attributables of another 30%. This sector is Smith's most important — it produced 52% of attributable earnings.

It is in food and pharmaceuticals where Smith faces its biggest challenges. Pressed for a response about the vulnerability of Adcock Ingram to continuing severe competition, vice-chairman Robbie Williams believes threats have now largely been absorbed. "Adcock," he says, "has lived through the worst which can be thrown at it." By implication, he sees the short-term future as comparatively stable.

Cooper . . . *who needs Smith foods?*

No-one would say this, however, of Tiger's fishing interests. These are threatened — or so it seems — by what are euphemistically called "community interests." This is shorthand for demands by elements of coloured fishing populations for a share of fishing quotas which they allege were allocated originally under apartheid regulations. Tiger has tried to accommodate this by reaching a new control agreement for Oceana with black-controlled Real Africa. What happens down the line at Sea Harvest is another matter.

By contrast, Illovo Sugar produced a startling recovery based on a much improved second half of its cane-growing season. It returned an improvement of 391% in EPS and is expected to return good results for the second half.

The other side of this coin is Langeberg, the Boland canned fruit and vegetable producer. Williams defends Smith's decision to increase its equity participation: "It has really good brands which dominate the SA market." Nevertheless, the truth is the company hasn't met the expectations with which its listing was greeted.

None of this answers another issue which needs attention by Smith chairman Derek Cooper: is there really a continued need (if there ever was) for an intermediate pyramid on the lines of C G Smith Foods? It is 80% controlled by Smith; in turn, it holds all the food and pharmaceutical interests. In effect, it is nothing more than a dividend trap.

With Smith at R21 and on a p:e of 17, it is probably fairly valued: certainly it offers little prospect for capital growth. *David Gleason*

Sappi plans major expansion of mill

(194) ~~(18??)~~

Nicola Jenvey

DURBAN — The Sappi Saiccor cellulose dissolving pulp producer mill at Umkomaas on the KwaZulu/Natal south coast will undergo another multi-billion rand expansion programme before the end of the century and will raise output by a further 200 000 tons a year, technical manager Derek Weightman said yesterday.

Cellulose dissolving pulp is a chemical product used in the textile, fibre and chemical industries for the manufacture of fabrics, cellophane film, plastics and resins.

The R1bn Mkomazi expansion project was completed in February and increased Saiccor's output of dissolving pulp by 33% to 600 000 tons a year.

BD 2/6/95

The next stage of development — currently only in the pre-feasibility study stage but a certainty in the longer term — would cost about R1bn in 1995 terms and raise output to 800 000 tons a year.

Budgetted spending on environmentally-based projects to reduce sulphur dioxide emissions by 61% amounts to R210m, with a R100m project to introduce oxygen bleaching completed last week.

Sappi unifies its European business

(194)

Marcia Klein

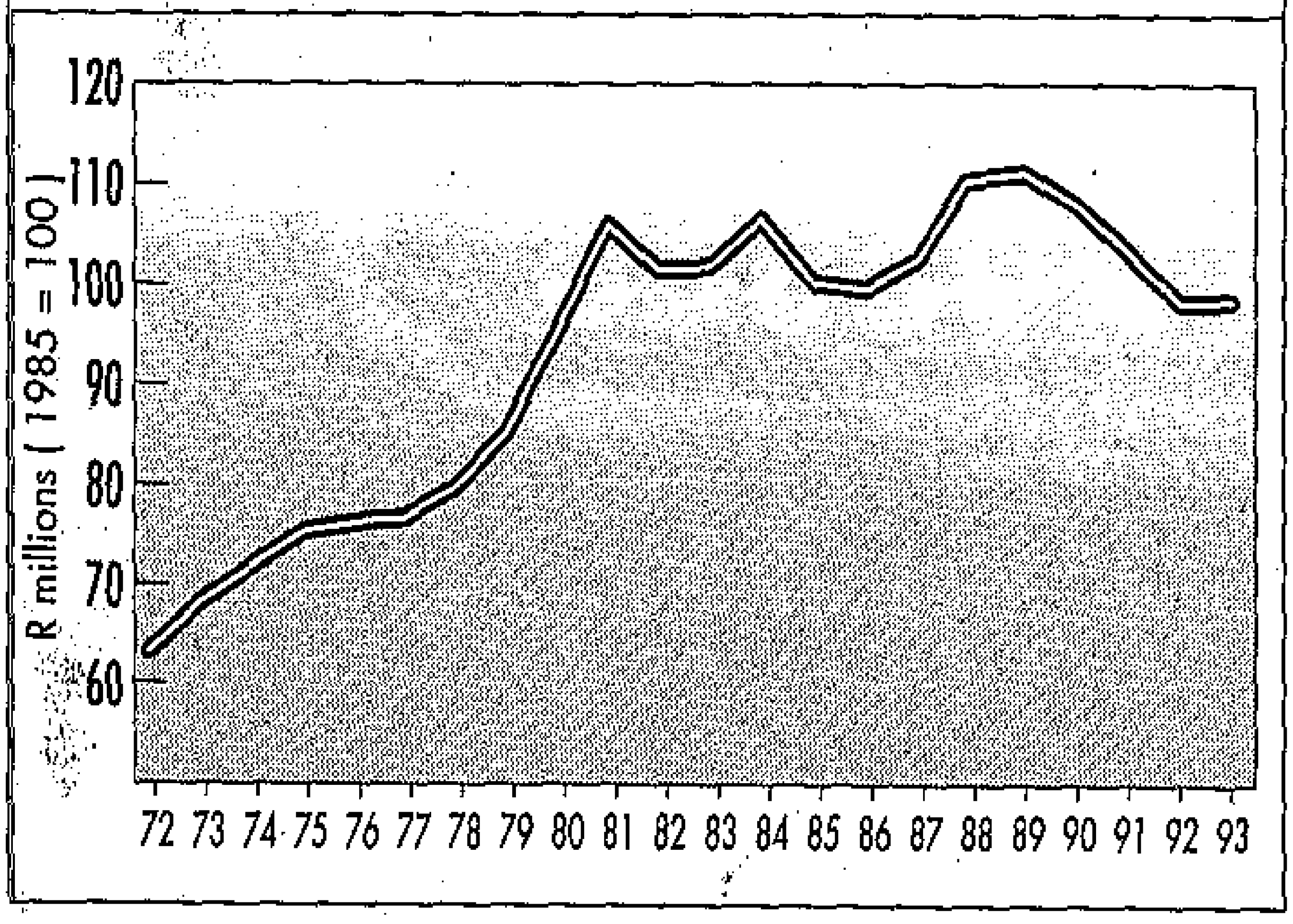
BD 14/6/95

SAPPI has reorganised its European business into a unified structure based in London, a move which also included a number of personnel changes, it announced yesterday.

It said Sappi Europe was the third largest producer of wood-free coated paper on the continent, with paper capacity of 680 000 metric tons a year and pulp production of 220 000 tons. Total sales should near £600m this year.

The European sales operation would now report directly to Sappi Europe. It would operate from a head office in Brussels, with sales offices in Switzerland, France, Belgium, the Netherlands, Spain, Portugal, Italy, and Austria.

Manufacturing: index of physical volume



(194)

Paper: Restructure to survive

CT(BR) 20/6/95

The paper and pulp industry has been relatively successful, but needs extensive restructuring to survive and thrive as the economy opens up to international competition.

A major criticism of the industry is that it can produce products at 10 percent below international prices, but sells them 10 to 15 percent higher than world prices in the South African market.

These were the findings of Industrial Strategy Project researcher Lael Bethlehem.

She said that to bring down the cost of paper, competition should be promoted in the industry by encouraging investment and bringing down import tariffs, accompanied by anti-dumping measures.

On the high cost of school books, she recommended that educational publishers agree to use a limited range of papers, which would allow paper producers to make longer runs, cutting costs.

Bethlehem said the industry was a highly successful producer and exporter of resource-intensive products such as pulp, newsprint and corrugated papers, but it was less resourceful in making and exporting intensively manufactured products. These include printing and writing papers and converted products such as packaging and printed products.

High prices were partly because of manufacturing inefficiencies caused by outdated technology, poor work organisation and low skills levels.

There was a need to overhaul the management of state forests but she was opposed to their privatisation because ownership would allow the state to play a key strategic role in the industry.

Bethlehem was concerned about the tendency of companies to export wood chips instead of investing in paper and pulp plants, low wages and different working conditions in commercial forestry.

Transpaco turns around, looks up

Star 23/6/95

(194)

BY CHARLOTTE MATHEWS
INVESTMENT EDITOR

Improved trading conditions and the restructuring of its packaging division contributed towards the turnaround in Transpaco to profits of R732 000 in the year to March from a loss of R498 000 last year.

Turnover grew by 4,5% to R53,6-million, partly reflecting management's decision to be more selective in selling to profitable markets.

With operating margins widening to 4,2% from 1,4% as a result of better cost control and higher selling prices, operating profit more than trebled to R2,25-million before finance charges.

Net financing costs edged up to R1,2-million from R1,0-million but gearing was reduced to 100% from 115%. Transpaco MD Phillip Abelheim said it was intended to bring this down gradually because of the cost of servicing the debt although he was not uncomfortable at this level. The bottom line also benefited from a tax rate of 28%.

Earnings a share were 6,65c from nil previously, but the directors considered it prudent not to declare a dividend. Abelheim said if improved trading conditions continued, it was hoped a dividend could be declared at the next interim stage.

Transpaco wholesales paper, plastics and other packaging-related products and makes customised plastic carrier bags, plastic packaging products and plastic sheeting.

Abelheim said the industry had been depressed for several years. However, since the end of last year, raw material costs had soared, which had made it possible for the industry to achieve price increases.

"Emerging from a lengthy recession, the group is well placed to take advantage of the upturn in the economy," the directors said.

Turnaround for Transpaco

CT (BR) 23/6/95 (194)

By Charlotte Mathews

Investment Editor

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Phillip Abelheim, managing director said it was intended to bring this down gradually because of the cost of servicing the debt, although he was not uncomfortable at this level. The bottom line also benefited from a tax rate of 28 percent. Earnings a share were 6,65c from nil previously, but the directors considered it prudent not to declare a dividend.

Abelheim said if improved trading conditions continued, it was hoped a dividend could be declared at the next interim stage. He said the company was poised to take advantage of the economic upturn.

Transpaco wholesales paper, plastics and other packaging-related products and makes customised plastic carrier bags, plastic packaging products and plastic sheeting.

Richards Bay container terminal may go private

The planned new container handling terminal, which seems destined to go to Richards Bay, may be managed by a private sector operator.

This was revealed in parliament by the minister of public enterprises Stella Sigcau in reply to a question asked by the National Party MP Piet Welgemoed.

But Sigcau said Portnet had no immediate plans to allow shipping companies harbour facilities to handle their own containers to relieve current port congestion. Portnet would continue to operate the three container terminals which have been in operation since 1977, she said.

A final policy was still to be decided on the operation of a new container terminal. The terminal should be in operation by 1999. If it is decided to put the operation of the new terminal out to tender "it would be preferable to have an independent operator (and not a shipping line or cargo operator) running the terminal as that would be in the interest of optimal capacity utilisation". — Bruce Cameron

Broadacres changes name: Broadacres Investments, now listed on the JSE's diamonds sector, will change its name to Baobab Solid Growth and list on the JSE's investment trusts board from Monday. The company holds 14,9 percent of Mercantile Bank and 49 percent of Premier Freight as well as R10 million in cash.

(88)

SA urged to join African Development Bank: South Africa would benefit enormously from becoming a member of the African Development Bank as it was a major force in African finance said Kobus van Rensburg, managing director of MBB Consulting Engineers.

CT (BR) 30/6/95

Sanlam awards R22 million contract: Sanlam Properties said it had awarded a R22 million contract to Ovcon to build a mini-factory project, known as Kyalami Industrial Park, on a 3,8ha site near Pine Town, Durban. The facility would provide 17 000m^2 of factory space, with units of varying size.

Black businessmen in demand: David Hutton-Wilson, director of RES International Executive Search Consultants, estimated at a Geneva conference that the demand for black professionals could reach about half a million by 2013. According to reports, black businessmen enthused their Swiss and other European counterparts

Packaging company sub-divides shares: Packaging print and paper company, Holdains, said it would sub-divide its shares 10-for-1. Richard Bruyns, chief executive, said the motivation behind the split was to make Holdains shares more affordable to a broader spectrum of investors and so increase their marketability.

Motor industry hails new labour dispensation

(425)

CT (BR) 30/6/95

BY ROY COKAYNE
PRETORIA BUSINESS EDITOR

The new industrial relations dispensation for the vehicle manufacturing industry has been welcomed by industry participants.

National Association of Automobile Manufacturers of South Africa (Naamsa) executive director Nico Vermeulen said a key feature of the motor industry development programme would be the opening up of the South African market to international competition and the requirement for a continued focus on the export business.

Vermeulen said realities required employers and trade unions to join forces to control all cost items and to improve substantially the productivity of all factors of production.

Numsa auto sector chief negotiator Gavin Hartford said this agreement laid the basis for the South African car manufacturing industry to survive in the global market while at the same time significantly improving the conditions of workers.

Numsa general secretary Enoch Godongwana said the agreement was a great victory for the union in pursuing the goals of the bargaining strategy which it adopted in 1993. "Within the next three years it guarantees that enormous strides will be made in closing the apartheid wage gap and readdressing the legacy of poor education and training of the majority of workers," he said.

Gwen Prinsloo, collective bargaining manager of the SA Yster, Staal and Verwante Nywerhede Unie (Iron, Steel & Allied Industries) said the agreement's most significant aspect was it zoned in on the long-term viability of the motor industry and the economy.

She said wage rates would be linked to the consumer price index for the next two years.

CT (BR) 30/6/95 (194)

Sappi woos international investors

BY CHARLOTTE MATHEWS
INVESTMENT EDITOR

Paper group Sappi plans to issue dollar-denominated Euroconvertible notes, Eugene van As, executive chairman, said yesterday.

The notes will be convertible into Sappi ordinary shares and marketed to international investors.

The reason for the issue is that the group's funding costs have soared since last year's $1,6 billion acquisition of control of American paper maker SD Warren.

Sappi also intends to reduce debt through an initial public offering of equity in one or more of its subsidiaries "in due course".

The group plans to make a series of investor presentations in mid-July and the notes will be placed in international markets outside South Africa. The issue is subject to the passing of the necessary resolutions by shareholders and Reserve Bank approval.

Sappi lists proposals to lighten debt load

(194)

Marcia Klein BD 30/6/95

PAPER and pulp group Sappi has announced proposals, including the issue of Euroconvertible notes and the listing of one or more subsidiaries, in a bid to alleviate the burden of servicing its $2,2bn debt.

The increase in gearing to 116% from 41% in the year to February reflected borrowings to fund its Saiccor expansion as well as last year's $1,6bn acquisition of the heavily geared US-based coated woodfree paper producer SD Warren.

Sappi said yesterday that it would issue, through a subsidiary, dollar-denominated notes convertible into Sappi shares.

Apart from reducing gearing through internally generated cash flow, it would look at making a public offering in one or more of its subsidiaries in due course. There are numerous listing opportunities, including SD Warren, German-based Hannover Papier or the recently reorganised European businesses in Sappi Europe.

Financial director Bill Hewitt would not comment on details of the issue.

Sappi said the timing of the note issue would be subject to market conditions. It would market the notes, which would be placed in overseas markets, through presentations to investors in mid-July.

Executive chairman Eugene van As said that "to service debt of approximately $2,2bn places a heavy burden on the group and it has always been our objective to reduce our cost of borrowings to more acceptable levels".

Analysts said the recent weakness in Sappi's share price reflected concern that some commodity stocks had peaked.

Yesterday the share closed at R67,25 — the level it traded at in April before it began its surge ahead of last month's publication of results for the year to February.

The surge ended a few days after the results were published when the share reached a high of R76,50, a jump of 70% from its May 1994 price of R45. But this level could not be sustained.

Analysts said the problem with commodity stocks was knowing when to sell.

One analyst pointed out that there were some large holders in Sappi, such as Genbel, who acknowledged the need to sell as Sappi was no longer a strategic holding.

Although certain shareholders might have the view that it had reached its peak, analysts believed there was still significant upward potential and the share could reach R90 in the short term.

(194)

Sappi earnings set to rise: Pulp and paper manufacturer Sappi is heading for another period of steeply rising earnings, Eugene van As, Sappi chairman, said in his annual report. He expected Sappi's earnings to rise sharply for the seven months to the company's new year-end in September. In the annual report for the year to February, van As said the outlook was encouraging. The group had improved productivity and there were significant gains at SD Warren.
See next page

CT (BR) 3/7/95

Sappi earnings head for rise as industry improves

CT(BR) 3/7/95 (194)

By Llewellyn Jones

Staff Writer

Pulp and paper manufacturer Sappi is heading for another period of steeply rising earnings, Eugene van As, Sappi chairman, said in the company's annual report.

He expected Sappi's earnings to rise sharply for the seven months to the company's new year-end in September.

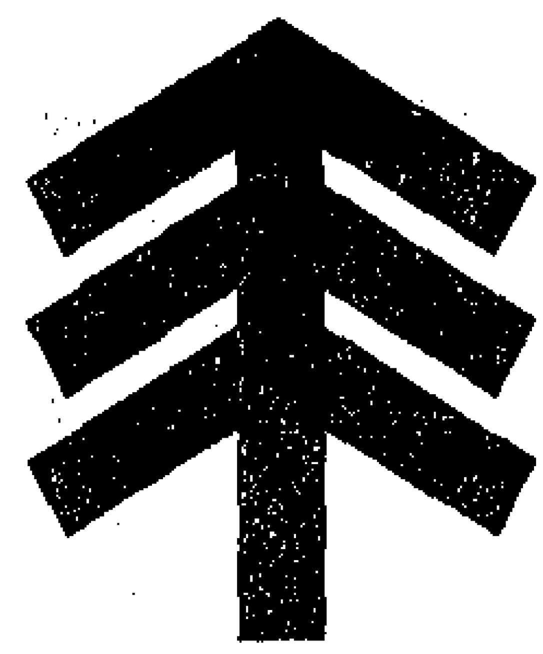
In the annual report for the year to February, van As said the outlook was encouraging.

The group had improved productivity and there were significant gains at SD Warren, over which it acquired control in December.

The acquisition had had a dramatic effect on Sappi's earnings, pushing them to 116 percent from 41 percent.

Shareholders were alerted that they would be asked to sanction a convertible dollar-denominated bond issue to reduce the debt taken on to acquire Warren.

"We hope to issue a convertible bond in Europe and the United States later in the year. We expect to be able to reduce Warren's own debt further by internally generated cash flow and an initial offering of equity."



Van As said little capacity had been added to the market and some high-cost operations had been closed down in the recent recessionary years. As a result, supply positions had tightened for all major pulp and paper grades and prices had risen sharply.

Similar trends had appeared in coated and uncoated papers and newsprint, with even sharper rises in kraft linerboard.

"Margins of all paper producers have improved considerably but results are misleading in that margins are averaged, whereas the improvement mainly occurred in the final quarter. Most pulp and paper companies returned to significant profitability by the end of last year and the industry seems set for a period of improved returns."

Sappi chairman Eugene van As

He said there had been much talk about the paper cycle being overdone.

"Criticism had been levelled at the paper industry for the rapid increases in prices, but few commentators seemed to realise that the nominal paper prices in the first quarter of this year were still below the levels at which they traded in 1990."

(194)

SAPPI FM 7/7/95

Bonding the globe

When Sappi acquired control of leading US paper-maker S D Warren, it accomplished two things. It took first place worldwide among wood-free coated paper-makers, and it acquired huge debt. Leadership in the paper industry may be a matter for accolades; leadership in the ranks of the indebted has led the group to an innovative scheme for financing its way out.

It is now marketing a convertible bond issue in Europe and the US — with a dual purpose, says finance director Bill Hewitt. Initially, Sappi plans to retire more expensive debt and thereby reduce financing costs, and in the longer term, to convert the debt into equity to the benefit of the balance sheet. Long-term debt on the balance sheet at the 1995 year-end was R7,3bn.

The Warren acquisition has taken Sappi another step towards being a "global fine paper business," says chairman Eugene van As. Annual turnover for this new grouping is expected to exceed R16bn, 85% being earned outside southern Africa. In the light of this new orientation, marketing its convertible bond internationally is a logical move. Joint lead managers of the issue are merchant banks Morgan Stanley, with primary marketing responsibility for the US, and S G Warburg, organising the UK leg.

First step is to sell the idea to potential investors. Morgan Stanley corporate banker Beth Mandel says the issue is being marketed through Rule 144A and Regulation S of the US Securities Act, which means the securities will be sold only to selected qualified investors. There is a pool of major institutional investors that target convertibles, says Mandel, such as the US mutual fund Fidelity.

The road show is planned to begin next week; Hewitt says they will "test the market" before they decide on the size of issue. Terms of the bond issue will not be finalised until after the road show, though the group has defined certain parameters for coupon and premium rates based on historical precedent. If all goes well, the issue will take place at the end of July.

Morgan Stanley brings experience with other convertible bond issues in emerging markets, most recently on Euro-convertible offerings for a large Hong Kong property investment company and Renong of Malaysia. Several SA companies have already experimented with this method of finance. Last year, Samancor, Barlows and Liberty Life all issued US$-denominated convertible bonds, raising amounts ranging from $75m to $320m, with a maturity of 10 years, coupons of 6,5%-7% and premiums

Morgan Stanley's Mandel . . . *selected qualified investors*

of 10%-12%. Two of the issues are convertible after five years at the issuer's option, the third after four years.

Mandel says the convertible market is "quite strong at the moment," and Hewitt is reckoning on a coupon of about 7%. He would also consider a maturity of seven years, which may benefit Sappi as the market for shorter-term emerging market convertibles is stronger.

Sappi's finance costs could be considerably reduced by swapping convertible bonds for more conventional debt — there is no point otherwise. But the conversion to equity once the issue becomes callable may be less certain. Voluntary conversion will be dictated by share price performance, says Mandel. As long as the bond yield exceeds the dividend yield, investors will hang on to the bond. Generally the issuer has the right to repay the bond at a specified time, thereby "forcing" a conversion if the share price is high enough.

Sappi is not a newcomer to international capital markets; it operates a sponsored Level-1 ADR programme, through which US investors can buy Sappi shares. But this bond issue is likely to be a more ambitious venture which, if successful, will go further towards establishing SA's acceptability on the international financial scene.

Margaret-Anne Halse

PAPER INDUSTRY (194)

A new chapter

FM 7/7/95

The story of the paper manufacturing industry in the past 18 months has been one of rags to riches. A little under two years ago, prices for international pulp were hovering around the US$400/t mark. Now they are set to break $1 000/t.

From the early Nineties shareholders were forced to bite the bullet as the pulp and paper industry went through four years of marginal profitability or, in some cases, losses.

But now the industry is on a roll and the strong trend is likely to continue at least until the end of the year, says Mondi MD Derrick Minnie.

One of the main victims of this surge is newspaper publishing, with US and UK publishers looking at newsprint prices of $745/t from current levels of $675/t. Early last year prices hovered at $411/t.

Unlike their overseas counterparts, local newspaper publishers — Times Media (TML), the Independent Group, Naspers and Perskor — have fixed contracts on

newsprint supplies. But the picture is expected to change at the end of the year as contracts run out and Sappi and Mondi find themselves in the driving seat.

However, TML MD Roy Paulson says the group has renegotiated a good three-year contract with Mondi and will be entering into talks shortly with Sappi. "We are to some extent protected from the cost spiral. Some US publishers are anticipating price rises of about 45%. This cannot be recovered from cover prices or advertising and so comes straight off the bottom line."

Few commentators realise that nominal international paper prices in the first quarter of 1995 were still below the levels at which they traded in 1990, says Sappi chairman Eugene van As.

He adds that while the industry appears set for a period of vastly improved returns "in real terms prices are still well below where they were five years ago."

In the past year, increased demand coupled with the cost-push effects of essential raw materials, including chemicals and pulpwood, have resulted in regular price increases on paper and board products.

"Increases in demand considerably exceeded forecasts by paper and board converters," says Minnie.

Depending on grade, paper has risen by 40%-60% since March last year, says Holdains CE Richard Bruyns. Grades include fine, A4 copying/writing paper, and tissue. Carton board has been affected to a lesser extent. Because of previously negotiated contracts, corrugated board has not been affected yet. But this is about to change.

Nampak CE Trevor Evans says these contracts have just about run out. "To some degree we have been shielded from the full whack of what has happened. But we will now feel the pain as price increases in this sector are imminent."

Bruyns says the industry has been under "severe pressure" following regular quarterly increases in most paper types. Business forms paper prices have risen on average by 71% over the past year, which has affected the price of computer continuous forms and other business stationery. Quarterly price increases for these papers are forecast for the next six to 12 months. ■

SAPPI (194) FM 14/7/95

Papering the world

Activities: *Vertically integrated timber group primarily involved in pulp and paper production.*
Control: *Sankorp 25%.*
Chairman: *E van As. MD: I Heron.*
Capital structure: *159,7m ords. Market capitalisation: R10,76bn.*
Share market: *Price: 6 740c. Yields: 1,48% on dividend; 5,2% on earnings; p:e ratio, 19,1; cover, 3,5. 12-month high, 7 650c; low, 4 600c. Trading volume last quarter, 3,6m shares.*

Year to February 28	'92	'93	'94	'95
ST debt (Rm)	529	833	822	902
LT debt (Rm)	1 643	1 539	1 946	7 318
Debt:equity ratio	0,29	0,42	0,45	1,16
Shareholders' interest	0,61	0,61	0,60	0,42
Int & leasing cover	3,1	6,9	4,3	4,2
Return on cap (%)	6,5	5,0	2,0	5,1
Turnover (Rm)	2 843	4 677	5 541	7 804
Pre-int profit (Rm)	501	445	192	821
Pre-int margin (%)	13,7	9,5	3,5	10,5
Earnings (c)	312	262	90	352
Dividends (c)	200	160	nil	100
Tangible NAV (c)	3 185	3 408	3 482	3 986

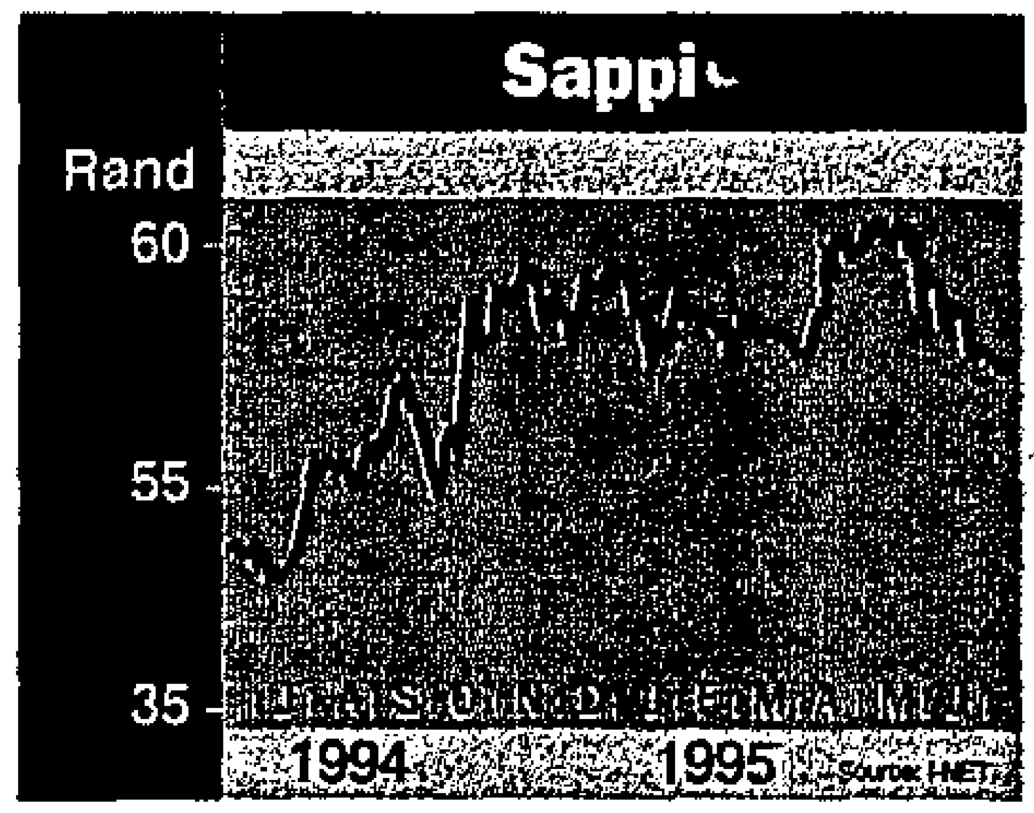
Life is looking good for Sappi and the 1995 annual report celebrates this fact. Group turnover, which includes Warren for 10 weeks, rose 41% to R7,8bn and attributable earnings rocketed to R561,7m (R145,2m) as price increases pushed margins up sharply. Operating margins climbed to 10,5% (3,5%).

Chairman Eugene van As says: "We have been concentrating on controlling costs throughout the group for the past five years and have driven down the real cost of producing most of our products significantly."

However, Sappi is still operating off a low base. Van As points out that despite the apparent rapid increase in paper prices, they are still nominally below 1990 levels. But not all cuts in recent years were passed on to consumers, who see only the price hikes.

The highlight of the year for Sappi was undoubtedly the acquisition of a 75% controlling interest in US paper company S D Warren. With a total paper capacity of about 1,4 Mt, it was the world leader in woodfree coated paper — Sappi now has that honour — and dominates the US market. The four Warren mills in the eastern US, produce about 70% of the group's pulp requirements. An analyst says the fine paper sector is the fastest-growing and offers the highest profit margins.

EPS climbed to 352c, well above expectations, and the group declared a dividend of R1/share. Dividend cover is a hefty 3,5 times as Sappi tries to conserve funds in the face of its vastly increased gearing, which climbed from 45% to 116% after the Warren acquisition and Saiccor upgrade.



The acquisition was funded with offshore money but as the results are consolidated in Sappi's accounts, the debt of about R5bn is reflected there. The proposed convertible bond issue (*Fox* July 7) will at least shrink the finance costs.

Warren had "no material impact on income, though it had a marked influence on the balance sheet," says Van As. Warren itself carries about US$1,15bn in debt, which it plans to reduce to about $500m in the next two years. The plan is to list Warren, probably next year, which will help.

An analyst contends the Warren acquisition was good for Sappi and the timing "perfect," as prices of coated woodfree paper have risen considerably since the deal was done.

Another says Warren was badly managed by its previous owner, and Sappi has already increased output by almost 15%. He thinks Sappi will add considerable value to Warren; "there are some great profit enhancers in the deal." A broker adds, "It has been a better purchase in terms of timing and immediate returns than the European ventures were."

Sappi's loss-making European venture, Hannover Papier, is now profitable and is expected to contribute to EPS in the future instead of draining profits as it has done for the past two years. The UK business made a small loss due to extra costs incurred in buying pulp as prices rose.

Van As has done remarkable things with Sappi in the last four years. Turnover has almost tripled and the group has become a major force in the international paper products market. However, earnings have not kept pace with this expansion, due partly to the recession — the paper and pulp business is highly cyclical and turns down with a vengeance in bad times — and partly to bad timing in its European expansions.

But the outlook is good, with significant price rises in Europe and prices in the US set to catch up. Profits from Warren will grow as finance costs are cut and absorb less of the income. Since Sappi now generates 85% of its income (60% of turnover) outside SA, it will benefit from strengthening world prices for most paper products.

An attraction for local investors is the share's quality as a rand hedge. Since most analysts believe that the rand will depreciate against major currencies in the long term, the effect on Sappi's rand income can only be positive.

Consensus among analysts seems to be that the paper and pulp cycle will last until about 1997 before it peaks and excess capacity starts depressing prices again. The big question is whether Sappi can cut its debt enough in that period. It can expect at least another 18 months of good profits — if the cycle holds out. Another imponderable is the intentions of Van As. The market would like him to sit back and digest the latest purchase, reduce the debt and wait for the next cycle before he expands further.

The share price is moving slowly up again. Currently at 6750c, there is a feeling that it could reach 9000c later this year. But this has been predicted before. The p:e multiple has come down from the stratosphere with the publication of 1995 earnings to a manageable 19,1, closer to the sector average of 14,1.

The share offers many enticements, but for now they are speculative and the counter is probably fairly valued. Shareholders should watch it carefully.

Margaret-Anne Halse

Sappi bond prospects look good

(194) Star 13/7/95

BY NEIL BEHRMANN
SPECIAL CORRESPONDENT

London – Sappi's $150-million (R550-million) seven-year international convertible bond issue is expected to be well received in the market, say officials at SBC Warburg.

The investment bank is arranging the deal with Morgan Stanley and the latest South African convertible issue follows the 1994 issues of Liberty Life ($320-m), Barlows ($75-m) and Samancor ($100-m).

The coupon rate which will be set between 7,25% and 7,75%, depending on the demand, is about a quarter percent higher than recent convertibles of Barlow and Samancor, say the officials.

The bond is conservatively priced, since the bond element accounts for around 92% of the convertible security and the share conversion price is at a premium of 8% to 12% over Sappi's current price of R68. If the bond is converted into shares at a premium of 9%, the equity conversion would be priced at R74 or around $20 a share.

Another 7,5-million shares will be issued in seven years time, but equity dilution of Sappi will be minimal, since the number of shares in issue is presently 160-million.

Underwriters are also confident about the equity portion of the Sappi convertible, since the company is doing well out of the international paper and pulp boom.

In line with the transformation from the pulp depression in the early nineties to the present buoyant market, Sappi's shares have soared by 3,5 -fold from its 1993 lows.

Warburg, which has a major stake in Johannesburg broker Ivor Jones, estimates that earnings per share will reach 765 SA cents in the twelve months ended September, placing the shares on a price earnings ratio of 9.

Forecast

In a year's time, forecasts Warburg, earnings will soar to 1410 SA cents, placing the PE at 5. The dividend is expected to surge to 325 cents in 1996 from an estimated 200 cents this year. Sappi is thus a hedge against potential rand weakness, because only 20% of the company's profits now come from South Africa.

Sappi's shares are rated on a relatively low price earnings basis, since the paper and pulp industry is notoriously cyclical. In booms such as present, Sappi and other international paper companies operate at almost full capacity. Yet since Sappi is capital intensive, it is subject to a "high level of operational gearing". Thus in a market downturn, expensive machinery becomes idle.

Since the ratio of fixed costs to turnover is high, operational profits slump. Moreover, according to Warburg, "financial gearing " is lofty. The company thus has a relatively high level of debt to shareholders funds and the interest must be serviced. In a market upturn, earnings soar as operational and financial gearing lever profits upwards.

In a cyclical paper downturn, the gearing switches sharply in reverse as long term Sappi shareholders well know.

According to paper and pulp analysts the boom will continue for the next six months. Yet newspaper groups and other paper users, which are suffering from the surge in paper costs are beginning to economise. Thus demand is peaking.

More international capacity will be coming on stream in the next two years. Mondi, for example has opened a huge plant in Aylesford, UK where recycled newspapers are being converted into paper.

Investors therefore monitor the paper and pulp industry closely and Sappi shares are below their peak of R76,50.

Sappi's bond issue is very well received

(194)

BD 21/7/95

Marcia Klein

STRONG demand for paper and pulp group Sappi's convertible bond issue saw it raise $200m — 33% more than the $150m it originally intended to raise.

Sappi said there was a possibility of a further $50m increase if the over-allotment option was exercised. The bond was aimed at reducing debt following its $1,6bn acquisition of heavily geared US-based coated woodfree paper producer SD Warren in December. Sappi had long term debt of R7,3bn at the February year-end.

The seven-year bonds, which started trading yesterday, carried a coupon of 7,5% and would be convertible into Sappi shares at a price of $20,85 (R76) at a fixed exchange rate of R3,645 to the dollar.

If all the bonds and the over-allotment option were converted into equity, Sappi would issue about 12-million new shares on conversion — less than 8% of its share capital.

The bond issue represented a conversion of one form of debt for another. Sappi now had long-term fixed-rate financing which would replace the bridge loan it took out when it acquired SD Warren.

An analyst said $200m was not of great significance if one considered Sappi's debt burden. Sappi was "testing the water, possibly with a view to something bigger down the line".

John Cavill reports from London that the bonds started trading in Europe yesterday at 101%, a premium to the issue price. Bankers close to the deal said the issue was "substantially oversubscribed".

They paid tribute to executive chairman Eugene van As and director Bill Hewitt for the way in which they ran the roadshows attended by "hundreds" in a whirlwind tour which took them to eight US and European cities.

"Institutional investors have really taken Sappi to their hearts. If you consider that the bonds were priced on a day when the Dow Jones index dropped 57 points after being 132 down and US Treasury took a knock, the Sappi issue was given a remarkable reception," said one banker.

~~her sales. This has sparked off~~ ... which it decided to exercise. ... See inside

Sappi increases bond issue on high international demand

CT(BR) 21/9/1995 (194)

By Neil Behrmann

London Correspondent

Exceptional demand from international investors has enabled Sappi to raise the size of its seven-year convertible bond issue to $200 million (R730 million) from the original $150 million (R550 million).

Moreover, the paper and pulp company has the option of issuing a further $50 million, raising the potential bond issue to $250 million (R913 million).

International investors found the bond attractive because of an attractive yield of 7,5 percent and a premium for conversion into equity of only 8,57 percent over Sappi's present price of R70.

Sappi is also better known internationally following a $1,6 billion acquisition of SD Warren, the US paper company.

Warburg, which has a major stake in Johannesburg broker, Ivor Jones, estimates that earnings a share will reach 765c (SA) in the 12 months ended September, placing the shares on a price-earnings ratio of 9. In a year's time, forecasts Warburg, earnings will soar to 1410c, placing the price-earnings ratio at 5. The dividend is expected to surge to 325c next year from an estimated 200c this year. Sappi is thus a hedge against potential rand weakness, because only 20 percent of profit now come from South Africa.

Cyclical

Sappi's shares are rated on a relatively low price earnings basis, since the paper and pulp industry is notoriously cyclical. In booms such as at present, Sappi and other international paper companies operate at almost full capacity. Yet since Sappi is capital intensive, it is subject to a "high level of operational gearing". Thus in a market downturn, expensive machinery becomes idle. Since the ratio of fixed costs to turnover is high, operational profit slumps. Moreover, according to Warburg, "financial gearing" is lofty. The company thus has a relatively high level of debt to shareholders funds and the interest must be serviced. In a market upturn, earnings soar as operational and financial gearing lever profit upwards.

According to paper and pulp analysts the boom will continue for the next six months. However, newspaper groups and other paper users, which are suffering from the surge in paper costs, are beginning to economise. Thus demand is peaking. More international capacity will be coming on stream in the next two years. Mondi, for example, has opened a huge plant in Aylesford, Britain, where recycled newspapers are being converted into paper.

Investors are therefore monitoring the international paper and pulp industry closely and Sappi shares are below their recent peak of R76,50.

Sappi increases bond issue on high

Star 21/4/95 (194)

BY NEIL BEHRMANN
LONDON CORRESPONDENT

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Sappi bond issue five times oversubscribed

ST(BT) 23/7/95 (194)

SAPPI's seven-year convertible bond issue kicked off this week with a better-than-expected response from the market, raising $200-million. This was $50-million more than originally intended, writes **ZILLA EFRAT**.

Eugene van As, Sappi's executive chairman, said from London on Friday the issue was almost five times oversubscribed.

The bonds opened trade in Europe at 101%, a premium to the issue price, on the back of large American interest on Thursday — a day when the Dow Jones Index took a knock.

The bond issue is aimed at restructuring debt following Sappi's R1,6-billion acquisition of S D Warren, the US-based coated woodfree paper producer, in December. The bonds are convertible into Sappi shares.

Sappi was seen by some analysts as testing the water ahead of a bigger move, but Mr van As said Sappi had no short-term plans to raise capital abroad.

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Textbooks spur on export orders

(194) CT(BR) 24/7/95

The production of school and academic textbooks is proving to be one of the major markets for Consol Paper's Interpak Books.

Eddie Telfer, divisional director of Interpak said the company had just completed an export order for 17 000 school books for Tanzania.

Interpak Book Division, a subdivision of Consol Paper Company which bought Interpak Printing and Packaging 18 months ago, also produces diaries and religious books. The company was recently commissioned by the Islamic Centre to produce copies of the Koran.

Telfer said new finishing equipment at their Pietermaritzburg factory had enabled them to increase production and price their books competitively. This was attracting interest from other export markets.
— Ronny Tshabalala

Sappi tips strong demand ahead

(194) ARGUS 25/7/95

Business Editor

SAPPI expects the upturn in the paper industry to last another two years, chairman Eugene van As says.

Sustainable demand and more balanced supply should keep prices strong, he told the annual general meeting in Johannesburg.

Sappi's margins were expected to improve.

The group would report sharply higher profits for the seven months ended September, and further growth next year.

Mr Van As said Sappi's priority this year would be the reduction of debt following the purchase of US paper group S D Warren. Warren's own cash flow would contribute to reducing its debt, and Sappi was also considering the listing of one or more of its foreign subsidiaries.

■ Boosted by the joint venture with Acer International of Taiwan, computer group **Persetel** beat forecasts in the year ended May with a 46 percent increase in shareholders' profits to R52,7 million.

Operating profit was up nearly 50 percent. A higher interest bill slowed the growth in pre-tax profits, but Persetel benefited from a 51 percent decrease in tax.

Results for the past six months include the operations of the AcerAfrica joint venture.

Chairman Roux Marnitz said the group's growth objective was a compound rate of between 10 percent and 15 percent a year. Earnings would be flat in the first part of this year, he said, but would improve in the second half.

Prospects for the longer term were good, with Persetel's diversification into networks in South Africa and its expansion into Europe.

The group had strengthened its balance sheet, cutting short-term debt from R48,9 million to R22 million.

A final dividend of 9c makes 16c for the year.

■ **Randgold's** listed mines bucked the trend in the gold mining industry in the June quarter, with Harmony declaring its first dividend in four years.

The four gold mines turned a loss of R78,4 million in the March quarter to after-tax profit of R32,7 million.

Chairman Lionel Hewitt said a firmer gold price, production increases through better grade control, a halt to mining in unprofitable areas and better cost containment had contributed to the improved results. ERPM and Harmony had benefited from the cancellation of the management contracts.

Blyvooruitzicht — soon to be merged with neighbouring **Doornfontein** — made a working profit for the first time in two years, reporting after-tax profits of R982 000, compared with losses of R3,85 million in the March quarter.

ERPM turned a loss of R410 000 in the March quarter into after-tax profits of R3,25 million. **Harmony's** 40c dividend was based on after-tax profit of R29,7 million, compared with a loss of R5,6 million the previous quarter. Only **Durban Roodepoort Deep** showed a loss following a major theft of gold concentrate.

Mr Hewitt said 42 kgs of gold had been lost, reducing revenue by R1,9 million.

Capital commitments for the four mines amount to R14,6 million (R20,1 million).

COMPANIES

Sappi will focus on reducing its debt

Marcia Klein (194) BD 25/1/95

PAPER and pulp group Sappi was on track to meet its forecasts of sharply higher earnings for the seven months to September and a further rise in the next financial year, chairman Eugene Van As said at the AGM yesterday.

In the 12 months to February, Sappi's earnings surged 291% to 352c a share on 41% higher turnover of R7,8bn, and Van As said at the time he expected a sharp rise to September — its new year-end — as it rode the wave of the paper and pulp cycle and as results from recently acquired SD Warren kicked in.

He said that management would focus on reducing the group's high debt levels following the SD Warren acquisition. This focus included the recently announced $250m convertible bond issue.

"This met with great favour with the international investment community and will help reduce finance costs, and, eventually, gearing as the bonds are likely to be converted into equity in due course."

He said that with the sharp improvement in the performance of SD Warren, its internally generated cash flow would contribute to reducing its debt. "But additional mechanisms such as an initial public offering of equity of one or more foreign subsidiaries are being examined to enable the group to respond if the opportunity arises."

Van As said that the restocking process in the paper industry was complete. The pent-up demand towards the end of last year and the first quarter of this year had eased "but the demand which is coming through now is sustainable and profitable".

He expected the industry to continue its upward trend for the next two years. Supply and demand would be more balanced and good prices would be sustained.

Saiccor's R800m expansion has been commissioned, with the additional volume becoming available at a time of strong market conditions, Van As said.

The new capacity "will increase Saiccor's already considerable contribution to the group's earnings".

Van As said that productivity enhancements and cost controls which had been implemented in the group "should ensure that margins throughout Sappi's business continue to improve".

Sappi would have spent nearly R2bn on capex by the end of next year. "The funds have been invested across the group on expansion, debottlenecking and cost reduction projects." The projects would strengthen Sappi's market position and enhance profitability. Van As said that in future, capex would be at a lower level "as the group consolidates and reduces its gearing toward the peak of the cycle".

Sappi remains on track

STAR 25/4/95 (194)

International pulp and paper group Sappi was still on track to report sharply higher earnings for the seven months to September, and a further rise in earnings in the following financial year, chairman Eugene van As said yesterday.

At Sappi's annual general meeting in Johannesburg, Van As said the restocking process in the paper industry was complete. "Because of this, the unrestrained, pent-up demand which was experienced in the latter months of 1994 and the first quarter of calendar 1995 has eased but the demand which is coming through now is sustainable, and it is profitable.

"Although a number of new capacity expansion projects have been announced, these plans are expected to merely accommodate the natural growth in the market."

Van As said that unless the world's leading economies went into retreat, the upcycle for the industry was likely to be in place for the next two years and, with this more balanced demand/supply situation, good product prices should be sustained.

"The productivity enhancements and cost controls that have been implemented in the group should ensure that margins throughout Sappi's business continue to improve."

The R800-million expansion at Saiccor had been commissioned and was now performing at its start up curve, Van As said. – Sapa.

(194) FM 28/7/95

SAPPI

More than the price

After a whirlwind international road show, Sappi concluded a highly successful convertible bond issue (see *Economy & Finance*) last week. The seven-year bonds — priced just as the Dow Jones Industrial av-

erage tumbled 143 points — carry a coupon of 7,5% and will be convertible into Sappi shares at a price of US$20,85 (R76 at a fixed exchange rate of $/R3,645), a premium of 8,57%.

The $250m issue was four-and-a-half times over-subscribed, which raised the question of whether it was underpriced. Those involved deny this.

Says FirstCorp director and vice-president Stuart Jones: "They will build a book with a range of coupons and conversions at various levels and then work out an optimal price. The price was fair and reasonable to Sappi shareholders." SBC Warburg executive director Mark Katzenellenbogen says: "Either something works or it doesn't. And it's not simply a question of pricing."

Jones says US investors identified with the product. "Many were approached when (Sappi subsidiary) S D Warren raised money last year. Since they did well then, they were happy to sign on the second time round."

"Sappi sold its story well," adds Katzenellenbogen. "Also, because of the trend in interest rates, there is a significant demand for convertible paper. And global investors are underweight in SA securities."

The bond is trading in London at 101,5 points compared with the pricing of 100 which Katzenellenbogen thinks correct. "It's a fine art to get the right price for the issue so that it trades close to this price in the after-market," he says. "The small premium satisfies investors that there is a nice demand."

Margaret-Anne Halse

Pulp and paper prices forecast to peak next year

(194) CT(PNL) 28/7/95

BY NEIL BEHRMANN

LONDON CORRESPONDENT

London — Newsprint and other paper prices are rising to "unsustainable levels" and will peak next year, forecasts Pira International, a long established paper and pulp research centre, based in Leatherhead, England.

In a 173 page report, Pulp and Paper beyond 2000, Pira says the growth in demand for pulp, paper and board will slow down. Meanwhile, pulp and paper companies will build more plants and raise production.

The paper cycle will thus be similar to previous ups and downs of the past few decades. The difference this time round will be a shallower trough compared with the deep slumps of the past, says Pira.

Quotes of recycled waste paper, which have been a lead indicator of price changes in the paper industry, are forecast to begin falling next year. Prices of pulp and paper will reach a peak next year. By 1997 pulp prices will be sliding and paper and board quotes will follow suit in 1998, forecasts the report.

With this in mind, Sappi's earnings could top out next year or 1997 and then fall in the following two years.

Thus, although the company is vulnerable to changes in the cycle, there appears no urgency to sell the shares.

International quotes of Northern Bleached Softwood Kraft pulp, which is processed from wood chips or recycled paper, are currently $925 a ton, compared with $390 in 1993. They will rise to $1000 in the Autumn, according industry sources.

The boom in the pulp market is encouraging producers from Finland to North America to raise production capacity by 9 percent between this year and 1997, from its present global level of 32 million tons, contends Roger Wright, a director of Hawkins Wright, consultants to the International Forest Products Industry.

Growth in demand is likely to be lower, so pulp prices are probably peaking, he says.

Yet the newsprint shortage will continue for at least 18 months, contends Wright. Newsprint plants are opening in the Britain, South Korea, Thailand, Malaysia and Indonesia, he says.

Yet the increase in world production of 3 percent, from current levels of about 34 million tons, will not be sufficient to offset demand.

For this reason, American and European paper companies are still managing to raise prices and recent quotes reached $800 a ton, double the levels in 1993.

They are set to rise by a further 5 percent in September and again in January.

Waltons eyes southern African market

By Maggie Rowley

Waltons is on the acquisition trail in southern Africa, including Zimbabwe, Frank Robarts, the managing director of the group, said at the annual general meeting on Friday.

The acquisitions would be financed in part from the R123 million rights issue announced late last week, the proceeds of which would mostly be used to reduce the group's gearing to below 50 percent.

On the local front, the group was looking at various acquisitions, including expanding its share of the office furniture market while in Zimbabwe it was looking at acquiring a controlling interest in a stationery manufacturer and retailer.

The company believed the southern African region held strong growth prospects and it would also be looking at a possible acquisition in Zambia in the near future.

The group had been unaffected by a drop in turnover, experienced by some other retailers and had been trading extremely well in the first quarter of this financial year with both turnover and the bottom line more than 20 percent ahead of last year, he said.

"And we believe the most exciting months are still ahead of us."

The group was continuing, however, to have a "torrid time" with paper suppliers due to the worldwide shortage which had seen paper prices increase four times in the past 13 months.

Sappi and Mondi, which together control the South African paper market had positioned their prices in line with other suppliers worldwide and their expanded world links made it difficult to source cheaper supplies elsewhere.

The increased cost of paper had seen their exports, except into Africa, plummet, but this drop had been offset by a strong surge in domestic demand.

He said the emergence of new entrants, particularly the office product market, was the main reason holding Waltons' share price back. However, market fears had proved unfounded as Waltons had cornered the corporate office product market.

Internal expansion during this financial year would include the opening of nine new superstores countrywide.

(194) CT(BR) 31/7/95

Anglo puts brakes on listing Mondi

(194) Star 31/7/95

■ BY ANDY DUFFY

Anglo American Industrial Corporation (Amic) is understood to have put the brakes on plans to list paper and pulp subsidiary Mondi.

The group was unable to comment at the weekend, but it is thought Mondi's improved finances have stayed Amic's hand in bringing the operation – worth an estimated R2,5-billion – to the market.

Fellow shareholders Anglo American and De Beers are thought to be unconvinced that they should reduce their stakes under current market conditions.

Brokers believe Amic may also have missed its chance to hit the optimal share price for the listing, given the expected levelling off in paper and pulp prices.

Mondi chairman Tony Trahar refused to comment on listing, but said market conditions remained favourable.

"Prices are levelling off, and we might have a slight dip," he said. "But I'd think we've still got two or three years of reasonably firm prices provided major economies hold up."

Amic – which holds 52% of Mondi – flagged up the listing plans earlier this year, and had held talks with listing advisers in April.

There has been no official announcement since then, nor an approach to the JSE's listings department.

Delaying or shelving the listing would come as a surprise to investors who had expected Amic to exploit burgeoning market conditions.

Benchmark

Prices for benchmark Northern Bleached Softwood Kraft Pulp are expected to breach $1 000 a ton this year, against $390 a ton in 1993. Such growth recently left rival listed producer Sappi's $250 million bond issue heavily oversubscribed.

Mondi's attributable earnings rose 143% to R243-million for the year to December on sales ahead 21% at R3,1-billion, and earnings this year are expected to jump at least another 40%.

But such figures have enabled it to cover R280-million in capital expenditure this year while reducing its gearing.

Amic's target of offering new shareholders at least two year's earnings growth may also now be unattainable.

A report last week by UK paper and pulp research specialist Pira International said increased world production and slowing demand could hold *prices next year, and send them* down in 1997.

Waltons plans nine new stores

Edward West (194) BD 31/7/95

CAPE TOWN — Stationery and office furniture group Waltons was trading on budget, with sales and profit 20% ahead of that achieved at the same time last year, CE Frank Robarts said at the AGM on Friday.

The group had upgraded three new "super stores" in Cape Town, and another nine were expected to be opened in Durban, Johannesburg and Cape Town by February 28.

"There is a new market developing for offices run from home. These have stationery requirements which corporations would not normally buy, such as smaller combined computer, fax and telephone facilities," said Robarts.

The group was also investigating the possible acquisition of an additional furniture supplier to entrench its position as a leading supplier of office furniture. Also being investigated was the opening of Waltons stores in Zimbabwe and Zambia.

"The stationery shops we saw in Zimbabwe looked like ours in the 1970s and product prices are high," Robarts said.

The group's stationery manufacturing divisions continued to face a "torrid time" with paper mills because of rising paper prices due to a worldwide shortage of paper pulp.

Consumer reluctance to accept paper price increases in excess of 25% a year had forced the stationery manufacturing divisions to accept lower returns in spite of higher overhead costs.

The group intended to raise R123,7m in a rights issue to reduce gearing and fund capex requirements such as a new distribution office in Johannesburg, and to meet funding for future expansion.

WALTONS (194) FM 4/8/95

Shedding debt

When the preliminary results were announced in May, it was revealed that Waltons was to issue 6,8m shares (10% of its capital) at 750c each to Pepkor to raise R52m. That idea has been scrapped in favour of a bigger, more beneficial scheme that will recapitalise the group and place it on a solid financial foundation.

Waltons is now to raise R123,7m through a rights issue in which all shareholders may participate. Rights are to be offered at R8 a share on the basis of 22 new shares for every 100 held.

Pyramid holding company Waltons Consolidated Investment Holdings (Walhold), in which Pepkor holds 30,3%, is to raise R64,6m through its own rights issue on the same terms.

That will enable it to follow its rights in Waltons, in which Pepkor owns 2,6%. Pepkor is to underwrite both issues.

Group debt:equity, 89% at February 28, will drop to 28% as interest-bearing debt of R231m reduces to R107m and shareholders' funds increase to R383m.

Waltons financial director Mark Davis says though further debt has been incurred since year-end the ratio will be "well below 40%." Interest payments will decrease substantially in the second half of the current year after the rights proceeds are received, but the full benefit will only be felt in financial 1997, when the funds will be available for the full year.

Less than two years ago, after having peaked at R7 in 1991, Waltons was trading at R3. It was then heavily overgeared. The Minolta leasing operation was rapidly consuming capital and borrowings were increasing at a worrying rate (*Fox* May 19).

But, at about this time the market sensed Waltons had reached its nadir and would improve future earnings.

The market discounted this expectation and moved the share price to R8 in July last year. It traded around this level until January.

Then Pepkor bought CNA Gallo's 28% stake in Walhold for 850c a share. Since then Waltons' share price appreciated to 925c. Plainly, the Pepkor association has made the rights issue possible at the current rights price.

A measure of the issue's prospective success is that Waltons' shareholders' funds will increase by 47% but the number of issued shares will rise only 22%.

As a Pepkor associate, Waltons' future is virtually assured. It can turn to big daddy for most things — money, strategic association and buying muscle, and management if necessary.

After the rights issue it will no longer be necessary to float off the Minolta division — as was planned — to generate further liquidity, though it may still do so to unlock value for shareholders and to help avoid the continuous demand for additional capital typical of that organisation. Nor will it be essential to sell any other divisions to improve liquidity.

The group is trading well and for the first time for a long time its shares are again assuming that old blue lustre they carried throughout much of the Eighties. The issue will be of substantial benefit. Shareholders in Walhold and Waltons should follow their rights.

Gerald Hirshon

CAPE TIMES
BUSINESS REPORT
SOUTH AFRICA'S NATIONAL FINANCIAL DAILY

(194) CT(BR) 4/8/95

Mondi threatens to scrap investment

BY ANDY DUFFY

STAFF WRITER

Mondi is threatening to scrap investment plans worth R1 billion, in another industry shot across government's bows over import tariff policy.

The paper and pulp producer owned by Anglo American warned yesterday that unclear government tariff policy was undermining investment strategy. Mondi is spending R560 million to upgrade its operations over the next two years. But the go ahead for the three-year R1 billion expansion, due to start next year, is in the balance.

The department of trade and industry has already indicated it wants to go further and faster than the average 40 percent tariff cuts South Africa agreed to in its offer to the General Agreement on Tariffs and Trade.

The motor, textile and clothing industries have argued this could send a legion of companies to the wall and destroy thousands of jobs.

"We'd have to see whether we'd want to invest if government is going to make it unattractive," said Tony Trahar, the chairman of Mondi.

"Why invest if we're going to be exposed by government beyond the bounds of reasonable competitive pressure?"

Under the Gatt agreement, South African import tariffs on paper and pulp will fall to 5 percent from an average 10 percent after a five-year standstill. Trahar said that if South Africa was to go beyond this level, foreign rivals would "dump" product, hitting the local industry.

"We're not asking for excessive protection, just that the status quo agreed by Gatt is maintained," Trahar said.

"Why should South Africa try to outGatt Gatt?"

Trahar declined to detail where the R1 billion was to be spent, and said funding plans were not finalised. But he said the projects could be financed from Mondi's cashflow.

Half of Mondi's current R560 million expansion plans were flagged up earlier this year.

New investments include a R135 million expansion at Mondi Kraft's Piet Retief linerboard mill, lifting its annual corrugated paper production one third to 120 000 tons. Mondi Paper's Merebank mill is gaining a R133 million upgrade and expansion.

Amic soars on Mondi's strength

(194) CT (OR) 9/8/95

By Charlotte Mathews
Investment Editor

A particularly good performance from Mondi, the paper group, took Anglo American Industrial Corporation's earnings up 65 percent to 716c a share in the six months to June compared with the same period last year.

The corporation's other major investments include Tongaat-Hulett, Scaw Metals, AECI, Boart Longyear, Highveld Steel, Ventron and LTA.

Group turnover rose 27 percent to R9,7 billion on which operating margins improved to 9,3 percent from 5,7 percent. The interest bill rose slightly as gearing went up to 30 percent from 23 percent previously and the tax rate grew to 24,7 percent from 15,8 percent.

On attributable earnings before extraordinary items of R471 million (R278 million), the dividend was raised to 160c from 132c.

The contribution to turnover from local operations dropped to 66 percent or R6,4 billion from 69 percent, as exports and international operations contributed a greater proportion. Leslie Boyd, the chairman of the corporation, said it rejected "utterly" comments from politicians that it was preventing overseas companies from coming into the country. Through numerous joint ventures, mostly entered into in the last two to three years, the corporation was encouraging overseas companies, he said.

He suggested that many international companies who had expected easy pickings in the country were put off by the sophistication of the business sector. Another reason was that South Africa lacked the necessary investor-friendly environment. It still needed a competitive tax regime, fiscal incentives, exchange control to be lifted and to follow the agreed Gatt tariff reductions.

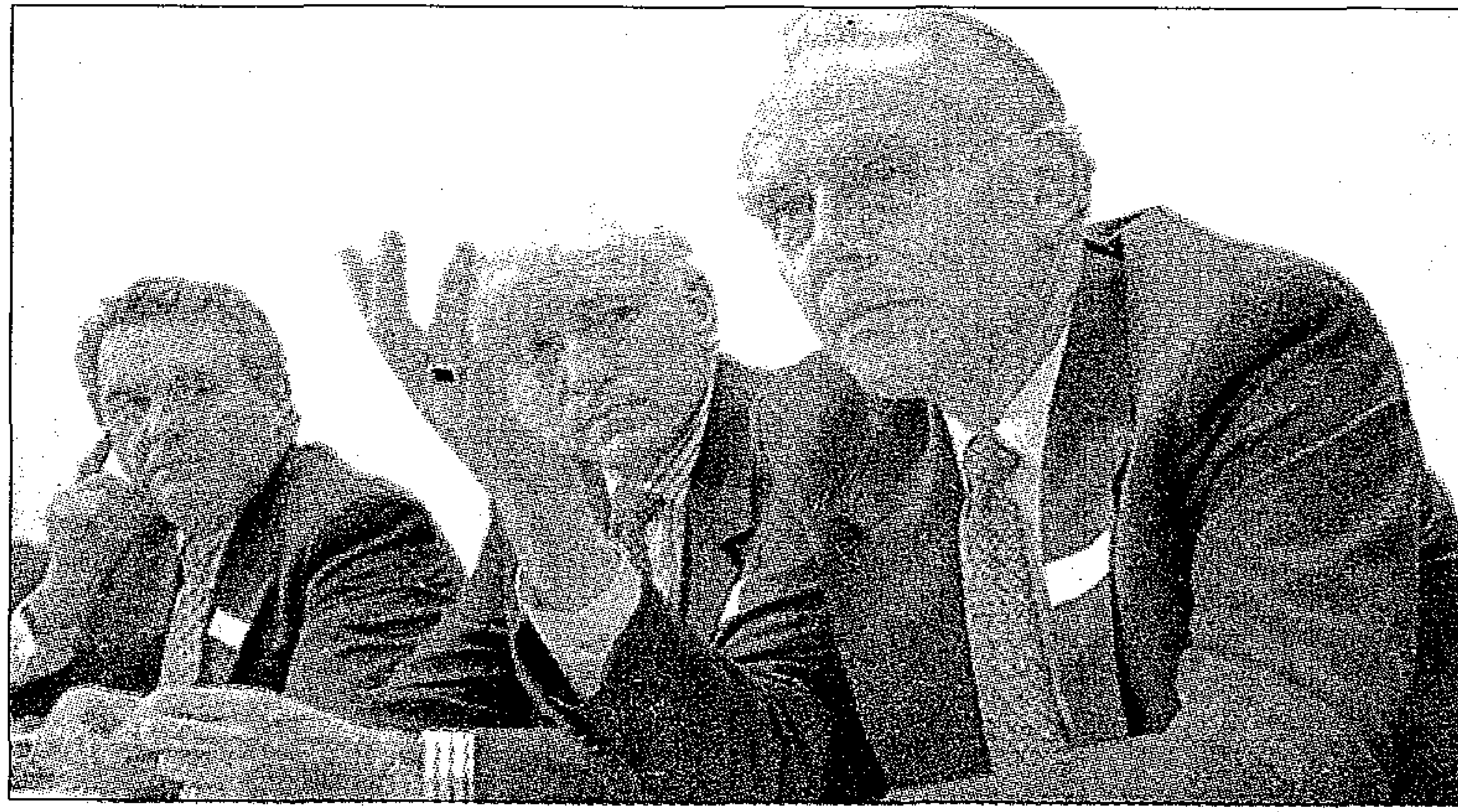
Results for most major companies in the group have been reported recently. However, on prospects for individual companies, Mike Sander, chairman and managing director of AECI, said the group's results for last month were still showing a strong trend and commodity prices indicated a more extended period of sustained growth than in the last upturn.

Hilton Davies, chairman of LTA, said Boart Longyear expected considerable improvement this year while LTA would show good growth for a construction company.

Trevor Jones, the managing director of Highveld Steel, said the vanadium market was close to balance and an increased contribution was expected from the Columbus joint venture in the next six months.

Tony Harris, the managing director of Scaw Metals, said the company's results were in line with expectations.

For the remainder of the year the corporation was expected to show significant earnings growth, Boyd said. "It is questionable whether we can keep up 65 percent, but it will be substantial."



CAPTAINS OF INDUSTRY *Mike Sander, the chairman of AECI, speaks at yesterday's news conference on Amic's results. Behind him are Leslie Boyd, the chairman of Amic and Tony Trahar, the chairman of Mondi*

PHOTO: JOHN WOODROOF

PAPER INDUSTRY

Falling off a log

(194) FM 11/8/95

The manufacturers are smiling, but publishers' costs are becoming prohibitive

Even media mogul Rupert Murdoch has had to bow to spiralling pulp and paper prices. In the past two years, Murdoch twice chopped the cover price of his British flagship *The Times,* starting a bitter circulation war with its arch rival *The Daily Telegraph.* Then, unexpectedly, *The Times* announced that it was increasing its cover price by 5p, to 25p. Murdoch, who owns five UK national newspapers, also reluctantly raised the price of his tabloid *The Sun* from 20p to 25p. The win-at-all-costs press baron has been forced to rethink his war plans by the spectre that haunts all publishers — soaring newsprint costs.

The paper chase spiral has also forced US publishing giant Hearst into raising cover prices — with the aim of cutting circulation by 10%. The group, which publishes *Esquire, Cosmopolitan* and *Good Housekeeping,* has lifted advertising rates on all publications by 5%. Hearst says the move is in response to the crisis in newsprint costs — a 37% increase since October.

Following several increases last year, international newsprint prices rose by 15% on January 1 and then zoomed 33% as from July 1. And further increases are in the pipeline. Pulp mills plan to raise the price of the industry's benchmark product — northern bleached softwood kraft — by another US$85 t on October 1, to $1 000 t. Newsprint was trading less than two years ago at $390 t; 18 months ago the international newsprint price was less than US$400 t. Today, industry analysts forecast a price of $850 t by the fourth quarter this year. And so the traditional fish and chips wrapping continues is ritzy, dizzy rise.

Strong earnings by local and international paper manufacturers have been reported. International Paper of the US more than tripled second-quarter earnings to $316m, while Toronto-based Abiti-Price has moved in less than a year from a loss to record profits. Similar performances are reported from Scandinavian and UK companies.

Local newspaper publishers are, to some extent, cushioned from the vagaries of international markets by fixed, long-term contracts. But should present trends continue, it is only a question of time before that R3,60 Sunday morning frolic with Dagwood and Blondie turns into an expensive romp.

The SA pulp and paper industry ranks as a medium-sized producer, accounting for about 1% of world production of more than 250 Mt. There are only two SA manufacturers — Sappi and Mondi. Both are enjoying the benefits of committed capex and foreign acquisitions.

Sappi's $1,6bn acquisition of US paper manufacturer S D Warren last year has, in the words of chairman Eugene van As, "catapulted Sappi into the number one position of wood-free coated paper-makers in the world." The group also recently splashed out R1bn expanding its Saiccor dissolving pulp mill in KwaZulu-Natal, with output primarily aimed at export. With its purchase of five UK mills in 1990, plus the Hannover Papier mills in Germany in 1992, Sappi was recently prompted to consolidate all its European and UK interests under an umbrella organisation — Sappi Europe — headquartered in London.

Van As

Sappi southern Africa MD Ian Heron says the current upturn in newsprint prices should be viewed more as a "price recovery" than a "price increase."

"To get a balanced viewpoint, one has to go back to 1990, when newsprint prices bottomed. The price went so low that there were several closures of overseas mills." Sappi, he says, moved to a situation of parity pricing to avoid a flood of cheap imports. Heron adds that the past 18 months has seen a steady increase in prices. "Local publishers took good profits when prices were low. They now find that they have to give some of this back."

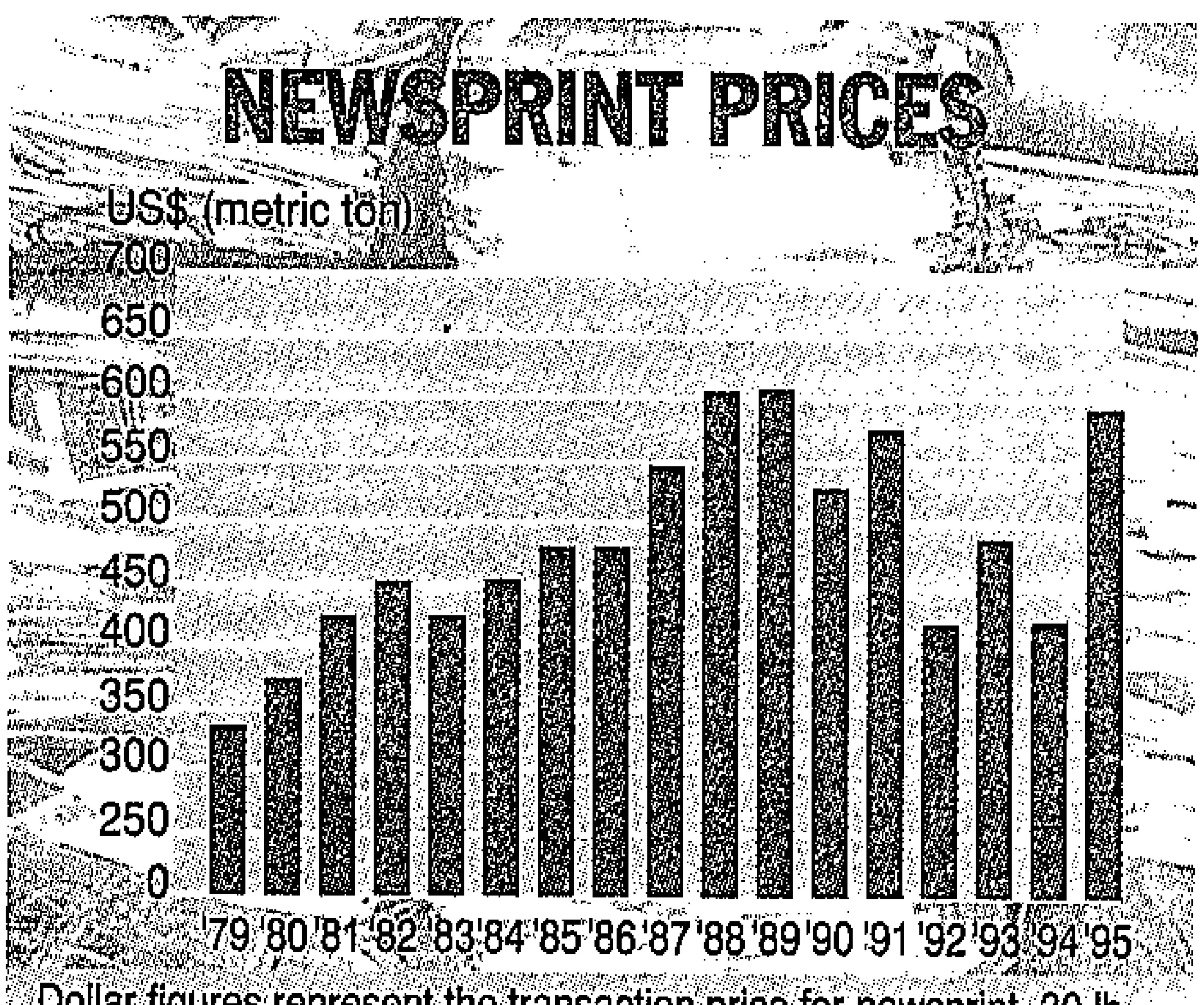
Van As has just returned from a whistle stop US road show which he says "went extremely well. We are now in the global market for sure."

Foreign investor acceptance of the company's $250m bond issue bears testimony to Van As's faith and pinpoints growing overseas confidence in the group and its products. The originally announced issue of $150m was four-and-a-half times oversubscribed. The seven-year bonds carry a coupon of 7,5%, and will be convertible into Sappi shares at a price of $20,85 (R76 at a fixed exchange rate of $/R3,645), a premium of 8,7%.

In turn, Amic-owned Mondi is also heavily into international markets, with exports to 38 countries contributing 30% to the company's turnover. This trend is expected to increase in the coming year. Surging demand has seen the implementation of a R560m capex programme for 1996. Executive chairman Tony Trahar says another R1bn may be spent in 1996-1998, conditional on government's ability to maintain a stable and attractive investment climate.

The current investments include R135m at the Piet Retief linerboard mill, R128m at the Richards Bay pulp mill and R133m at the Mondi paper mill in Merebank, Durban.

At Piet Retief, production of corrugated papers for the packaging industry will increase by 30 000 t, to 120 000 t, a year, while the Richards Bay investment will push pulp capacity up by 50 000 t a year. Production of supercalendered papers for the magazine industry is being increased by 50%, to 120 000 t, at a cost of R70m. The group's cartonboard division will get a



Dollar figures represent the transaction price for newsprint, 30 lb delivered in the Eastern US markets in March for each year

SOURCE: PULP & PAPER WEEK

Continued from page 27

The two men — Packer with a fortune estimated at up to A$5bn and Murdoch one of A$12bn — have been engaged in a sometimes violent feud stretching back more than 35 years.

The two men are physically and educationally dissimilar. Murdoch is compact, quietly spoken and ruthless in getting what he wants. Educated at Geelong Grammar School in Melbourne and at Oxford University, he was known in his early days as Red Rupert because of his leftist leanings and hero worship of Lenin. Later, though, he became a conservative, admiring Margaret Thatcher and Ronald Reagan among others.

Packer, by contrast, is a huge man, loud, intolerant of opposition, ready to use his fists if necessary and a gambler on a massive scale. He was in and out of a number of schools in his youth, finishing up, like Murdoch, at Geelong Grammar. Undiagnosed dyslexia made him academically hopeless, unlike his older and intellectually bright brother, Clyde. His teachers and his father Frank (later Sir Frank) regarded him as a numbskull.

He did not make friends easily — he still doesn't — but he was tough and liked physically demanding sports such as boxing, rowing and later polo. He excelled at all of them, despite a near-fatal brush with polio at the age of six and a crippling car accident at the age of 18 that put him in hospital for eight weeks. He eventually left school at 19, without his school certificate, and finished the toughening up process with stints at labouring, truck driving, working on cattle stations and doing every menial job his father could find for him in the family's newspaper, the Australian *Daily Telegraph.*

Both Packer and Murdoch were born into newspaper families. In 1953, at the age of 22, Murdoch was pitchforked into the business when his father died of a heart attack. Facing massive death duties, he had to sell most of the publications.

Luyt

Packer, on the other hand, went to work in an established and powerful business, but only as the "clown prince" doing every demeaning job his father could find. His brother Clyde, as the heir apparent, was taken on as a journalist.

In fact, his father was to claim that both his sons were a disappointment and lacked drive. Packer senior let it be known that a brash, confident and aggressive young newcomer in the newspaper business was much more his ideal of a son. That man was Rupert Murdoch who, in the seven years after taking over his crumbling inheritance, had quadrupled profits on his initial papers, taken over others and opened a magazine and a television station.

So far his success had been limited to Adelaide and Perth. Now he decided to take on Sydney, where three families — the Fairfaxes, the Nortons and the Packers — had carved up the market between them.

Packer

All three colluded to keep the interloper out until 1960, when Murdoch bought a company that published giveaway newspapers in the western suburbs of Sydney; he tapped in to what promised to be a vast new advertising market, as regional shopping centres began to spread through the suburbs. That threatened to break the Packer-Fairfax monopoly of classified advertising in the city — which meant war.

Packer senior and Fairfax joined forces to publish their own suburban giveaways and decided to use the presses of the ailing Fairfax-owned afternoon daily, the *Mirror.* Not for the last time, though, the Fairfax group was to cause apoplexy among the Packers by suddenly deciding on another strategy. They sold the loss-making *Mirror* to Murdoch, expecting that the huge debt he would have to take on to buy it would sink him without a trace.

Instead, they provided Murdoch with the first rung in his ladder to national and then international success. At the same time, they had nowhere to print their suburban giveaways.

They decided to take over the Anglican Press. It was in receivership, for sale, and Clyde Packer was a director. A cheque for $100 000 to the receiver seemed to clinch the deal — until Francis James, the eccentric owner, heard about the deal and persuaded the Anglican bishops to veto it at the last minute.

But Kerry and Clyde Packer, their lawyer and two tough employees drove up to the Anglican Press building late one evening, forced their way in, threw the occupants into the street, changed all the locks and took over.

James heard about this within an hour and gathered a group of ex-RAF friends to take the building back. He also rang Murdoch who hired some professional "heavies" to help the "James Boys" out. They in turn broke into the building and, using greater numbers, monkey wrenches and even a few thrown darts to overwhelm the Packer group, tossed them into the street. Kerry was severely beaten in the process and stories circulated about Clyde running around with darts in his backside.

The Packers did manage to get out a suburban giveaway newspaper three months later and a circulation war got underway. It ended when both sides called a truce, carved up the suburban market into equal shares and agreed on a 12-year nonencroachment deal.

The families continued to compete at every opportunity, both in newspapers and TV. Sometimes Packer won, sometimes Murdoch.

Kerry Packer began to emerge from his father's shadow in 1972, when he brokered a deal in which Murdoch bought the titles of the Packers' daily and Sunday *Telegraph* newspapers. And after heir-apparent Clyde and his father fell out over the planned appearance of Australian union leader Bob Hawke on a Packer TV programme during a major strike, Kerry was installed as heir. In 1974, aged 37 (and still considered the "idiot son," according to one biographer), he took over the business after his father died.

Contrary to expectations, he was a huge success. He inherited a business worth about $100m, and had turned it into a $5bn giant by the early Nineties. But where Murdoch diversified into international publishing, TV, radio and even Hollywood filmmaking, Packer made his fortune mostly within Australia. He was a confidant of Labor Prime Minister Bob Hawke, an association that yielded great advantages — but which was to lead to yet another Murdoch showdown.

Hawke was deposed as PM by Paul Keating, who considered Packer to have been too close to his predecessor; Keating proceeded to favour Murdoch.

Murdoch, whose vast empire includes Twentieth Century Fox films, the *New York Post*, HarperCollins publishers, *The Times* and *Sun* newspapers in England, and the Sky satellite TV network, was delighted to benefit.

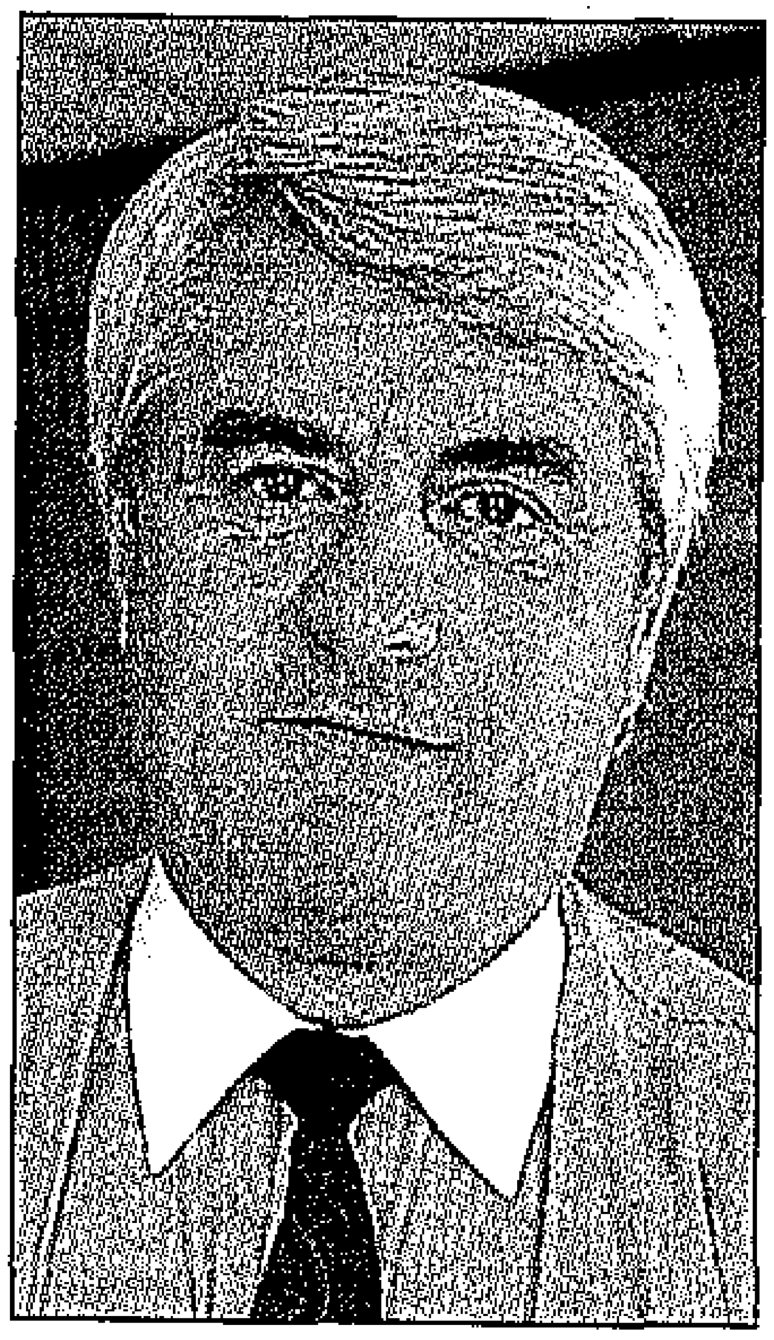
Packer, who saw government apparently interpreting Australian cross-media ownership regulations to benefit his long-time rival, was furious. Then, when Murdoch trespassed on Packer's rugby league TV turf this year, all the old enmities surfaced with full force.

It is that process into which SA rugby has been sucked. Let us hope our administrators and players know what they are doing, or their fingers could be severely scorched. ■

R43m cash injection to meet growing demand from packaging converters for sheeted board products.

Offshore, Mondi holds a 5% interest in Minorco's Mondi Europe. Though small, the direct interest could have a spinoff for Mondi. A let-up in SA's foreign exchange controls could lead to a buyout of Minorco's interests, using local and foreign funding. This may be just the catalyst that nudges the company into a local listing.

Mondi MD Derrick Minnie says one of the direct results of price increases has been calls for the abolition or reduction of tariffs. But, he says, the abolition of duties will not contribute to significantly better results in downstream industries. Rather, the removal of duties will reduce the competitiveness of the pulp and paper industry and hamper further growth.


Mondi's Minnie

Minnie cites the industry as one of high capital investment, with a historically low return on assets compared with other secondary industries. Hence it is not surprising that tariff protection applies in all major pulp and newsprint producing countries at levels ranging from 6,5% (Canada) to 45% (Kenya).

The existing total weighted average duty of 7,5% for SA paper and board is below the 11,7% average for the main importing and exporting countries. If duties are abolished in the local industry, it will be at a direct disadvantage to its international competitors, who would continue to enjoy tariff protection in their own countries.

He adds that SA tariffs are not a barrier to international competition, and are substantially lower than the average afforded other SA secondary industries. The local pulp and paper industry is also at a disadvantage, in that it has to source many of its raw material inputs at protection prices higher than those afforded the competition.

Since the abolition of import control on paper and board products, Minnie says Mondi has been fully exposed to the cycles of the international pulp, newspaper and board market. Should duty be abolished, any return to international overcapacity sets up SA as an easy target for the disposal of excess capacity.

Minnie says Mondi's aim is to become a global player, benchmarked on international cost and quality standards. "We have a strong base, and there is potential to extend our manufacturing operations. We are involved in parnerships in Europe and the UK and have the potential to become a much bigger earner of foreign exchange and creator of much-needed employment opportunities in SA."

He says capacity planning and market forecasts were based on volume growth prospects supplied by local customers. But, generally, their estimates fell short and order patterns on some grades suddenly increased by 30%-40%. To meet this unexpected demand, exports were trimmed in areas where Mondi was not committed to longer-term fixed volume supply contracts.

"Export markets are important to Mondi, and we are implementing the capital expenditure projects to increase capacity in certain grades where there is export growth potential," he says.

Talk of collusion between the two manufacturers has, in the past, pinpointed pricing levels that just so happen to coincide. But, believe it or not, it may be coincidence — as both companies virtually operate in different markets. The point where they come into competition is in fine papers and container linerboard, which analysts say were highly competitive sectors before the present price spiral. Nonetheless, the Board on Tariffs & Trade saw fit to probe the industry, and its findings are awaited.

One area where there is definitely no collusion is in the newsprint market. Both companies price competitively, but nonetheless have parity-linked pricing mechanisms.

Printing Industries Federation technical director Eric Kuhl says prices from both manufacturers have always been related to international markets. But, he warns, the industry is braced for another price hike of about $60 t from next month, which will push pulp prices through the $1 000 t mark.

Kuhl calls for the scrapping of all import duties on paper. He says both manufacturers have been protected long enough, and claims they are international players and only conduct about a third of their business locally.

But analysts say SA is categorised as a developed economy and its duties are in line with countries such as the UK (9% duty) and Australia (10%). In less developed economies, such as Brazil and Nigeria, duties are 25% and 40% respectively.

Historically, the pulp and paper industry is prone to price fluctuations. Analysts point to a strong correlation to changes in world GDP, with any increase in the GDP of major industrial countries resulting in increased demand for paper.

For some time, newsprint and pulp stock levels internationally have been critically low, mainly because the downturn from 1990 to the end of 1993 discouraged any significant investment to increase capacity. The sudden upsurge in demand quickly depleted stock accumulations, and current capacities are generally insufficient to cope with demand.

Expanding Asian and Latin American economies, good growth in Europe and the US and the spread of democracy are part of the rising price scenario.

The lack of increased capacity, together with the higher cost of essential raw materials — including chemicals and pulpwood — exacerbated the situation and resulted in regular price increases of paper and board products.

Higher price levels now prevailing are the base upon which the pulp and paper industry is recovering from four years of losses.

The price of pulp directly influences the pricing of many grades of paper, particularly wood-free and part-mechanical papers, such as photocopy paper, business forms papers and newsprint. International shortages of other fibre sources, such as pulp logs and waste paper, also influenced pricing in less pulp-dependent grades.

Some analysts say it will take a good three to four years for world capacity to catch up with demand. No significant new newsprint mills are planned anywhere in the world. New mills would take two to three years to build and are currently viewed as poor investments. Engineers are squeezing extra production out of existing equipment.

Newsprint isn't the only grade in tight supply. Newspaper publishers are also facing competition for newsprint from advertisers, catalogue producers and book publishers wrestling with overall increases in paper prices.

According to some analysts, the boom will continue for between six months to a year, while others portend two years. Newspaper groups and other paper users suffering from the surge in paper costs are beginning to economise. Analysts say this may lead to demand peaking in six months.

While taking cognisance of the low returns over the past four years, both Sappi and Mondi would nonetheless be prudent to temper further increases with caution. Though shareholders, who waited patiently in the lean years, are now expecting bumper returns, the paper kings should be careful not to kill the goose.

Already major publishing groups, both locally and abroad, are accelerating moves to invest in electronic publishing. Many, who delved into electronic media years ago find themselves better positioned for the present crunch on prices. Others are taking the cable TV route, while several US publishers have already merged afternoon and morning newspapers to save on newsprint costs. And there is talk of more rationalisation should pulp prices continue to climb.

Mick Collins

Sappi maps out a route to the world

(194) DM 29/8/95

Hilary Joffe

SAPPI's acquisition last year of US paper company SD Warren has advanced it several steps along the road to being an international player.

But it is a road which the group is still travelling. It intends to expand its presence in Europe within the next five years, and ultimately it would look at entering Asian markets.

The $1,6bn SD Warren acquisition added to Sappi's manufacturing operations in Germany and the UK, raising the non-southern African component of its sales to 85% of the total, and making it the world's largest producer of woodfree coated papers.

But Sappi's stated aim is "to be a global paper company by the turn of the century", and the group is not yet where it wants to be. Executive chairman Eugene van As is clear on the reasons for the group's ambitions: the world paper industry is fragmented and paper companies are going to have to get bigger and more international.

In industries such as chemicals and computers, the top 10 companies typically have 40%-50% of the world market while the largest company has 10%-15%. By contrast, the global top 10 paper producers have a market share of only around 15%, and the largest accounts for less than 3% of the world market, Van As says.

The paper industry is one of the most capital intensive in the world, and small companies can no longer afford new paper machines, which cost $400m-$500m each. At the same time, the industry's customers are globalising — large packaging or publishing companies with global brands want the same quality wherever they operate, and do not want to deal with numerous suppliers.

"The opportunity to have a global business is fantastic for an SA company. If we didn't do it we would become a non-player, because the global market is coming here too," says Van As.

The group is third or fourth among European coated paper makers, and Van As believes it must get stronger in the region, buying market share. Europe has a particularly fragmented paper industry: where the US market has six or seven coated paper companies, Europe has 25.

"That is going to agglomerate, and we would like to play a role there," Van As says. It is most likely to do so by acquisition, to add to the expansion programme already under way in the UK and Germany.

Ultimately, Sappi would target the rapidly growing Asian market for expansion, but this is for the longer term. The group does sell its products in countries such as India, China, Indonesia and Thailand. But, Van As says, excluding Japan, none of the individual markets in Asia is large enough to support a competitive coated fine paper producer. India's per capita paper usage is less than 4kg a year, compared to 52kg in SA and 300kg in the US.

Meanwhile, the group is digesting the SD Warren acquisition and reorienting its European operations, as well as spending to improve efficiency and output in its SA mills. Van As, acting as SD Warren CE until he finds a new incumbent, is finding SD Warren can increase production by even more than was anticipated at the time of the acquisition in December.

"We knew we could increase output by 200 000 tons or more: now we know it's 300 000 tons, and probably more if we put some money in. The key is to get the productivity of the machines up."

SD Warren spent $1bn on new equipment between 1987 and 1991 (at the top of the cycle), with not a cent of return on the investment. Management focus was lacking, efficiency was poor and there were product quality problems. Sappi is getting on top of the problems, says Van As, although there is still some way to go. But annual output is already running at 180 000 tons higher than last year, with few changes in personnel. There is also huge potential for cost reduction, especially in distribution, where $1m a month has been saved.

The US market for coated papers grew by 11% in the first half of 1995, with around half of this going into stock. No new coated paper machines will come on stream in North America before the end of 1997, so the group is well placed to take advantage of buoyant market conditions, says Van As.

In Europe, Sappi's German business, Hannover Papier, is now very profitable after three years in which it diluted the group's earnings. The UK operations have not done as well (they reported a small loss for financial 1995).

Earlier this year Hannover and Sappi UK were brought together under London-based Sappi Europe, with a "multinational management". It is working to make itself a European business, particularly in terms of selling its UK products in Europe.

The group's debt level of R7bn plus — the bulk of it from the Warren acquisition — worries investors and analysts. Van As says reducing it is a priority. This is being done out of cash flow, and the group plans a public offer of SD Warren shares when the timing is right. The $250m raised by Sappi's successful convertible Eurobond issue last month is still treated as debt, although it is likely to be converted to equity.

The dramatic rise in paper and pulp prices over the past 18 months helps: Van As is not worried about the group's ability to cover its debt, most of it long-term and in US or European currencies at lower interest rates than SA's. The debt would be more problematic if the cycle turned. Van As says it would hurt, but the SD Warren debt was structured to ensure the group could ride out a severe downturn.

He is confident the downturn is not imminent. Pulp prices are now at $925/ton (going up to $1 000 in October) against the $360 at the bottom of the cycle at the end of 1993; coated paper prices are up to DM2 000 to DM2 100 from DM1 250 18 months ago.

Prices are stabilising and may come down a bit: customers are no longer paying premiums over market price. But Van As notes the last upturn lasted four years. He cannot see what would drive prices down this time, as over-capacity in the industry is unlikely to be a factor before the end of 1997.

The group has changed year ends to September, from Sappi's February and Warren and Hannover's December. Van As expects earnings for the seven months to September to be substantially higher than the 352c reported for the 12 months to February, which was 291% higher than for 1994.

Stationery retailers riding high on school, office growth

BD 31/8/95 (194)

Yuri Thumbran

THE new education system and rising demand for office supplies had benefited stationery retailers in spite of the general slump in the JSE's stores sector, industry sources said yesterday.

Companies which were expected to benefit were CNA, with its strong emphasis on stationery, and Mathieson & Ashley and Waltons Stationery, which offered a mixture of stationery and office automation equipment.

Waltons group chairman Frank Robarts said there was a general upward turn in the market, directly linked to increased spending on stationery and education aids, combined with strong demand from the expanding small-office/home-office sector.

Larger companies were also increasing expenditure on upgrading office automation in line with the technological advantages it offered, he said.

Small home office spending was linked to computers, office aids and stationery.

Robarts said there was an increased tendency among professionals to run businesses from home, creating further demand for office stationery.

However, the changes taking place in the education system, especially the stabilisation at black schools, had had a positive influence on sales.

"Parents are still carrying the financial burden for additional equipment and books, but the pattern on education spending has been upward. Another factor is the increased number of pupils at schools because of new opportunities in terms of nonracial education," he said.

EW Balderson analyst Brian Feldtman said companies trading in stationery and automation equipment were having a buoyant period. He agreed with Robarts that the upgrading of equipment, education opportunities and small home offices were the main reasons for the upward turn in the stationery market.

Retail Liaison Committee figures showed growth in the stationery market of 20,03% in July on a year-on-year basis.

"It is clear that education has benefited from the new government's policies, compared to housing, which is still in a slump."

Consumer spending on education would continue to increase as the benefits of the new education system created further opportunities, for black pupils especially, Feldtman said.

M&A chairman Winky Ringo confirmed that there was an upward turn in the office automation market and that stationery showed strong growth. The demand for stationery had led to depletion of stocks, he said.

CAXTON/CTP (194)

Value recognised

FM 1/9/95

CAXTON

Activities: *Printing and publishing through subsidiary CTP.*
Control: *Afmed 74,5%.*
Chairman: *M D W Short. Joint MDs: N M Coburn and T D Moolman.*
Capital structure: *25,1m ords. Market capitalisation: R477m.*
Share market: *Price: R19. Yields: 1,0% on dividend; 6,6% on earnings; p:e ratio, 15,3; cover, 6. 12-month high, R19; low, R12,75. Trading volume last quarter, 200 shares.*

Year to March 31	'92	'93	'94	'95
ST debt (Rm)	16,9	3,7	3,5	7,9
LT debt (Rm)	20,3	5,4	8,6	18,3
Debt:equity ratio	0,07	n/a	n/a	0,02
Shareholders' interest	0,59	0,63	0,66	0,65
Int & leasing cover	17,5	26,9	n/a	179,7
Return on cap (%)	19,8	17,7	15,7	16,1
Turnover (Rm)	563	584	629	687
Pre-int profit (Rm)	69,5	70,2	71,3	85,5
Pre-int margin (%)	12,0	11,6	11,0	11,4
Earnings (c)	79	85	97	125
Dividends (c)	11,4	13,0	15,9	19,5
Tangible NAV (c)	†11 063	441	527	623

† Does not reflect capitalisation issue and subdivision of shares in 1993.

Disclosure remains minimal, but persistent investors are clearly recognising the value of Caxton and 53%-held subsidiary CTP. New developments supported by solid results in financial 1995 make these interesting shares to watch.

Caxton grew EPS by 29% and increased the dividend payout, on what remains a high dividend cover of six times, by 22,6%. Main income source CTP reported EPS 23% higher to 193c and increased its dividend by 23,1% to 32c (also covered six times).

The shares have appreciated in tandem, gaining about 47% over the past year to reach new highs. That comes off the high base set in the previous year, when Caxton gained 117% and CTP 73%.

Jankelowitz

Caxton's balance sheet remains strong. Borrowings are up and cash has been reduced from R49m to R18m, but gearing is negligible. The surprise is the 42% increase in stock to R88,5m, which — with debtors that have grown from R121m to R170m — plays havoc with working capital and the traditionally strong cash generation.

CTP chairman and MD Edwin Jankelowitz says stock was built up when the company recognised late last year that there would be shortages and price increases of paper and board. Debtors peaked in the last month of the year-end, he says.

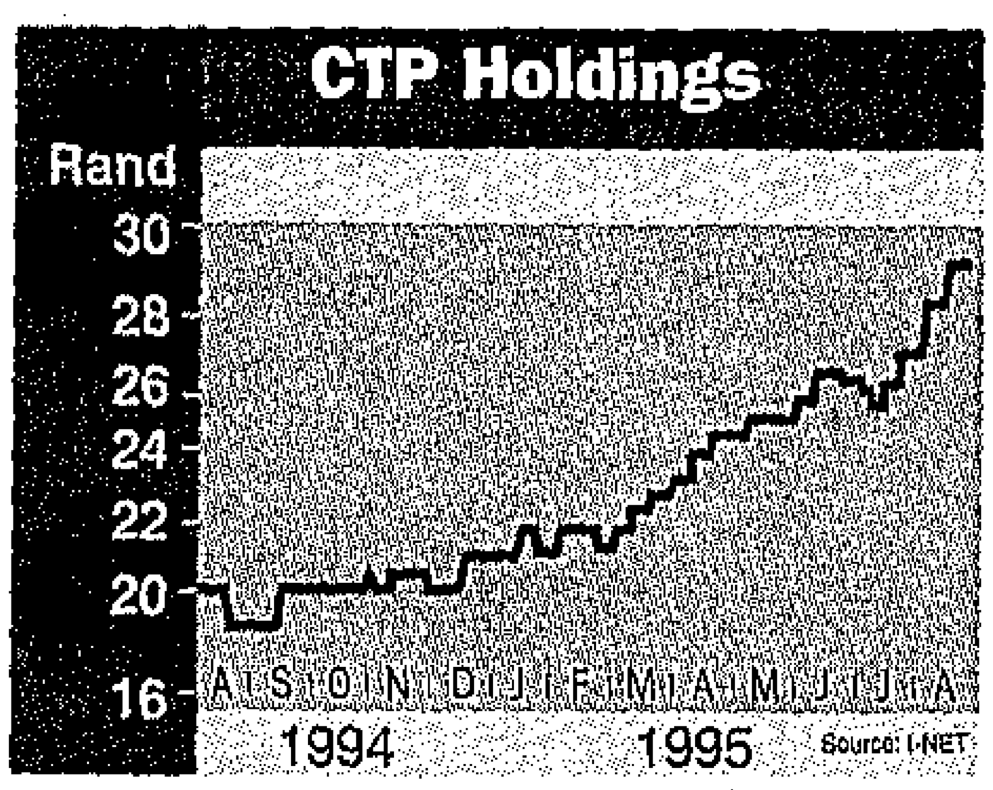
CTP has some protection from escalating newsprint prices through long-term contracts, but stock was increased as a precaution. He believes paper prices could level off, but points out the local industry is feeling the global squeeze on pulp capacity.

Caxton's local newspapers apparently did well in the face of tighter competition, though as usual no breakdown of figures is provided. Advertising volumes are expected to increase with consumer spending.

Subsidiary Hortors saw EPS decline by 37%, though this was expected as the company was consolidated and Clegg Holdings was delisted and integrated. Ink business Solchem maintained earnings on higher volumes but squeezed margins; book printing and SA Litho increased volumes. The Gauteng and Cape printing divisions increased capacities but felt pressure on margins from increased competition.

CTP's ongoing fight with Independent Newspapers over restraint clauses relating to the publication of local newspapers remains unresolved. CTP has appealed against the latest decision handed down by the Rand Supreme Court, allowing *The Star* to publish a local newspaper insert, but it could take up to two years before the matter comes before the Apellate Division.

The three-year contract recently won by CTP to print Telkom directories starts later this year. Jankelowitz says little financial effect will be seen in this year's results. Thereafter it will add about R50m a year to group turnover.



A new strategic initiative with black partners to launch newspapers, mainly freesheets, into former black areas has added seven titles to the CTP stable. The project remains small and may take some time before it makes a contribution. If it achieves anything near the success CTP freesheets have enjoyed in white suburbia, it could be a substantial source of revenue.

There is little to choose between Caxton and CTP shares, though the latter is generally more tradeable. Both appear fairly fully priced. Comparisons in the printing and publishing sector are difficult; the closest might be Independent Newspapers, on a p:e of 13 compared to Caxton's and CTP's 15,3. However Caxton's and CTP's diversification and expected revenue from Telkom and new titles probably lend more value to these shares.

Shaun Harris

Higher price of paper pulp to hit fruit industry

CT (BR) 5/9/95 (194)

By Françoise Botha

Staff Writer

In reaction to the expected 30 percent to 40 percent increase in the price of paper pulp, Unifruco, the international marketing group in the deciduous fruit industry, said such increases would have a tremendous effect on production cost and net farm income.

A Unifruco spokesman said packaging was the most important producer cost component for fruit exports. He was uncertain whether these increases could be recouped through higher prices due to the competitiveness of international fruit markets. Anton du Preez, the chief executive, said the company was involved in negotiations with local paper suppliers in a bid to restrict increases.

He said the world price of paper had increased more than 100 percent over the past two years, but international competitors had been supported by their governments, which eroded South Africa's competitive position.

"Price hikes of this nature are even more unacceptable if seen against the background of the recent removal of export incentives.

"The industry, which is the country's biggest foreign exchange earner after the mining and mineral products industry, has little encouragement to expand production."

The industry, which exported more than 100 million cartons of fruit to 60 countries last year and employed 500 000 people, could be damaged by foreign markets' competitiveness. The company is looking at ways to limit the effect of price increases by reducing the paper content of cartons.

Higher price of paper pulp to hit fruit industry

(194)

■ BY FRANCOISE BOTHA

Star 5/9/95

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Sappi under-rated on JSE, says report

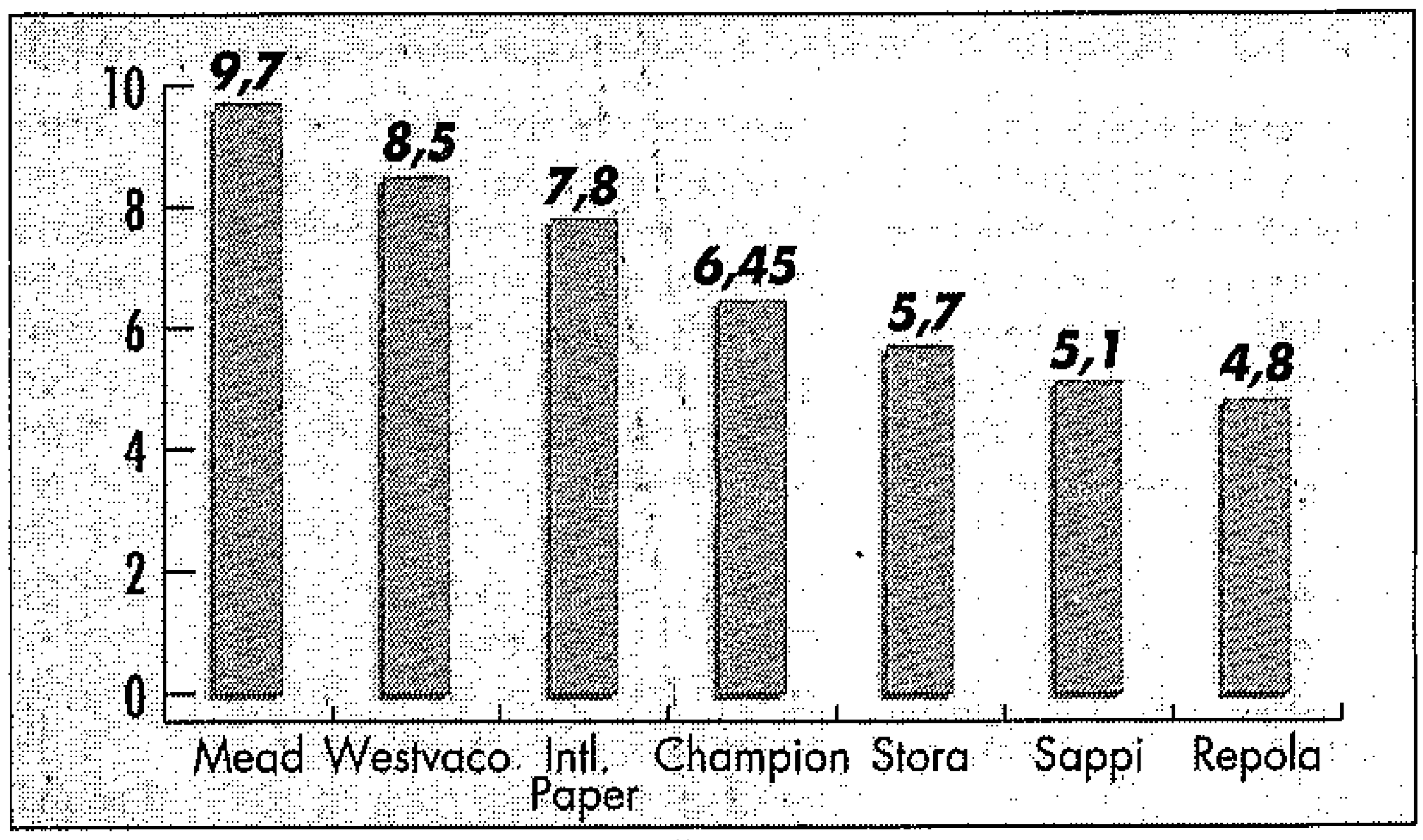
(194)

CT (BR) 15/9/95

BY CHARLOTTE MATHEWS

INVESTMENT EDITOR

September 1996 PERs of paper companies



Sappi's price: earnings ratio for September 1996 is undemanding relative to other international paper companies

The paper and pulp group Sappi looks under-rated on a forward basis, compared with the JSE's industrial index and other international paper companies, and a re-rating can be expected, investment house Hambros Equities UK said in its latest report on the company.

Hambros wrote its report when Sappi's shares were at R72 — they have subsequently fallen to about R71,50.

After international acquisitions in 1990 and 1992, Sappi bought SD Warren of the United States last year for $1,6 billion, making it the world's largest integrated producer of coated wood-free paper and dissolving pulp.

Coated wood-free paper accounts for 47 percent of Sappi's turnover and is the fastest growing sector in the pulp and paper market.

"The recent acquisition of SD Warren was extremely well timed, enhancing Sappi's earnings from the outset as well as providing the group with the latest papermaking technology," Hambros said.

Unlike Sappi Europe in Britain and Hannover Papier in Germany, SD Warren will positively contribute to the group's earnings from the outset.

Sappi Europe's four paper mills are high-cost operations which are vulnerable to increases in pulp prices. Although this division has never made a profit, it is expected to next year.

The timing of the purchase of Hannover Papier was poor and although it made sustained losses it should contribute about DM80 million to Sappi's profit this year.

The South African operations have a competitive advantage because trees grow faster in the southern hemisphere, Hambros said. Saiccor, the world's largest dissolving pulp producer, is considered the lowest-cost producer in the world.

Sappi is focusing on higher-value-added goods which, together with its high level of integration, should reduce its earnings volatility and result in a higher than average price tó earnings ratio.

The forecast price to earnings ratio for this year is 8,9 and 5,1 for next year.

Next year's ratings for international paper companies range from 9,7 for Mead and 8,5 for Westvaco down to 4,8 for Repola.

One negative factor is Sappi's high borrowings. The debt to equity ratio is currently about 1,2.

However, most of the debt is housed in SD Warren and creditors have no recourse on other Sappi assets. In addition, the debt to equity ratio should be reduced to one by the end of this year.

Sappi under-rated on JSE, says report

(194)

Star 15/9/95

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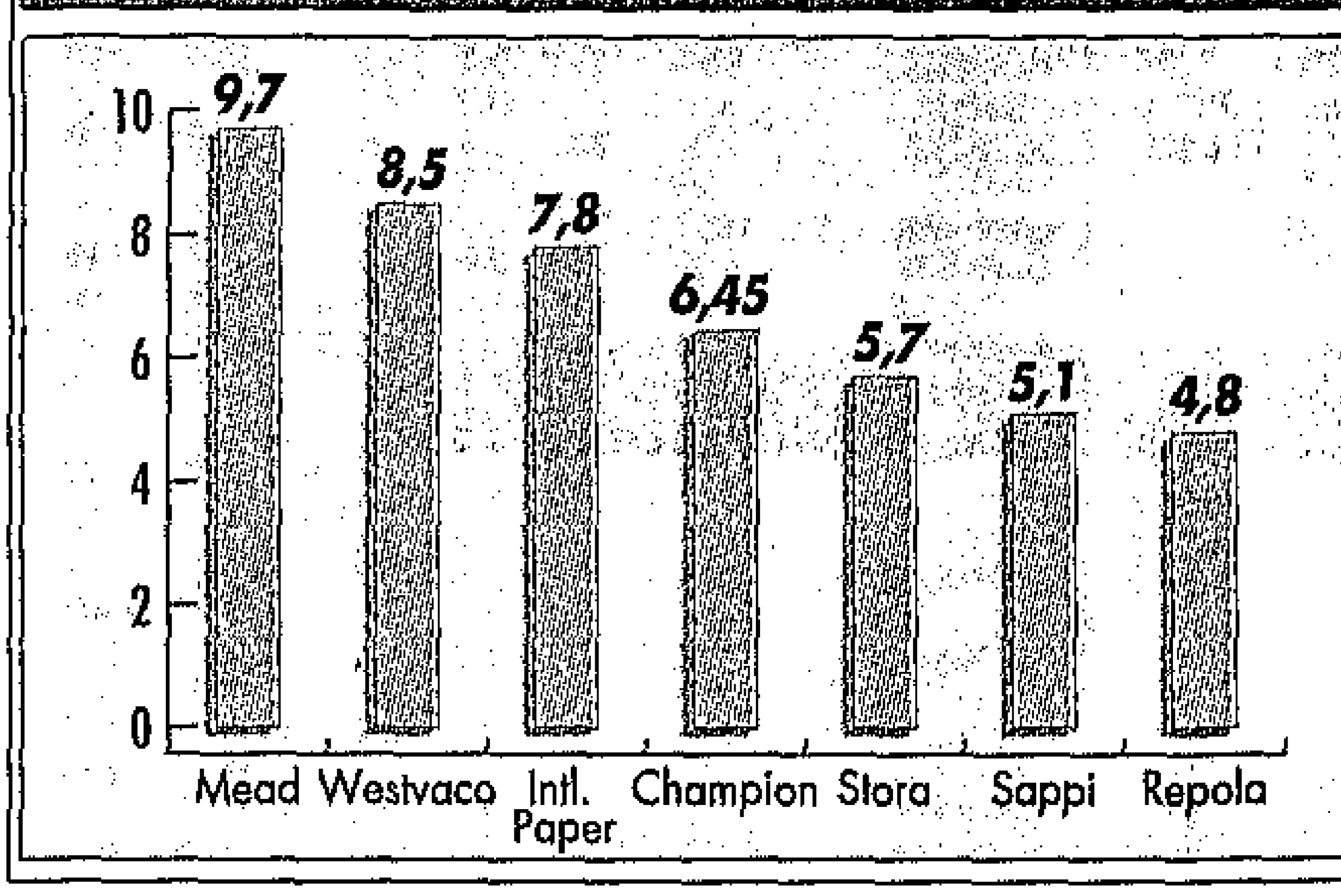

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Sappi first in SA to use the ozone process

(194) BD 22/9/95

Beatrix Payne

PULP and paper company Sappi had introduced a R130m ozone bleaching process at its Ngodwana mill, the company said yesterday.

The plant itself cost R75m and development partner Air Liquide had invested a further R50m.

The first ozone-bleached pulp was produced at Ngodwana last weekend and full commercial production would start within weeks, Sappi Kraft MD Ian Forbes said yesterday.

The ozone process eliminated the use of elemental chlorine, making it possible to reduce the use of chlorides in effluent by as much as 85%.

Sappi was the first SA company to apply this technology. The process was being operated under licence from US corporation Union Camp.

COMPANIES

Holdains sells Graphtec for R129m

BD 5/10/95

Beatrix Payne (194)

PACKAGING group Holdains has sold the paper merchanting assets and business of subsidiary Graphtec to UK-based Arjo Wiggins Appleton in a R129m deal that will increase the Malbak-owned group's net asset value 5%.

Holdains CE Richard Bruyns said that the sale would release funds which had been tied up in non-core operations but would have a neutral effect on earnings.

"We are concentrating our focus on the area of packaging and aim to become a world class packaging company. Paper merchanting, which has very demanding working capital requirements, did not fit our refined packaging, tissue and consumer products profile."

During the 1980s the group acquired a number of businesses peripheral to its packaging interests.

"The packaging market, together with Carlton Paper, is where we should be and it is in this area that we are now concentrating our efforts," he said.

The group had earned R28m from the sale of its 45% stake in Kohler Sacks to Pretoria Portland Cement and the sale of Graphton.

COMPANIES

Unrest deepens Gentech deficit

Adrienne Giliomee

BD 11/10/95

LABOUR unrest in KwaZulu-Natal and delays in commissioning new capital equipment pushed appliance manufacturer General Technologies further into the red with a R13,6m (R2,5m) deficit before exceptional items for the six months to August.

Loss per share showed a corresponding increase to 23,9c (4,9c). The interim dividend was passed.

Gentech chairman Peter Watt said the distinct reduction in consumer demand for certain domestic appliances had caused local producers to fight for a share in a smaller market to the detriment of margins.

Problems also had been encountered with high warranty claims related to Hoover product lines produced before the acquisition.

He said profit was further squeezed by the influx of low-cost branded and non-branded imports, which had edged out certain products which were manufactured locally.

The scrapping of import surcharges and the proposed reduction of import duties for domestic appliances would further exacerbate the situation.

Watt said the industry failed to understand why it should be penalised in this way, especially when trading partners overseas levied GATT-related import duties. He said Gentech should return to profitability through focusing on its management structure and product range.

Turnover rose 21,5% to R188,4m, while net interest paid increased 174% to R3,9m compared with the previous half-year (R1,4m). The operating loss surged 830% to R10,3m (R1,1m).

Randgold scheduled to sell off subsidiary shares

Michael Urquhart

RANDGOLD is scheduled to sell up to 20% of its stake in West African exploration subsidiary, Randgold Resources, overseas in a bid to place a value on the mineral rights, which are rapidly becoming the company's main assets.

Randgold exploration head Mark Bristow said yesterday the placing would also raise money which could be used to fund further exploration on its west and east African targets.

Randgold would not disclose what it was aiming to raise from the placing, but market estimates put the total mineral rights at $100m.

Bristow said the placement would be across a spectrum of investors in North America and Europe, and would be a foreign currency placement.

Randgold had about 77 targets in 7 000km² of mineral rights in West Africa and Tanzania, and the money raised could be used to take these projects forward.

Bristow said the long-term objective was to take Randgold Resources public.

Randgold's previous partner in one of the projects — the firm Newmont Overseas Exploration — pulled out last month because its expertise lay elsewhere. The move gave Randgold greater flexibility on the developments as Newmont had forfeited its preferential rights to participate in other West African projects.

Meanwhile, Randgold chairman Peter Flack said one of the mining house's SA mines, Durban Deep, planned to come to the market to raise R81m sometime in the second half of November.

The money raised would be used to repay the R17m in debt remaining from the R36m borrowed last year to pay retrenchment costs, and help fund the mine.

The remainder would be used to modernise Durban Deep plant and to fund development.

Competition 'to boost Nampak'

(194) BD 11/10/95

Yuri Thumbran

NAMPAK would benefit from increasing competition among soft drink manufacturers which was pushing up demand for packaging, said Tempora chairman Robin Hamilton.

Tempora had bought 5,8-million shares valued at R101,7m between June 30 and October 4 in Nampak.

Consumers face higher prices in packaging hikes

(194)

ST (BT) 15/10/95

By MARCIA KLEIN

THE price of various packaging products increased by between 30% and 40% last week, raising fears of a sharp rise in prices of consumer goods.

Andrew Thompson, general manager of Mondi Kraft, said Mondi's price increases varied for different products but were in the 30% to 40% range.

Mr Thompson said the latest increase would see paper prices return to 1991/92 levels. He said the paper price was only two-thirds of the direct cost of a cardboard box, so the increase would not necessarily translate into a 30% to 40% rise in the overall packaging cost.

Industry players say packaging makes up between 5% and 25% of the cost of a product.

Various users of packaging, including Colgate and Johnson Tiles, said they would have to pass increases on to customers.

But Rui da Costa, production manager at Fatti's & Moni's, said the increase would have "a tremendous impact" on the company. He said the price of his product would rise by 20% because of packaging, but he would have to absorb the costs. "We will have to try and survive without increasing the price. All we can do is hope that the international price will come down."

A Pick 'n Pay spokesman said the increase had not yet filtered through to retail level.

Mondi's Dutch deal lifts local stakes

Yuri Thumbran (194) BD 17/10/95

MONDI, Amic's unlisted board and paper manufacturer, has struck a deal with the international Dutch group KNP BT which will see increased competitiveness in the local merchanting market.

According to the agreement, the SA paper merchanting interests of Mondi and KNP BT have been restructured . Mondi acquires KNP BT's 40% shareholding for 100% ownership of paper merchant Paperlink. KNP BT becomes a direct 49% investor in specialist merchant Finwood Papers, a company in which Paperlink had relinquished its 30% stake, Mondi said yesterday.

The value of the deal has not been disclosed, but Mondi executive chairman said it created independence for both Paperlink and Finwood, while increasing the competitiveness in the local merchanting market. "It also provides Finwood with the backing of a major international group," he said.

Klaas de Kluis, chairman of KNP BT's international distribution division, said the company had confirmed its interest in the SA market by making a direct investment in the Finwood shareholding.

"Although shareholders have already decided to increase the equity of Finwood by R10m,we are prepared to make further investments, should the opportunities arise. SA is also an ideal base from which to develop other markets in SA," he said.

Paperlink chairman Derrick Minnie said the company could now pursue its strategy of specialising in high-volume papers, including general printing and packaging grades papers, and providing added value.

"We will be able to concentrate our inventory and carry larger stock volumes of specific grades to better service the needs of our customer base. This will also improve capital resource utilisation," Minnie said.

He said Paperlink would continue to supply imported grades.

Mondi agrees to trade-off with Dutch paper company

(194) Star 17/10/93

BY STAFF WRITER

Pulp, paper and board manufacturer Mondi, which is owned by Anglo American Industrial Corporation, has reached an agreement in principle with Amsterdam-based KNP BT to restructure both companies' interests.

Mondi will acquire KNP BT's 40 percent shareholding in Paperlink, giving Mondi 100 percent ownership of the company. In return, KNP BT will bring its holding in Finwood Papers up to 49 percent through acquiring Paperlink's 30 percent stake.

The value of the deal was not disclosed.

According to Tony Trahar, the Mondi executive chairman, the deal will create independence for both Paperlink and Finwood and increase the competitiveness of the local paper merchanting market.

The move follows Holdains' sale last week of Graphtec Holdings to Arjo Wiggins, which the Graphtec Holdings chief executive, Derek Smith, said would open the door to more international competition in paper merchanting.

Klaas de Kluis, the chairman of KNP BT's international distribution division, said the group was prepared to make further investments in Finwood beyond the R10 million equity already injected into the company.

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FS(194) CT(BR) 17/10/95

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Competition Board drawn into fight for HLH's timber

ST (BT) 22/10/95 (194)

By SVEN LUNSCHE

A BATTLE for control of Hunt Leuchars & Hepburn's R300-million timber interests has pitched millers and timber groups against the country's two forestry and paper giants, Sappi and Mondi.

It has also led to submissions to Trade and Industry Minister Trevor Manuel to enforce market-driven and competitive bidding processes in his draft Competition Act, to be released soon.

Senior government officials are known to be concerned about "the absence of any credible competitive bidding for HLH's timber interests", according to a submission to the Competition Board, which is investigating the deal.

Smaller operators are complaining that the country's scarce timber resources are being divided among a shrinking number of big corporations and that the HLH bidding procedures "were far from open and predetermined by the parties involved".

But Mondi this week raised the stakes by linking HLH's timber to plans for building a multibillion-rand pulp and paper mill near Richards Bay.

TONY TRAHAR

Tony Trahar, Mondi's chief executive, says his group is interested in HLH's timber interests "as it would secure resources for a R5-billion mill that could create thousands of jobs".

Anglo American, Mondi's parent company, owns 50% of HLH Timber Holdings and has a pre-emptive right on the 50% held by HLH, a Rembrandt subsidiary.

However, Mondi has expressed an interest in only the hardwood arm, while the R200-million softwood division is being negotiated with Sappi, which made the highest bid in a public tender issue.

Sappi is conducting a due diligence study and awaiting the Competition Board's go-ahead.

Other local operators and three multinationals also bid for the softwood interests, sources say.

"We were optimistic about the bid. Our offer was realistic and included a strong element of black empowerment," says a local operator.

Neil Morris, chief executive of HLH, is confident the board will give the go-ahead for the transaction.

"If Sappi gains control of the softwood interests it will be only the third-biggest player in that market," says Mr Morris.

"I don't believe the market is overly controlled."

Pierre Brooks, chairman of the Competition Board, says any sale of a company has to take account of the competitive situation in the particular market. The board could approve or reject the HLH deal or attach certain conditions to it.

A number of aspects of the deal are under scrutiny, he says, including Anglo's pre-emptive rights and the public tender.

Dr Brooks says broader competition issues could be affected by this case.

"Unlike overseas countries where shareholders often have a choice of two to three competing offers in case of a sale, companies here choose who they sell to because of interlocking shareholdings."

The submissions to Mr Manuel on the inclusion of competitive bidding processes as part of competition law are described as "a catalyst for market-driven bidding processes".

In terms of the submission a Competition Tribunal would ensure any bid for a listed or a large unlisted company was transferred to an independent directors' committee. The committee would ensure "that a sufficient range of competitors were afforded the opportunity to compete". It would evaluate offers and make a recommendation to shareholders.

Challenge to Mondi, Sappi

(194)

STAFF WRITER

CT (BR) 23/10/95

The Competitions Board has been asked to intervene in a looming scrap over control of Hunt Leuchars & Hepburn's (HLH) R300 million timber interests.

Smaller operators are squaring up against the country's two biggest paper and forestry companies, Sappi and Mondi, amid claims that the country's scarce timber resources are being "divided amongst a shrinking number of big corporations."

Mondi is said to be bidding for HLH's timber interests to secure resources for a R5 billion pulp and paper mill near Richards Bay.

Sappi recently made the highest bid in a public tender issue for the R20 million softwood division.

Mondi's parent company, Anglo American, owns 50 percent of HLH Timber Holdings and has a pre-emptive right on the 50 percent held by HLH, a Rembrandt subsidiary.

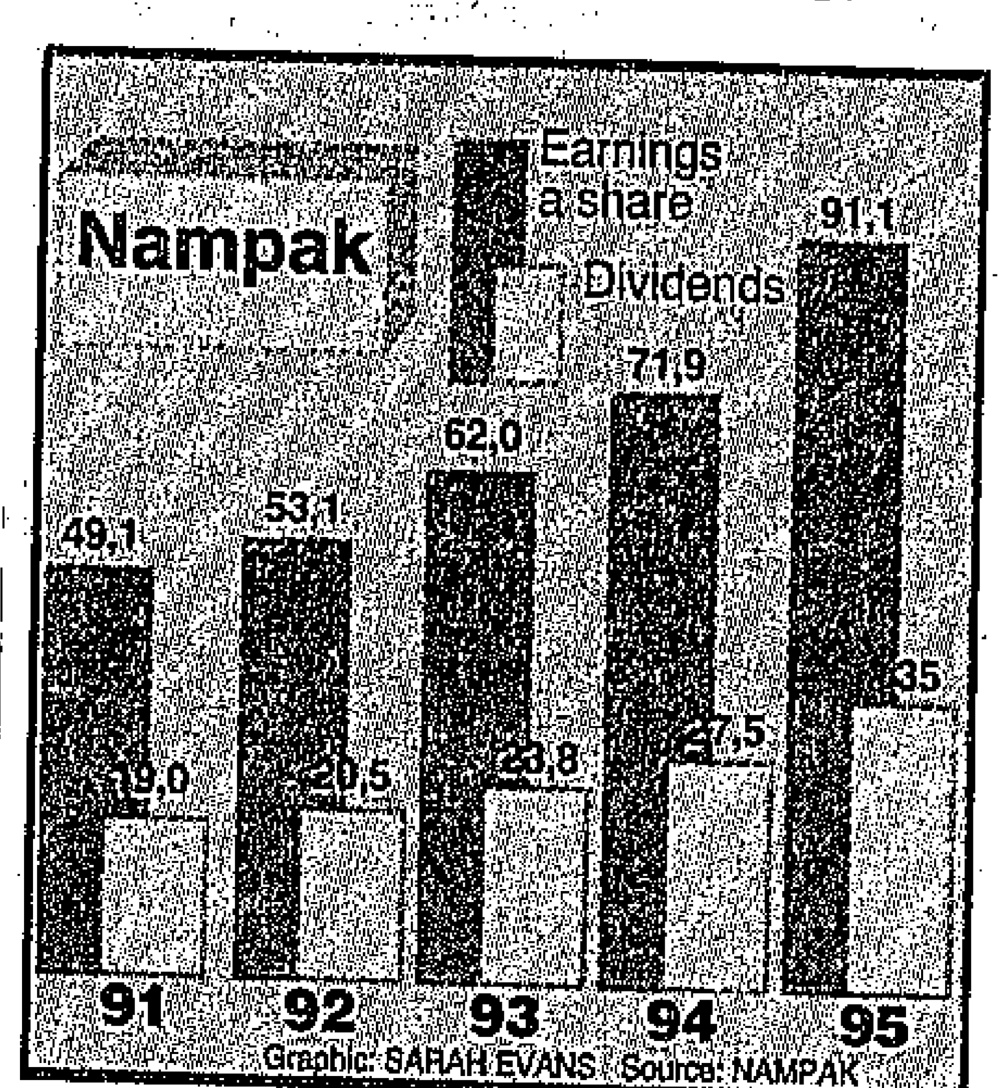
Improved sales help Nampak lift earnings 31%

BD 7/11/95 (194)

Yuri Thumbran

PACKAGING group Nampak lifted earnings 31% to R458m for the year to September, propelled by improved sales and sound cost management.

The CG Smith-owned group, with operations ranging from packaging to paper and printing, pushed sales ahead 23% to R5,9bn. Improved productivity and strict cost controls helped offset rising materials prices, increasing operating profit 34% to R736,5m. Though interest charges rose to R12,6m (R10,3m), investment income at a static R12,9m left pretax profit 33% up at R736,8m.



Graphic: SARAH EVANS Source: NAMPAK

Share earnings on an expanded share base were 27% better at 91,1c, as was the dividend at 35c.

MD Trevor Evans said earnings for the current year should show real growth provided there were no significant changes in levels of economic growth and domestic demand. Though volumes in the past three years had been static, the group had boosted efficiencies, and Nampak's market share had risen to 43% from 42%.

The mainstay packaging operations, including Bevcan, Foodcan and

Continued on Page 2

Nampak (194)

BD 7/11/95

Continued from Page 1

Divpac, lifted sales and earnings despite higher costs and pressure on margins. However, the same factors reduced earnings for plastics businesses Petpak and Liquid Packaging, with the latter knocked by lower sales to the sorghum beer market. The plastics business also had to absorb reorganisation costs at Megapak, which Nampak bought from Sentrachem earlier this year. Glass profits declined amid commissioning problems.

Evans said strong demand and high productivity underpinned the paper and printing divisions. The corrugated division improved profitability off a low base, while the merchants and tissue divisions were buoyant, resulting in increased earnings.

Printpak and Sacks benefited from volume growth, while the printing division reported improved earnings. However, Barlan Forms' poor performance continued. The results included for the first time those of BlowMocan, a UK-based blowmoulding company. The firm — which cost Nampak £22m — showed a small loss after higher volumes were beaten by a doubling in raw material prices. Evans said new management sent from SA had done well under the circumstances, and that BlowMocan was expected to contribute towards earnings this year.

The overall performance lifted operations' cash generation 30% to R951m. However, Nampak recorded a R270m net cash outflow, prompted by higher working capital needs and capital expenditure up at R413m (R252m) as the group strove to upgrade.

Nampak earnings gain 27%

(194)

BY JOHN SPIRA

Star (BR) 7/11/95

Johannesburg — Nampak, South Africa's largest packaging group, has confirmed the promise shown at the interim stage by achieving a 27 percent earnings gain to 91,1c a share for the year to September.

Virtually all operations turned in improved performances to boost turnover by 23 percent to R5,9 billion and attributable earnings by 31 percent to R458 million.

Nampak has declared a final dividend of 23c, which, together with the 12c interim, raises the total for the year to 35c — 27 percent up on the 1993 to 1994 distribution.

Brian Connellan, the chairman, said volume growth of 9 percent, productivity improvements and strict expense controls more than offset substantial price increases in a wide range of raw materials. Margins improved from 11,5 to 12,5 percent, leading to a 34 percent increase in operating profit.

"Market shares were maintained or improved in most divisions, although competition remained fierce. Global pricing is playing an increasingly important role as the South African market becomes more open to international competition," he said.

Export

Direct export turnover increased 72 percent to R178 million.

Trevor Evans, the managing director, notes that the figures include, for the first time, a full year from BlowMocan, the British blow-moulding company which Nampak acquired last year. BlowMocan showed a small loss, but Evans is confident that it will produce a meaningful profit in the current financial year and achieve close to its full potential in 1996 to 1997.

Evans emphasises that Nampak's gross gearing ratio of 15 percent reflects the group's continuing sound financial situation.

"Cash generated by operations increased by 30 percent to R951 million. Net cash outflow of R270 million was occasioned by the higher working capital requirement and to meet capital expenditure of R413 million, mainly to improve technology, enhance the group's competitiveness and to capitalise on anticipated growth opportunities."

Connellan says that given the general impetus of the economy and provided no unforeseen disruptions arise on the labour front, prospects seem encouraging.

The shares have been a strong market this year, having added nearly 50 percent since February. The yield on the higher dividend is 1,8 percent and the price-earnings multiple on the higher earnings is 21. The respective sector averages are 2,6 and 15,1.

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(194) CT(BR) 7/11/95

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NAMPAK Fm 10/11/95 (194)

Packing in capacity

There's no arguing with success. And Nampak's preliminary results for financial 1995 again confirm — if this is necessary — the extent and depth of this company's professional approach to its business.

Nampak has recorded a 31% increase in attributable; this takes it to a net R458m after tax of R267m. Of the 23% increase in turnover (now R5,9bn from last year's R4,8bn), 3% arose from acquisitions, 9% from organic growth and the balance from price increases.

MD Trevor Evans points out, however, that the increases stem from escalations in raw material costs. Supporting this, chairman Brian Connellan says principal areas of increase were paper and board, polymers (reflecting global supply/demand disequilibrium) and aluminium.

This implies that, as raw material price expansions stabilise, so Nampak may come under pressure from its own consumers to pass on the relief. Asked about this, Evans says a trend is already evident.

Turnover growth fed into operating profit of R737m — an increase of R187m or 34% better than in 1994. More important, Nampak's trading margin rose 1% to 12,5%. That represents an improvement of R60m, a big number in anyone's language.

Some issues require more detailed consideration.

The first is that Nampak is SA's largest packaging supplier with about 43% of the market overall (by volume). This figure hides the individual sector performances, where the range is from as little as 26% to as much as 90%. Neither Connellan nor Evans apologise for this virtuosity: their view is that, in a brutally competitive market, this dominance demonstrates the company's commitment to service.

MARCHING ON

Six months to	Sep 30 1994	Mar 31 1995	Sep 30 1995
Turnover (Rm)	2 412,0	2 875,2	3 021,5
Operating income (Rm)	274,9	361,1	375,4
Attributable (Rm)	176,2	225,8	232,2
Earnings (c)	36,1	45,0	46,1
Dividends (c)	18,0	12,0	23,0

The second is the company's concentration on building a strong understanding with its two principal unions, Printing, Paper, Wood & Allied Workers' Union and Numsa/MWU. Evans is emphatic the attention in this area has contributed handsomely to higher productivity and competitiveness.

The third is capital expenditure. Nampak spent R400m over financial 1995 and Connellan says another R600m will be applied this year. "We have concertinaed a three-year programme into two," he says. This is to ensure adequate capacity is available for a steady increase in demand. The programme will be financed without recourse to borrowings and debt:equity is expected to hold steady at about 0,15 gross.

Can this result be repeated in 1996? Nampak's record is from an 8% decline in earnings in 1990 followed by increases every year since then. The base is high — already more than double the 1990 level suggesting a compound annual growth rate of better than 20%.

FOX

But an independent market study indicates a constant correlation between the SA packaging sector and gross domestic product of about 2,7 times, and private consumption expenditure of 2,6 times. If the economy grows next year at 4%, this implies an organic volume demand increase for Nampak's products of about 10% — that could easily translate into another 30% rise on the bottom line.

All this suggests that switching out of the counter now might be premature. *David Gleason*

Paper firms stave off increases

(194) BD 14/11/95

Yuri Thumbran

PAPER and packaging companies were expected to maintain earnings growth in the year ahead, after seeing off sharp hikes in raw material prices, market sources said yesterday.

Companies like Nampak and Holdains were likely to see raw materials prices soften, Alexander Patterson Faure researcher Mark Ingham said. Volumes were continuing to rise.

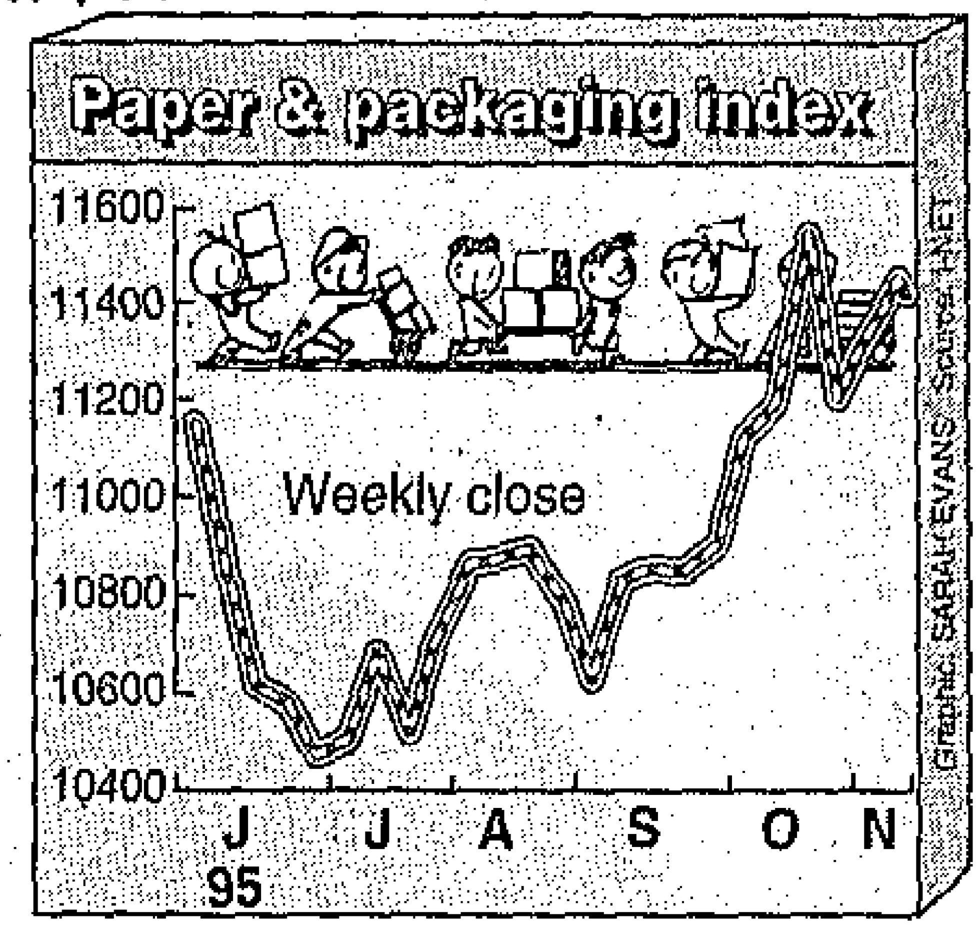
Nampak, which lifted earnings 31% to R458m for the year to September, had been helped by the forward contracts it had with paper companies such as Sappi and Mondi. The fixed price contracts had shielded Nampak from the worst of the price hikes.

Nampak MD Trevor Evans said the group expected real earnings growth this year.

An upturn in the domestic economy and resultant higher sales volumes would help it absorb further price rises, he said. Holdains was not available.

Consol MD Piet Neethling said the group had endured a tough first quarter, but business had started to pick up since October.

Consol, SA's largest glass bottle producer, lifted earnings 19% to R197,3m on turnover of R2,98bn in the year to June.



"We're under pressure at the moment, but over the full year we should have a good run," Neethling said.

Plastic prices had started to soften since its year end, after hitting a peak during that period, while paper prices had stabilised.

Neethling said a lift in Consul glass division's productivity had solved the recent surprise increase in export-related demand for wine bottles.

Nampak to launch new closures company

CT(BR) 17/11/95 (194)

By Françoise Botha

Cape Town — The Nampak group has announced that its Bevcan container closure division will be launched as an independent company in a bid to compete with the international players that have entered the local market.

The new company, Bevcap, is set to take advantage of the rapid growth in the plastic closures market that has been expanding since more local manufacturers have moved away from tin caps.

Barry Hanna, the sales director, said that the move would soon see a large increase in the company's product range.

"More and more items, like peanut butter, are coming out with plastic caps and there has been an increase in production of bottled products, like water, so we expect very strong growth from the market," he said.

Commenting on the company's exports, Hanna said that in the past these had been a relatively small contributor, but expectations were that they would add more over the next few years, since foreign markets were showing greater interest in local goods.

Bevcan currently exports to several African countries, including Egypt and Madagascar.

"To get strong growth from the export market, we need to become a low-cost producer and that means increasing our volumes," he said.

The firm is attracting strong competition from large volume producers in India, Germany and the United Kingdom.

"In India, labour makes up only 20 percent of the cost of the closure, because it is so cheap.

"In South Africa that figure is three times as high at 60 percent. But because of the expansion of the market, local costs are coming down," he said.

The managing director, John Moyes, said the decision to separate the company from Bevcan had been taken as part of a move by Nampak to improve manufacturing and service levels to bring them in line with world standards.

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	38,357
	621,043
	605,343
	11,937
	276,680

CTP/Caxton's earnings off a low base and a 12% rise in M-Net's earnings a share.

Paper market has peaked, warns Mondi

(194)

ST (BT) 26/11/95

By MARCIA KLEIN

THERE are definite signs that the international pulp and corrugated papers market has reached its peak, paper group Mondi has warned.

The paper manufacturing industry has been experiencing a sharp upturn since late in 1993 after prices hit a 30-year low. Price increases since then have been dramatic.

But Peter Hurst, the marketing manager of Mondi Kraft, says although the cycle is turning, packaging converters should not expect pricing to plummet as it did in previous cycles.

"The current market reflects a fundamental difference in that mills in the US, Canada, Scandinavia and Europe are taking unscheduled downtime." In the US this amounts to taking 800 000 tons of product out of the market.

Mr Hurst said the willingness of producers to take downtime "is a clear indication of the desire to create a more stable market".

"The sharp peaks and valleys of past cycles have been disruptive to both manufacturers and converters and it is in the best interests of all concerned that a far greater degree of market stability is achieved."

Mondi Kraft will also become more flexible in its planning and will resist holding stocks. Internationally there has been an increase in stocks held since around September, mainly due to double ordering. Mills' stocks rose from holdings of three weeks to six weeks.

"So it appears that we have reached the peak of the cycle but how quickly the market will come off peak is debatable because of the willingness of mills to take unscheduled downtime." While there may be a softening of prices, it is unlikely prices will decrease sharply.

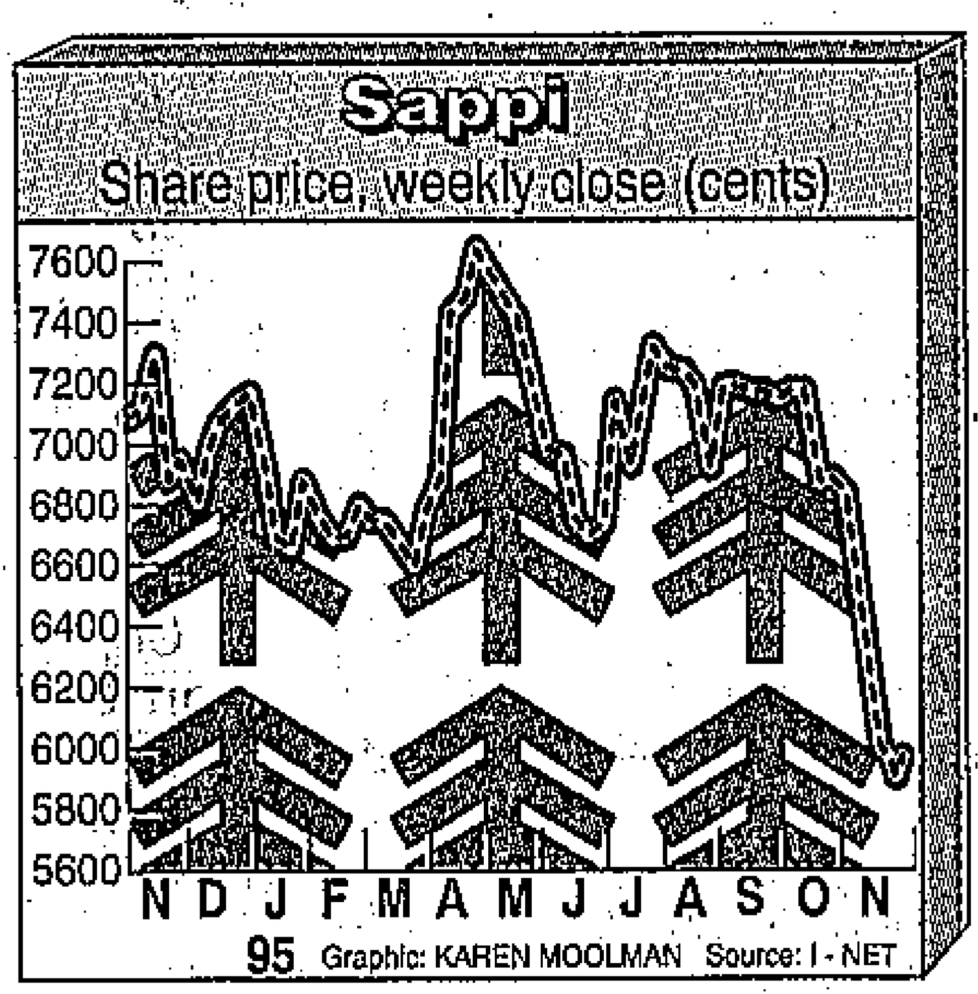
"Inventories generally are going to be normalised in global terms and a return to normal buying patterns is anticipated early in 1996."

Sappi's income soars on buoyant foreign demand

BD 29/11/95 (194)

Yuri Thumbran

PAPER and pulp group Sappi reported net income of R964m for the seven months to end-September compared with R562m for the 12-months ended February after experiencing buoyant demand for its products at sharply higher prices.



Graphic: KAREN MOOLMAN Source: I-NET

Having changed its year end from February, the group is reporting for the seven months to September.

Turnover for the review period totalled R9,3bn (R7,8bn for the 12-months to February). The figure was boosted by the inclusion of SD Warren's turnover of R3,8bn for the full seven months against R1bn for the previous period when Warren was consolidated for only 10 weeks.

Tight cost control, except for timber prices in SA, and the benefit of higher selling prices pushed operating income to R1,7bn (R812m). The operating margin widened to 18,5% (10,4%).

Finance costs soared to R413m (R195m) which stemmed mainly from the fact that borrowings raised to acquire SD Warren were included for the full period rather than only 10 weeks.

The tax bill increased to R175m (R36m) as Sappi's tax rate had risen after some companies in the group had

Continued on Page 2

Sappi

(194) BD 29/11/95

Continued from Page 1

eroded their tax losses. Share earnings rose to 600c (352c) and a dividend of 120c (100c) a share was declared.

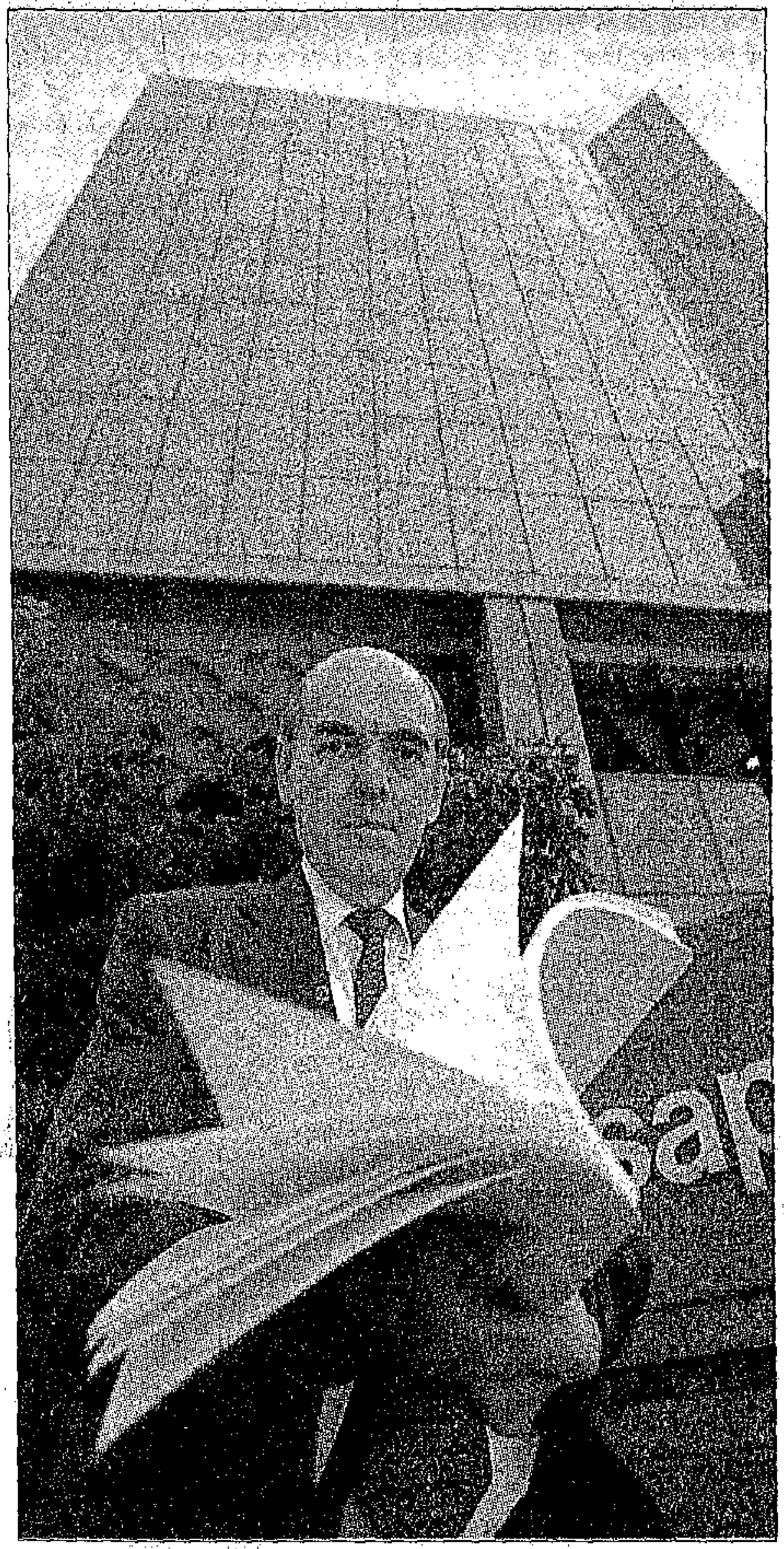
Executive chairman Eugene van As said all markets in which Sappi operated had improved.

The price of northern bleached softwood kraft pulp rose 23% from $750 a metric ton in February to $925 in July. "As a net seller of pulp, Sappi benefited from the sharply higher prices of pulp in all grades."

Van As said SD Warren enjoyed prices of coated woodfree paper which were about 25% higher than at the start of the third quarter last year. This coupled with Warren's improved production made it was possible for the US group to reduce its debt by $176m.

Warren's contribution to Sappi's turnover was 42% against SA's contribution of 36% and Europe's 22%. SA remained the largest contributor towards operating profit at 54% or R928m, followed by Warren at 32% (R550m) and Europe and the Far East at 10% and 4%, respectively.

He said SA exports had benefited from favourable world prices. Domestic prices for corrugating materials — which had traded during the review period at well below world market prices because of contracts set in prior periods — were raised to international prices in October.



PAPER CHASE *Chairman Eugene van As outside the Sappi building*

PHOTO:JOHN WOODROOF

Sappi boosts earnings on higher demand and prices

(194) CT 29/11/95

By Charlotte Mathews

Johannesburg — Buoyant demand for pulp and paper products and sharply higher prices boosted Sappi's earnings to 600c a share in the seven months to September, compared with 352c in the year to February.

Sappi, which is controlled by Sanlam, has changed its year end to September from February.

The company said yesterday that group turnover for the seven months was R9,3 billion, rising from R7,8 billion in the year to February.

The turnover figure has been boosted by a full seven months of turnover from US paper giant SD Warren. In the comparable period, SD Warren was consolidated for only 10 weeks.

Largest

SD Warren is now the largest contributor to turnover with 42 percent, compared with 36 percent from the South African business and 22 percent from Sappi Europe.

South Africa contributes 54 percent of operating profit.

Group operating income grew to R1,7 billion from R812 million. This reflects an operating margin of 18,5 percent from 10,4 percent previously.

Net finance costs grew to R413 million from R195 million as the borrowings incurred to acquire SD Warren were included for the full period, against only 10 weeks previously.

The ratio of debt to equity was 0,97 from 1,16 at the end of February because of reduced borrowings and retained profits.

The group's tax rate rose as tax losses in some companies have now been used up. If future operations meet expectations, the tax rate should rise "materially", the group said.

A R50 million provision has been made to cover the costs of restructuring the group, mainly in Europe.

Attributable income rose to R964 million from R562 million. A dividend of 120c has been declared, against 100c previously.

Sappi's executive chairman, Eugene van As, said all markets in which Sappi operated had improved, but at different rates.

SD Warren realised higher prices for coated wood-free paper. Combined with improved production, this enabled it to reduce its debt by $176 million from internal resources.

Exports from the South African operations benefited from favourable world prices.

Hannovier Papier's financial performance was restrained by the strength of the German mark. The UK's rapid increase in pulp prices was not fully recovered and results were disappointing.

The international trading operations in Brussels and Hong Kong made valuable contributions to the group.

Vibrant paper market forecast

(194)

Yuri Thumbran

BD 1/12/95

THE paper and packaging markets in SA would grow at a faster rate than the GDP and would form part of the cornerstone for Nampak's future growth, chairman Brian Connellan said in the annual review.

He said selective acquisitions in niche markets would add to the growth potential. The acquisition of Megapak from Sentrachem during the review period gave the group a major share of the plastic crate and plastic drum markets.

Given the impetus of the economy, the prospect of a better agricultural season and incremental expenditure on the reconstruction and development programme, SA should enjoy good growth in the year ahead.

Providing there was no unforseen disruption on the labour front, prospects were encouraging and the group had budgeted for another year of sound earnings growth, Connellan said.

Nampak lifted attributable earnings 31% to R458m for the year ended September on turnover growth of 23% to R5,9bn.

Sappi's share plunge linked to global drop in demand for paper and pulp

(194) ET(BR) 1/12/95

BY NEIL BEHRMANN

London — International pulp and paper prices have begun to slide from their heady mid-year highs.

The downturn, which is the result of price resistance and de-stocking by buyers of pulp and paper, explains why Sappi's shares have tumbled.

The global newspaper publishing and printing industry, however, is relieved that prices have peaked following a massive surge in prices between 1993 and 1995.

In America, several newspapers have failed, and around the world the industry is slashing costs to offset the hefty price burden of its main raw material. Yet for the newspaper and publishing industry there are signs that the tide is turning.

Prices of various types of fine paper, generally regarded as a lead indicator in the market, have tumbled. Newsprint prices on the spot, or free, market have collapsed to around $900 a ton against a peak of $1300 in the summer, say analysts and buyers of the paper.

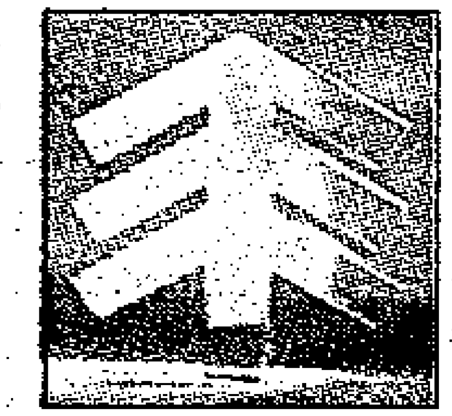
"The cycle has turned," says David Crabtree, group services director at London's Express Group of newspapers.

Contract prices for the large US and UK newspaper groups are currently $720 a ton compared with $400 at the low point in 1993. Yet manufacturers are still trying to squeeze the last ounce from buyers.

Crabtree thus believes that an attempted US newsprint price increase of 10 percent by US paper manufacturers next year will fail.

"That will prove to be a price rise too far," he says, noting that Canadian newsprint manufacturers are already earning 38 percent on assets and that increasing numbers of competitors will be entering the market.

"The high prices have curbed demand and have encouraged newsprint manufacturers in the UK, South Korea, Thailand, Malaysia and India to raise capacity," says Martin Glass, a paper consultant based in Truro, in the UK. Glass says there are currently 140 global projects that will eventually raise the supplies of newsprint.



After growing at 10 to 20 percent in the first half of 1995, newsprint demand has turned negative because purchasers are drawing down stocks, says Glass. He adds that for the moment newspaper publishers are prepared to accept high newsprint prices because they want to be assured of supplies.

Unlike Crabtree, Glass does not believe there will be a steep downturn. Although rising capacity will increase supplies, the paper and pulp industry is unlikely to shift into recession, says Glass.

Brian Navin, a paper and packing consultant at Pira International in Surrey, England, says that newsprint prices are following the pulp and paper cycle that peaked in the summer.

Fearful that they were caught in a price spiral, buyers built up inventories in the first half of the year, he says.

Now they are holding back because they have more than sufficient stocks, he adds.

In any event, 1996 will prove to be an interesting year for Sappi and other manufacturers, whose shares have tumbled in past months.

Salomon Brothers estimates that there are 273 projects for all types of paper, which could raise supplies by 17 percent or 35 million tons in the next four years.

The paper boom thus seems to be well and truly over. The only question relates to the depth of the present downward cycle.

Sappi's paper confidence built on high demand

(194) ST(BT) 3/12/95

By MARCIA KLEIN and JULIE WALKER

FUNDAMENTAL changes in the global pulp and paper market in the past five years make it unlikely that product prices will retreat as much as they did in the last downswing.

This is the view of Eugene van As, chairman of South Africa's international pulp and paper group, Sappi.

Reporting on results for the seven months to September in Johannesburg this week, Mr van As uses Sappi itself as an example of the consolidation the industry has undergone worldwide.

"Six years ago, this business had six owners, now there is only one and Sappi's expansion is by no means an isolated case."

Mr van As's point is that when a company has only one mill, it would rather discount prices than reduce production. But now the new, bigger groups have too much to lose in a price war and opt for down time or the closure of one plant and reduced output rather than price reductions to restore normality in the market.

Buoyant prices in the recent past boosted Sappi at a time of vigorous expansion and entry into new markets. Its earnings for the seven months to September — its new year-end — were almost double those of the previous 12-month reporting period to February 1995.

Turnover of R9,3-billion compares with R7,8-billion in the 12 months to February and reflects the extent of the increase in demand and of selling prices as well as the inclusion of almost R3,9-billion turnover from S D Warren, which was included for the full period against only 10 weeks in the previous period.

The price of northern bleached softwood kraft pulp rose 23% to $925 a ton in July from $750 in February. Demand for paper products and pulp was strong and, as there was no material increase in supply, prices rose.

In South Africa, trading conditions improved and surplus pulp exports benefited from favourable world prices. Mr van As says there was upward pressure on raw material prices, and careful management of these costs remained a high priority.

In Europe prices for the group's products rose but at a slower rate than the previous year. The British paper operations' results were disappointing as the rapid rise in pulp prices was not fully recovered by selling-price increases.

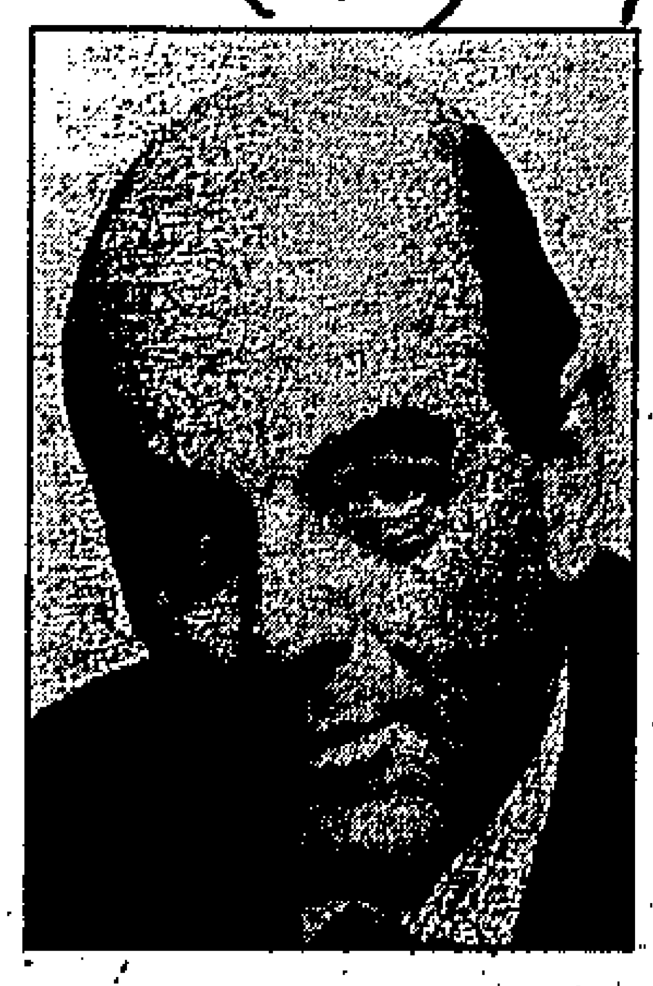
S D Warren, the US-based coated woodfree paper producer, made an important contribution to earnings for the first time since Sappi acquired it for $1,6-billion late last year.

S D Warren made up 42% of group turnover, South African operations 36% and Sappi Europe 22%. Yet South Africa contributed 54% or R928-million of operating profit, while S D Warren chipped in 32% and Europe and the Far East 10% and 4% respectively.

The million-dollar question is when will the commodity cycle turn? Some analysts and even some industry players believe the cycle has reached its peak.

Mr van As believes there is still room for growth. He expects world economies and worldwide consumption demand for all paper products to continue to grow in the coming year.

"There is little new product capacity in the near term, except in the case of recycled container board in North America, and it is anticipated that the current period of inventory adjustment will be of relatively short duration," he says.



EUGENE VAN AS

He plays down claims from Malaysia and Indonesia that new production is coming.

"As long as I have been in this business, the noise has always been far greater than the reality. Many huge new projects promised have yet to appear."

Mr van As admits to being puzzled by the recent erratic move in the Sappi share price — in the past fortnight it has been up to R69, down to R53, back up to R60 and down to R56. He claims even larger surprise that the SA market rates Sappi at about half the level afforded by American investors to similar US pulp and paper companies.

The issue of group debt needs to be addressed, but neither a rights issue nor a New York listing will be undertaken while the share is so lowly rated — annualising the seven months' earnings hypothetically results in earnings of 1 029c a share and a notional historic price:earnings ratio of 5,6 at the current share price of R56,50.

"I believe we are in the top quartile of the world in terms of quality and in the lowest quartile in terms of costs. Until our share rating reflects that, we will seek ways other than equity to reduce our debt in North America.

"Cash generation is strong and certain assets could be sold although we would prefer not to," says Mr van As.

The share did not trade on Friday after the presentation.

COMPANIES

Sappi should see confined growth

(194) BD 4/12/95

Nicole Mordant

FALLING international pulp and paper prices and additional offshore capacity would hem in Sappi's earnings this year, although the group would still show positive growth, chairman Eugene van As said on Friday.

"Earnings will be positive but we will not see the same rate of growth as the past two years. I am a little unsure where selling prices are going in view of the destocking process which is taking place and am less confident about our earnings than two months ago."

Following the recent run-up in paper and pulp prices — dissolving pulp prices had peaked at $1 000 a ton — the SA market had built up heavy stockholdings in anticipation of further price increases. Overstocking had led to an erratic order book, although this was expected to resume normal patterns early next year.

Addressing an Investment Analysts' presentation, Van As said he did not expect dissolving pulp prices to weaken materially and they were likely to settle at around $925 a ton. But linerboard prices, which had galloped up to a record $700 a metric ton, were expected to soften considerably as new capacity came on stream in the US.

Intrinsic demand for pulp and paper remained strong in SA. "The economy is still growing and the industry usually grows faster than the economy."

Sappi reported net income of R964m for the seven months to end-September compared with R562m for the 12-months to February. The group recently changed its year-end to September.

Sappi plans greenfields project for southeast Asia

CT(BR) 4/12/95 (194)

FROM AP-DJ

Johannesburg — Sappi, the multinational pulp and paper producer, said at the weekend that it intended developing a greenfields operation in southeast Asia.

But the company said it would not start the project until 2000.

"We would want to build up export markets there and then seek partners for a greenfields operation," said executive director Eugene van As at a presentation of the company results.

The Far East is the one area that eludes Sappi in its quest to be a world player.

Combining its operations in southern Africa, Europe and the United States, the company last week reported a 72 percent increase in net profit to R964 million in the 12 months ended February 28, from R562 million in the previous fiscal year.

Van As said earnings would grow next year and well into 1997 because world supply in its core products — dissolving pulp, woodfree coated paper and linerboard — would not be affected by any significant new capacity.

Van As identified earnings from linerboard as the one area that could soon be under pressure.

American producers were planning to add 2,8 million tons of linerboard to world supplies converted from waste paper.

Recycling boosts mill's expansion

(194)

BY AUDREY D'ANGELO

CT(BR) 5/12/95

Cape Town — The Sappi Kraft paper mill in the Western Cape has increased capacity from 28 000 tons a year to 65 000 tons to meet growing demand from the fruit, wine and packaging industries.

Its general manager, Denis Skeate, said the expansion, costing R30 000, had been made possible by the Sappi war-on-waste campaign through which 150 companies, one million schoolchildren and 150 000 hawkers were supplying the mill with raw materials. The mill recycles waste paper.

At present, South Africa recycles a third of its waste paper. But there is scope for improvement, said Skeat. Some other countries including Germany and Japan recycle nearly 50 percent of waste paper.

Volumes have been boosted by Sappi's R3,5 million recycling project. Collection centres are being set up, each headed by an entrepreneur who owns the recycling equipment installed by Sappi.

The first sites had been established in Guguletu and Mdantsane and others would follow in Soweto, Alexandra, Khayelitsha, Mamelodi, Daveyton, Dobsonville, Lenasia and Tembisa.

Another advantage of the scheme is that it prolongs the life of municipal dumps by reducing the amount of waste tipped there, said Skeate.

Sappi's planned project 'too large'

BD 7/12/95 (194)

Michael Moon

SAPPI's planned multimillion-rand forestry project in southeast Mozambique should be reduced in size by a third — from 30 000ha to 20 000ha — an environmental impact study has recommended.

Sappi was studying the draft impact assessment, which was released in Maputo this week, and environmental manager John Scotcher said yesterday the company would "walk away" from the project if it deemed a smaller operation unviable.

Scotcher said transport formed up to 60% of costs in the timber industry and there was therefore a minimum size for any forestry scheme. A project of around 10 000ha would definitely be too small in the Maputaland area.

The Mosa Florestal project, a joint venture between Sappi, the Mozambique government and two Mozambican companies, has sparked controversy with conservationists alleging that eucalyptus cultivation would cause extensive environmental damage.

The conservationists also said it would adversely affect plans for a Maputaland trans-frontier park linking the Maputo Elephant Reserve with the Tembe and Ndumu reserves in SA.

An alternative ecotourism option for the area had been proposed by US entrepreneur James Blanchard.

Scotcher said Sappi was "positively inclined" towards ecotourism in the area and believed the forestry project would not preclude it. The company had amended its proposals some time ago to exclude the coastal region which was more suited to tourism development. In addition, the area to the west of the plantations could still be wildlife reserves.

A final decision on whether to allow the project rested with the Mozambican government, which first approached Sappi in 1987 about the project.

However, since the end of the civil war in Mozambique, the government had been under pressure to call a halt to the scheme.

The impact assessment, conducted by the Institute of Natural Resources at Natal University, found that the forestry proposal would have "a high impact on the biodiversity of the region in terms of loss and reduction of habitat".

It would also have an impact on the water system in the area.

However, concerns over these impacts could be mitigated by a reduction in the forest area, said the report.

It went on to say that there would be "significant positive impacts" on the economic environment, especially at the national level, and forestry had to be considered as a legitimate form of land use in the region.

The development would invest R178m over 16 years and would generate an annual revenue of about R80m a year. This would improve Mozambique's balance of payments, foreign exchange and capital assets, said the report.

Scotcher said about 1 200 jobs would be created directly.

Sappi 'will heed ecological report'

(194)(ⓑ)(FORESTRY)

Eddie Koch

SOUTH AFRICAN forestry giant Sappi says it will cut back the size of a controversial eucalyptus plantation planned for southern Mozambique in line with suggestions from an independent environmental study. MTG 8-14/12/95

Natal University's Institute of Natural Resources, commissioned to conduct an Environmental Impact Assessment (EIA) on the proposed forestry, presented its findings to the Mozambican government this week.

The study found the project would bring major social and economic impacts to the depressed region, injecting some R80-million into the local economy, but that rare wetlands and wild game would suffer in parts of the plantation zone.

The major recommendation of the report is to reduce the proposed planted area. This will create a buffer of at least one kilometre between the forest and the Futi River in the west and will withdraw the plantations from coastal lakes in the east.

It also provides for the creation of natural corridors to allow for animal movement and migrations that will be obstructed by the forest.

"We are quite comfortable with the idea of modifying and adapting the original proposal to ameliorate environmental sensitivities," says a Sappi spokesman.

But environmentalists have slammed the entire project, saying it poses a serious threat to a variety of plant and animal species that occur nowhere else in the world.

The forest also clashes with an ambitious tourism scheme to build a large game reserve and network of lodges along Mozambique's southern coastal zone.

Sappi may issue paper to cut debt

(194) ARG 9/12/95

GEOFF ELLIOTT
Business Reporter

PULP and paper giant Sappi has a huge debt load which it says it wants to cut down dramatically, the question analysts are asking is when?

After last year's $1,6 billion (R5,8 billion) acquisition of US paper producer SD Warren and a R370 million expansion at its European mills, Sappi's debt burden has more than doubled.

Chairman Eugene van As told analysts in Johannesburg recently that the company was still assessing the possibility of listing its offshore assets on a foreign bourse, such as the New York Stock Exchange, to raise some of the funds to help reduce about $2 billion in total debt.

Analysts speculate that Sappi could sell-off a substantial chunk of S D Warren, while still maintaining more than a 50% controlling stake, and possibly fold in its European mills into the new company.

Sappi first publicly mooted the idea of a listing in July but it appears Sappi is no closer to launching an offering, and the speculation is that Sappi will not make a move until well into next year.

Mark Rule, paper and packaging analyst at Frankel Pollak Vinderine, says the problem Sappi faces is the current softness in the paper and pulp cycle, which has seen Sappi's share price fall from highs of R76 a share earlier this year to a low of R53,75 recently.

The weakness means potentially raising less from the market on any offer of assets.

"The share price is not particularly strong, they would do well to wait before any capital raising," Mr Rule said.

Given paper and pulp prices tend to move in cycles of up to ten years, some could argue Sappi could be waiting a long time. However, there appears to be a general consensus that the current weakness in pulp and paper prices is a short term phenomenon and not part of a sustained cyclical downturn.

Producers are hoping that the big slip in prices — newsprint prices, for example, are down to about $900 a tonne from $1300 mid-year — is due more to a contraction in demand after a build-up in inventories rather than a structural fall in demand.

After the heady price rises over the last couple of years the industry needed "a few months consolidation," Mr Rule suggested. He added that given continued expectations of solid world economic growth, pulp and paper prices would maintain their strength but were likely to remain off their peak levels.

Certainly Sappi remains bullish that sales will continue to grow next year year.

At a recent event in Cape Town, marking the R30 million expansion of Sappi's Cape Mill, Ian Forbes, managing director of Sappi subsidiary Sappi Kraft, told delegates at the presentation that 1996 group sales could top $5 billion — about R18,3 billion at current exchange rates — which compares with R13,2 billion in the 12 months to September this year.

But he declined to speculate on Sappi's plans for debt reduction.

Currently Sappi's debt to equity ratio stands at about 97 percent from 116 percent earlier this year, but still way above 41 percent in 1994, and the level which analysts expect Sappi is attempting to get back to.

Analysts, however, do not appear unduly worried about the debt burden, given expected strong cash flow growth to service it.

And Sappi's finance director Bill Hewitt noted when the company reported its profit results late last month that on some debt measures Sappi stacks-up quite well against its international counterparts. He said the ratio of interest-bearing debt to total assets, a ratio used more commonly in North America, stood at 39 percent "which, although high by South African standards, is good when compared with most paper company ratios at present."

Pundits ponder Sappi's price performance

(194) CT (BR) 13/12/95

ON DIAGONAL STREET

One of the JSE's hottest debates is raging over the potential of the paper producer

BY JOHN SPIRA

One of the JSE's hottest-ever alliterative debates is raging over pulp and paper producer Sappi's price performance, with the partial pundits pondering prospective potential.

The focus grows in intensity with every share price decline, and since the counter has plunged from R76 seven months ago to the ruling R51, the argument as to whether or not we are witnessing a trough has become increasingly heated.

Central to the issue is the cycle in pulp and paper prices. Is it in long-term decline after apparently peaking earlier in the year, or has the recent setback been no more than a near-term correction that is about to come to an end?

Foremost among the optimists is Sappi chairman Eugene van As, who insists that the next two years won't see the huge overproduction which the bears are predicting. Indeed, he expects the global economy and worldwide demand for all paper products to continue growing for at least the next 12 months.

And he foresees little new production capacity in the near future: "The current period of inventory adjustment will be of relatively short duration."

One could, of course, aver that Van As is talking to his book. If so, the same could be said for those talking prices down, among the most voluble of whom is David Crabtree, group services director at London's Express Group of newspapers, who, quite understandably, would be overjoyed if paper prices continued to slide a lot lower than they have.

Somewhere in the middle of the spectrum is Martin Glass, a paper consultant based in Truro in the UK, who, speaking off a fairly objective base, argues against a steep downturn. "Although rising capacity will increase supplies, the paper and pulp industry is unlikely to shift into recession."

Bottom line? Unless you are convinced that a worst-case scenario will materialise, the shares are currently languishing in an oversold area. The historical price-earnings multiple of 5 is unusually low and, moreover, is about half those ruling on American pulp and paper stocks.

Unbridled panic frequently opens windows of opportunity. The Sappi sell-off threatens to loosen the window from its hinges. The only unanswered (and unanswerable) question is just how high the cat will bounce

☐☐☐

Perhaps it's because its profile isn't as high as its competitors that Sage suffers from Diagonal Street neglect.

The reason certainly doesn't stem from any absence of performance, since in the six months to September attributable earnings soared by 46 percent to R46,6 million. Sage Life, which accounted for 84 percent of this figure, reported record interim earnings of 112c (85,2c) a share.

Sure, the shares did react positively to the result, advancing by some 200c to just above 1700c. Even so, they are rated poorly in terms of the insurance sector's averages.

Taking a line through the interim figures, Sage should earn close to 100c for the year to March 1996 for a forward price-earnings multiple of 17 and a projected dividend yield of 3,9 percent. The respective sector averages are 22,6 and 2,3 percent.

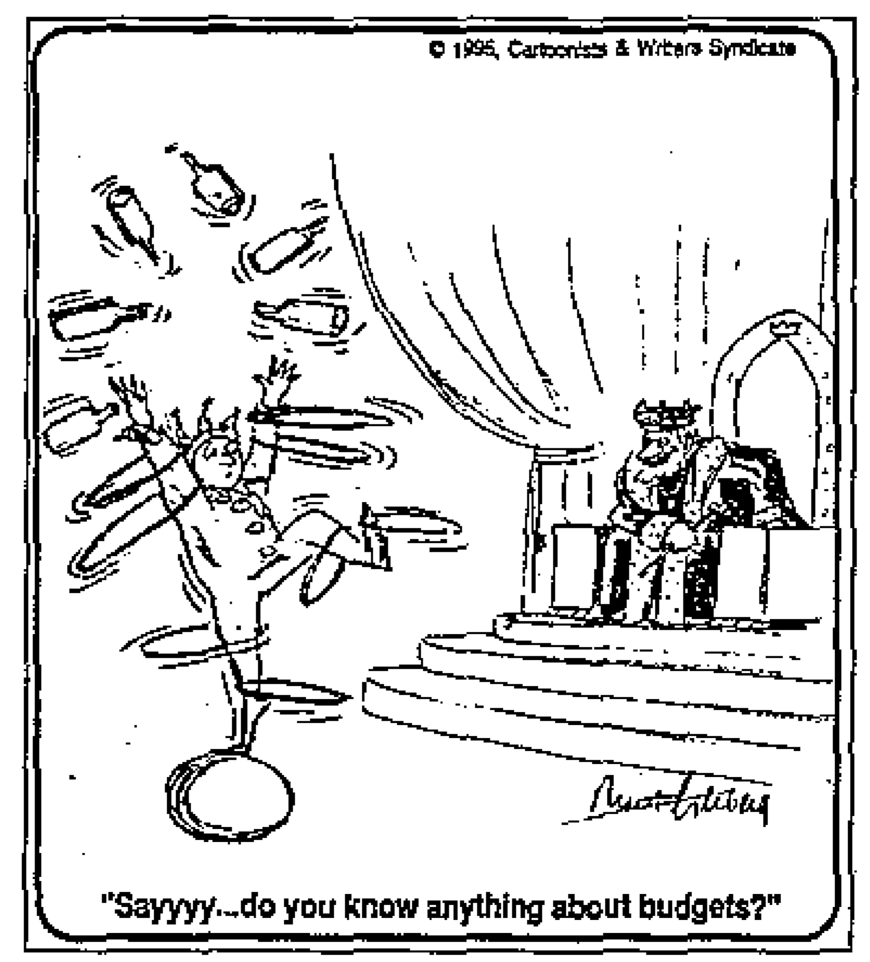
Yes, the averages are distorted by the short-term insurers, so let's look at a comparison with the life assurers, where the respective data are 28,6 and 2,5 percent for Fedsure, 42,8 and 2 percent for Liberty, 34,6 and 1,9 percent for Metlife, 33 and 1,7 percent for Momentum, 30,5 and 2,2 percent for Norwich and 23,1 and 2,9 percent for Southern.

There's clearly a great deal of value in Sage at its ruling price. Never mind the low profile; ultimately the earnings speak for themselves.

☐☐☐

JSE-listed small mining ventures have a penchant for disappointing their shareholders. The vast majority have either faded away completely or have temporarily flattered and fluttered only to deceive.

Which is no doubt one of the reasons why Amalia Gold Mining



"Sayyyy...do you know anything about budgets?"

and Exploration, whose shares made their JSE debut in March this year, haven't been accorded an enthusiastic reception. After being issued at 100c a piece, they are currently at half that price. Investors who feared they'd miss the boat are now discovering that it remains stalled with engine trouble.

Two questions arise:

☐ Will the repairs currently being undertaken be quickly and efficiently discharged?

☐ Is the destination as attractive as was described eight months back?

The fare has been reduced by 50 percent, with the result that answers to these questions are certainly worth the quest.

It's never easy to track progress in a new mining operation. Feedback from the company, however, is thus far favourable, with all the prelisting plans seemingly on track plus a third (new) mining venture near Schweitzer-Reineke and a joint-venture with UK-registered Commonwealth Gold to develop its gold mining interests in Zimbabwe.

The Commonwealth Gold move looks especially interesting, since the shares will be listed on the London Stock Exchange's Alternative Investment Market in April next year.

It's yet too early to issue the vessel with a seaworthy certificate, but the deep discount on the travel price, coupled with a destination which promises a great deal, makes the voyage worthy of careful consideration.

☐☐☐

Tertiary education has a bright future — to judge from the market's electrifying reaction to the news that direct sales and mail-order company Housewares had bought 60 percent of Midrand Campus.

Possibly the unfortunate problems at Wits University also had something to do with the share price having rocketed by almost 10 percent in the space of three trading days.

Either Midrand Campus is a sparkling gem or Housewares clinched the deal of the century — or both.

However one views the acquisition, Midrand Campus will have to go some to justify not only Housewares' headlong share price advance of the past few days but also a paper-thin 1,1 percent yield and an above average 26 price-earnings multiple.

Housewares' interim earnings were an impressive 34 percent ahead.

Further growth of at least this magnitude will be required for the year to March 1996 to warrant the share's current fundamentals.

I'm not saying that won't happen, since the group boasts an outstanding record. What I am suggesting is that the shares might have advanced too high, too fast.

Nampak set for good year's growth

(194) CT (BR) 13/12/95

By Charlotte Mathews

Johannesburg — The packaging industry should experience another year of healthy growth next year, which should translate into another good year for Nampak, managing director Trevor Evans said in the group's latest annual report.

Economic forecasts suggest that in 1996 the local economy should grow at least at the same rate as in 1995, Evans said. Chairman Brian Connellan added that the packaging and paper markets in South Africa were likely to continue to grow at a faster rate than Gross Domestic Product (GDP).

However, the slowing down in demand in the last quarter of Nampak's financial year, which ends in September, made it difficult to make any specific predictions of growth for the economy or the industry, Connellan said.

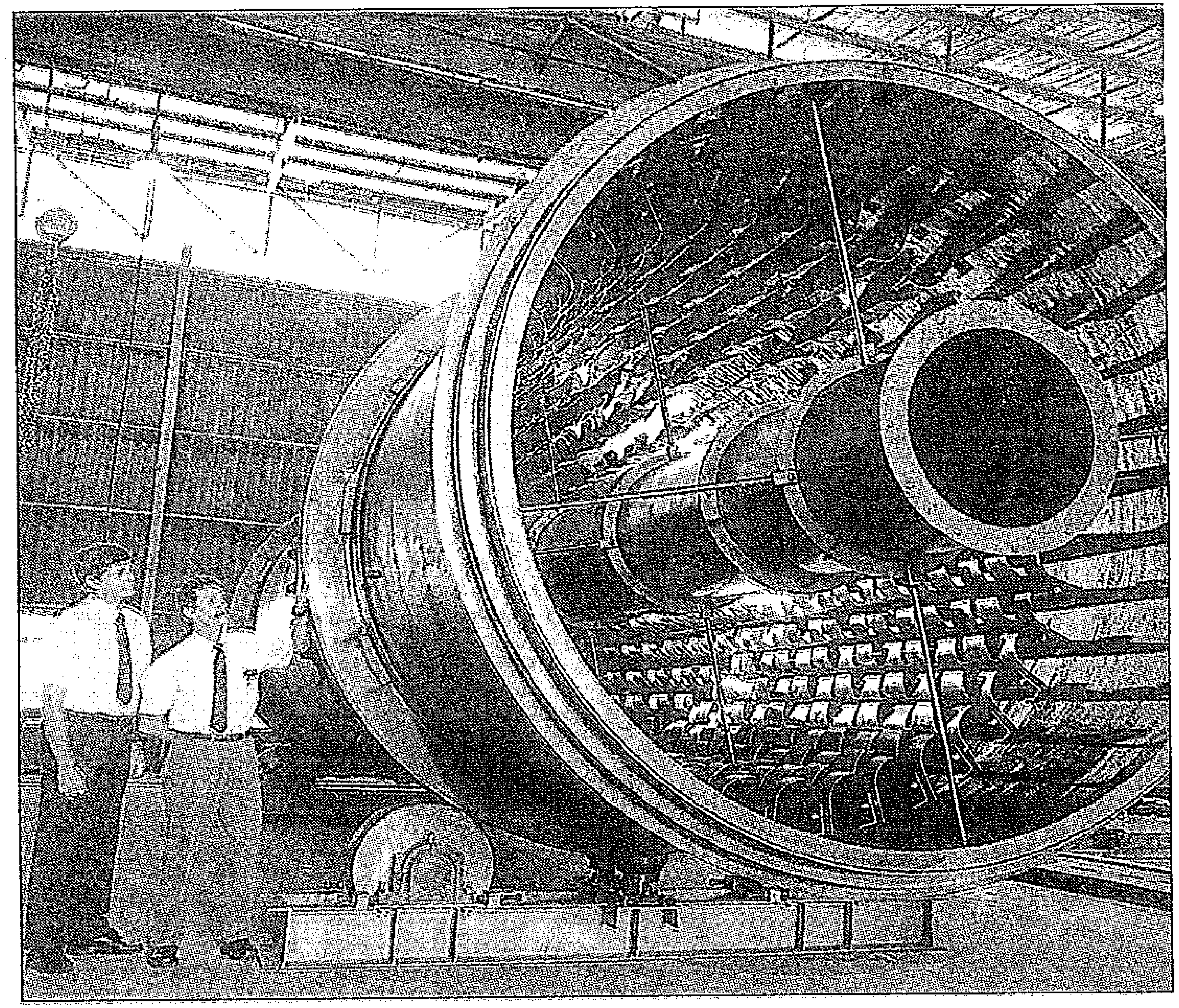
"Given the general impetus of the economy, the prospect of a better agricultural season, and incremental expenditure on the Reconstruction and Development Programme, South Africa should enjoy good growth in the year ahead," he added.

Evans said packaging volumes would also be boosted by growing exports of various products by Nampak's customers and the threat from imported packaging was limited. Raw material prices are expected to grow at a slower rate in 1996 than in 1995.

However, the group's margin growth will come under pressure as its customers are demanding prices more in line with world levels.

In the past financial year Nampak increased attributable earnings by 31 percent to R458 million on a 23 percent rise in turnover to R5,9 billion. Connellan said the growth in volumes in the first half of the year was 10 percent, but this slowed in the second half and particularly in the final quarter. Market shares were maintained or improved in most divisions. Direct export turnover rose by 72 percent to R178 million.

Organic growth and exports are the cornerstone of growth for Nampak. Selective acquisitions will add to this growth.



NEW DRIER *A massive sugar drier, destined for Illovo Sugar's relocated mill at Eston, is inspected by Sugarequip director Bryan Bailey (left) and Mike Garrett of Umgeni Iron Works. The drier, which is new to the South African sugar industry and is particularly suited to the production of brown sugar, is manufactured under licence to a British company by Sugarequip. It is one of the largest castings undertaken by Umgeni Iron Works, which supplies the sugar, mining, brick works and general engineering industries. According to Bailey, the overall value of the contract to equip the new Eston mill is R1,5 million. The drier is valued at around R400 000*

Sappi planning to take over European companies

(194) CT(BR) 13/12/95

By Neil Behrmann

London — Sappi is planning take-overs of companies in France and Italy, according to strategic plans of the pulp and paper manufacturer.

Frans Neudeck, the chief executive of Sappi Europe, said that besides western Europe, the company was examining possibilities in eastern Europe, particularly Hungary, Poland and the Czech Republic. The company was attracted to low labour costs in those countries and if demand improved, the company would establish plants, he said.

Sappi began its European operations with the purchase of five paper mills in Britain five years ago. Since then it had bought two mills, known as Hannover Papier, in Germany and had established a European sales organisation with an office in Brussels.

These two mills produce 230 000 tons of pulp and 650 000 tons of paper. Sappi Europe, which contributed 22 percent of the R9,3 billion group turnover in the seven months to September, has 3 000 employees.

Neudeck said Sappi would focus on core products, notably coated "woodfree" and high-value graphics and speciality papers.

Yet, like other producers, Sappi Europe was encountering a decline in demand and had cut production, said Neudeck. Customers raised paper stockpiles during a buying panic in the first half of the year and had sufficient stocks.

Eugene Van As, the executive chairman of Sappi, said that during this " inventory correction", pulp prices would average between \$850 and \$925 a ton.

Yet he and Neudeck said the coated paper market would strengthen early next month.

Other paper manufacturers also said that prices would improve once the correction was over.

Yet purchasers of paper and independent analysts had a decidedly different opinion and were uncertain as to whether there would be an upturn next year.

Roger Wright, the managing director of Hawkins Wright, the pulp and paper manufacturers, said the buyers were unsure when de-stocking would end and whether an increase in productive capacity would offset any improvement in orders, which had dropped by 70 percent to 80 percent.

☐ See Page 17

(194) FM 15/12/95

NAMPAK

Commanding a premium for quality

Activities: *Manufactures metal, paper, paperboard, plastic and glass packaging, as well as brown and tissue papers, tissue wadding, conversion and distribution, paper merchanting and specialised printing.*
Control: *C G Smith 60,2%.*
Chairman: *B Connellan. MD: T Evans.*
Capital structure: *503,4m ords. Market capitalisation: R10,8bn.*
Share market: *Price: 2 150c. Yields: 1,6% on dividend; 4,2% on earnings; p:e ratio, 23,6; cover, 2,6. 12-month high, 2 150c; low, 1 300c. Trading volume last quarter, 12,02m shares.*

Year to Sep 30	'92	'93	'94	'95
ST debt (Rm)	191,0	156,7	92,8	283,0
LT debt (Rm)	151,0	72,1	58,6	27,2
Debt:equity ratio	0,24	0,10	0,05	0,11
Shareholders' interest	0,55	0,59	0,61	0,62
Int & leasing cover	9,9	16,6	54,3	59,4
Return on cap (%)	23,2	21,9	20,5	22,1
Turnover (Rm)	4 360	4 544	4 791	5 897
Pre-int profit (Rm)	550	538	563	749
Pre-int margin (%)	12,6	11,8	9,1	12,7
Earnings (c)	53,1	62,0	71,9	91,1
Dividends (c)	20,5	23,8	27,5	35,0
Net worth (c)	249	286	330	408

Nampak is by far SA's biggest packaging company. With a market cap of R10,8bn, it is so much bigger than nearest local competitor Holdains (in the Malbak group, with a R1,8bn market cap) that comparisons mean little.

The only reasonable yardstick for Nampak must be its own performance. The company has achieved steady growth since 1991, culminating in a 27% increase in EPS for financial 1995 and providing a five-year compound annual growth rate of 17%.

Over this period, turnover has grown from R3,5bn in 1990 to R5,9bn but employees have declined from 23 000 to 18 000. The company's own productivity index reflects a 42% improvement since 1990.

The question for investors is whether this can be sustained and whether the company isn't bumping against real limits to its previously inexorable expansion. Discussing the future of the C G Smith group a few weeks ago with its senior executives, I was struck by Nampak chairman Brian Connellan's visible hesitation when growth was being discussed. "We will really have to run hard," he said, "if we (Nampak) are to achieve 20% growth this year."

I have since explored this further. Part of Nampak's problem is that many of its input prices have peaked (polymers, for example) and, following a worldwide trend, are now falling. There is evidence that the sprint in international paper and pulp prices has slowed to a walking pace.

All this means that buyers of Nampak's products — themselves watchful of raw material costs and aware of what is happening in Nampak's back yard — will resist any tendency to increase prices beyond a certain level.

It is probably fair to conclude that price rises for Nampak's product are likely to come to rest this year at around, say, 8%. It isn't a level which will take the company far in its pursuit of real growth.

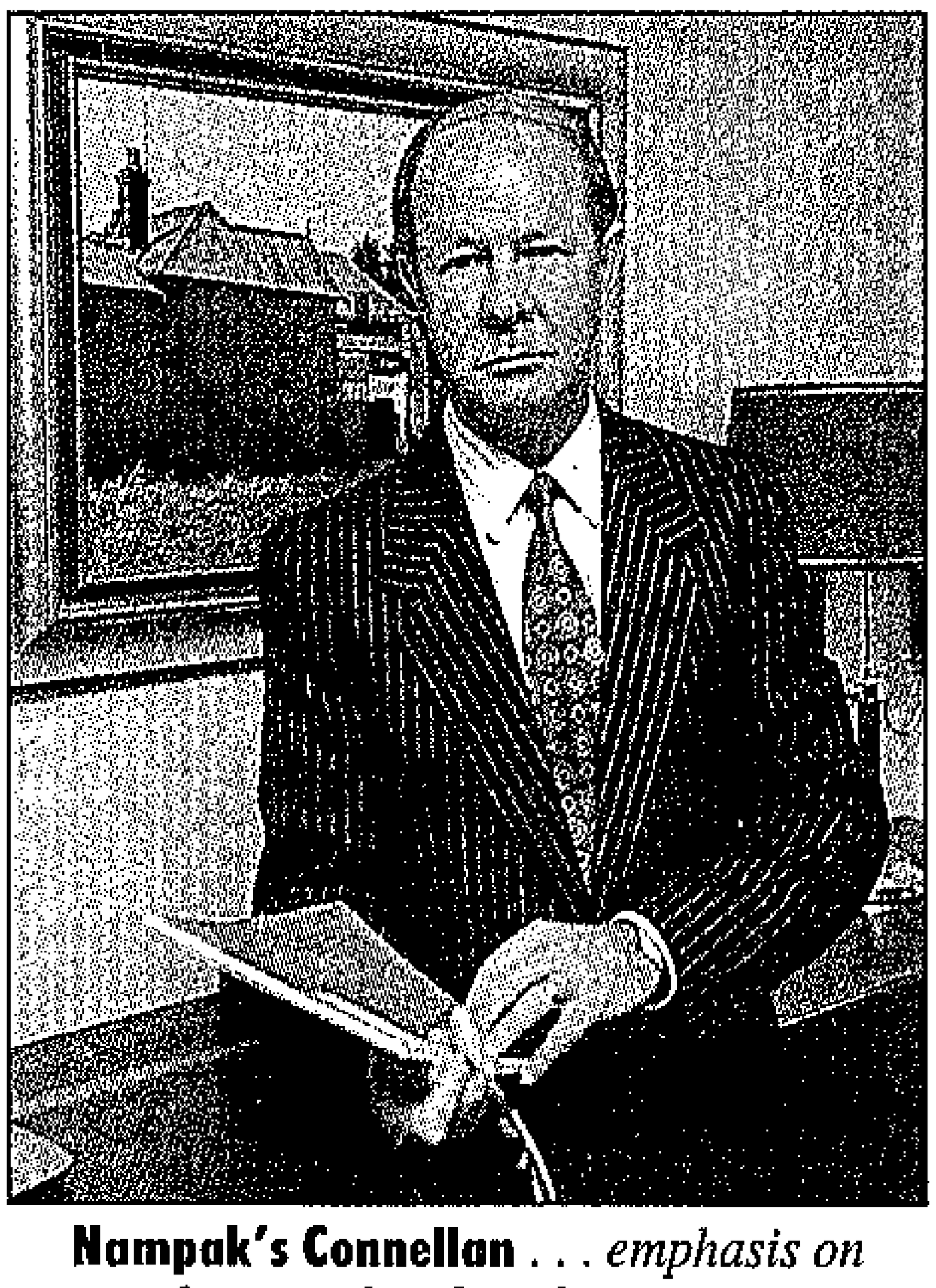
Connellan also points to the 2,5 times multiplier effect from economic growth: if the country's (modified) GDP grows at about 3% over 1996, then the volume increase for Nampak's product should be about 7%.

So, between price rises of 8% and volume demand of 7%, Nampak can look to an increase in EPS of 15%.

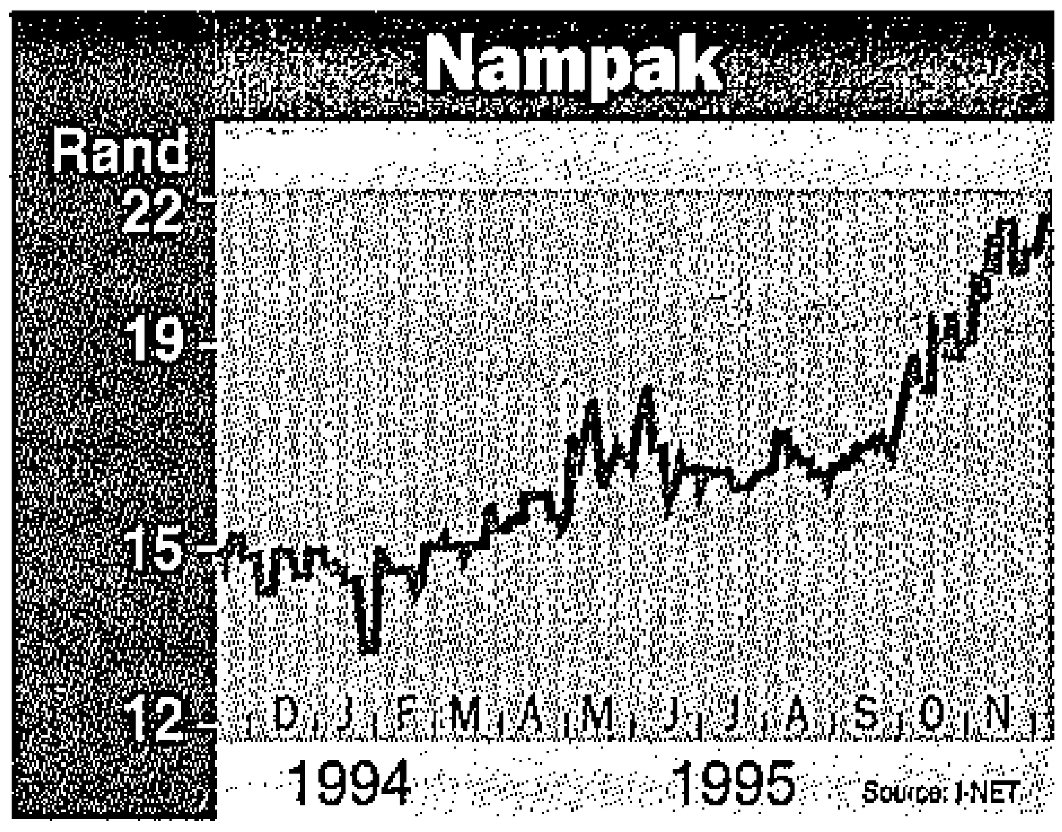
This isn't enough and to achieve real growth the company must improve its productivity, hold down costs, get better efficiencies from plant or achieve all three. Along with increased contributions from volume growth, that should give it the 5% it is looking for, taking it to a gross 20% which, if it's achieved, will give a real improvement of about 12% (over inflation).

What becomes clear in understanding Nampak's business is that the barriers to entry no longer present practical difficulties. Grown from behind favourable tariff walls, the SA packaging industry can no longer rely on tariff protection.

As soon as it becomes obvious that there are opportunities — such as when (if)



Nampak's Connellan ... *emphasis on bonus-related performances*



prices are internationally uncompetitive — global competitors will move in on a threatening scale.

This is one reason SA packagers have forged links with the majors. However, the price of locally produced product must still be as close to international norms as makes no difference.

This is the real challenge and it is partly why MD Trevor Evans insists on productivity and international benchmarking.

At Nampak this has been taken further than in many other SA companies. Connellan says the company has adopted an intense focus on bonus-related performances (at one plant near Durban, employees collected about R1m in bonuses last year) and this is supported by co-operation accords with the unions.

These also accept the need to apply international standards and to adopt modern technologies — as well as the retrenchments which may result.

Meanwhile, Nampak's financials reflect the company's unusual strength. Turnover rose nearly R1bn over 1995 and operating profit went to R737m (1994: R550m). The pre-interest margin increased to 12,7% after a few years of steady decline.

But interest-bearing debt doubled to R310m. Of this, the short-term portion trebled to R283m and debt:equity has doubled — though to a low 0,12.

This is largely a company which goes on delivering handsomely to shareholders. The pressure is now on management's ability to make assets perform more effectively. In a country with an expanding population and the hope of steady economic growth, well-run packaging businesses must be good counters to include in a portfolio.

Nampak's current p:e of nearly 23 is somewhat daunting, though; even assuming another 20% rise in EPS, the p:e moves down to nearly 19 a year out — expensive in anyone's book. But quality has a habit of commanding its own premium. *David Gleason* industrial and financial companies, carried a market value of R3,1bn.

Executive director Peter Cronshaw says the re-examination of Genbel's role arises from restructuring proposals made last year and which postulated the creation of an investment bank alongside the existing investment trust. Now what appears to be on the table is an unbundling of a major portion of Genbel's portfolio — to be passed on to its shareholders — and its subsequent repositioning as an investment bank.

Genbel's major shareholders (Sanlam with 36% and Mutual with 15%) are actively examining Genbel's future.

However, Cronshaw says that between 15 000 and 20 000 shareholders have been identified, many of them very small and a majority arising out of Gencor's unbundling. This may pose unbundling problems which could lead to a partial divestment only, leaving Genbel with an asset base of around R1,5bn and a big shareholder list.

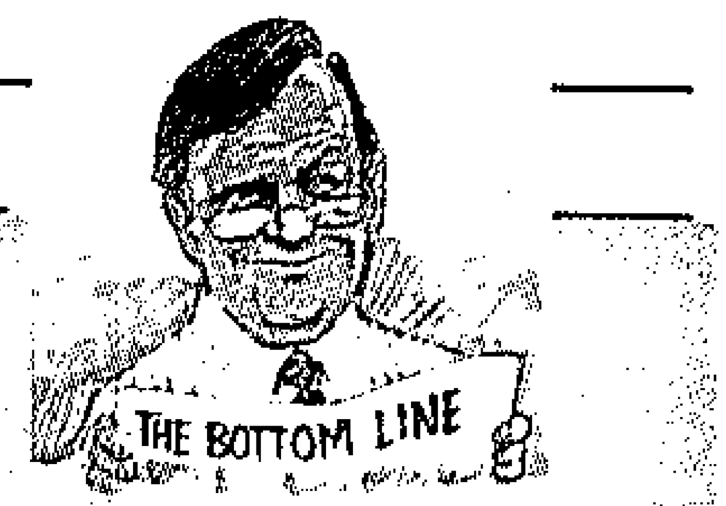
If the change materialises, Genbel will then need to stitch together an investment management team to complement its existing trading operation. Cronshaw says the intention would be to seek speciality funds — those which "can be managed for reward."

"Our expertise," he says, "is concentrated in adding value without increasing risk unnecessarily. We certainly don't want to compete in the standard run-of-mill funds management business."

There is a reluctance to become a fully fledged deposit-taking institution, such as a merchant bank. "We are reluctant," says Cronshaw, "to become a regulated banking operation." But he confirms that the new-look Genbel may well want to investigate membership of the JSE, if only to facilitate its own trading activities.

However all this turns out, it's clear that Genbel's days as a pure investment trust are numbered. How it will fare in the hurly-burly of active competition will be watched, with more than a passing interest. *David Gleason*

TORQUE



Cultivating commitment

In company with many other readers, the first item I seek out when the *Sunday Times* arrives is Ken Owen's column. This week he left me smouldering; even now, a few days later, I can get into a mild lather thinking about it.

For those of you who didn't read it, I shall paraphrase. In essence, Owen argues that power has passed permanently from white to black hands; along the way, he contemplates the culture of wrongs (follies, he calls them) inflicted on the country by Afrikaner leaders and those still to be visited on us by our new bosses. His discussion embraces the pejorative and almost universal application of the *racism* slur as a means of deflecting criticism and, therefore, the dangers facing Wits University.

Central to his theme is that whites no longer have the power to enforce standards. It makes no sense, he says, to "ask white intellectuals to uphold academic standards at Wits. It is not that they are flawed . . . however, they have come down in the world."

I am bound to observe in passing an interesting phenomenon: it is that Owen, after decades of dedicated struggle against Afrikaner nationalism, now seems bereft of anyone with whom to fight (aside from disputing the credentials of other liberals and scorning their interpretations). I say this without rancour. It must be truly disconcerting when an enemy who revels in a dirty struggle suddenly vanishes like Banquo.

Despite all this, the white community remains, says Owen, a reservoir of skill, talent and goodwill. Whites may make a valuable contribution to the development of the new SA. But they must wait to be asked (to help). "It behooves those of us who have come down in the world," instructs Owen, "to cultivate a decent humility."

I well remember how, when Owen was editor of *Business Day*, the week didn't begin for me until I had read his column on Monday. Reasoned, trenchantly argued, powerfully — often passionately — expressed, Owen's wit and wisdom illuminated what for many were dark days.

So this week's column worries me. First, on a personal note, Owen is one (of only two) men who even approach hero status in my book. Second, the power of Owen's pen is such that whatever he writes commands attention — and often acceptance. For both reasons, therefore, but especially in his new role as apologist for whites, I feel constrained to comment.

It is true that this country was sadly misgoverned for many decades. It is also true that many evil deeds were committed and policies enshrined to benefit a small ethnic minority (and that a wider minority benefited). Now, under a new dispensation, power has passed from a minority to a majority.

It is possible to argue, as Owen appears to, that all this is racial. But it ignores a few other facts. The first is this is supposed to be a new SA (though we can always pretend that doesn't count for much).

The second is that, as a citizen, I pay my taxes. This cannot be ignored. By paying tax and sustaining government, I am entitled to comment, speak and, if I so decide, take action. I do not have to wait to be asked; I am not required to be humble.

And this is a much more crucial issue: too many minorities in Africa have sat back, humbly waiting to be asked (they never are) or, faced by overwhelming stupidities, they have simply run away. Is this really what Owen suggests: that we must supinely stand aside, neither applauding success and participating in sound achievements nor reacting sharply to imbecilities which demean communities?

By the time I finished Owen's column I didn't know whether to pack my bags or slink off like a whipped cur. On third thoughts though, I have decided not to pound my chest while moaning *mea culpas*, nor will I parade wringing my hands as a modern Uriah Heep.

Africa, as Owen rightly says, has been cruelly used and abused, no more so, it can be argued, than by whites who abrogate their birthright and flee to Oz or the US of A or the Community. Throwing away the right to participate, to build, to develop — these are the travesties. Crawling into decently humble holes because of skin colour is playing right into a racial division which is clearly being unscrupulously manipulated. Fleeing responsibility is of no good to anyone, least of all Africa.

There is no escaping this: whites are here, they have businesses to run, taxes to pay, politics to argue and roles to play. Emulating ostriches will deliver no dividends. Let's get on with it.

Kicking themselves

Last week, I had occasion to wonder whether Anglo American might want to do some kind of deal with Lonrho relating to control of Ashanti Gold Mining.

Naturally enough, a corporate silence has descended. The logic, of course, is that since it is too late now to pay school fees, the best way in is to buy success and pay the premiums.

Interestingly, I have since learnt that Tarkwa, the comparatively rich Ghanaian mine being developed by Gold Fields, was extensively prospected by Anglo geologists in the mid-Eighties, then rejected by Anglo's executives as an investment target. Well, fashions change, I suppose, though it is disheartening for geologists. *David Gleason*

Billionaire takes on SA timber giant over wetlands

(194)

By RACHEL WATERHOUSE

Maputo

ST 17/12/95

A FIGHT for control of rare resources in southern Mozambique is pitching the South African timber giant Sappi against a US billionaire with important political connections.

The battleground is Matutuine district on the coast, bordering South Africa and famed for resorts such as the Maputo Elephant Reserve.

While Sappi has plans to cover a large chunk of Matutuine with a eucalyptus forest for making paper in South Africa, Louisiana businessman James Blanchard III wants to turn the area into a private game reserve.

The idea for the forestry project began in 1987 during the civil war, when Matutuine was under the control of Renamo rebels.

Keen to counter Renamo by giving South African private interests a stake in the area, the Frelimo government provisionally approved a 32 000ha forestry project involving Sappi and Mozambican parastatals.

But the war prevented the project from going ahead and Sappi is now keen to restart it, saying it promising jobs and multimillion rand profits for Mozambique.

But scientists recognise Matutuine's swamp forests and wetlands as deserving international protection. Last year Sappi was asked to fund an environmental impact assessment on the area.

The Natal University institute it contracted concluded that eucalyptus trees would use too much water and destroy the area's rare ecology.

This would contravene the international convention signed in Rio de Janeiro to protect bio-diversity (signed by Mozambique), ruin the beauty of the zone and end plans to restore its neglected elephant reserve.

Mozambique now sees a chance to combine conservation and tourism.

The World Bank has financed studies on the possibility of a "transfrontier conservation area" linking Maputo Elephant Reserve to Tembe Reserve in South Africa. Mr Blanchard buys into that idea.

He was among Renamo's key US backers during the civil war. Now he has spent about R3,65-million on a proposal for a R3-billion project to turn 200 000ha into a "world-class tourist resort".

James Perrot, the Maputo representative of Blanchard Mozambique Enterprises, says: "Now Frelimo is no longer Marxist, Blanchard is ready to invest in Mozambique."

Paper suppliers' caution affects costs

BD 22/12/95 (194)

Jacqueline Zaina

FINE paper suppliers were refusing to strike long-term supply contracts amid volatility in the pulp and paper industry — making it difficult for publishing firms to offset the effect of higher raw materials prices.

Nasionale Pers executive director Eric Wiese said yesterday the company was bracing itself for a 25% increase in the price of magazine paper when its contracts with suppliers were re-negotiated early next year, forcing high prices for the consumer.

Industry sources claimed that Times Media Ltd said the group had undergone similar increases.

Naspers had secured a three-year contract for half its magazine print requirements last year, but Wiese said global fluctuations meant SA and international suppliers were mainly prepared only to sign up to six-month contracts.

Where suppliers were prepared to sign for longer periods, a string of escape clauses generally rendered agreements meaningless.

Naspers had signed a long-term contract for super calendar paper with Mondi at the end of last year — before world prices peaked. But the cost of the deal was expected to escalate 25% after the first price adjustment early in the new year.

Mondi — a major exporter of fine paper — was able to gain good prices on the international market. This affected local buyers, who had to pay world prices as a result, Wiese said.

The overseas contract for the remainder of the group's fine paper uptake was also due for renegotiation at the end of next month, and Naspers expected a hefty increase of a similar magnitude, Wiese said.

Independent Newspapers and Times Media Ltd — which together account for the bulk of SA newsprint uptake — are thought to have negotiated three-year contracts at a rate well below world prices. Neither of them was available for comment.

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